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Saudi Arabia

Grain and Feed

Saudi Arabia Reduces Subsidy on Locally Grown Wheat

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Report Highlights:

Recently, the Saudi Government announced its decision to reduce the Government Purchase Price for locally grown wheat from USD 400 to USD 266.67 per ton.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Riyadh [SA2]
[SA]

Saudi Government Reduces Local Wheat Purchase Price

On December 29, 2003, the Saudi Government announced its decision to reduce the Government Purchase Price (GPP) for wheat from Saudi Riyals (SR) 1,500 (USD 400) to SR 1,000 (USD 266.67) per ton commencing from the 2004/2005 crop, which will be harvested in the spring of 2005. The cabinet decision also allowed large share holding companies to produce between 300,000 mt and 600,000 mt of the yearly wheat requirement estimated at 2 million metric tons. In 1993, large stock companies were eliminated from wheat production in favor of small individual farmers.

When implemented, the decision to reduce the GPP will be the second price cut in the past ten years. In June 1995, the Government reduced the local wheat purchase price from SR 2,000 (USD533) to SR 1,500 (USD 400.00). At that time the measure was reportedly implemented to conserve budget and water resources.

According to local agricultural analysts, the Saudi Government reduced the wheat purchase price to achieve two goals:

Meet WTO Accession Requirements: It has been widely believed that the Saudi Government has been facing difficulties at the WTO talks in Geneva with leading wheat producing countries who insist that the Saudi Government open up its wheat market by doing away with (or reducing significantly) the local wheat subsidy as one of the conditions that the Saudi Government has to meet to get their support in the agricultural negotiations.

Though the GPP is still a lot higher than the C&F prices of imported wheat, it is believed that most small local producers will not be able to produce their assigned quotas since their production cost is very close to the GPP. This is a major reason why local farmers were not attracted to barley production when the GPP was \$267.67 per metric ton. Despite the Government barley production quota of 1 million metric tons in the past few years, local farmers were only able to produce 100,000 metric tons annually which allowed the Government to drop local barley production subsidies starting from this year's crop season.

To Pave Ways for Flour Mills Privatization:

The Saudi Government has been holding talks with World Bank officials concerning privatization of the country's six flour mills. The total combined milling capacity of the six mills is 5,600 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 Grain Silos and Flour Mills Organization (GSFMO), an entity responsible for implementing Saudi Government's grain policy. Thus far, no importer has approached the organization to obtain an import license. If and when the mills are privatized, traders will be allowed to buy wheat on the world market. According to some reports, the government will continue the current wheat subsidy policy even if it goes out of the flour milling business. If the mills are privatized, the responsibilities of purchasing and selling locally produced wheat are expected to pass from the GSFMO to the Ministry of Finance and National Economy. The Ministry will be responsible for purchasing wheat at the GPP and selling it to local millers at subsidized rates, paying the difference between the GPP price of USD\$ 267.67 and the world market prices for wheat.

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.

End of Report