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## Saudi Arabia

### Grain and Feed

### Annual

### 2005

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**Report Highlights:**

Saudi Arabia's barley imports are expected to decrease by about two million metric tons in this Marketing Year due to good rainfall this year compared to last year. Local wheat production is forecast to decrease by at least 24 percent compared to the last year's production. However, the Kingdom is not expected to import wheat at least until next year. Last year, Saudi Arabian rice imports totaled at about 1.1 million metric tons. Imports in 2005 are forecast to increase by 4 percent compared to last year.

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Includes PSD Changes: Yes  
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## Table of Contents

|   |          |
|---|----------|
| <b>Table of Contents .....</b>                                | <b>1</b> |
| <b>I. Overview of the Kingdom's Barley Market .....</b>       | <b>2</b> |
| 1. Production, Supply and Demand Table (PSD) for Barley ..... | 2        |
| 2. Barley Imports .....                                       | 2        |
| 3. Barley Specifications.....                                 | 3        |
| 5. Barley Consumption .....                                   | 4        |
| 6. Trade Matrix.....  | 5        |
| <b>II. Wheat Production.....</b>                              | <b>6</b> |
| 1. Production, Supply and Demand Table (PSD) for Wheat.....   | 7        |
| 2. Wheat Imports .....  | 7        |
| <b>III. Overview of the Kingdom's Rice Market.....</b>        | <b>9</b> |
| 1. Production, Supply and Demand Table (PSD) for Rice.....    | 9        |
| 2. Saudi Rice Imports.....                                    | 10       |
| 3. Reasons for Increased Demand for Indian Rice .....         | 10       |
| 4. Trade Matrix.....  | 11       |

## 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. Prior to the decision to stop buying locally produced barley at \$267.67 per metric ton (mt), the government each year used to set a local barley production quota at one million mt. 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 need cost savings were among the main factors behind the government's decision to drop the local barley production subsidy program, which had been in effect since the 1980s.

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

PSD Table

| Country             | Saudi Arabia                             |   |                                   |  |                                   |  |
|---------------------|--|---|-----------------------------------|--|-----------------------------------|--|
| Commodity           | Barley      Quantity in 1000 Metric Tons |   |                                   |  |                                   |  |
|                     | 2003<br>USDA<br>Official<br>[Old]        | Revised<br>Post<br>Estimate<br>[New]<br>07/2003 | 2004<br>USDA<br>Official<br>[Old] | Estimate<br>Post<br>Estimate<br>[New]<br>07/2004 | 2005<br>USDA<br>Official<br>[Old] | Forecast<br>Post<br>Estimate<br>[New]<br>07/2005 |
| Market Year Begin   |  |   |                                   |  |                                   |  |
| Area Harvested      | 0  | 0   | 0                                 | 0  | 0                                 | 0  |
| Beginning Stocks    | 2611                                     | 2362  | 2301                              | 2604   | 2591                              | 2174   |
| Production          | 0  | 0   | 0                                 | 0  | 0                                 | 0  |
| TOTAL Mkt. Yr.      | 5700                                     | 6942  | 6500                              | 5000   | 0                                 | 6000   |
| Imports             |  |   |                                   |  |                                   |  |
| Oct-Sep Imports     | 5700                                     | 5976  | 6500                              | 4700   | 0                                 | 5700   |
| Oct-Sep Import U.S. | 113                                      | 0   | 0                                 | 0  | 0                                 | 0  |
| TOTAL SUPPLY        | 8311                                     | 9304  | 8801                              | 7604   | 2591                              | 8174   |
| TOTAL Mkt. Yr.      | 0  | 0   | 0                                 | 0  | 0                                 | 0  |
| Exports             |  |   |                                   |  |                                   |  |
| Oct-Sep Exports     | 0  | 0   | 0                                 | 0  | 0                                 | 0  |
| Feed Dom.           | 6000                                     | 6670  | 6200                              | 5400   | 0                                 | 6632   |
| Consumption         |  |   |                                   |  |                                   |  |
| TOTAL Dom.          | 6010                                     | 6700  | 6210                              | 5430   | 0                                 | 6000   |
| Consumption         |  |   |                                   |  |                                   |  |
| Ending Stocks       | 2301                                     | 2604  | 2591                              | 2174   | 0                                 | 2174   |
| TOTAL               | 8311                                     | 9304  | 8801                              | 7604   | 0                                 | 8174   |
| DISTRIBUTION        |  |   |                                   |  |                                   |  |

### 2. Barley Imports

Barley imports this Marketing Year (July 2004-June 2005) is forecast to decrease by 2 million metric tons due to good rainfall in the Central and Northern parts of the Kingdom, which resulted in a better pasture conditions this year compared to last year. Livestock farmers expect that good pasture may last until early May 2005.

The Kingdom has been importing on average about 5.6 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 three 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 MY 2004 (July 2004-December 2004) decreased by 59 percent compared to the same period last year (2,397,643 mt vs. 4,040,609 mt). MY 2004 barley imports are estimated at 5 million metric tons (a decrease of 28 percent compared to last year's import level) based on data provided by trade contacts.

In Calendar Year 2004, the European Union (EU) lost its dominance in the Saudi barley market to Australia. According to information obtained from Saudi Customs and barley importers, the Kingdom imported 5,298,877 metric tons of barley last year, a decrease of about 33 percent compared to same period in 2003 (7,955,894 mt). Australia supplied 59 percent of the total barley imports, followed by Ukraine (25 percent), Canada (8 percent), Russia (5 percent), and the remaining 2 percent was supplied by the Netherlands, Romania and Germany.

Jeddah remained the leading barley import port among the six Saudi ports that handle imported barley. In calendar year 2003, Jeddah Islamic Port handled 45 percent of all barley imported, followed by Dammam (18 percent), Jubail (15 percent), Yanbu (11 percent), Gizan (9 percent) and Diba (2 percent.)

### 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 (EU, United States, Canada, and Australia). 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 June 2004, the Saudi Government issued a new subsidy scheme on imported barley. The decree fixed the government subsidy on imported barley to Saudi Riyals (SR) 150 or \$40 per metric ton (mt) regardless of international barley prices. However, the government increased the subsidy rate to SR 250 or \$66.67 per mt in January 2005 after traditional livestock farmers who claimed they were unable to feed their herds when the retail price of 50 kg of barley exceeded SR 30 (\$8) or \$160 per metric ton.

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 SR 160 (\$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 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. In the past few years, the government's generous 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 discouraged most farmers from maintaining alfalfa and other forage production. 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 2004 Saudi Arabian Barley Imports by Supplying Countries

| Month     | Country of Origin |           |         |         |         |         |         | Total     |
|-----------|-------------------|-----------|---------|---------|---------|---------|---------|-----------|
|           | Australia         | Ukraine   | Canada  | Russia  | Holland | Romania | Germany |           |
| 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 |

| Marketing Year 2003 Saudi Barley Imports<br>(July 2003-June 2004) |                | Fiscal Year 2003 Saudi Barley Imports<br>(October 2003-September 2004) |                |
|---|----------------|--|----------------|
| Month   | Quantity in MT | Month  | Quantity in MT |
| July  | 420,368        | October  | 602,447        |
| August  | 893,116        | November   | 884,114        |
| September   | 788,528        | December   | 452,036        |
| October   | 602,447        | January  | 668,641        |
| November  | 884,114        | February   | 445,101        |
| December  | 452,036        | March  | 621,280        |
| January   | 668,641        | April  | 379,940        |
| February  | 445,101        | May  | 395,312        |
| March   | 621,280        | June   | 390,960        |
| April   | 379,940        | July   | 322,923        |
| May   | 395,312        | August   | 307,208        |
| June  | 390,960        | September  | 505,547        |
| Total   | 6,941,843      | 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 two million mt annually. 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 sometimes import wheat from the U.S. for exports to nearby countries.

The government guaranteed purchase price for locally grown wheat is expected to decrease from US\$ 400 per metric ton to US\$ 266.67 per metric ton commencing from this year's crop, which will be harvested from May to June. However, the net pay to farmers will be \$ 246.67 after accounting for Zakaah (obligatory charity) and deductions for foreign matters.

For the first time since 1993, the government allowed six local shareholding agricultural companies to produce 300,000 metric tons of wheat for delivery to GSFMO. The production quota 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 areas. It is worth mentioning that large shareholding agricultural companies were excluded from receiving government subsidies on wheat and barley production in 1993.

Local wheat production this crop season is forecast to decrease by at least 24 percent compared to the last year's production level of 2.1 million metric tons. The main reported reason for the expected downturn in wheat production is that many small local producers did not plant the crop this year since their production cost is very close to the new net Government Purchase Price (GPP) of 246.67 due to higher production cost and the low productivity per hectare estimated at about 5 metric tons. Small farmers were the exclusive wheat producers in the Kingdom from 1993 to 2004. This year, however, large share holding companies are allowed to produce 15 percent of the 2 million mt wheat production quota. Lower productivity was the major reason why local small farmers were not attracted to barley production when the GPP was \$267.67 per metric ton.

Wheat production in MY 2005 is forecast to further decrease to 1.2 metric tons as more small farmers exit wheat production for economic reasons. According to local agricultural experts, many small farmers planted wheat this year for trial purposes since they did not have alternative crops to plant on their productive lands. It is possible for the six-shareholding companies and a couple of large family owned farms to produce the government assigned quotas economically. Large farms have indicated that they could produce one metric ton of wheat between \$160-\$200 depending on the geographical location of the producing farm due to their higher productivity per hectare estimated at up to 8.5 metric tons.

Despite the higher 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 (up to 2000 meters deep in some areas) to make the long abandoned desert land productive again. Even those financially capable farmers want to wait and see how far the government is willing to go in restructuring its grain subsidy policies during the ongoing WTO accession negotiations to decide whether or not to invest to upgrade their lands to take advantage of the expected exit of a large number of small farmers from wheat production.

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

### PSD Table

|                     |                                   |   |                                   |  |                                   |  |
|---------------------|-----------------------------------|---|-----------------------------------|--|-----------------------------------|--|
| Country             | Saudi Arabia                      |   |                                   |  |                                   |  |
| Commodity           | Wheat                             |   |                                   |  |                                   |  |
|                     | 2003<br>USDA<br>Official<br>[Old] | Revised<br>Post<br>Estimate<br>[New]<br>07/2003 | 2004<br>USDA<br>Official<br>[Old] | Estimate<br>Post<br>Estimate<br>[New]<br>07/2004 | 2005<br>USDA<br>Official<br>[Old] | Forecast<br>Post<br>Estimate<br>[New]<br>07/2005 |
| Market Year Begin   |                                   |   |                                   |  |                                   |  |
| Area Harvested      | 446                               | 446   | 320                               | 320  | 0                                 | 240  |
| Beginning Stocks    | 1332                              | 1332  | 1258                              | 1425   | 1108                              | 985  |
| Production          | 2000                              | 2100  | 1600                              | 1600   | 0                                 | 1200   |
| TOTAL Mkt. Yr.      | 26                                | 3   | 400                               | 0  | 0                                 | 650  |
| Imports             |                                   |   |                                   |  |                                   |  |
| Jul-Jun Imports     | 26                                | 3   | 400                               | 0  | 0                                 | 0  |
| Jul-Jun Import U.S. | 0                                 | 2   | 0                                 | 0  | 0                                 | 0  |
| TOTAL SUPPLY        | 3358                              | 3435  | 3258                              | 3025   | 1108                              | 2835   |
| TOTAL Mkt. Yr.      | 0                                 | 0   | 0                                 | 0  | 0                                 | 0  |
| Exports             |                                   |   |                                   |  |                                   |  |
| Jul-Jun Exports     | 0                                 | 0   | 0                                 | 0  | 0                                 | 0  |
| Feed Dom.           | 50                                | 50  | 50                                | 40   | 0                                 | 40   |
| Consumption         |                                   |   |                                   |  |                                   |  |
| TOTAL Dom.          | 2100                              | 2010  | 2150                              | 2040   | 0                                 | 2053   |
| Consumption         |                                   |   |                                   |  |                                   |  |
| Ending Stocks       | 1258                              | 1425  | 1108                              | 985  | 0                                 | 782  |
| TOTAL               | 3358                              | 3435  | 3258                              | 3025   | 0                                 | 2835   |
| DISTRIBUTION        |                                   |   |                                   |  |                                   |  |

## 2. Wheat Imports

Despite the expected 24 percent decrease in wheat production this year, local agricultural experts as well as GSFMO do not expect that the Kingdom will import wheat this marketing year. According to the GSFMO, the organization has adequate stock to cover any shortage of wheat this year. Given the reports that a large number of small 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 expected that the Kingdom will be turning to imported wheat to make up for the anticipated wheat shortage next year. It is estimated that the country may import up to 650,000 metric tons of wheat sometime in 2006. 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.

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 zero percent. However, prospective importers need to obtain an import license from the GSFMO. Thus far, no importer has approached the organization to obtain an import license and the



GSFMO is not willing to grant one even if asked since the government is supplying the market with adequate wheat flour sold at the subsidized retail price of \$148.13 per metric ton. According to some reports, the government will not allow private trade to import wheat as long as local wheat subsidy program is in place for a fear that imported wheat might be bought by farmers and submitted to the GSFMO as their own production. It is highly likely that the GSFMO will handle any future wheat imports as long as the local wheat subsidy program is in place.

### III. Overview of the Kingdom's Rice Market

No rice is produced in the Kingdom. In Calendar Year (CY) 2004 Saudi Arabian rice imports were estimated at about 1.1 million metric tons, an increase of 1 percent compared to CY 2003. Imports in CY 2005 are forecast to increase by 4 percent compared to same period last year. The huge increase in imports in the past two years compared to CY 2002 (1,098,664 mt in CY 2004 vs. 852,134 mt in 2002) 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) 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 Demand Table (PSD) for Rice

|                           |                                   |   |                                |  |                                   |  |
|---------------------------|-----------------------------------|---|--------------------------------|--|-----------------------------------|--|
| Country                   | Saudi Arabia                      |   |                                |  |                                   |  |
| Commodity                 | Rice, Milled                      |   |                                |  |                                   |  |
|                           | 2003<br>USDA<br>Official<br>[Old] | Revised<br>Post<br>Estimate<br>[New]<br>01/2003 | 2004<br>USDA Official<br>[Old] | Estimate<br>Post<br>Estimate<br>[New]<br>01/2004 | 2005<br>USDA<br>Official<br>[Old] | Forecast<br>Post<br>Estimate<br>[New]<br>01/2005 |
| Market Year Begin         |                                   |   |                                |  |                                   |  |
| Area Harvested            | 0                                 | 0   | 0                              | 0  | 0                                 | 0  |
| Beginning Stocks          | 85                                | 92  | 150                            | 198  | 515                               | 168  |
| Milled Production         | 0                                 | 0   | 0                              | 0  | 0                                 | 0  |
| Rough Production          | 0                                 | 0   | 0                              | 0  | 0                                 | 0  |
| MILLING RATE<br>(.9999)   | 0                                 | 0   | 0                              | 0  | 0                                 | 0  |
| TOTAL Imports             | 1150                              | 1086  | 1500                           | 1100   | 0                                 | 1143   |
| Jan-Dec Imports           | 1500                              | 1086  | 1000                           | 1100   | 0                                 | 0  |
| Jan-Dec Import U.S.       | 0                                 | 110   | 0                              | 88   | 0                                 | 100  |
| TOTAL SUPPLY              | 1235                              | 1178  | 1650                           | 1298   | 515                               | 1311   |
| TOTAL Exports             | 60                                | 30  | 60                             | 150  | 0                                 | 150  |
| Jan-Dec Exports           | 60                                | 30  | 60                             | 150  | 0                                 | 150  |
| TOTAL Dom.<br>Consumption | 1025                              | 950   | 1075                           | 980  | 0                                 | 986  |
| Ending Stocks             | 150                               | 198   | 515                            | 168  | 0                                 | 175  |
| TOTAL<br>DISTRIBUTION     | 1235                              | 1178  | 1650                           | 1298   | 0                                 | 1311   |

## 2. Saudi Rice Imports

India accounted for about 75 percent of all rice imports to Saudi Arabia in CY 2004, distantly followed at a distant by Pakistan, U.S. 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 2004 decreased slightly compared CY 2003. However, this was still an increase of 33 percent compared to CY 2002 (800,000 mt in CY 2004 vs. 600,000 mt in CY 2002). Basmati is still the dominant Indian rice variety in the Kingdom. However, its market share went down by about 15 percent in recent years in favor of a less expensive and marginal quality Parimal variety.

U.S. rice exports to the Kingdom in CY 2004 decreased by 20 percent compared to CY 2003. Local rice importers attribute the decrease in the volume of the U.S. rice exports to the more than 30 percent upsurge in the C&F prices of the U.S. rice. Importers expect that forecasted increase in U.S. rice output this year would help bring down export prices and increase imports to the Kingdom in the next few months.

## 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 11 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 2004 was \$16 compared to up to \$26.67 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 \$42.67 per 45 kg.

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. 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.

#### 4. Trade Matrix

The table below shows exports of rice to Saudi Arabia from leading suppliers for calendar years 2004 to 2002. Data are in metric tons.

| Supplying Country | CY 2004   | CY 2003   | CY 2002 |
|-------------------|-----------|-----------|---------|
| India*            | 800,000   | 820,000   | 600,000 |
| US**              | 87,944    | 110,012   | 93,398  |
| Pakistan*         | 100,000   | 80,739    | 70,427  |
| Thailand**        | 70,720    | 45,427    | 58,309  |
| Other *           | 40,000    | 30,000    | 30,000  |
| Total             | 1,098,664 | 1,086,178 | 852,134 |

Sources: 1- \*Data for CY 2004 are estimates.

2- \*\*All data are based on supplying country customs exports data.

END OF REPORT