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Saudi Arabia

Grain and Feed

Annual

2002

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Report Highlights:

Local barley production for this marketing year (MY) is estimated at 100,000 metric tons**.** The demand for barley this year is forecast to increase significantly due to a below average rainfall so far this season and the recent Saudi Government's decision to lift import bans on live sheep from major supplying countries**.**
All aspects of wheat continue to be controlled by the Grain Silos and Flour Mills Organization (GSFMO). Government policy is for farmers to produce only enough wheat to meet domestic needs, currently about 1.8 million mt.
Saudi Arabian rice imports this year are forecast to increase by 8 percent from the last year's level. However, imports from the U.S. are expected to decrease considerably due to the continued the negative publicity resulting from Saudi Government's (SAG) testing of U.S. rice for lead.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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TABLE OF CONTENTS

I. THE CURRENT BARLEY SITUATION

Overview:

Local barley production for this marketing year (MY) is estimated at 100,000 metric tons (mt). A Saudi Ministry of Agriculture's agency, Grain Silos and Flour Mills Organization (GSFMO), is responsible for assigning barley and wheat production quotas and receiving produced grains from local farmers. Despite the GSFMO's repeated quota of one million metric tons (mt) for local barley production, yearly barley production in recent years has not exceeded 100,000 mt. It has been reported that farmers do not find the Government Purchase Price (GPP) of $267.67 per metric ton attractive enough to fill one million metric tons quota. Farmers claim that their production cost is very close to the GPP. The per metric ton C&F price (free port) for imported barley arriving at Saudi ports ranged between $119 and $125 at the end of February. Major barley importers have reported that they have received price quotations ranging between $109 and $112 per metric ton for March arrivals. Locally produced barley is now used solely as an ingredient in animal feed production in the GSFMO's feed mill.

Production, Supply and Distribution Table (PSD) Table for Barley (unit: 1000 mt):

PSD Table						
Country:	Saudi Arabia					
Commodity:	Barley					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	57	17	57	17		17
Beginning Stocks	977	1051	677	1101	627	1091
Production	400	100	400	100		100
TOTAL Mkt. Yr. Imports	5200	5160	5000	5600		5800
Oct-Sep Imports	4500	4744	4500	5200		5400
Oct-Sep Import U.S.	219	219	150	150	0	150
TOTAL SUPPLY	6577	6311	6077	6801	627	6991
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	5700	5200	5400	5700		5900
TOTAL Dom. Consumption	5900	5210	5450	5710		5910
Ending Stocks	677	1101	627	1091		1081

TOTAL DISTRIBUTION	6577	6311	6077	6801	0	6991

Imports:

After controlling barley imports, distribution, and prices in the Kingdom for over a decade, the Saudi government via the GSFMO, withdrew from the barley import market in April 1998, allowing the private sector to import and sell barley at market prices.

The demand for barley this year is forecast to increase significantly due to a below average rainfall so far this season and the Saudi Government's decision last December/January to lift import bans on live sheep from major supplying countries namely Sudan, Jordan and Syria early this year (the ban on imports of Sudanese live camels and goats was also lifted). Imported live sheep, goats and camels 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 government subsidy) compared to other feed alternatives. Saudi Arabia used to import up to seven million live sheep annually before it imposed bans on African, Asian and European livestock imports due to Rift Valley Fever Disease, Foot and Mouth Disease and BSE concerns at the end of 2000. The ban on imports of live sheep from major suppliers also decreased the local sheep stock which in turn reduced the demand for barley in the past few months.

Marketing year 2001 barley imports (July 1, 2001 - June 30, 2002) are estimated by ATO/Riyadh at 5.6 million metric tons. The demand for barley use is expected to go up by more than 500,000 metric tons this year compared to the previous marketing year due to the expected increased demand. Next MY's demand for barley is forecast to get stronger due to expectations that the Kingdom may lift bans on imported livestock from some African countries particularly Somalia which used to export about three million head of live sheep to the Kingdom.

The European Union (EU) remains the dominant supplier of barley to the Kingdom despite losing a huge market share in CY 2001 to the former USSR countries, Australia and some Eastern European countries. According to information obtained from barley traders, 4,467,880 metric tons of imported barley were unloaded at six Saudi ports in calender year 2001, a decrease of about 26 percent compared to CY 2000 (6,011,244 mt in CY 2000). EU supplied 35 percent in CY 2001 (vs. 84 percent in CY 2000) of Saudi barley imports followed by Ukraine (17%), Australia (16%), Russia (11%), Romania (8.5%), Canada (5%) and U.S. (3.7%) and other countries (3.8%). According to trade sources, there is increased import of barley from black sea countries thus far this year. Jeddah remained the main barley import port among the six Saudi ports that handle imported bulk barley. In CY 2001, about 48.7 percent of all barley was imported through the Jeddah Islamic Port, followed by Dammam (19.6%), Gizan (10.9%), Jubail (11.2%), Yanbu (7.3%) and Diba (2.3%)

Specifications:

In order to differentiate imported barley from locally produced barley, the GSMFO requires that 5 percent of imported barley be colored with carmosine. Currently, local barley production accounts for about 1.5 percent of the total annual supply.

Saudi barley importers normally buy barley based on standard specifications of the country of origin (EU, United States, Canada, and Australia). 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

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

Government Subsidy on Imported Barley:

The Saudi government's decision to turn over the barley importing business to the private sector in 1998 was prompted by low world barley prices (about $80/mt, C&F Saudi ports) in the Spring of 1998, which enabled importers to import and distribute barley to end users at prices below $5.6 per 50 kg bag for a few months.

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. About 80 percent of imported barley is used by traditional farmers feeding sheep, camels, and goats. 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 sells 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.

However, the government appears to be lagging behind in paying the subsidies on time to the importers. According to some barley importers, they have to wait for up to four months to get payments from the government which is affecting their profitability and their ability to continue importing barley on a regular basis. To maintain regular cash flow, smaller importers have been reportedly selling at as low as $82 per metric ton.

The following illustrates subsidy payment formula to importers assuming a C&F price of $125 per metric ton:

$125+$125(.05)+$14.40-$96=$49.65 (subsidy paid to importers.)

The government pays the subsidy to importers only for the quantities they sold at their bagging facilities as evidenced by daily sales invoices not for the quantities they imported. Payment to importers is done through checks issued by the Saudi Ministry of Finance and National Economy. Importers send documents such as certificates of origin, bills of lading, commercial invoices, local barley selling invoices, certificates from Customs for quantities received, certificates from sea port, quality certificates from Quarantine Department of the Ministry of Agriculture, unloading certificates, and delivery order from the shipping company (from local agent of the vessel).

Trade Matrix

CALENDAR YEAR 2001 SAUDI ARABIA BARLEY IMPORTS LISTED BY SUPPLYING COUNTRIES:

COUNTRIES												
Month	AUSTRALIA	TURKEY	GERMANY	U.S.A.	CANADA	FRANCE	RUSSIA	UKRAINE	BRAZIL	HOLLAND	ROMANIA	BULGARIA	TOTAL
JANUARY	175050	0	215248	53303	52467	0	0	0	0	0	0	0	496068
FEBRUARY	163656	0	202217	0	53320	0	0	0	0	78914	0	0	498107
MARCH	79875	0	170620	59167	0	0	0	0	56154	0	0	0	365816
APRIL	60500	0	0	0	0	0	0	0	0	0	0	0	60500
MAY	108165	0	118712	0	58646	60383	0	0	0	0	0	0	345906
JUNE	0	30606	0	51788	0	40702	0	0	0	0	0	0	123096
JULY	38500	0	198949	0	0	16156	0	0	0	51072	73425	0	378102
AUGUST	38500	0	287534	0	60557	0	53830	57398	0	63300	123090	15701	699910
SEPTEMBER	0	0	60500	0	0	0	53137	84401	0	0	184984	31403	414425
OCTOBER	0	0	0	0	0	0	147746	366171	0	0	0	0	513917
NOVEMBER	0	0	0	0	0	0	83117	100221	0	0	0	0	183338
DECEMBER	56034	0	16500	0	0	0	165376	150785	0	0	0	0	388965
TOTAL	**720280**	**30606**	**1270280**	**164258**	**224990**	**117241**	**503206**	**758976**	**56154**	**193286**	**381499**	**47104**	**4467880**

Source: Trade Sources

Marketing year 2000 Saudi Barley Imports Data (July 2000-June 2001):

Month	Quantity in Metric Tons
July	426,395
August	878,548
September	603,120
October	603,835
November	437,707
December	320,412
January	496,068
February	498,107
March	365,816
April	60,500
May	345,906
June	123,096
TOTAL	5,159,510

Source: Trade Sources

Fiscal Year 2000 Saudi Barley Imports (October 2000-September 2001)

Month	Quantity in Metric Tons
October	603,835
November	437,707
December	320,412
January	496,068
February	498,107
March	365,816
April	60,500
May	345,906
June	123,096
July	378,102
August	966,910
September	414,425
Total	4,743,884

Source: Trade Sources

II. THE CURRENT WHEAT SITUATION

Overview:

All aspects of wheat continue to be controlled by the GSFMO. Government policy is for farmers to produce only enough wheat to meet domestic needs, currently about 1.8 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. The Government guaranteed purchase price for wheat produced by small wheat farmers remains at $400 per metric ton. The government sells one metric ton of white and whole wheat flour at $148 and $207 respectively to end users. Large share holding companies were excluded from receiving wheat subsidies in 1993. Wheat production gives a return of at least $140 per metric tons for farmers. For this reason, each planting season, the government regularly faces over-production problems as farmers exceed their production allocations to try to maximize their return on wheat. production. It worth mentioning that the Kingdom produced about 5 million metric tons of wheat in the 1992/93 planting season.

Production, Supply and Distribution Table (PSD) Table for Wheat (in 1000 mt):

PSD Table						
Country:	Saudi Arabia					
Commodity:	Wheat					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		07/2000		07/2001		07/2002
Area Harvested	400	400	400	400		400
Beginning Stocks	1125	1248	1175	1243	1175	1218
Production	1800	1800	1800	1780	0	1800
TOTAL Mkt. Yr. Imports	100	20	100	20	0	20
Jul-Jun Imports	1	1	1	1	0	1
Jul-Jun Import U.S.	1	18	0	18	0	18
TOTAL SUPPLY	3025	3068	3075	3043	1175	3038
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	50
TOTAL Dom. Consumption	1850	1825	1900	1825	0	1827
Ending Stocks	1175	1243	1175	1218	0	1211
TOTAL DISTRIBUTION	3025	3068	3075	3043	0	3038

Flour Mills Privatization Plans:

The GSFMO continues to hold talks with the World Bank officials concerning privatization of the country's 6 flour mills. The mills are located in the cities of Riyadh, Jeddah, Dammam, Qassim, Khamis Mushayt, and Tabuk. However, no decision has been taken despite the elapse of about 3 years since the government announced its intention to do so. It is doubtful if the government would privatize the mills before deciding what to do with the local wheat production and the estimated 50,000 farmers who depend on it for their livelihood. According to some reports, the government will continue the current wheat subsidy policy even if it goes out of flour milling business. If the mills are privatized, the responsibilities of purchasing and selling locally produced wheat is 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 sell it to local millers at competitive world wheat prices.

The total combined milling capacity of the six mills is 5,600 mt of wheat per day. If and when the mills are privatized, it is likely that the government will significantly reduce the import tariff on wheat (currently set at 100 percent) to allow traders to buy wheat on the world market. Allowing Saudi traders to buy wheat on the world market would lead to the production of many types and blends of wheat flour and the manufacture of a wide selection of breads and pastries.

Note that the Saudi government does not impose import tariffs on barley, sorghum, or rice. Corn and soybean meal importers actually receive a rebate of $42.67 for every metric ton imported.

III. THE CURRENT RICE SITUATION

Overview:

No rice is produced in the Kingdom. Calendar Year 2001 Saudi rice imports are estimated at 962,000 mt, up by 17 percent from last year's level. Imports this year are forecast to increase by 8 percent from last year's level (see PSD table). The increase is attributed to a strong consumer demand, due mainly to the high population growth rate of 3.4 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 (including food donations to nearby countries). The Saudi government does not impose import tariffs on rice, providing Saudi traders the opportunity to re-export imported rice to Yemen and other nearby destinations.

Production, Supply and Distribution Table (PSD) Table for Rice (in 1000 mt)

PSD Table						
Country:	Saudi Arabia					
Commodity:	Rice, Milled					
		2000		2001		2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Harvested	0	0	0	0	0	0
Beginning Stocks	67	100	134	100	57	100
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	992	962	900	970	0	980
Jan-Dec Imports	900	962	875	970	0	980
Jan-Dec Import U.S.	164	164	160	141	0	120
TOTAL SUPPLY	1059	1062	1034	1070	57	1080
TOTAL Exports	50	30	55	30	0	30
Jan-Dec Exports	50	30	55	30	0	30
TOTAL Dom. Consumption	875	932	922	940	0	950
Ending Stocks	134	100	57	100	0	100

Saudi Rice Imports:

Accounting for 65 percent of Saudi rice imports in 2000, India has been the main beneficiary of the growing Saudi rice market. Basmati (White and Sella) and Parimal rice is the leading Indian varieties imported. Based on official Indian Customs data, rice exports to Saudi Arabia from India jumped from 288,637 mt in 1995 to 627,392 mt in 2000. Basmati rice accounted for 80 percent of total Indian rice exports to the Kingdom in 2000.

On the contrary, Saudi imports from the United States and Thailand have fallen substantially since the early 1990s. U.S. rice exports to the Kingdom declined from 205,611 mt in 1993 to 141,060 mt in 2001. Thai rice exports to Saudi Arabia decreased from 127,947 mt in 1994 to 69,101 metric tons in 2001.

Reasons for Increased Demand for Indian Rice:

Saudi rice traders believe Indian rice exports will continue to gain market share. Reasons for the shift to Indian rice are as follows:

- Growing shift in consumer demand away from American parboiled rice to Indian Sella Basmati rice (parboiled Basmati rice). Traders cite competitive pricing (the prices of Indian Sella rice and American rice are now identical as illustrated in the next paragraph), attractive packaging, extensive market promotion and the aromatic flavor of Sella rice as the main reasons for the success of Indian Sella Basmati rice in Saudi Arabia. Many local restaurants, mainly "Boukhari" restaurants, have been shifted to Sella Basmati rice.

- 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 8 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.

- Competitive prices of Parimal and Basmati rice. Parimal rice is by far the least expensive parboiled rice available in the Kingdom, selling for far below one-half of the price of a major U.S. parboiled long grain rice brand. C&F prices for a metric ton of Parimal rice range between $198-$200 (this year's crop, last year's crop was sold for $217/mt), compared to up to $500 per metric ton for a dominant U.S. parboiled rice sold in the Kingdom (one U.S. brand rice is being sold at $356 per mt). While Sella Basmati rice (95% purity) and White Basmati rice have been quoted this month for $560 and $660 per metric ton respectively. Traditionally, Basmati rice varieties from Indian States of Banjab and Haryana command higher prices among Indian rice due to reported premium quality.

- 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.

- ! 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.

- ! 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 have been working hard to dispel this myth.

Trade Matrix from 1995 to 2001

The table below shows exports of rice to Saudi Arabia from leading suppliers, for calendar years 1995 to 2000. The data was provided by FAS offices in India, Thailand, and Pakistan and are based on official Customs Data from these countries.

Country of Origin	**CALENDAR YEAR Metric Tons**						
	2001	**2000**	**1999**	**1998**	**1997**	**1996**	**1995**
India	650,000	627,392	524,736	482,183	416,599	449,389	288,637
U.S.	141,060	163,540	117,256	144,417	115,489	142,225	176,379
Pakistan	90,000*	86,000*	86,484	56,766	65,222	108,774	88,002
Thailand	69,101	64,830	72,736	66,147	66,688	76,855	63,461
Other	20,000*	20,000*	15,000*	15,000*	15,000*	15,000*	15,000*
Total	**970,161**	**961,762**	**764,513**	**678,998**	**678,998**	**792,243**	**631,479**

Source: Supplying countries customs data

*Trade estimate (no data available for Australian and Egyptian rice exports to Saudi Arabia.).

Total annual imports from smaller suppliers (mainly Australia, and Egypt) are estimated at 20,000 metric tons.

Saudi Arabia Test U.S. Rice for Lead:

On January 28, 2002, the Saudi Ministry of Commerce (MOC) issued a circular number 41/7533 to local Chambers of Commerce informing them of its decision to put in place a temporary measure that requires laboratory testing for lead levels in rice imported from the US. The testing is in response to claims that tainted U.S. rice has been found in Japan, and of a reported ban by the Government of South Korea. The MOC instructed its quality control laboratories not to release any new U.S. rice shipments until test results indicate that they were free from lead contamination. The lead testing requirement was imposed on January 28 in response to claims that tainted U.S. rice had been found in Japan, and of a reported ban by the Government of South Korea. Within a few days, U.S. rice in both Japan and Korea was tested and found to have acceptable lead levels and deemed safe for human consumption.

On February 12, 2002, the test results came back negative for lead contamination and the MOC issued a press release stating that U.S. rice is safe for human consumption and can be sold freely in the Saudi market lifting a two-week restriction on U.S. rice that required laboratory testing for lead levels. Also, the MOC official told the ATO that future U.S. rice imports and packaging materials will be tested using normal testing procedures but that the MOC will periodically conduct lead tests.

Reduced Demand for U.S. Rice:

The January 28 MOC decision to test for lead levels in the U.S. rice was misquoted by several local newspapers. Some of the leading Arabic language dailies reported that the MOC banned the U.S. rice due to high content of lead that was harmful for pregnant women and children. Even after the restriction was lifted, some local food safety experts were quoted on local newspapers saying that consumers should wash U.S. rice several times before cooking. There were even suggestions that officials from the food safety inspections department of the Saudi Ministry of Municipality and Rural Affairs should inspect local restaurants to regularly make sure that they wash it throughly before cooking it in order to serve lead-free rice to the consumer.

The MOC decision to put on the temporary lead testing requirement and the distorted information provided by local newspapers drastically reduced the demand for the U.S. rice during the Hajj season (pilgrimage to Mecca) when demand for rice reached its climax as a result of arrival of more than two million Muslims to Mecca to perform Hajj (who stay up to two months in the Kingdom) and the heavy use of rice in Eid festivities. Catering companies usually stock up on rice starting one month before Hajj season. This year's Hajj coincided with February 21-25. Even now after the elapse of more than one month since the MOC declared the U.S. rice fit for human consumption, the demand for U.S. rice is very low compared to the corresponding period last year. This year's U.S. rice imports to Saudi Arabia is expected to decrease by at least 20,000 metric tons compared to last year's import level of 141,000 mt due to the lead scarce. To fight back the distorted image, some local importers have been advertising in local newspapers to assure the consumer that the rice has never been contaminated with lead and maintains its traditional superb quality. Per the importers, the current ads have been producing some encouraging responses from wholesalers and retailers who have been significantly increasing orders in the past few days. We encourage the U.S. Rice Federation to conduct intensive generic U.S. rice promotion in the Kingdom to supplement the brand promotional activities being undertaken by some U.S. rice importers. TV, Radio (MBC-FM), bulletin board, magazine (women's magazines) and newspaper advertisements (mainly Arabic) would be very effective.

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 is also bagging Uncle Ben's rice sold in the Kingdom. The AJWA plant 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 3 berths which it rents from the Port Authority. The berths can handle vessels carrying up to 100,000 mt of grains.

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