Required Report - public distribution

Date: 2/16/2000

GAIN Report #SA0005

Saudi Arabia

Grain and Feed

Annual

2000

Prepared by:
John H. Wilson
U.S. Embassy
Drafted by:
John H. Wilson and Hussein B. Mousa

Report Highlights:
Lack of rainfall and larger livestock numbers should result in increased imports of barley by Saudi Arabia in 1999/2000 (estimated at 5.1 million metric tons). Private traders buy barley at will and the Saudi government no longer establishes ex-bagging or retail prices of imported barley. End users buy barley at market prices. Increased world prices have caused retail prices of barley to jump from 20-22 Saudi Riyals per 50 KG bag at this time last year to current levels of 27-28 SR. According to Saudi traders, the only barley available on the world market at this time is from the European Union.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
, SA

Table of Contents

Annual Grain and Feed Report

I. The Current Barley Situation

The Saudi barley trade is completely controlled by the private sector, with no intervention by the Grain Silos and Flour Milling Office (GSMFO). Only two years ago, the GSMFO was responsible for purchasing and distributing the Kingdom's barley imports, a quantity representing nearly one-third of the world's total barley trade. In the Summer of 1999, the GSFMO sold off its remaining stocks of 850,000 MT to the private trade. The GSFMO's principal activity in the barley area now centers on local production: setting production quotas and retail prices for locally-produced barley. Despite a production quota of 1 million metric tons offered by the GSFMO to Saudi farmers, this year's barley harvest is not expected to exceed 200,000 MT, a level 800,000 MT below quota. Farmers apparently do not find the $267.67/MT government support price attractive enough to fill the one million metric ton quota.

Negligible rainfall so far this season has caused a further deterioration in pasture conditions. If rains do not come, most traders believe barley imports will total about 5.1 million MT in 1999/2000.

Factors differentiating the barley situation today as opposed to the same time last year are as follows:

– World barley prices are much higher
– 1999/2000 barley imports are expected to be higher than in 1998/99, due to a lack of rainfall and a growing livestock sector.
– The Saudi Grain Silos and Flour Milling Office (GSMFO) no longer holds barley stocks and no longer sets or enforces ex-bagging prices and retail prices of imported barley.
– The local harvest in 2000 is expected to be significantly lower than in 1999.
– The GSMFO is selling locally produced barley to end-users at market prices

Prices:

Barley import prices (CF Jeddah port) are currently running in the neighborhood of $122-125 per metric ton(MT), versus less than $100/MT a year-earlier. Sources do not foresee an easing of prices until the next European harvest.

No longer does the GSFMO subsidize retail prices of barley to end-users. At this time in 1999, the retail price of barley was fixed by the government at a level not to exceed 26 SR per 50 kilogram bag of barley. However, because world prices were considerably lower last year, the 26 SR price ceiling was never reached (prices were averaging about 20-22 SR per bag).

The situation today is quite different. Current retail prices of barley are in the neighborhood of 28 SR per bag, yet there is no market intervention by the government. End users of barley now pay market price.

The GSMFO sets market prices of locally-produced barley every two weeks for a two week period, taking into account world barley prices. The most recent price set by the GSMFO for one 50 kilogram bag of barley was 28 Saudi Riyals (SR). Given the fixed exchange rate of 3.75 SR to $1.00, this is equivalent to $149.33 per MT.

Imports:

1999/2000 barley imports (July 1-June 30) are estimated by ATO/Riyadh at 5.1 million MT, due to insufficient rainfall in the Kingdom and the continued growth in livestock numbers. Without rainfall, natural pasture conditions are insufficient for occasional grazing. Hence, farmers must rely solely on imported grains and locally produced alfalfa for feed.

The European Union (EU) remains the dominant supplier of barley to the Kingdom. At the time of this report, the only barley available on the world market is from the EU. According to sources, the last shipment of Turkish barley occurred in December 1999. All barley imports are done by the private trade.

Specifications:

In order to differentiate imported barley from locally-produced barley, the GSMFO requires that 5 percent of imported barley be colored with carmosine. Local barley production accounts for only 4 percent of annual supply.

Saudi barley importers normally buy barley based on standard specifications of the country of origin (EU, United States, Canada, and Australia). A recent offer to a Saudi grain importer by a major international grain company offered the following specifications:

Test weight: 62/63 KG/HL. Moisture 15 percent
Foreign Matter: Max 2 percent
Colored barley not less than 5 percent of total shipped
Specs EU or Turkish colored feed barley. If Turkish origin, should be white in bulk
Seller: xxxxxxxxxxxxx
Broker: xxxxxxxxxxxx
Quantity: 25,000 MT, plus/minus 10 percent at seller's option and at contract price

Oftentimes, Saudi traders employ brokers to buy barley. Several traders use brokers based in Beruit.

Provided below is a Production, Supply, and Distribution (PSD) table for barley:

PSD Table						
Country:	**Saudi Arabia**					
Commodity:	**Barley**					
		1998		1999	2000	
	Old	New	Old	New	Old	New
Market Year Begin		07/1998		07/1999		07/2000
Area Harvested	57	57	57	30		30
Beginning Stocks	923	1000	923	1100	300	600
Production	400	400	400	200		200
TOTAL Mkt. Yr. Imports	4000	4900	5177	5100		5600
Oct-Sep Imports	4000	4600	4800	4800		5300
Oct-Sep Import U.S.	0	0	0	50	0	50
TOTAL SUPPLY	5323	6300	6500	6400	300	6400
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	4200	5100	6100	5700		5800
TOTAL Dom. Consumption	4400	5200	6200	5800		5900
Ending Stocks	923	1100	300	600		500
TOTAL DISTRIBUTION	5323	6300	6500	6400	0	6400

II. The Current Wheat Situation

All aspects of Saudi Arabia's wheat sector continue to be controlled by the GSFMO; from production to milling to distribution. While the government provides quotas allowing farmers to collectively produce 1.8 million metric tons of wheat, the 2000 harvest is not expected to exceed 1.6 million MT. The quantity of 1.8 MMT is slightly less than total annual consumption.

The Government-guaranteed support price for wheat produced by small farmers remains at $400 per metric ton. Large share holding companies were barred from receiving wheat subsidies in 1993.

The GSFMO continues to hold talks with World Bank officials concerning privatization of the country's 6 flour mills. The mills are located in the cities of Riyadh, Jeddah, Dammam, Qassim, Khamis Mushayt, and Tabuk. The total combined milling capacity of the six mills is 5,600 MT of wheat per day. If and when the mills are privatized, it is likely that the government will significantly reduce the import tariff of wheat (currently set at 100 percent) to allow traders to buy wheat on the world market. Note that the Saudi government does not impose import tariffs for barley, sorghum, or rice. Corn and soybean meal importers actually receive a rebate for every metric ton imported.

Allowing Saudi traders to buy wheat on the world market would lead to the production of many types and blends of wheat flour and the manufacture of a wide selection of breads and pastries. If the wheat trade is liberalized, a key challenge the government will face will be how to reconcile current wheat production policy with a liberalized trading policy. There will be many options to consider, but it is likely the government will reduce the price support afforded to wheat farmers to a level more in line with world markets.

Provided below is a PSD table for wheat:

PSD Table						
Country:	**Saudi Arabia**					
Commodity:	**Wheat**					
	1998		1999		2000	
	Old	New	Old	New	Old	New
Market Year Begin		07/1998		07/1999		07/2000
Area Harvested	335	336	335	304		336
Beginning Stocks	791	1377	891	1328	991	1079
Production	1800	1800	1800	1600	0	1800
TOTAL Mkt. Yr. Imports	100	1	100	1	0	1
Jul-Jun Imports	100	1	100	1	0	1
Jul-Jun Import U.S.	0	1	0	1	0	1
TOTAL SUPPLY	2691	3178	2791	2929	991	2880
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Jul-Jun Exports	0	0	0	0	0	0
Feed Dom. Consumption	50	50	50	50	0	50
TOTAL Dom. Consumption	1800	1850	1800	1850	0	1850
Ending Stocks	891	1328	991	1079	0	1030
TOTAL DISTRIBUTION	2691	3178	2791	2929	0	2880

III. The Current Rice Situation

Calendar Year 1999 Saudi rice imports are estimated at 796,000 MT, up moderately from year-earlier levels (see PSD table). The increase is attributed to strong consumer demand, due in part to the high population growth rate of 3.4 percent and transhipments. The Saudi government does not impose import tariffs on rice, providing Saudi traders the opportunity to re-export imported rice to Yemen and other nearby destinations.

Saudi Rice Imports

Accounting for 60 percent of Saudi rice imports, India has been the main beneficiary of the growing Saudi rice market. No rice is produced in the Kingdom. Basmati (White and Sella) and Parimal rice are the leading Indian varieties imported. Based on official Indian Customs data, rice exports to Saudi Arabia from India jumped from 288,637 MT in 1995 to 482,183 MT in 1998. Basmati rice accounted for 79 percent of total Indian rice exports to the Kingdom in 1998.

On the contrary, Saudi imports from the United States and Thailand have fallen substantially since the early 1990s. U.S. rice exports to the Kingdom declined from 205,611 MT in 1993 to 144,417 MT in 1998. Thai rice exports to Saudi Arabia decreased from 127,947 MT in 1994 to 66,147 metric tons in 1997. Pakistani rice exports to the Kingdom declined by 36 percent from 1994 to 1997.

Reasons for Increased Demand for Indian Rice

Saudi rice traders believe Indian rice exports will continue to gain market share. Reasons for the shift to Indian rice are as follows:

- A growing shift in consumer demand away from American parboiled rice to Indian Sella Basmati rice (parboiled Basmati rice). Traders cite competitive pricing, attractive packaging, and the aromatic flavor of Sella rice as the main reasons for the success of Indian Sella Basmati rice in Saudi Arabia. Many local restaurants, mainly “Boukhari” restaurants, have shifted to Sella Basmati rice.

- A significant percentage of Saudis and expatriates with low incomes have shifted from U.S. rice to Indian Parimal rice (PR106). Indian Parimal parboiled rice was introduced in the Kingdom 6 years ago and has rapidly gained in popularity. Indian Parimal was instrumental in prompting a significant decline in exports of Thai parboiled rice to the Kingdom. Parimal is also cutting into U.S. market share, according to the trade.

- Competitive prices of Parimal rice. Parimal rice is by far the cheapest parboiled rice available in the

Kingdom, selling for about one-half the price of U.S. parboiled long grain rice. Retail prices for a 45-kilogram bag of Parimal rice range between $13.90 and $14.40, compared to $27.20 to $36.55 for U.S. parboiled rice. 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. There appears to be less than 10 different U.S. brands on the Saudi market.

! While Indian and other rice is perceived as "natural" rice, U.S. rice is frequently perceived as "manufactured", according to the Saudi rice trade. U.S. rice companies have been working hard to dispell this myth.

The table below shows exports of rice to Saudi Arabia from leading suppliers, for calendar years 1995 to 1998. The data was provided by FAS offices in India, Thailand, and Pakistan and are based on official Customs Data from these countries.

Country-of-Origin	CALENDAR YEAR Metric Tons			
	1998	1997	1996	1995
India	482,183	416,599	449,389	288,637
U.S.	144,417	115,489	142,225	176,379
Pakistan	56,766	65,222	108,774	88,002
Thailand	66,147	66,688	76,855	63,461
Total	749,513	663,998	777,243	616,479

Note: Total annual imports from smaller suppliers (mainly Australia, Egypt and Vietnam) are estimated at 15,000 metric tons.

Saudi Rice Cleaning and Bagging Plant

The Saudi company AJWA-RMTI is the only rice cleaning and bagging plant in the Kingdom. AJWA buys rice in bulk from the United States and other destinations, particularly India, and cleans and bags the rice under its own brand names. The AJWA plant was built in 1995 and is located in Jeddah Port. It has the capacity to store 120,000 MT of rice and to process up to 450,000 MT of rice annually.

AJWA is responsible for unloading the vast majority of bulk grain shipments to Jeddah port. The plant is located next to 3 berths which it rents from the Port Authority. The berths can handle vessels carrying up to 100,000 MT of grains.

Production/Supply/Distribution Table for Rice:

Provided below is a PSD for rice, for the years 1998-2000:

PSD Table						
Country:	**Saudi Arabia**					
Commodity:	**Rice, Milled**					
	1998		1999		2000	
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Harvested	0	0	0	0	0	0
Beginning Stocks	50	50	50	65	50	74
Milled Production	0	0	0	0	0	0
Rough Production	0	0	0	0	0	0
Milling Rate(.9999)	0	0	0	0	0	0
TOTAL Imports	675	765	720	796	0	828
Jan-Dec Imports	675	765	720	796	0	828
Jan-Dec Import U.S.	185	144	180	120	0	120
TOTAL SUPPLY	725	815	770	861	50	902
TOTAL Exports	5	20	18	27	0	30
Jan-Dec Exports	5	20	18	27	0	30
TOTAL Dom. Consumption	670	730	702	760	0	790
Ending Stocks	50	65	50	74	0	82

END OF REPORT