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Saudi Arabia

Grain and Feed

Annual Report

2004

Approved by:
Quintin Gray
Agricultural Trade Office, U.S. Embassy

Prepared by:
Hussein Mousa

Report Highlights:
Local barley production ban got into effect this crop season. Barley imports this Marketing Year (MY) 2003 is forecast to go down by about one million tons due to good rain fall in the northern part of the Kingdom which resulted in a better pasture conditions this year compared to last year. About 2 million tons of wheat will be harvest this crop year. The Government guaranteed purchase price for locally grown wheat will be reduced from US$ 400 per metric ton to US$ 266.67 per metric ton commencing from the 2004/2005 crop, which will be harvested in the spring of 2005. Saudi Arabia is forecast to face wheat production shortage next year due to expect exit a large number of small farmers from wheat production. No rice is produced in the Kingdom. In Calendar Year (CY) 2003 Saudi Arabian rice imports were estimated at more than one million metric tons, an increase of over 27 percent compared to CY 2002.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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I. Local Barley Production

The Saudi Government's decision to stop local barley production subsidy, decreed in February 2003, took effect this crop year. Prior to the decision to stop buying locally produced barley at $267.67 per metric ton (mt) from this crop year, the Government each year used to set a local barley production quota at one million mt each year. However, local farmers (the majority of whom are small farmers) produced less than 200,000 mt. Farmers did not find the Government Purchase Price (GPP) of $267.67 per metric ton attractive enough to engage in barley farming. They claimed that their production cost was very close to the GPP. Water conservation and Government costs saving are the main factors behind the Government's decision to drop the local barley production subsidy.

1. Production, Supply and Distribution Table (PSD) Table for Barley

PSD Table

Country	**Saudi Arabia**					
Commodity	**Barley ((1000 HA)(1000 MT)**					
	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		07/2002		07/2003		07/2004
Area Harvested	17	17	0	0	0	0
Beginning Stocks	1257	1111	2611	2362	2301	2312
Production	100	100	0	0	0	0
TOTAL Mkt. Yr. Imports	7064	6991	5500	6000	0	6500
Oct-Sep Imports	7500	7560	5500	6500	0	6900
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	**8421**	**8202**	**8111**	**8362**	**2301**	**8812**
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	5800	5840	5800	6000	0	6300
TOTAL Dom. Consumption	5810	5840	5810	6050	0	6350
Ending Stocks	2611	2362	2301	2312	0	2462
TOTAL DISTRIBUTION	**8421**	**8202**	**8111**	**8362**	**0**	**8812**

2. Barley Imports

Barley imports this Marketing Year (MY) 2003 is forecast to go down by about one million tons due to good rain fall in the northern part of the Kingdom which resulted in a better pasture conditions this year compared to last year. Livestock farmers are expecting the good pasture to last until early May.

Overall demand for imported barley is forecast to remain strong due to lack of alternative competitive feed in the Kingdom. The demand for other alternative forage such as alfalfa is expected to remain very low as long as the Saudi Government keeps on subsidizing imported barely. It is the policy of the Government to eliminate or sharply reduce alfalfa production due to its high usage of non-renewable aquifer water. Since the Government's ban on alfalfa exports three years ago, a large number of farmers have exited alfalfa and other forage production. Nowadays, the main growers and users of alfalfa are dairy farmers.

Barley imports for the first six months of MY 2003 (July 2003-December 2003) increased by more than 31 percent compared to the same period last year (4,040,608 mt vs. 3,075,449 mt). MY 2004 barley imports are put at 6.5 million metric tons per forecast by trade contacts, an increase of 500,000 metric tons compared to the current MY due to mainly expected increase in livestock imports from major supplying countries. Currently, the Kingdom imports more than 7 million live sheep/goats annually. Imported livestock are usually kept by traders for up to three months during which they are mostly fed barley since it is the most inexpensive animal feed in the Kingdom (due to the government subsidy program) compared to other feed alternatives

Calendar Year 2003 (In January-December 2003), the Black sea suppliers (Ukraine and Russia) lost their dominance in the Saudi barley market to the EU. According to information obtained from barley traders, 7,955,894 metric tons of imported barley were unloaded at the six Saudi ports last year, an increase of about 28 percent compared to Jan-Dec 2002 (6,216,807 mt). Seven EU states combined supplied 47.42%, followed by Ukraine 32.33%, Russia (10.8%), Turkey (4%), Australia (2.8%) and Canada 1.4%.

Jeddah remained the main barley import port among the six Saudi ports that handle imported bulk barley. In calendar year 2003, Jeddah Islamic Port handled 48 percent of all barley imported, followed by Dammam (19%), Jubail (16%), Yanbu (9%), Gizan (6%) and Diba (2%.)

3. Barley Specifications

Saudi barley importers normally buy barley based on standard specifications of the country of origin (EU, United States, Canada, and Australia). The following are specifications for U.S., European and Australian origin imported barley obtained from a major Saudi grain importer:

U.S. Barley

Sound, Loyal & Merchantable quality
Test weight per bushel 45 lbs. minimum
Moisture maximum 14.5 percent
Foreign Matter maximum 2 percent
Damaged kernels maximum 4 percent
Colored barley not less than 5 percent of total shipped quantity
Goods to be free from live weevils, insects, diseases, foreign smell and materials.

EU and Australia

Sound, Loyal & Merchantable quality
Colored barley not less than 5 percent of total shipped quantity
Goods to be free from live weevils, insects, diseases, foreign smell and materials.

1. In case of EU or Turkish origin:
   Test weight: 62/63 KG/HL.
   Moisture 15 percent
   Foreign Matter: Max 2 percent

2. In case of Australian origin: As per Australian Grain Board Specifications

Saudi traders often employ brokers to buy barley. Several traders use brokers based in Beirut.

4. Government Subsidy on Imported Barley

On June 11, 2000, the Saudi government issued a decree to temporarily reinstate a barley subsidy program following an outcry by traditional livestock farmers who were unable to feed their herds when the retail price of 50 kg of barley reached SR 31 ($8.27) and the C&F (free port) at Saudi ports averaged $130 per metric ton. Traditional farmers feeding sheep, camels, and goats use about 80 percent of imported barley. The farmers depend heavily on barley when pasture conditions in the Kingdom are poor.

The decree instructed barley importers to sell a bag of 50 kg of imported barley at Saudi Riyals (SR) 18 ($4.80) or $96 per metric ton at importers bagging facilities. The maximum retail price to end-users was set at SR 20 ($5.33 or $106.67 per metric ton). In return, the SAG pays 5 percent of the C&F price at Saudi ports as a profit to importers for barley imported and sold at the government set price ($4.80 per 50 kg of barley) as evidenced by sales invoices and SR 54 ($14.40) per metric ton to cover expenses related to L/C opening, unloading, transporting barley from sea port to bagging plants, and other related costs. Due to the Government subsidy, barley users are not worried about fluctuations in the world barley prices. Per trade contacts, world barley price reached US$ 180 per metric ton this year compared to maximum price of US$ 120 per metric ton last year. Regardless of the world barley prices, local barley users pay only US$ 96 dollars at local importers bagging facilities.

5. Trade Matrix

CALENDAR YEAR 2003 SAUDI ARABIA BARLEY IMPORTS LISTED BY SUPPLYING COUNTRIES										
Month	Ukraine	Germany	France	Russia	Holland	Turkey	Australia	Canada	Other	Total
January	219883	0	0	54565	56800	0	0	0	0	331248
February	274899	137484	51239	104442	26939	0	0	0	0	595003
March	326352	219768	169583	118674	164350	106685	0	0	0	1105412
April	194568	156707	62302	50000	223152	80737	0	0	4500	771966
May	143129	169840	60474	84333	10035	36534	0	0	30874	535219
June	99704	85530	221159	54418	60927	54700	0	0	0	576438
July	57806	82033	124404	37106	0	0	0	0	119019	420368
August	0	549668	54771	54704	109515	36608	0	0	87849	893115
September	243386	277271	13066	50248	98964	0	55593	0	50000	788528
October	276626	38630	130854	63818	0	0	35519	0	57000	602447
November	595013	49502	0	98600	0	0	60168	20147	60684	884114
December	140762	54084	0	85970	0	0	76107	95113	0	452036
Total	**2,572,128**	**1,820,517**	**887,852**	**856,878**	**750,682**	**315,264**	**227,387**	**115,260**	**409,926**	**7,955,894**

Source: Trade Sources

Marketing Year 2002 Saudi Barley Imports Data (July 2002-June 2003)

Month	Quantity in Metric Tons
July	504,617.00
August	570,456.00
September	457,969.00
October	715,717.00
November	352,121.00
December	474,569.00
January	331,248.00
February	595,003.00
March	1,105,412.00
April	771,966.00
May	535,219.00
June	576,438.00
Total	**6,990,735.00**

Source: Trade Sources

Fiscal Year 2002 Saudi Barley Imports (October 1,2002-September 30, 2003)

Month	Quantity in Metric Tons
October	715,717
November	352,121
December	474,569
January	331,248
February	595,003
March	1,105,412
April	771,966
May	535,219
June	576,438
July	420,368
August	893,115
September	788,528
Total	**7,559,704**

Source: Trade Sources

II. Wheat Production

All aspects of wheat continue to be controlled by the Ministry of Agriculture's agency Grain Silos and Flour Mills Organization (GSFMO.) Government policy is for farmers to produce only enough wheat to meet domestic needs, currently about two million mt. Saudi Arabia does not export or import wheat or wheat flour, with the exception of small quantities of mixed wheat flour for special baking needs. Some Saudi based grain importers do sometimes import wheat from the U.S. for exports to nearby countries.

1. Reduction in the Local Wheat Production Subsidy

The Government guaranteed purchase price for locally grown wheat will be reduced from US$ 400 per metric ton to US$ 266.67 per metric ton commencing from the 2004/2005 crop, which will be harvested in the spring of 2005. The Government's decision was announced on December 29, 2003. Also for the first time for over a decade, the Government allowed large shareholding companies to produce between 300,000 mt and 600,000 mt wheat annually starting from next year's crop season. It is worth mentioning that large shareholding agricultural companies were excluded from receiving government subsidies on wheat and barley production in 1993.

2. Production, Supply and Distribution Table (PSD) for Wheat

PSD Table

Country	Saudi Arabia					
Commodity	Wheat (1000 HA)(1000 MT)					
	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		07/2002		07/2003		07/2004
Area Harvested	446	446	446	446	0	320
Beginning Stocks	1271	1053	1332	1050	1357	1043
Production	2000	2000	2000	2000	0	1600
TOTAL Mkt. Yr. Imports	161	3	125	3	0	400
Jul-Jun Imports	161	3	125	3	0	400
Jul-Jun Import U.S.	4	2	0	2	0	100
TOTAL SUPPLY	**3432**	**3056**	**3457**	**3053**	**1357**	**3043**
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Jul-Jun Exports	0	0	0	0	0	0
Feed Dom. Consumption	50	50	50	50	0	40
TOTAL Dom. Consumption	2100	2006	2100	2010	0	2040
Ending Stocks	1332	1050	1357	1043	0	1003
TOTAL DISTRIBUTION	**3432**	**3056**	**3457**	**3053**	**0**	**3043**

When implemented, the decision to reduce the GPP will be the second price cut in the past ten years. In June 1995, the Government reduced the local wheat purchase price from US$ 533) to US$ 400 per metric ton). At that time the measure was reportedly implemented to conserve budget and water resources.

3. Possible Reasons for the Reduction in the Wheat Subsidy

According to local agricultural analysts, the Saudi Government reduced the wheat purchase price to achieve two goals:

A. Meet WTO Accession Requirements

It has been widely believed that the Saudi Government has been facing difficulties at the WTO talks in Geneva with leading wheat producing countries who insist that the Saudi Government open up its wheat market by doing away with (or reducing significantly) the local wheat subsidy as one of the conditions that the Saudi Government has to meet to get their support in the agricultural negotiations.

Though the GPP is still a lot higher than the C&F prices of imported wheat, it is believed that most small local producers will not be able to produce their assigned quotas since their production cost is very close to the GPP due to productivity per hectare estimated at lower that 5 metric tons. This was the major reason why local small farmers where not attracted to barley production when the GPP was $267.67 per metric ton. Despite the Government barley production quota of 1 million metric tons in the past few years, local farmers were only able to produce less than 200,000 metric tons annually, which allowed the Government to drop local barley production subsidies starting from this year's crop season.

It is possible for the six-shareholding companies and a couple of large family owned farms to produce the government assigned quotas economically. According to crop managers of large shareholding farms, it is possible to produce a ton of wheat between US$ 133.33 to $200,000 depending on the geographical location of the producing farm. Large firms have indicated that they have enough expertise to produce 8 to 9 metric tons of wheat per hectare meaning they have no difficulties meeting government assigned wheat production quotas. Despite the high productivity of large farmers, they apparently have limited productive lands since most of the installed central pivots as well as water wells have not been used since 1993 when large stock holding farmers were eliminated from receiving wheat production subsidies. It takes a huge investment in fertilizers, chemicals as well as in digging new wells to make the long abandoned desert land productive again. Even those financially capable farmers want to wait and see the outcome of the ongoing WTO negotiations to decide whether or not to upgrade their lands to take advantage of expected exit of a large number of small farmers from wheat production.

Given the fact that the majority of the Kingdom's 4000 wheat farmers will not be able to economically produce wheat and that large farmers will not probably invest huge amounts of needed capital in upgrading their previously productive wheat lands, it is high likely that the Kingdom will be turning to imported wheat to make up for the expected wheat shortage next year. It is estimated that the country may import at least 400,000 metric tons of wheat next year. When that happens, it will be the first time in over two decades that the Government will officially turn to imported wheat to satisfy part of the domestic wheat consumption estimated at around 2 million metric tons per annum.

B. Pave Ways for Flour Mills Privatization

The Saudi Government has been holding talks with World Bank officials concerning privatization of the country's six flourmills. The total combined milling capacity of the six mills is 5,600 mt of wheat per day. Another sign of the Government's privatization intent was its decision last year to reduce the import tariff on wheat from 100 percent to zero percent. However, prospective importers need to obtain an import license from the Grain

Silos and Flour Mills Organization (GSFMO), an entity responsible for implementing Saudi Government's grain policy. Thus far, no importer has approached the organization to obtain an import license. If and when the mills are privatized, traders will be allowed to buy wheat on the world market. According to some reports, the government will continue the current wheat subsidy policy even if it goes out of the flour milling business. If the mills are privatized, the responsibilities of purchasing and selling locally produced wheat are expected to pass from the GSFMO to the Ministry of Finance and National Economy. The Ministry will be responsible for purchasing wheat at the GPP and selling it to local millers at subsidized rates, paying the difference between the GPP price of USD$ 267.67 and the world market prices for wheat.

III. Overview of the Kingdom's Rice Market

No rice is produced in the Kingdom. In Calendar Year (CY) 2003 Saudi Arabian rice imports were estimated at more than one million metric tons, an increase of over 27 percent compared to CY 2002. Imports this year are forecast to show a marginal increase of about 1 percent relative to the last year's level (see PSD table). The huge increase in imports last year is attributed to a strong consumer demand locally due mainly to the high population growth rate of 3.5 percent, increasing number of pilgrims that come to Mecca (more than five millions pilgrims come to Mecca each year to perform Ummra and Haj rituals) and exports mainly to Iraq through Jordan and Kuwait. Also the Saudi Government procures rice locally for food donations to nearby countries affected by natural disasters

Since rice is a staple food in the Kingdom, the Saudi government does not impose import tariffs, providing Saudi traders the opportunity to re-export imported rice to nearby destinations.

1. Production, Supply and Distribution Table (PSD) Table for Rice

PSD Table

Country Saudi Arabia

Commodity Rice, Milled (1000 HA)(1000 MT)

	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		01/2002		01/2003		01/2004
Area Harvested	0	0	0	0	0	0
Beginning Stocks	182	150	85	92	150	158
Milled Production	0	0	0	0	0	0
Rough Production	0	0	0	0	0	0
MILLING RATE (.9999)	0	0	0	0	0	0
TOTAL Imports	938	852	1150	1086	0	1100
Jan-Dec Imports	1150	852	950	1086	0	1100
Jan-Dec Import U.S.	0	93	0	110	0	120
TOTAL SUPPLY	**1120**	**1002**	**1235**	**1181**	**150**	**1261**
TOTAL Exports	60	10	60	70	0	80
Jan-Dec Exports	60	10	60	70	0	80
TOTAL Dom. Consumption	975	900	1025	950	0	1010
Ending Stocks	85	92	150	158	0	168
TOTAL DISTRIBUTION	**1120**	**1002**	**1235**	**1181**	**0**	**1261**

2. Saudi Rice Imports

India has remained the main beneficiary from the growing Saudi rice market. Basmati (white and parboiled) and Parimal rice are the leading Indian varieties imported. Based on data received from trade contacts, rice exports to Saudi Arabia from India in 2003 reached 820,000 metric tons, an increase of about 37 percent compared to 2002. Indian rice is now accounts for about 76 percent of all rice exported to the Kingdom. Basmati is still the dominant Indian rice variety in the Kingdom. However, its market share went down by 14 percent in 2003 in favor of a less expensive and marginal quality Parimal variety.

With a 10 percent market share, the United States has remained the second largest rice supplier to the Kingdom (followed by Pakistan & Thailand). According to the U.S. Customs data, U.S. rice exports increased from 93,398 mt in 2003 to 110,012 mt in 2003 (an increase of about 18 percent). The diminished boycott America campaign that started early in 2001, consumer confidence on the safety of American rice after the lead scare of early 2002, and price competitiveness are the main factors for the import increase last year. The three factors are expected to further increase the U.S. rice exports to the Kingdom in 2004.

3. Reasons for Increased Demand for Indian Rice

Saudi rice traders believe Indian rice exports will continue to benefit most from the growing rice market than American rice for the following reasons:

Þ A significant percentage of Saudis and expatriates with low incomes have shifted from U.S. rice to Indian Parimal rice (PR106). Indian Parimal parboiled rice was introduced in the Kingdom 10 years ago and has rapidly gained in popularity. Indian Parimal was instrumental in prompting a significant decline in exports of Thai parboiled rice to the Kingdom.

Þ Competitive prices of Parimal rice. Parimal rice is by far the least expensive parboiled rice available in the Kingdom. Retail price of 45 kg of Parimal rice as of March 2003 was US$ 16 compared to up to US $21.33 per 45 kg for a dominant brand U.S. parboiled rice sold in the Kingdom.

Þ The Saudi rice trade acknowledges that the quality of U.S. rice is superior to Parimal rice, but concedes that the vast majority of consumers are unable to ascertain the difference between the two varieties. Sources allege that illicit traders often pass off Indian rice as American rice, by bagging Indian rice in bags associated with U.S.-origin rice. This practice, according to the trade, has been going on for several years, but is virtually impossible to stop.

Þ The availability of dozens of brands of Basmati and non-Basmati rice, mainly from India, on the Saudi market has greatly increased competition at the expense of U.S. brands. There appears to be less than 10 different U.S. brands on the Saudi market.

Þ While Indian and other rice are perceived as "natural" rice, U.S. rice has been frequently perceived as "manufactured," according to the Saudi rice trade. U.S. rice companies should work hard to dispel this myth.

4. Trade Matrix

The table below shows exports of rice to Saudi Arabia from leading suppliers, for calendar years 2003 to 2002. The data was provided by FAS offices in India, Thailand, and Pakistan and are based on official Customs Data and/or trade contacts from these countries.

	CY2003	CY2002
India	820,000	600,000
US	110,012	93,398
Pakistan	80,739	70,427
Thailand	45,427	58,309
Other	30,000	30,000
Total	**1,086,178**	**852,134**

5. Saudi Rice Cleaning and Bagging Plant

The Saudi company AJWA is the only rice cleaning and bagging plant in the Kingdom. AJWA buys rice in bulk from the United States and other destinations, particularly India, and cleans and bags the rice under its own brand names. The firm stopped bagging Uncle Ben's rice from the U.S. three months ago since the Saudi Uncle Ben's agent is now sourcing from the Uncle Ben's Spanish plant. The AJWA complex was built in 1995 and is located in Jeddah Port. It has the capacity to store 120,000 mt of rice and to process up to 450,000 mt of rice annually.

AJWA is responsible for unloading the vast majority of bulk grain shipments to Jeddah port. The plant is located next to three berths that it rents from the Port Authority. The berths can handle vessels carrying up to 100,000 mt of grains.

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