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Saudi Arabia

Poultry and Products

Annual

2003

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Report Highlights:

Local poultry production for 2004 is forecast at 530,000 metric tons, up by four percent from the 2002 level. Total poultry meat and products imports is expected to reach 395,000 metric tons next. Year.

Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Riyadh [SA2], SA

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PRODUCTION

Information provided by the Saudi Ministry of Agriculture (MOA) indicates higher poultry production in 2001 than forecast by local agricultural analysts. Accordingly, we have revised our PSD table for 2002-2004 upward to reflect the official data as indicated on the MOA's Agricultural Statistical Year Book issued in 2002. Total poultry meat production is forecast to reach 530,000 metric tons by the end of 2004, an increase of about four percent compared to the 2002 level of 510,000 metric tons. According to MOA, a higher production increase is possible this year due to the minimized problem with New Castle disease and the expected operation of newly licensed farms.

PSD Table						
Country:	Saudi Arabia					
Commodity:	Plty, Meat, Chicken -16 wks					
	2002		2003		2004	
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2002		01/2003		01/2004
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	51	50	50	50	50	50
Production	430	510	472	520	0	530
Whole, Imports	315	340	345	350	0	355
Parts, Imports	34	40	40	40	0	40
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	349	380	385	390	0	395
TOTAL SUPPLY	830	940	907	960	50	975
Whole, Exports	20	20	20	20	0	20
Parts, Exports	0	0	0	0	0	0
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	0	0	0	0	0
TOTAL Exports	20	20	20	20	0	20
Human Consumption	755	865	832	885	0	900
Other Use, Losses	5	5	5	5	0	5
Total Dom. Consumption	760	870	837	890	0	905
TOTAL Use	780	890	857	910	0	925
Ending Stocks	50	50	50	50	50	50
TOTAL DISTRIBUTION	830	940	907	960	50	975
Calendar Yr. Imp. from U.S.	1	2	2	2	1	2

To minimize future production problems due to poultry diseases such as New Castle, the MOA banned transportation of live chickens from one region to another in December 2002. According to the MOA, the scheme does not only prevent transfer of diseases from affected regions to other parts of the Kingdom, but will also reduce the high chicken mortality rate caused during transportation of live chickens from one region to another. The government is also requesting poultry farms to establish slaughtering houses near their farms. The new policy when implemented will probably force small farmers, who do not have the resources and the know-how to establish and run slaughtering and cold storage facilities, to work out some kind of cooperation agreement with nearby large farms.

Local production increases remain tied to the generous financial, technical and other assistance it receives from the government to compensate for the higher local production costs ranging from \$1,090 to \$1,380 per metric tons. To lessen the effect of the higher production costs caused by various factors such as heavy dependence on imported feed, medicine, as well as high energy costs (due to the requirement for year-around temperature control), the government maintains a program which pays 30 percent of the cost on selected poultry equipment if they are imported. If purchased locally, no subsidy is granted. Also, it provides a subsidy of \$42.67 (160 Saudi Riyals) per metric ton for imported corn and soybean meal. The corn subsidy is based on U.S. number 2 yellow corn, which provides a great incentive for Saudi importers to buy U.S. corn.

The grow-out period for broilers in the Kingdom ranges between 35 and 42 days. Although there is no data available indicating the average weight gain per day, the average live weight of broilers when marketed is 1.40 kg and it takes about 1.8 kg of feed to produce a marketable chicken.

Despite the increased production capacity estimated at more than 600,000 metric tons with a total cost of about \$8.3 billion, local production is not expected to show a drastic increase because of continued fierce competition from imported poultry meat. Usually, the production costs of local chicken prices have been considerably higher than the C&F prices of imported frozen chickens. Per data provided by the MOA, the average local production costs per metric ton of broiler meat in CY 2000 were \$1,090, \$1,280 and \$1,380 for large, medium and small farms respectively. This is in contrast to the August 2003 C&F Saudi port prices for Brazilian frozen chicken meat which ranged from \$1125 to \$1155 per metric ton depending on brand and quantities imported.

CONSUMPTION

Chicken meat continues to be the most competitive source of animal protein in the Kingdom. Our recent survey of the Riyadh meat market revealed that a kilo of imported whole frozen chicken was sold for about as low as \$1.65 compare to \$4.80 for lamb meat and \$6.67 for beef. The per capita consumption of poultry meat in 2002 was estimated at about 40 kg. Consumption of chicken meat and other foodstuffs decreases significantly during Ramadan (the Muslim fasting month-this year starts 26 October) and during summer which starts from the second week of June up to the first week of September when millions of Saudis and expatriates depart the Kingdom for vacation. Overall, most consumers in Saudi Arabia prefer 1,000 to 1,100 gram birds while hotels and catering companies prefer 900 to 1,000 grams to serve whole, in halves or in quarters. Traditional restaurants sell grilled whole chicken on average for up to \$3.2 regardless of size (whether 900 or 1,400 gram birds). For this reason, they prefer to buy a lighter weight

bird at the lowest possible price. Chicken parts are consumed by catering companies and institutional customers not by household consumers. The demand for chicken parts decreases drastically when the prices of whole chickens become more competitive.

TRADE

General

Despite the various government subsidies provided to the local poultry industry, producers claim to have difficulty competing with imports. At most times during the year, locally-produced frozen broilers are more expensive than imported broilers. Local producers claim that Brazilian and French poultry exporters are subsidized by their governments and that they dump (under price) their frozen chickens in the Kingdom. The Cooperative Society for Poultry Producers is engaged in a high profile lobbying effort to convince the Saudi Government to increase import duties on imported poultry meat which now stands at 20 percent or \$0.266 per kg which ever is higher. The organization is also active in a media campaign to discredit the quality of imported chickens claiming that they are below the established Saudi poultry specifications. The government has indicated its willingness to revisit the import tariff and to implement other control measures if the Cooperative Society could prove that imported chickens are under priced (dumped) and that they are below local standards.

Two main reasons explain the marketing difficulties of local producers:

(1). Higher Prices Compared to Imports:

Prices of locally produced frozen chickens are usually higher than those imported by at least 20 percent per kg. According to managers of some cold storage warehouses, sizeable quantities of stored local chickens often expire before being marketed, resulting in a substantial loss to the producer. Most local firms discount the price of chicken about to expire in order to minimize losses. For instance, near expiry Al-Watania broilers weighing 700 to 1,400 grams are sometimes sold below prices of imported frozen chicken at various supermarkets and wholesalers.

(2) Perceived Inferior Quality of Locally Produced Chicken:

Even if locally produced chickens could match prices offered by imported chickens, many institutional customers (the largest users of imported frozen chickens) have indicated that they would keep on buying imported chickens particularly Brazilian broilers. They claim that locally produced frozen broilers as well as imported French broilers contain a high fat and moisture content which tends to cause significant shrinkage and makes the chickens look old when cooked on rotisseries.

Imports

Total poultry meat and products imports are estimated to reach 390,000 metric tons this year. The outlook for next year calls for a marginal increase of 5,000 metric tons due to the expected increase in the local poultry meat production. According to the Brazilian Customs data, Brazil exported 251,387 metric tons of poultry meat and products in 2002, about two percent decline compared to the 2001 level. France's

exports last year decreased by five percent to 101,758 metric tons in contrast to the 2001 level per information obtained from the French Customs. The ban on French poultry imports imposed from July 25 to September 16, 2002 (because of reported contamination with synthetic hormones harmful to humans) and the stronger Euro compared to the U.S. Dollar are the main factors for the decline in French poultry meat exports to the Kingdom last year. Poultry meat importers forecast further decline in French's exports to the Kingdom this year if Euro kept appreciating compared to the U.S. dollar in which the Saudi Riyal is fixed.

Poultry meat imports from China mostly deboned chicken is estimated by trade sources at 25,000 metric tons in 2002, a decrease of 25 percent compared to the 33,534 mt imported in 2001. Though, China maintained its price competitiveness for deboned chicken compared to other suppliers, the decrease in last year's exports is mainly caused by a three-month import embargo put on Chinese poultry meat to the Kingdom due to a reported contamination with synthetic hormones. Chinese deboned chicken meat is used for Shawarmas, a Middle Eastern style popular sandwich which contains boneless chicken meat or beef mixed with pickles, lettuce and mayonnaise wrapped with pita bread.

Poultry meat imports from the States in 2002 decreased by 57 percent compared to the 2001 level according to the U.S. Customs data (1,932 mt in 2002 vs. 4,486 mt in 2001). The main factor for the huge decline in U.S. exports is the inability of American exporters to offer competitive priced poultry meat derived from poultry fed on 100 percent vegetable protein diets required by the Saudi Government.

Recent CIF Prices

According to major importers, the per metric ton C&F prices of Brazilian whole broilers meat (at Saudi ports) in August 2003 ranged between \$1000 and \$1,130 depending on brands and quantities imported. While the prices for French chicken meat were between \$1100 (TillySabco) and \$1,150 (Doux) per mt. There are several brands of Brazilian chicken meat in the market while there are only Doux (which account for the majority of French broiler meat exports) and TillySabco brands from France.

Tariffs

The customs duty on imported chicken is 20 percent or SR 1.00 (\$0.267) per kilogram, whichever is higher. This rate has been in place for several years.

Major Poultry Import Requirements

1. Hormone Free Certificate: Saudi Ministry of Commerce (MOC) requires that the responsible government agency of an exporting country issues a health certificate with each poultry meat shipment confirming that the poultry meat was tested and found totally free from any kind of hormones. Brazilian poultry meat is regularly tested for Nutrofurans while the French chicken meat is tested randomly for synthetic hormones.

2. Chicken Meat Quality Standards: Imported poultry meat & products must meet all existing Saudi Arabian poultry meat quality standards and specifications including the Halal Slaughtering requirements.

3. Bans on Animal Ruminants in Poultry Feeding: The MOC stressed that the health certificates of all imported poultry and poultry products conform to the Ministerial decree number 123 issued in January 2001. The decree requires that health certificate issued by government agency of exporting country clearly indicate that the birds slaughtered had not been fed animal protein, animal fats, or animal by-products. The MOC, which implemented the requirement on March 25, 2001, says that the measure is necessary to prevent the entry of poultry meat considered unfit for human consumption due to feeding of animal ruminants.

4. Laboratory Test: All poultry meat and products imported will be tested at Saudi ports of entry to ascertain that they meet the above requirements.

Exports

Faced with stiff competition from imported poultry and low prices locally, some Saudi poultry producers have in recent years turned to exports. Saudi Arabia's broiler meat exports (whole and parts) were estimated at 20,000 metric tons annually based on information provided by Al-Watania poultry farm, the leading Saudi poultry producer. In 2002, the firm reportedly exported 18,000 mt of broiler meat mainly to GCC countries (Qatar, Bahrain, Kuwait, U.A.E. and Oman) and Yemen of which 60 to 70 percent goes to the United Arab Emirates. According to Al-Watania, the firm is better off marketing its products locally, but its exports are aimed at protecting the local chicken market from the Brazilian/French price war that could have a devastating effect on the local industry.

Distribution Channel

The Kingdom has an extensive infrastructure. Poultry producers and importers have generally adequate storage facilities including refrigerated trucks and cold storage.

Poultry meat and products are available in both wholesale and retail outlets throughout the Kingdom. Major poultry farms and importers sell their products either directly to the consumers through their own nationwide retail outlets or through poultry wholesalers. Consumers may purchase poultry meat in cardboard boxes containing ten chickens from wholesalers or on a piece-by-piece basis from retailers and supermarkets. Commercial customers buy their poultry supplies either from the importer/distributor, poultry farms, or both.

Most of the imported broilers meat is sold to restaurants and catering companies while the majority of the locally grown chickens are consumed by the household consumer (mostly Saudis). The Saudi Government requires catering companies to use only locally produced chicken when catering to government institutions such as the military or government-owned hospitals.

Many major poultry producers are vertically integrated with other poultry related businesses. They produce feeds, chicken, process chicken and sell them directly to customers through their own retail outlets or through wholesalers. There are now several poultry producers that operate their own chicken fast food outlets. Al-Fakieh poultry, the second largest poultry farm, opened its first outlet as Taza Barbecue Chicken in 1990 and now has outlets throughout the Kingdom and several branches in Arab and some

Asian countries. The firm has one outlet in the U.S. in Chicago, located on Wabash street downtown Chicago.

END OF REPORT