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# Report Name: Barley Trade Quarterly

**Country:** Saudi Arabia

**Post:** Riyadh

**Report Category:** Grain and Feed

**Prepared By:**

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**Report Highlights:**

Saudi MY 2019/20 barley imports are estimated at 7 million MT, an increase of 500,000 MT over a year earlier. MY 2020/21 imports are projected at 6 million MT, a reduction of 1 million MT. The reduction is due to a recent Saudi government overhaul of longstanding feed import subsides and a large reduction in barley subsidies. Import subsidies for most animal feed ingredients have been eliminated. The government has begun providing direct production-based subsidies to poultry producers, and per head subsidies to small livestock producers. Import subsidies for forage products have been increased.

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The Saudi Arabia Grain Organization (SAGO) has signed six barley purchase contracts for 5.46 million MT over the first ten months of this marketing year (July 2019-April 2020) - a decrease of five percent compared to the same period last year. The latest SAGO's feed barley purchase contract was announced on January 23 for 900,000 MT for delivery during March and April 2020. This is SAGO's first barley tender this calendar year. On November 18, 2019, SAGO purchased 1.02 million MT of barley for arrivals during February- March 2020.

| MY2018/2019 Saudi Barley Imports | | |
|---|---|---|
| **Supplying Country** | **Metric Ton** | **Market Share** |
| Ukraine | 2,333,885 | 36.0% |
| EU | 1,889,087 | 29.1% |
| Russia | 1,511,948 | 23.3% |
| Argentina | 582,164 | 9.0% |
| Australia | 66,000 | 1.0% |
| Other Countries | 106,916 | 1.6% |
| **Total** | **6,490,000** | **100%** |

**Source: Trade Data Monitor and SAGO**

Good pasture conditions are not expected this year because of limited winter rains. This is expected to increase demand for barley this marketing year. As such, SAGO is expected to issue its last tender for this marketing year in the next few weeks to purchase at least 1.5 million MT of barley for arrival in May and June of this year. The expected tender will bring the total SAGO barley imports for this MY to 7 million MT, an increase of 500,000 MT over last year. Similarly, barley consumption is projected to increase by 500,000 MT to 7 million MT this MY, an increase of 13 percent over last year's consumption level. Barley imports and consumption are projected to decline by at least 500,000 MT in MY2020/21 as the result of the new Saudi animal feed policy. (The revisions are described after the barley PS&D table below.)

| Revised Saudi Barley PSD Table | | | | | | |
|---|---|---|---|---|---|---|
| Barley | 2018/2019 | | 2019/2020 | | 2020/2021 | |
| Market Begin Year | Jul 2018 | | Jul 2019 | | Jul 2020 | |
| Saudi Arabia | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post |
| Area Harvested | 2 | 2 | 2 | 2 | 0 | 2 |
| Beginning Stocks | 1829 | 1829 | 1314 | 1829 | 0 | 1829 |
| Production | 10 | 10 | 10 | 10 | 0 | 10 |
| MY Imports | 6500 | 6500 | 8500 | 7000 | 0 | 6000 |
| TY Imports | 6200 | 6200 | 8500 | 7000 | 0 | 6000 |
| TY Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Supply | 8339 | 8339 | 9824 | 8839 | 0 | 7839 |
| MY Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| TY Exports | 0 | 0 | 0 | 0 | 0 | 0 |
| Feed and Residual | 7000 | 6500 | 8500 | 7000 | 0 | 6000 |
| FSI Consumption | 25 | 10 | 25 | 10 | 0 | 10 |
| Total Consumption | 7025 | 6510 | 8525 | 7010 | 0 | 6010 |
| Ending Stocks | 1314 | 1829 | 1299 | 1829 | 0 | 1829 |
| Total Distribution | 8339 | 8339 | 9824 | 8839 | 0 | 7839 |
| Yield | 5 | 5 | 5 | 5 | 0 | 5 |
| | | | | | | |
| (1000 HA) ,(1000 MT) ,(MT/HA) | | | | | | |

## Saudi Animal Feed Subsidy Changes

The Saudi government has made long-awaited revisions to the country's animal feed subsidy program. The elements have been rolled out, mostly unannounced, over the last few months. Animal feed subsidies have been critical to the development of Saudi Arabia's livestock and poultry sector. And demand for animal feed has made Saudi Arabia into the world's largest importer of barley, and a very important market for hay, corn, soybeans, and a variety of other animal feeds. In 2018, the U.S. exported approximately $297 million, $155 million, and $117.4 million, worth of corn, hay, and soybeans to Saudi Arabia, respectively.

Saudi animal feed subsidies were approximately $1.5 billion in 2018. Approximately two thirds of this was spent on barley – which was imported and distributed at below market prices by the Saudi government. The remaining one third was paid to importers that received shipments of 23 feed grains and feed ingredients – including hay, corn, and soybean meal.

The changes, described in more detail below, include making per animal subsidies to small livestock producers, eliminating import subsidies for all feeds and ingredients except hay and forage, increasing import subsidies for hay and forage, and implementing production-based subsidies for poultry. The government has also raised barley prices and plans to remove the barley subsidy.

Theoretically these changes will cause livestock producers to shift from barley and forage rations to processed animal feed with some forage. This would increase demand for feed ingredients (mostly corn and soybeans) and reduce barley imports. But convincing Bedouin herders, who use almost all the barley Saudi Arabia imports, to switch to processed animal feed is a very difficult marketing challenge - even though using processed animal feed will likely save the herders money. The Saudi animal feed production sector, which is currently operating at approximately 50 percent of capacity and has lost its subsidies, seems likely to consolidate as it struggles through the transition. It is also unclear how the Bedouin tribes, which are politically influential, will react to the increase in the barley price and the new per head subsidies. Unlike the feed processing industry, the poultry and dairy industries do not seem concerned about the subsidy changes.

These changes also support Saudi Arabia's transition out of forage and wheat production. As of 2018, growers with over 100 hectares were no longer permitted to produce forage or wheat, and domestic hay prices were set to rise this year as hay stocks were depleted. Both the dairy and livestock sectors will benefit from the higher forage import subsidies. Hay imports are expected to increase, but the composition of those imports (dairy quality vs medium quality) is uncertain.

1) **Discontinued Import Subsides for Most Feed Grains and Ingredients**

On January 1, 2020, the Saudi government stopped animal feed subsidies for 23 imported feed grains and feed ingredients such as yellow corn, soybean meal, Dried Distillers Grain with Solubles (DDGS), Corn Gluten Feed (CGF), cotton seed, sugar beet molasses, canola meal, soybean hulls, and similar fiber sources. Prior to this decision, imported feed grains and ingredients received rebates ranging between \$49.33 and \$202.13 per MT, based on the energy and protein content of each feed ingredient. For example, soybean meal (48% protein) received the highest subsidy rate of \$202.13 per MT, while yellow corn used to receive \$120.53 per MT.

2) **Reduction of Barley Subsidies**

On January 12, 2020, SAGO increased domestic barley prices by 11 percent from \$9.60 to \$10.67 per 50 kg bag. The maximum retail price for 50 kg was increased from \$10.67 to \$11.73. Both distributors and customers are charged an additional five percent value added tax (VAT). SAGO will update its barley prices based on international prices and eventually discontinue the barley subsidy program. It plans to allow the private sector to freely import and distribute barley at competitive and prevailing international prices with SAGO making sure that exorbitant prices are not charged. If the government discontinues its domestic barley subsidy program, import of the grain is expected to decline and the market share of other grains, such as corn, is expected to increase.

3) **Monthly Direct Subsidies to Livestock Producers**

The Kingdom's new animal feed subsidy gives direct monthly per head payments to small livestock farmers. Small farmers are those that have a maximum of 300 animals from each of the four livestock categories (sheep, goats, camels and cattle). The total subsidy budget for this category is \$320 million a year. Livestock producers, the dominant users of barley, receive monthly per head subsidies of \$2.13 for goats and sheep, \$10.67 for camels, and \$16 per head for cattle.

4) **Direct Subsides to Poultry Farms**

The government provides up to \$187 million as direct production based subsides to the poultry industry annually. The subsidies are listed in the table below. The government believes that paying subsides based on production will incentivize producers to establish good biosecurity and adopt technology to increase efficiency and productivity. The exchange rate for one USD is 3.75 Saudi riyals (SAR).

| Saudi Production Based Poultry Subsidies | | |
|---|---|---|
| Poultry Type | Subsidy in SAR per Month | Production Unit |
| Broiler parent chick | SAR0.40 | Per chick |
| Layer parent chick | SAR0.20 | Per chick |
| Broiler chick | SAR0.14 | Per chick |
| Broiler meat | SAR0.65 | Per kg |
| Table eggs | SAR15 | Per carton of 360 eggs |

## 5) Increased Import Subsidies for Forage

Import subsidies on seven forage and forage products have been increased an average of 134 percent. The forage products are mainly destined for the country's dairy farms. See below table

| **Animal Feed** | **Harmonized System Code (HS Code)** | **Protein Percentage** | **Energy per ton** | **New Subsidy Rate Per MT Issued on Jan 1, 2020** | **Old Subsidy Rate Per MT Issued on July 27, 2011** |
|---|---|---|---|---|---|
| Alfalfa | 121490900002 | 17 | 2450 | $304 | $117.33 |
| Alfalfa Hay<br>Alfalfa Pellets | 121410000000 | 11 | 1900 | 221 | 99.73 |
| Rhodes Grass | 121490900003 | 5 | 1600 | 157 | 68.80 |
| Sudan Grass | 121490900004 | 5 | 1600 | 157 | 80.00 |
| Wheat straw, pellet, cubes and brickette | 121300100006 | 2 | 1500 | 128 | 52.53 |
| Corn straw, pellet, cubes and brickette | 121300100008 | 2 | 1500 | 128 | 52.53 |
| Barley straw, pellet, cubes and brickette | 121300100007 | 2 | 1400 | 121 | 49.33 |

The increased import subsidies on forage is expected to encourage imports by the country's commercial dairy farms - which will not receive other subsidies. Feed millers may also benefit from this program directly (due to import of forage) or indirectly (due to lower domestic forage prices). Saudi government regulates retail milk prices.

**Attachments:**

No Attachments