

Seaports and Airports of Iraq: Rules Versus Infrastructure¹

Iraq Britain Business Council Report

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Executive Summary

Since the completion of the Basra – Baghdad – Mosul – Rabiya (Syria) rail line in 1940, Iraq has had the potential of providing an alternative to the Suez Canal for shipments to and from the Far East to Turkey and Europe. Currently, the Government of Iraq (GoI) is engaged in the massive project to construct the Grand Faw Port and connect it by a high-speed rail line called the Dry Canal to Turkey. If successful, these projects have the potential of revolutionizing world transportation by providing a shorter and less expensive shipping option than the Suez Canal.

This complex project will take more than a decade and tens of trillions of dinars to complete. And it will require a great deal of political courage to overcome internal and external political, social, and security challenges to the project. Financing it will be particularly difficult since the recently proposed multi-year GoI budget assumes that Iraq will receive \$70 per barrel for its oil exports which, even after adjusting for inflation, has been relatively rare over the last four decades. With the strong GoI commitment to high current expenditures for increased wages for an increasing number of government employees and rising pensions, even a small decline in the world oil price will force a sharp reduction in capital expenditures including those for the Grand Faw Port and the Dry Canal.

This paper argues that - pending the completion of the Dry Canal project - there are substantial gains available to the Iraqi people by rationalizing the rules governing the operation of the country's seaports and airports. The primary causes of the current inefficiencies and limited throughput of Iraq's seaports and airports are not a shortage of transportation infrastructure. Rather, mismanagement and corruption are the most serious barriers to expanding international and domestic trade. And to the extent that improving management and reducing corruption lead to increased international trade, it will help deal with Iraq's biggest challenges which are high economic dependency on oil exports and high unemployment/underemployment especially among the young. In addition, increased airport and seaport efficiency will directly increase government revenues through a rise in customs collections and increased earnings for transit including overflight. And, most important, there is the potential for directly improving the health and quality of life of the Iraqi people.

¹ The author greatly benefited from the opportunity to discuss these topics with almost a dozen managers and analysts in the Iraq seaport and airport industries. Also, Kapita (2022) *Transportation Sector in Iraq: Aviation and Maritime Scene Overview* was a valuable source of current data and interesting analysis. However, the description, analysis, and policy recommendations contained in this work are solely those of the author who is responsible for any errors.

Introduction to Iraq's International Trade

The demand for Iraq's seaports and airports is driven by three characteristics of Iraq's economy.

1. Reflecting its long history as a major trading route between Europe and Asia; the Iraq economy is dominated by international merchandise trade. Combined with its \$84.5 billion in imports, Iraq's \$136.9 billion in exports produced an estimated 2022 foreign trade to Gross Domestic Product (GDP) ratio of 81% - one of the highest such ratios in the world.²
2. Iraq is more dependent on the export of a single natural resource than any other country in the world. In 2022, oil accounted for almost 94% of the country's merchandise exports.³
3. Iraq experiences dramatic year to year changes in the value of its international trade. When oil prices are low as in 2020, the country runs a large trade deficit and a sharp decrease in both private sector and government imports. However, when oil prices are high as in 2022, the country reports a large surplus in its balance of trade which finances a sharp increase in the volume of imports. As a result, when oil prices are low, there is excess capacity at seaports and airports but when oil prices are high, the country's seaports and airports lack the capacity to efficiently move merchandise trade – bottlenecks appear.

After examining problems that affect both air and maritime ports – corruption, regulations, exchange rate change, and issues with public-private partnerships – this paper will examine challenges that are specific to either seaports or airports.

Economy-Wide Problems Impacting Both Ports and Airports

Ubiquitous Corruption

Like sand after a desert storm, corruption permeates every corner of Iraqi society. Iraq is not the most corrupt country on earth. In 2022, that unholy honor belonged to Somalia. However, Transparency International ranked Iraq as 157th out of the 180 countries with a score of 23 out of 100.⁴ Although there has been some progress in reducing corruption following the defeat of ISIS in 2017, this progress has been limited. Iraq has improved from being “extremely corrupt” to being just “very corrupt.” As discussed in a previous IBBC report, *Corruption Worse Than ISIS: Causes and Cures for Iraqi Corruption*,⁵ the causes of corruption in Iraq are known. But since many of the political and economic elites benefit from widespread corruption, anti-corruption progress has been slow.

² IMF (2023a) *Iraq 2022 Article IV Consultation*, Table 5, p. 30.

³ IMF (2023a) *Iraq 2022 Article IV Consultation*, Table 5, p. 30.

⁴ Transparency International (2022) *Corruption Perceptions Index*, <https://www.transparency.org/en/>

Examples of corruption at the country's seaports and airports are many. Valuable shipments disappear from "security warehouses." Truck drivers complain that they not only have to pay bribes to official and unofficial groups simply to access port areas but also customs officials often expect payoffs to avoid unnecessary delays in processing shipments.

Corruption at Iraq's ports and airports contributes to poor health outcomes in Iraq. Diversion of imported medicine and its replacement by fake or expired medicine can be very profitable for two reasons. First, imported medicine has a high value relative to its weight – a single container may hold a million dollars of medicine or more. Second, there is a ready market for medicine that has been illegally diverted not only to buyers in Iraq but also in Syria and Lebanon. As a result, if a container is believed to contain medicine, port authorities may request as much as a \$50,000 bribe. A refusal to pay will often lead to accusations of documentation errors resulting in delays, the official confiscation of the medicine, or the unexplained disappearance of the container.⁵

Ubiquitous corruption is the most damaging barrier to improved efficiency and increased throughput in Iraq's ports and airports. Most germane to this report, corruption is probably the principal cause behind the regulatory hostility towards international trade and the adoption of a dual currency system.

Regulatory Hostility

It is time consuming and expensive to engage in international trade through Iraq's ports and airports. According to the World Bank's 2020 Ease of Doing Business report, Iraq ranks near the bottom in the ease of international trade – 181st out of 190 countries surveyed.⁶ While improving the physical infrastructure receives the most attention from decision makers; the primary problems facing the efficient operation of Iraq's ports and airports are hostile regulations, bureaucracy, and mismanagement of the country's transportation sector.

As shown in Table 1, disregarding the actual shipping costs, exporting a container from Iraq is not only more expensive than exporting from neighboring countries, but also requires substantially more hours to process. For example, the combined costs of border and documentary compliance are almost \$3,000 for Iraq compared to less than \$700 for the average MENA state. With respect to hours, exporting a container from Iraq requires almost 600 hours of paperwork compared to about 110 hours for the average MENA state. It is also more expensive and time consuming to import products into Iraq. And the variance – the unpredictability - in both the costs of exports and imports is also great. Some international trade transactions are processed relatively quickly at low cost while similar transactions face substantial delays and unexpected expenses.

⁵ Mansur, Renad (2022) "Moving Medicine in Iraq: Networks Fueling Everyday Conflict" Chatham House, London, p. 9.

⁶ World Bank (2020) *Iraq: Doing Business 2020*, p. 4.

Table 1: Comparison of Export and Import Costs

	Iraq	Turkey	UAE	Kuwait	MENA
Exports					
Time to export: Border Compliance (hours)	85 hours	10 hours	27 hours	84 hours	53 hours
Cost to export: Border Compliance (USD)	\$1,118	\$338	\$462	\$665	\$442
Time to export: Documentary Compliance (hours)	504 hours	4 hours	5 hours	72 hours	66 hours
Cost to export: Documentary Compliance (USD)	\$1,800	\$55	\$140	\$227	\$241
Imports					
Time to import: Border Compliance (hours)	131 hours	7 hours	54 hours	72 hours	94 hours
Cost to import: Border Compliance (USD)	\$644	\$46	\$553	\$634	\$513
Time to import: Documentary Compliance (hours)	176 hours	2 hours	12 hours	96 hours	73 hours
Cost to import: Documentary Compliance (USD)	\$500	\$55	\$283	\$332	\$263

Source: World Bank (2020) *Iraq: Doing Business 2020*

According to another metric, the World Bank's 2018 Logistic Performance Index (LPI), Iraq ranks 147th out of the 160 countries examined. For comparison, the UAE ranks 11th while Kuwait ranks 64th. According to the global freight forwarders and express carriers who provide the input for the LPI score, Iraq ranks poorly in customs (153rd out of 160) but when it comes to logistic competency – trucking, forwarding, and customs brokerage efficiency – Iraq ranks second from the bottom. Even Afghanistan is more efficient!

The combination of the high and unpredictable documentary and customs costs of Iraq imports and exports substantially reduce the competitiveness of Iraq seaports and airports compared to those in Turkey, the UAE, and Kuwait. It is often cheaper and less frustrating to offload cargo in one of Iraq's neighbors and ship it by land into Iraq. Also, regulatory inefficiency seriously impacts the national economy of Iraq as well as individual Iraqi firms. Nationally, the cost of exporting limits efforts to diversify from the dominance of oil exports since there are few Iraqi products which are still internationally price competitive when all documentary and customs costs are included.

As an example, a small Baghdad firm received an offer from a French department store. The price was good and shipping a container from Baghdad to Umm Qasr (580 km, 360 miles) would only take about 24 hours, but the firm decided not to accept the offer. If the Iraqi firm's owner/manager attempted to do the export related paperwork himself, it would take longer than the French store was willing to wait and, if the firm hired a shipping agent to handle the transaction, the agent's fee would eliminate the Baghdad firm's profit.

On the import side, Iraq's current tariff structure combines a high average rate with few duty-free lines. And the exact tariff collected seems to vary over time and from collector to collector. Items that require testing can further delay imports. While the testing laboratories in Erbil are located at the airport, the Baghdad laboratories are located downtown which can lead to a week lag before testing results are available. This confusing tariff and testing structure distort economic incentives and rewards tariff evasion through the country's porous land borders.⁷

Combined with the non-tariff documentary costs, tariffs reduce both the volume and variety of imports. Some argue that reducing imports encourages domestic production in Iraq. But this ignores the complexities of modern supply chains. Except for the most fundamental products, most Iraqi firms require imported inputs including everything from raw materials to sophisticated machinery. Directly, the current procedures for imports raise the cost to Iraqi firms reducing their profitability or, possibly, driving them out of business. Indirectly, the time and cost unpredictability of import processing forces Iraqi businesses either to suffer periodic unexpected shutdowns as they wait for a needed inputs or to accept the cost of maintaining a larger inventory. Both adjustments reduce Iraqi firms' profitability.

In addition to the published - although often reinterpreted - regulations, Iraqi firms seeking to export or import products are also subject to unwritten rules. For example, while regulations allow foreign insurance for international shipments, it is common for Iraqi officials to reject Ocean or Air Bills of Lading that fail to use an Iraq Insurance company.

Most countries use electronic trade related documentation and settlement by electronic funds transfer. This is not true for Iraq. Exporters, importers, shipping companies, and others are required to submit paper documents and usually settle in currency. Necessary documents must be submitted on paper with "wet" signatures and "live" rubber stamps. The unwillingness of Iraq trade officials to accept electronic signatures, even the more secure digital signatures, as well as electronic certification in lieu of rubber stamps impose a substantial burden on Iraqi businesses and their foreign counterparts. Documents must be physically transported which can add days to processing. And government offices end up with piles of paper often resulting is lost or misplaced documents that must be replaced leading to further delays.

In addition, the adoption of electronic document processing and payment would make certain types of corruption more difficult. Currently, customs and other officials at ports and airports can claim that a required paper document is missing or completed incorrectly which may require days or weeks for a replacement or corrected paper document to be delivered. Since delayed shipments can lead to substantial losses, shippers are motivated to attempt to speed approval by paying bribes.

Further complicating international trade for Iraqi firms is the strong preference by both government and private entities to be paid in currency – preferably US dollars – as opposed to electronic payment of dinars or dollars. This preference for dollar transactions is strong even though the GoI has recently announced substantial penalties for using dollars instead of dinars. The dollar preference results from the combination of a dearth of banking services combined

⁷ World Bank (2022) *Iraq Economic Monitor: A New Opportunity to Reform*, Fall, p. 12.

with a widespread distrust of bank security and rectitude. Not only does this form of payment increase the chances of theft but also decreases efficiency. Funds are held in briefcases or safes for days or weeks pending settlements.

Increased efficiency and reducing corruption are major incentives for Iraq to transition to alternatives to paper documentation. There are currently several widely accepted systems for electronically processing trade related data. In fact, Iraq in 2021 agreed to adopt the UNCTAD Automated System for Customs Data (ASYCUDA) a software system developed to reduce trade document associated costs, increase government customs revenue, and reduce corruption. One of the advantages of electronic documentation is that both parties – official and shipper – can see a document at the same time even if geographically separated. And electronic systems usually keep a record of changes which also complicates “losing” documents to motivate bribes.

It is planned that reaching widespread usage of the ASYCUDA system will take five to seven years. However, if the delays over the last decade of the GoI adopting an Integrated Financial Information System (IFMIS) and establishing a single treasury account are a guide, there will be substantial resistance to adopting ASYCUDA. It can be expected that customs and other officials will resist the adoption of ASYCUDA for two overlapping reasons.

First, as is well known, government offices in Iraq suffer from severe overmanning as the government continues to create public jobs to reduce unemployment. Since processing paper trade documents is less efficient, it provides a justification for retaining more workers. If more efficient electronic processing of export and import documents were to become widespread, it would become apparent that many government employees are superfluous.

Second, many government employees obtained their jobs through family or political connections and lack the education or skills necessary to successfully transition from paper to electronic processing. School certificates are often forgeries or, if legitimate, do not accurately reflect the knowledge and skill of the individual.

Exchange Rate Confusion

The collapse of world oil prices in 2020 led to a severe fiscal crisis in Iraq. As a result, the GoI delayed salary and pension payments, accumulated arrears in payments to international oil companies, and the country's international reserves decreased sharply. There was also a growing gap between the official exchange rate and the informal market exchange rate. In December 2020, the GoI responded by devaluing the dinar by about 20% from 1182 ID/\$ to 1450 ID/\$. While this devaluation eased the fiscal crisis by increasing the dinar revenue of the GoI, it also resulted in a rapid acceleration of inflation from 0.6% in 2020 to 6.0% in 2022⁸. And, of course, it increased the cost to Iraqis of all imports from grain to luxury goods while reducing the price of non-oil exports. In other words, Iraqi importers suffered while Iraqi non-oil exporters benefited. This devaluation also increased the financial pressure on dollar-short Iran and Syria since these countries had to legally export or smuggle a greater volume of products to Iraq to obtain the same number of US dollars as at the previous rate.

⁸ IMF (2023a) *Iraq 2022 Article IV Consultation*, Table 1, p. 26.

On February 7, 2023; the GoI inexplicably revalued the official exchange rate to 1300 ID/\$. With the informal market exchange rate at about 1470-1480 ID/\$, there was a gap of almost 13% between the official and market rates. Dual exchange rates are well known routes of corruption. While the revaluation of the dinar in Iraq is recent, the incentives are clear. Officials will attempt to collect fees, tariffs, etc. in dollars and yet the same officials will strive to make any payments in dinars at the official rate and keep the 13% difference for themselves. Whether this was the intention or not, a dual exchange rate system benefits those persons and organizations who have access to dollars at the official rate and burdens those who must obtain dollars at the less favorable market rate.

Ambiguous contracts of PPP

Both maritime ports and airports in Iraq engage private sector domestic and international firms to provide a variety of goods and services. These contracts with private sector firms can be limited to providing a simple good such as cleaning supplies at an airport or extend to the private firm being responsible for the operation of a complex facility such as an entire port. When a contract gives a degree of discretion to the private firm on how it will provide the contracted service, such agreements are referred to as Public – Private Partnerships (PPP).

PPP in the transport industry tend to suffer from a GoI bias in favor of short-term contracts. In some cases, contracts can be canceled with only a thirty-day notice. One of the motivations for short-term contracts is the belief that short-term contracts ensure that the private sector partner is highly motivated to execute the contract as efficiently as possible lest the contract will not be renewed.

However, there are severe adverse effects. Short term contracts provide greater opportunities for corruption. Government officials come to expect that private partners will be willing to do favors for the official to improve their chances of contract renewal. These favors may not be financial. For example, officials who have influence on contract renewals may expect that certain shipments will move to the front of the line for handling or that some shipments are exempt from required documentation. Another possibility is that government officials may delay contractual payments expecting that the private partner will eat the cost of delayed payments rather than make public demands that may reduce chances of contract renewal. Over time, this results in a race to the bottom, as less competent private sector partners who are more willing to do favors for their public sector counterparts get control of contracts.

In addition, short term contracts tend to reduce efficiency. Providing effective training as well as amortizing capital equipment expenditures is generally a multi-year process. If the private partner has, for example, a five-year contract, it will be more willing to invest in better training of local employees and improved equipment. The private partner would be willing to accept higher costs and lower profit in the short-term to obtain increased profits in the long-term. However, if the private partner faces the possibility that some other organization will take over the contract in a year or less, there is little incentive to invest in more extensive training or to purchase better equipment since some other company would get the benefit from these investments.

While longer term contracts generally improve the incentives for the private sector partner to engage in training, maintenance, and invest in new equipment, these favorable results will only occur if the GoI respects the agreements. Unfortunately, there have been multiple cases where the public sector partner directly violated agreements. As noted above, Iraq public sector partners have failed to make required payments on schedule requiring the private partner to engage in expensive arbitration to eventually receive the payment arrears. And yet at the same time, the GoI has insisted that the private partner make contractual payments to its sub-contractors. For example, Iraq state-owned enterprises sometimes delay paying contracted insurance premiums to their private sector partners, but the private partner must pay reinsurance premiums on schedule or reinsurance coverage will be suspended.

Also, long-term contracts are often subject to continuous one-sided GoI revisions. Shipments that had been considered “ordinary” are reclassified without prior notice as “critical” leading to higher costs for the private sector partner. Product definitions are changed without consultation with the private sector partner. There have been cases where various ministries have issued fee waivers requiring the private partner to undergo costs without reimbursement.

Of course, the private sector partner may seek a negotiated settlement or arbitration of a dispute. However, this process can be costly, lead to long delays, and seriously distract management. Even if the arbitration eventually favors the private partner, it may not be able to collect damages in a reasonable period. And there have been cases where a few GoI entities having lost an arbitration decision, will immediately repeat the original violation forcing the private partner to return to arbitration several times over the same issue.

In addition to the nationwide challenges of corruption, regulatory hostility, exchange rate confusion, and PPP contractual ambiguity; there are different problems faced by seaports and airports in Iraq.

Seaports

Iraq’s access to the Arabian Gulf is severely constrained by geography and politics. The Euphrates and Tigris rivers join north of Basrah city to form the Shatt al-Arab waterway which then flows into the Gulf. From Abu al Kabsib to the city of Al Faw on the Gulf, a distance of about 100 km (60 miles), the Shatt al-Arab waterway forms the border between Iraq and Iran. This border was heavily fought over during the Iran-Iraq War in the 1980s and still suffers from periodic cross-border military raids and the traffic of well-armed smugglers of consumer goods and antiquities.

The distance from where the Shatt al-Arab waterway enters the Gulf to Iraq’s border with Kuwait is only about 60 km (37 miles). Iraq has four commercial ports (Umm Qasr, Khor al Zubair, Abu Falous, and al Maqal), two oil exporting ports, and four platforms for exporting oil crammed into this relatively small area of Basrah province. The four commercial ports have 48 docks with a design offloading capacity of 17.5 million tons of cargo annually.⁹

⁹ GoI (2018) *National Development Plan: 2018-2022*, p. 146.

The largest cargo port is Umm Qasr which is Iraq's only deep-water port and accounts for about 60% of total freight shipments. For example, pre-Covid, while both Umm Qasr and Khor al Zubayr had similar ship counts of about 1,400; Umm Qasr was responsible for 17.2 million tons of freight compared to 11.4 million tons for Khor al Zubair.¹⁰ Abu Flous and al Maqal together only received about 1 million tons. Umm Qasr is three ports - Umm Qasr South, Mid, and North - with Umm Qasr North the most modern. Unlike most of Iraq's port infrastructure, Umm Qasr North is not a state-owned enterprise but is managed by a private entity. It can handle both containers and general cargo and is capable of berthing post-panamax vessels (vessels too large to transit the Panama Canal) up to 300 meters long. Ashore, the port has extensive dry and cold storage facilities.

Increasing Port Efficiency

In most of the world's seaports, picking up a container from a dockside ship should take two hours or less measured from the time the truck enters the port facility until it completes all customs requirements and departs with the container. At Iraq ports, picking up a container is rarely this efficient. Some Iraqi drivers and their trucks spend three to five days on port facilities before they can legally depart. These delays lead to higher direct costs in truck rental and drivers' pay. Indirectly, the long and variable lags in clearing a container can cause the importing firm to shut down as it waits for deliveries. Or the Iraqi firm might be forced to keep excessive inventory as a way of dealing with the unpredictability of receiving imported products by.

There are multiple reasons for the long and variable shipment processing time at Iraq ports. As mentioned above, the use of paper documents and cash settlement slow clearance through customs. Incomplete or "lost" paper documentation often requires the opening of cartons, pallets, or containers to confirm their contents. With electronic processing, a container's contents can be determined by scanning a shipping code on the outside of the container and downloading the contents. Reducing the need to open containers not only shortens processing time but also reduces theft.

One cause of poor port management in Iraq is that there are multiple government authorities involved in port operations who fail to coordinate their activities. Another cause of long and variable processing time is that customs and other government port staff tend to work limited hours. Not only do they work regular hours regardless of port backups, but many days are lost due to holidays, protests, and strikes. In addition, local political and militia groups will periodically block access to ports as a means of pressuring the national government or to extract bribes.

A not uncommon occurrence, that is extremely frustrating to international shipping companies, is when the consignee fails to provide trucks so that a ship can be unloaded. It is believed that some consignees deliberately fail to provide trucks in a timely manner because they do not want to pay for storage – they are using the ships as involuntary storage yards!

¹⁰ Kapita (2022) *Business Landscape*, p. 43.

The combination of all these delays sometimes results in a container stuck in a port for 90 days or more. At this point, the container's contents can be auctioned off. It is suspected that processing containers with particularly valuable cargo such as computers or medicine will be deliberately delayed past 90 days so that insiders can purchase the contents at a large discount.

Improving Seaport Infrastructure

The Shatt al Arab water way requires constant dredging. The docks at North Umm Qasr are dredged to a depth of 12 meters which allows most of the largest ships to dock there. However, these ships must navigate the Shatt al Arab channel which is currently dredged to a depth of only 10.3 meters by the GoI. There are also sunken objects including ships in the navigation channels. As a result, the largest container and other vessels must either offload cargo to reduce weight and the depth required or wait for a high tide to get to and from the docks. Both options increase the cost and inconvenience of using Iraqi Ports.

The GoI has announced that it is going ahead with the construction of the Grand Al Faw port which, when completed, will substantially increase Iraq's port capacity. While it appears that the decision to begin construction of this new port is politically irreversible, the economics of the port are questionable. Currently, the four existing commercial ports, even with their current inefficient operation, have excess capacity. For example, on one day in April 2023, there were only 11 ships docked although there was space - berths – for 23 vessels.

Airports

While there are twenty Iraqi airports with paved runways over 3,000 meters long, five airports account for most of the passenger and freight air traffic in Iraq. Among these five airports, two – Baghdad and Erbil – account for 72% of all flights. While pre-Covid, Baghdad and Erbil had roughly the same number of passengers; Erbil and the other major KRG airport in Sulaymaniyah had substantially more freight traffic. In fact, Erbil alone imported three times more kilograms of cargo than Baghdad.¹¹

The number one airline at the five largest airports is Iraqi Airways with Fly Baghdad Airline among the top five airlines at every large airport except Basra where it is ninth. The fleets of these two airlines are small. Iraqi Airways has only thirty-two aircraft of different models and thirteen of these aircraft were not in operation in 2022. Fly Baghdad has six aircraft of different models, all of which were in operation.

¹¹ Kapita (2022) p. 21.

Table 2: Domestic and International Flights per Year by Airport (2019 – pre-Covid)

Airport	Domestic Flights	International Flights	Total Flights
Baghdad International Airport	6,361	18,088	24,449
Erbil International Airport	4,515	19,560	24,075
Sulaymaniyah International Airport	2,291	7,500	9,791
Basra International Airport	2,523	4,523	7,046
Najaf International Airport	356	1,990	2,346
Total	16,046	51,661	67,707

Source: Kapita (2022) *Business Landscape*, Fall, Issue 8, p. 39, referencing COSIT data.

Overflight earnings

Every country has the right to charge airlines for the flights over its territory. Iraq currently charges \$450 per flight for fixed wing craft and \$225 for helicopters which earns about \$150 million per year. Considering Iraq's strategic geographic location between the Arabian Gulf states and Turkey, it should be able to earn almost \$500 million a year in overflight charges. Four changes are necessary to substantially increase Iraq's overflight earnings.

First, Iraq must have the sophisticated electronic equipment and 24/7 skilled air traffic control personnel to identify and provide support for overflights. Currently, air traffic control in Iraq is paper based which foreign airlines consider more likely to lead to errors. And English is the language of air traffic control worldwide. Unless Iraq personnel are reasonably fluent in English, international airlines will hesitate to rely on Iraq ground control. Fortunately, early in 2023, the first International Air Transport Association (IATA) authorized Regional Training Partner (RTP) center opened at Baghdad International Airport. This training center should increase the quality and availability of skilled air traffic controllers and other air travel related personnel.

Second, security continues to be a serious barrier to increased use of Iraq airspace and airports. Insurgent and militia groups not under the direct control of the GoI possess ground-to-air missiles. To avoid a deliberate or accidental firing on a civilian airliner, some airlines forbid Iraq overflights entirely while others impose a minimum altitude which may not be the most efficient altitude for minimizing fuel use or flight time. In addition, there have been several terrorist attacks on the Baghdad Airport which resulted in a 2022 temporary suspension of flights between Kuwait and Iraq. More recently, in May of 2023, the Turkish government announced a suspension of flights to and from the Sulaymaniyah International Airport. The Turkish government stated that the banned Kurdistan Workers Party had infiltrated the airport. According to news reports, this suspension will be reviewed in July.

Third, ground support at major Iraqi airports such as those in Baghdad and Basra is limited. International airlines are more likely to transit a country when they are assured that can readily access fuel and other ground support during either deliberate or

emergency stops. In addition, some suppliers at Iraq airports insist on cash payments and yet try to avoid providing detailed receipts for such payments.

Fourth, relatively few airlines fly to/from Iraq airports. In 2022, only fifteen foreign airlines have scheduled flights to Iraq's five largest airports while Iraqi Airways only had flights to fourteen countries. Among Iraq's regional neighbors, only Syria has fewer international connections for its national airline.¹² Most surprising, there were no regularly scheduled direct flights to Iraq from either the United Kingdom or the United States.

Increasing the reality and perception of airport security

With Iraq's recent history of sectarian violence and terrorism, international travelers expect both the reality and perception of security. Experienced travelers can often perceive when security equipment such as scanners are obsolete, when the "bomb dogs" are someone's pet, and when security personnel are poorly trained.

I've had the experience of coming to the Baghdad International Airport early because I had a legal bulky electronic device in my checked luggage that I was sure would result in my being required to open my luggage multiple times and explain the device. My bag was scanned three times but only once was the device spotted and my luggage opened. During this process, I noticed that – according to the plate on the side – one of the scanners was more than a decade old. Older equipment is not only less effective but tends to spend more time offline since it is difficult to obtain parts.

Iraq will find it difficult to increase non-oil foreign direct investment if foreign investors are told that they must change planes in Vienna, Istanbul, or Dubai because of the lack of direct flights. In addition, these investors are often advised by their country's embassy to contract with an armed security company for travel to and from the Baghdad airport. With these conditions, foreign investors will often decide either to forego the investment entirely or to locate their Iraq operations center in the UAE and minimize travel to Iraq by senior personnel.

Call for Action

Easing the movement of exports and imports through Iraq's seaports and airports should benefit the Iraq in three ways.

Increase diversification from oil dependency by reducing costs and increasing market access for private sector businesses in Iraq. Increased employment in these businesses will help ameliorate Iraq's most serious economic problem, the high rate of employment and underemployment among young Iraqis.

¹² Kapita (2023) pp. 16-17.

There is the potential for a substantial increase – possibly a 300% increase – of GoI customs receipts and overflight fees. This will provide billions of dollars in additional non-oil related revenue for the GoI.

Reducing or eliminating the diversion of medicine and other critically important items will improve health and quality of life of the average Iraqi.

Corruption

How can Iraq improve the operation of its existing seaports and airports as well as prepare for the successful operation of the Dry Canal project? At the top of any list must be a reduction in the level of corruption. As discussed in the 2021 IBBC report *Corruption Worse than ISIS*, arresting, prosecuting, and imprisoning corrupt officials is necessary but not sufficient. To achieve more than a short-term effect, the GoI must also reduce the incentives for corruption which will require extensive institutional change.

Many of the recommendations implicit in the above discussion for improving the operation of seaports and airports in Iraq would also make it more difficult to earn a corrupt dinar. However, in view of the severity of the problems, the GoI should consider the radical plan of sharply reducing the number of different organizations involved in seaport and airport operation.

Iraq's current system of managing customs and seaport/airport operations suffers from "tragedy of the commons"¹³. This means that there are many governmental and non-governmental organizations that profit by the mismanagement and corruption at Iraq's seaports and airports. Each of these organizations knows that their collective actions sharply reduce the efficiency of the country's seaports and airports with severe adverse impacts on the economy and quality of life of Iraq. And yet they also realize that if any single organization were to cease its corrupt activities, other organizations would soon take their place and the harm would continue unchanged.

In addition, most of the governmental and non-governmental organizations that profit by the disruption of port operations are affiliated with Iraq political parties, domestic militias, or foreign entities who rely upon funds from port-associated corruption to fund their operations. A reduction in corruption or increase in port efficiency would decrease their funding.

One option for dealing with this tragedy of the commons is to assign a single domestic or foreign entity with sole responsibility for the management of each all seaport or airport activities including customs processing and port security. If the port management contract provided good incentives so that the responsible entity would directly benefit from increased port efficiency; a single controlling group should reduce the currently unacceptable mismanagement and corruption. In addition, assigning a single entity to manage each port would allow the fair allocation of blame if expected efficiency improvements do not occur. Finally, each seaport and

¹³ Tragedy of the commons is an often-used term in economics. This is "tragedy" in the original sense. It is not just a bad thing happening. Rather it is a bad thing happening that many foresaw would happen but were unable or unwilling to prevent. See Sophocles' *Oedipus the King*.

airport should be managed by a different entity so that competition between ports would motivate further improvements.

Regulatory Hostility

Iraq's trade regulations are among the most burdensome in the world. As shown in Table 1, it is difficult, expensive, and time consuming to legally import to or export from Iraq. And every knot of red tape that drives honest businesses crazy is not an unloved artifact of Saddam's rule. Rather, each rule is carefully preserved because the more complex and confusing the regulation, the greater the motivation of businesses and individuals to offer a bribe.

Iraq is currently engaged in a decade-long process to rationalize its commercial code including trade regulations. The cost of taking so long to simplify trade regulations is high. This cost includes delaying the Iraqi economy's diversification from oil dependency, reducing potential customs receipts, and killing Iraqis through expired or counterfeit medicines. It is possible to reduce the time necessary to rationalize its commercial code by rapidly adopting the World Bank's recommendations. Or if there is concern that the World Bank's legal structure might be inconsistent with Islamic law, Iraq could instead adopt the trade regulations of the UAE.

Increasing Seaport and Airport Throughput

In addition to the substantial institutional changes proposed, the GoI could also make more limited changes that should increase international use of the country's seaports and airports by making them more competitive with facilities in Iraq's neighbors. These would include:

- Electronic customs processing
- Payment by electronic funds transfer
- Rational working hours by customs and other government officials
- Providing incentives for consignees to contract for enough trucks
- Shifting to longer term contracts with private sector partners
- Dredging the Shatt al Arab to at least 12 meters
- Training and technology to increase earnings from airline overflights

The Dry Canal and Regulatory Reform

The Dry Canal project is an impressive infrastructure project. However, its success will require GoI expenditure of tens of trillions of dinars, almost a decade of time, and the political challenges of maintaining a favorable domestic and foreign environment. If prior to its completion, the GoI can reduce port corruption and mismanagement as well as adopt a more rational regulatory system for international trade, this will effectively increase the capacity of the existing seaports and airports by increasing throughput. This will provide a bridge of improved international trade and investment pending the completion of the Dry Canal.

Of greater importance is the reality that even if the massive infrastructure investments involved with Grand Faw Port and the Dry Canal are completed on schedule but the corruption, mismanagement, and regulatory hostility remain unchanged, this most remarkable project will fail. The expected increase in ship landings will not occur and the rail cars from Grand Faw Port

to Turkey will be half empty. And the Iraqi people will be left with increased debt and another lost opportunity. In summary, if the rules governing Iraq's seaports and airports are not fixed, the massive infrastructure investment in the Dry Canal will be wasted.

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