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Approved by:

Kurt Seifarth

U.S. Embassy, Cairo, Egypt

Prepared by:

Hussein Mousa

Report Highlights:

Saudi Arabia's barley imports are expected to increase by three percent this Marketing Year due to poor pasture conditions this year compared to last year. Local wheat production is forecast to increase by about five percent this marketing year compared to the last year's level. Saudi Arabia reduced wheat import tariff from 100 percent to 25 percent last year. Rice imports in 2006 are forecast to increase by 4 percent compared to 2005 import level.

Includes PSD Changes: Yes

Includes Trade Matrix: Yes

Annual Report

Riyadh [SA2]

[SA]

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I. Overview of the Kingdom's Barley Market

The Saudi Government stopped its more than two decade-old barley production subsidy program in 2003/2004-crop season, bringing an end to the local barley production.

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

PSD Table						
Country	Saudi Arabia					
Commodity	Barley (1000 MT)					
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate[New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2004		07/2005		07/2006
Beginning Stocks	2399	2877	2689	2750	2679	2750
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	5700	5873	6000	6100	0	6150
Oct-Sep Imports	6500	6463	6500	6500	0	0
Oct-Sep Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	8099	8750	8689	8850	2679	8900
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	5400	6000	6000	6100	0	6140
TOTAL Dom. Consumption	5410	6000	6010	6100	0	6140
Ending Stocks	2689	2750	2679	2750	0	2760
TOTAL DISTRIBUTION	8099	8750	8689	8850	0	8900

2. Barley Imports

Barley imports this Marketing Year (July 2005-June 2006) is forecast to increase by 3 percent due to below average rainfall in the Central and Northern parts of the Kingdom, which resulted in a poor pasture condition this year compared to last year. Livestock farmers are expected to depend more on barley feeding this year compared to the past few years.

The Kingdom has been importing on average about 6 million metric tons of barley since calendar year 1995. As such, demand for imported barley is forecast to remain strong due to lack of competitively priced alternative feed in the Kingdom. About 80 percent of all available barley is consumed by sheep and goats raised by traditional farmers. The demand for other feed alternatives such as alfalfa and feed concentrates is expected to remain very low as long as the Saudi Government keeps on subsidizing imported barley. 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 four years ago, a large number of farmers have stopped alfalfa and other forage production. Nowadays, the main growers and users of alfalfa are dairy farmers.

Barley imports for the first six months of marketing year (MY) 2005 (July 2005-December 2005) increased by 33 percent compared to the same period last MY (3,191,386 mt vs.

2,397,643 mt). MY 2004 barley imports totaled about 5.9 million metric tons (a decrease of 15 percent compared to MY 2003 import level).

In calendar year 2005, the Kingdom imported 6,667,035 metric tons of barley, an increase of 25 percent compared to same period in 2004 (5,298,877 mt). Ukraine supplied 31 percent of the total barley imports, followed by Australia (20 percent), Germany (18 percent), Russia (14 percent), Canada (7 percent), France (5 percent) and the remaining 5 percent was supplied by the Netherlands and Romania.

3. Barley Specifications

Saudi importers buy barley according to Saudi government's specifications, which are usually based on standard specifications of the country of origin. The following specifications are used for barley imports from the United States, the EU and Australia:

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

In January 2005, the Saudi Government fixed the subsidy paid on imported barley at \$66.67 per metric ton (mt) regardless of the international barley prices. The subsidy on imported barley was fixed at \$66.67 per mt after traditional livestock farmers complained that they were unable to feed their herds when the retail price of 50 kg of barley exceeded \$8 or \$160 per metric ton in the third quarter of 2004.

The Saudi government's fixed subsidy payment on animal feed is not a new policy. It has been paying for more than two decades a rebate of \$42.67 per metric ton toward the purchase of imported yellow corn and soybean meal. The subsidy is paid directly to the importer. The corn subsidy is based on U.S. grain standards for number 2 yellow corn. Under the fixed subsidy regime, importers are free to adjust their wholesale/retail prices based on their cost and competition factors.

5. Barley Consumption

Though local livestock farmers prefer barley as a feed alternative, future barley consumption and total imports depend on the ability of importers to supply barley at a reasonable price compared to other feed alternatives such as forage and feed concentrates. The barley subsidy program has made the grain the most competitive feed alternative resulting in a drastic reduction in the demand for locally grown alfalfa which in turn made forage production an unprofitable venture. Currently, most alfalfa is grown and used by dairy farmers. But this situation is expected to change if the retail price for 50 kg of barley exceeds the price of a comparable bale of alfalfa.

6. Trade Matrix

Calendar Year 2005 Saudi Arabian Barley Imports by Supplying Countries (Jan-Dec)

Month	Country of Origin								Total
	Ukraine	Australia	Germany	Russia	Canada	France	Holland	Romania	
January	104,368	240,543	57,050	147,835	0	0	0	0	549,796
February	264,968	236,915	118,683	103,638	0	0	60,500	0	784,704
March	118,312	325,025	120,000	106,241	0	0	0	0	669,578
April	106,613	156,687	54,533	85,525	0	60,455	54,040	39,904	557,757
May	46,492	124,269	60,500	0	59,484	88,009	0	0	378,754
June	165,461	147,012	135,297	26,790	0	60,500	0	0	535,060
July	0	0	288,166	25,535	0	0	57,986	51,644	423,331
August	241,699	33,000	180,648	106,210	0	0	64,627	0	626,184
September	332,998	0	61,445	107,854	59,954	55,840	0	58,205	676,296
October	216,577	0	0	136,598	57,880	60,422	0	0	471,477
November	219,924	0	60,500	55,886	109,852	0	0	0	446,162
December	257,295	77,952	38,741	0	152,618	21,330	0	0	547,936
Total	2,074,707	1,341,403	1,175,563	902,112	439,788	346,556	237,153	149,753	6,667,035

Source: Trade Contacts and Saudi Arabian Customs Data

Calendar Year 2004 Saudi Arabian Barley Imports by Supplying Countries (Jan-Dec)

Month	Australia	Ukraine	Canada	Russia	Holland	Romania	Germany	Total
January	420,842	102,490	105,006	29,372	0	0	10,931	668,641
February	318,102	126,999	0	0	0	0	0	445,101
March	443,860	78,133	47,840	51,447	0	0	0	621,280
April	145,815	26,463	166,217	41,445	0	0	0	379,940
May	341,348	0	53,964	60,447	0	0	0	455,759
June	256,089	74,424	0	0	0	0	0	330,513
July	227,333	35,090	60,500	0	0	0	0	322,923
August	265,479	41,729	0	0	0	0	0	307,208
September	247,428	258,119	0	0	0	0	0	505,547
October	118,870	233,885	0	0	0	0	0	352,755
November	54,460	91,797	0	0	0	0	0	146,257
December	279,739	271,271	0	96,880	61,815	53,248	0	762,953
Total	3,119,365	1,340,400	433,527	279,591	61,815	53,248	10,931	5,298,877

Source: Trade Contacts and Saudi Arabian Customs Data

Marketing Year 2004 and 2003 Saudi Arabian Barley Imports by Supplying Countries
(JULY 2004-JUNE 2005)

Month	MY 2004 (JULY 2004-JUNE 2005)	MY 2003 (JULY 2003-JUNE 2004)
	Quantity in Metric Tons	
July	322,923	420,368
August	307,208	893,116
September	505,547	788,528
October	352,755	602,447
November	146,257	884,114
December	762,953	452,036
January	549,796	668,641
February	784,704	445,101
March	669,578	621,280
April	557,757	379,940
May	378,754	455,759
June	535,060	330,513
Total	5,873,292	6,941,843

Source: Trade Contacts and Saudi Arabian Customs Data

Fiscal Year 2004 and 2003 Saudi Arabian Barley Imports by Supplying Countries (Oct-Sep)

FY 2004 (OCTOBER 2004-SEPTEMBER 2005)	FY 2003 (OCTOBER 2003-SEPTEMBER 2004)
	Quantity in Metric Tons
October	602,447
November	884,114
December	452,036
January	668,641
February	445,101
March	621,280
April	379,940
May	395,312
June	390,960
July	322,923
August	307,208
September	505,547
TOTAL	5,975,509

Source: Trade Contacts and Saudi Arabian Customs Data

II. Wheat Production

The Grain Silos and Flour Mills Organization (GSFMO), the Saudi Ministry of Agriculture's agency, is responsible for procuring locally grown wheat, milling and selling wheat flour to end users in the Kingdom through private wholesalers and retailers. The Saudi Government policy is for farmers to produce (according to established individual production quotas) only enough wheat to meet domestic needs, which is currently fixed at 2.1 million mt annually.

1. Production, Supply and Demand Table (PSD) for Wheat

PSD Table						
Country	Saudi Arabia					
Commodity	Wheat (1000 HA) (1000 MT)					
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2004		07/2005		07/2006
Area Harvested	320	320	420	335	0	0
Beginning Stocks	1358	1100	908	1060	958	1110
Production	1600	2100	2100	2200	0	2250
TOTAL Mkt. Yr. Imports	50	0	50	0	0	0
Jul-Jun Imports	50	0	50	0	0	0
Jul-Jun Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	3008	3200	3058	3260	958	3360
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Feed Dom. Consumption	50	40	50	40	0	50
TOTAL Dom. Consumption	2100	2140	2100	2150	0	2200
Ending Stocks	908	1060	958	1110	0	1160
TOTAL DISTRIBUTION	3008	3200	3058	3260	0	3360

The government guaranteed purchase price for locally grown wheat was decreased from \$400 per metric ton to \$266.67 per metric ton in July 2005. However, the net pay to farmers is \$246.67 after accounting for Zakaah (obligatory charity) and deductions for foreign matter.

In 2005, the government allowed six local shareholding agricultural companies to produce 300,000 metric tons of wheat for delivery to GSFMO. The production quota for large farmers could be increased to up to 600,000 metric tons annually in the next few years depending on the total quantity of wheat produced by small farmers and the ability of the large farmers to increase their wheat production area. It is worth mentioning that large shareholding agricultural companies were excluded from receiving government subsidies on wheat and barley production in 1993.

According to the GSFMO, local wheat production this crop season is forecast to increase by about five percent compared to the last year's production level of 2.1 million metric tons. The main reported reasons for the expected increase in wheat production is the capability of both large and small producers to meet their individually assigned GSFMO production quotas.

2. Wheat Imports

Saudi Arabia does not export or import wheat or wheat flour, with the exception of insignificant quantities of mixed wheat flour for special baking needs. Some Saudi based grain importers sometimes import wheat from the U.S. for exporting to nearby countries. Last year's expectation that a large number of small farmers would exit wheat production, due to the 33 percent reduction in the government wheat purchase price, did not materialize. Both small farmers and share holding companies were able to produce their quotas, eliminating the need for imported wheat last year and in the near future.

The Saudi government has continued to hold talks with World Bank officials concerning privatization of the country's six flourmills. The total combined milling capacity of the six mills is about 6,000 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 25 percent.

III. Overview of the Kingdom's Rice Market

No rice is produced in the Kingdom. In Calendar Year (CY) 2005 Saudi Arabian rice imports were estimated at 1,019,138 metric tons, a decrease of more than 2 percent compared to CY 2004. Imports in CY 2006 are forecast to increase by 4 percent compared to same period last year because of lower carry over stock. The huge increase in imports in recent years compared to CY 2002 level of 852,134 mt were attributed to a strong consumer demand mainly due to the high population growth rate of 3.5 percent, increased number of pilgrims that come to Mecca (more than five millions pilgrims come to Mecca each year to perform Ummra and Hajj rituals). 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 Demand Table (PSD) for Rice

PSD Table						
Country	Saudi Arabia					
Commodity	Rice, Milled (1000 MT)					
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Beginning Stocks	150	300	515	325	555	284
TOTAL Imports	1500	1045	1250	1019	0	1060
Jan-Dec Imports	1250	1045	1000	1019	0	0
Jan-Dec Import U.S.	0	94	0	0	0	0
TOTAL SUPPLY	1650	1345	1765	1344	555	1344
TOTAL Exports	60	20	60	20	0	20
Jan-Dec Exports	60	20	60	20	0	20
TOTAL Dom. Consumption	1075	1000	1150	1040	0	1082
Ending Stocks	515	325	555	284	0	242
TOTAL DISTRIBUTION	1650	1345	1765	1344	0	1344

2. Saudi Rice Imports

India accounted for 70 percent of all rice imports to Saudi Arabia in CY 2005, distantly followed by the U.S., Pakistan and Thailand. Basmati (white and parboiled) and Parimal rice are the leading Indian varieties imported. Based on data from Indian customs, Indian rice exports to Saudi Arabia in CY 2005 decreased by 19 percent compared to the CY 2004 import figure. According to local importers, the main reasons for the decline in Indian rice exports last year were an adequate stock carryover from CY 2004, increase in U.S. rice exports and reduction in rice re-exports to nearby countries mainly Iraq and Kuwait. Basmati is still the dominant Indian rice variety in the Kingdom. However, its market share went down significantly in recent years in favor of a less expensive and marginal quality Parimal variety.

U.S. rice exports to the Kingdom in CY 2005 increased by 12 percent compared to CY 2004. Local rice importers attribute the increase in the U.S. rice exports to price competitiveness of U.S. rice last year. Importers expect U.S. rice imports to farther increase this year if the price competitiveness is maintained.

3. Reasons for Increased Demand for Indian Rice

Saudi rice importers anticipate that Indian rice exports continue to benefit from the growing Saudi rice market. A significant percentage of Saudis and expatriates with low incomes have shifted from U.S. rice to Indian Parimal rice (PR 106). Indian Parimal parboiled rice was introduced in the Kingdom 12 years ago and has rapidly gained in popularity. 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 2005 was \$15 compared to up to \$25 per 45 kg for a dominant U.S. brand parboiled rice sold in the Kingdom. Parboiled Indian basmati rice (sella basmati rice) is sold for up to \$41.50 per 45 kg.

The Saudi rice trade acknowledges the superior quality of U.S. rice compared to Parimal 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. It appears that there are 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 should work hard to dispel this myth.

Trade Matrix

The table below shows exports of rice to Saudi Arabia from leading suppliers for calendar years 2005 to 2002 based on supplying countries export data. The figures are in metric tons.

Supplying Country	CY 2005	CY 2004	CY 2003	CY 2002
India	715,000	754,456	820,000	600,000
US	105,825	94,002	110,012	93,398
Pakistan	95,000*	85,501	80,739	70,427
Thailand	53,313	70,720	45,427	58,309
Other *	50,000	40,000	30,000	30,000
Total	1,019,138	1,044,679	1,086,178	852,134

Sources: *Trade Estimates