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Saudi Arabia

Agricultural Situation

Agricultural Economy and Policy Report

2009

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Report Highlights:

In 2008, total agricultural, fish and forest product imports were valued at approximately \$10 billion due to inflation in world agricultural prices. High-value products accounted for 50 percent of total imports, while intermediate agricultural products were estimated at more than 1.5 billion dollars. U.S. agricultural exports to Saudi Arabia in 2008 increased 26 percent over a year earlier to \$914 million.

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Agricultural Economy and Policy Report

I. General Political Situation and Trends

The Kingdom of Saudi Arabia, located on the Arabian Peninsula, is a country of approximately 24.2 million people, including 7 million permanent non-Saudi residents. The country's current ruler is King Abdullah bin Abdul Aziz Al Saud. The monarch is both the chief of state and head of government. Ministers are appointed by, and responsible to, the king. The Council of Ministers exercises both legislative and executive powers. The king also appoints a 150 member Consultative Council (Majlis al-Shura) king for a four-year renewable term that has an advisory function, but can also initiate legislation. There are no political parties in Saudi Arabia.

In recent years, Saudi Arabia has been engaged in fighting AlQaida-sponsored terrorism. Militants intensified attacks on western and Saudi government targets in early 2004. However, the government's continued campaign aimed at dislodging locally grown terror cells is showing results and many terrorist suspects have been arrested before implementing their terror plots. The overall political situation in the country remains stable.

Saudi Arabia, has been a close ally, friend and business partner of the United States for over sixty years. However, the Saudi government and people are not happy with what they call "American bias towards Israel" in the continued political deadlock in the Arab-Israeli peace process. Supports for boycotts of U.S. products are voiced whenever the Israeli-Palestinian conflict flares up.

II. Macroeconomic Situation and Trends

This is an oil-based economy with strong government controls over major economic activities. Saudi Arabia possesses 25 percent of the world's proven petroleum reserves and is the world's largest exporter of petroleum. The GDP rose by 7 percent to \$381.5 billion in 2007 compared to 2006. The oil sector GDP grew by 8 percent to \$207.6 billion in the same period, accounting for 54 percent of total GDP while the non-oil sector grew by 4.5 percent to \$224 billion. The state budget registered a surplus of \$47 billion in 2007, a decrease of 37 percent over the same period a year earlier. The balance of payments current account registered a surplus for the ninth successive year, amounting to \$95 billion in 2007. In 2007, Saudi Arabia earned \$196 billion from oil exports, representing 29 percent of total Organization of Petroleum Exporting Countries (OPEC) revenues. In 2009, revenue from oil exports is expected to decline significantly due to a slump in world demand for petroleum and petroleum products as a result of the world economic recession.

High oil prices in the past few years have boosted growth and government revenues, while enabling the government to pay back domestic debt. The government is encouraging private sector participation in the economy - especially in power generation, telecommunications, natural gas exploration, and petrochemicals - to lessen the country's dependence on oil exports and to increase employment opportunities for the increasing Saudi population of which 40 percent are youth under 15 years old. Unemployment is estimated at 15 percent mostly due to the youth population lacking the necessary education and technical skills sought by the private sector. To reduce the high unemployment, Saudi Arabia has substantially boosted spending on job training, education, and other infrastructure developments. As part of its effort to attract foreign investment and diversify the economy, Saudi Arabia joined the WTO in December 2005. The government has announced plans to establish six mega "economic cities" in different regions of the country to promote development and diversification. It is estimated that the six projects will add \$150 billion to

the country's GDP by 2020, help increase the per capita income from \$13,000 to \$33,500 and create employment opportunities for 1.3 million people.

Currently the major industries are crude oil production, petroleum refining, petrochemicals, natural gas, mining, electricity, water, cement, fertilizer, construction, banking, food and non-food manufacturing. Saudi Arabia's population is growing at about three percent annually, with 70 percent under the age of 30. For 2006, total population is estimated at 24 million, of which about 7 million are foreign workers. According to 2006 government data, total labor force working in the private sector stood at 5.6 million, with Saudi nationals accounting for 13 percent.

The overall cost of living in Saudi Arabia increased by 10 percent in 2008 due to a sharp increase in housing rents and the cost of imported food and non-food products.

III. The economy as it relates to agriculture

The Saudi government continues to heavily subsidize the agricultural sector due to the vital role the sector plays in boosting sustained economic development and achieving food security. Various subsidy programs contribute to a continued increase in grain, vegetable, fruit, date, poultry, table egg, livestock, dairy and fish production. Thanks to the subsidy programs, the country has become a surplus producer of dates, table eggs and fresh dairy milk. In 2007, total contribution of the agricultural sector to GDP was 4.8 percent and about 500,000 workers were employed in the sector. Despite government continued generous subsidies and heavy investment in the commercial dairy, poultry, fruit and vegetables sectors, growth in agricultural output increased by 1 percent in 2007 compared to 2006.

IV. Domestic agricultural policy overview

Recently, the Saudi government introduced an agricultural policy aimed at the phased elimination of water intensive agricultural crops such as wheat and alfalfa. This year, the Saudi government implemented its 2008 decree which called for a 12.5 percent annual reduction in local wheat production over an eight year period. The government's goal is to terminate local wheat production by the spring of 2016. Until then, Saudi Arabia will augment the percentage reduction in local wheat production by importing a similar percentage from the international wheat market. The government will maintain the guaranteed purchase price for locally grown wheat at \$266.67 per metric ton until 2016. In 2003, Saudi Arabia eliminated barley production to save water. Grain and forage production place large demands on non-renewable aquifer water, resulting in an imbalance between water recharge and water discharge. The new agricultural policy calls for selective agricultural development to achieve a balance between water and food security.

The Saudi government has continued to support selective agricultural production to encourage and support farmers by providing soft and interest-free loans, distributing free farm land, subsidizing some production equipment and animal feed. In January 2009, the government issued a revised animal feed subsidy list that consists of 17 energy and protein rich animal feed ingredients. Under the revised program, the government will provide rebates that range from \$26 (rice hulls) to \$101 (soybean meal) per metric ton, depending on the type of imported feed. The rebate will be paid directly to the local importer. The revised list added two new feed items - Rhodes grass and Sudan grass - to the subsidy list. The subsidy depends on the type of imported feed and is paid directly to the local importer.

V. General and agricultural trade situation

Saudi Arabia acceded to the WTO in 2005 and supports the efforts being exerted in the Doha agricultural negotiations to correct and prevent restrictions and distortions in world agricultural markets. Saudi standards are usually based on CODEX Alimentarius regulations and to some extent on European and U.S. standards, but are modified to reflect local conditions.

In 2008, total agricultural, fish and forest product imports were valued at approximately \$10 billion due to inflation in world agricultural prices. High-value products accounted for 50 percent of total imports, while intermediate agricultural products were estimated at more than 1.5 billion dollars. U.S. agricultural exports to Saudi Arabia in 2008 increased 26 percent over a year earlier to \$914 million. U.S. exports of consumer-oriented food products to Saudi Arabia reached a record \$245 million in 2008, an increase of 43 percent from 2007.

The vast majority of food products are subject to a 5 percent import duty. Selected processed food products, however, are assessed higher import duties. In order to protect local food processors and production from competitively priced imports, Saudi Arabia ties import duties to the level of local production of similar products. As a general rule, a maximum import tariff rate of 40 percent is applied when local production of a food or agricultural product exceeds a self-sufficiency level. Currently, a 40 percent import duty rate applies to fresh, dried and processed dates. Imports of rice, baby milk and animal feed (soybean meal, feed corn, barley, rice, sorghum, palm kernel meal, wheat bran, alfalfa hay, sugarcane molasses, rice bran, and sunflower meal, oats, canola meal, fish meal, alfalfa pellets, soy bean hulls, sunflower hulls, and rice bran) are subsidized while coffee, tea and fresh red meat enter the country duty free. Saudi Arabia has no tariff rate quota (TRQ) requirement.

On March 31, 2008, the Saudi government exempted wheat, wheat flour and other grains from import duties and reduced duties levied on 75 other foodstuffs to 5 percent. The decree aims at alleviating the impact of the rising cost of living in Saudi Arabia. Major foodstuffs that benefited from the reduced 5 percent import tariff included chilled and frozen poultry and their products, eggs (fresh, dried and powdered), cheese, cream cheese, vegetable oils, pasta, canned meat, fruit and vegetable juices, mineral and ordinary water, long life milk, corn flakes, peas, beans, peanut butter, yeast, and baking powder. The government will review the list in April 2011.

Growing competition from both locally produced and competitively priced imported food products from third countries threaten the continued expansion of U.S. foodstuff exports. Food products manufactured in the Gulf Cooperation Countries Council (GCC)--Bahrain, Qatar, U.A.E., Oman and Kuwait-- enter Saudi Arabia duty free. Foodstuffs imported from other Arab countries, South Africa, Latin America, New Zealand, Australia and Asia are often lower priced than similar U.S. products.

VI. SPS and regulatory systems

The most important regulatory, non-tariff barriers that U.S. food product exporters encounter in Saudi Arabia include: biotech labeling, requirement for two dates on labels (production and expiration) and Arabic labeling requirements. For religious reasons, Saudi Arabia bans imports of alcoholic beverages, live swine, pork and food ingredients or additives that contain pork products, including pork fat and gelatin. Meat and poultry shipments must be accompanied by a "halal" slaughter certificate issued by an Islamic center in the country of

origin. Additional statements on the health certificate accompanying poultry and livestock meat shipments must indicate that the animals slaughtered for export were not fed with feed containing protein, fat or remnants of animal origin and were not treated with any growth hormones.

The Saudi Arabian Standards Organization (SASO) is the only Saudi organization responsible for setting national standards for commodities and products, measurements, testing methods, meteorological symbols and terminology, commodity definitions, safety measures, and environmental testing. While standards are set by SASO, Saudi Arabia's Ministry of Commerce and Industry (MOCI) tests imported processed and packaged food items at various ports of entry. These responsibilities will move to the Saudi Food and Drug Administration in the near future. The Saudi Ministry of Agriculture controls imported animal feed, livestock, fruit and vegetables.

Saudi Arabia is the most influential member of the GCC. As a group, the GCC is striving to create a common set of food standards. Since SASO is a dominant standard setting agency in the region, most SASO standards are adopted as GCC-wide standards. Currently, the GCC is working on several draft standards. Two of the most important are the common food import procedures (consists mainly of mandatory import certificates) and biotech standards.

VII. USDA stakeholders

Several FAS cooperators conduct MFD and MAP programs in Saudi Arabia. However, no cooperator has an in-country office. ATO Riyadh partners with many cooperators in carrying out market development activities and in addressing trade policy issues. Post assists cooperators and other elements of the U.S. trade in providing updated contact information, arranging meetings (conferences), hotel rooms and offering other logistical assistance when requested.