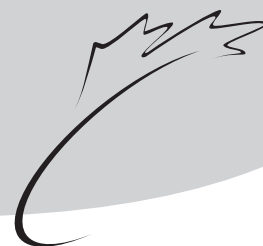




Bi-weekly Bulletin

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SAUDI ARABIA



Saudi Arabia is an important market for feed barley from Canada. In recent years however, exports have decreased significantly from historical levels due to low exportable supplies in Canada, related to the strong domestic livestock sector. For 1999-2000 and 2000-2001, Canadian exports of feed barley to Saudi Arabia have increased from the low of 1998-1999, but for 2001-2002, exports are expected to decrease slightly. Canadian exports of special crops to Saudi Arabia are currently small but have been trending upwards during the past 10 years, especially for pulse crops. Special crop exports are expected to continue increasing in the future. The major Canadian exports to Saudi Arabia are feed barley, special crops, processed and bulk foods, and canola meal. This issue of the *Bi-weekly Bulletin* highlights the situation and outlook for the grain, oilseed, special crop, and livestock sectors in Saudi Arabia.

BACKGROUND

More than half of the total area of Saudi Arabia is desert, with a narrow coastal plain along the western coast and a central mountain range extending from the north and gradually increasing in elevation to the south.

Saudi Arabia has the world's largest proven petroleum reserves and the world's fifth largest natural gas reserves. It ranks as the largest exporter of petroleum and plays a leading role in the Organization of Petroleum Exporting Countries (OPEC). However, its agricultural industry is hampered by extreme temperatures and dry conditions.

Since 1970, the Saudi Arabian government has undertaken an ambitious program, financed by oil export revenues, to develop

the infrastructure required for agricultural growth. Between 1975 and 2000, cultivated land grew from 0.15 million hectares (Mha) to over 5.7 Mha. The agricultural sector has grown at an average annual rate of 8.7% since 1970 and accounts for 9.4% of GDP. The sector has now become the largest non-petroleum sector in Saudi Arabia and, in 1998, employed 16% of the population.

ECONOMY

Oil and oil derivatives, account for about 90-95% of Saudi export earnings, 75% of the budget revenues and about 37% of the nation's GDP. In 2001, GDP growth is expected to decline by 4% as oil prices fall and production declines, in response to reduced demand.

Saudi Arabia. The development of a comprehensive natural gas industry is expected to provide a feedstock for derivative products such as petrochemicals, and make water desalination and power generation more viable. Gas, as a substitute for oil in meeting the local electrical demand, would free up more oil for export and contribute to improving the government's balance of payments.

With about 50% of the population under the age of 18, a job growth rate above 6% per annum will be necessary to accommodate the growth in the labour force. The unemployment rate, estimated at 14% in 2000, is expected to rise to 15% in 2001.

Currently, Saudi Arabia is in its Seventh Economic Plan (2000-2005). Key components of the plan are a continued strong drive toward privatization; acceleration toward integration into the global economy, including accession to the World Trade Organization (WTO); further development of technical skills and employment, and a stronger emphasis on the private sector's role in the economy through increasing diversification of the industrial base and agriculture.

Saudi Arabia has large untapped natural gas supplies. Recently, related to relaxed investment laws, several major international oil companies have made gas-related investment proposals to the Saudi Arabian government. Currently, manufacturing accounts for approximately 90% of all foreign joint venture investments in

SAUDI ARABIA: ECONOMIC STATISTICS

	1998	1999	2000e	2001f
Population (million)	21.0	21.4	21.8	22.5
GDP (US\$billion)	127.7	139.0	160.5	154.1
GDP growth (%)	-10.8	8.8	15.5	-4.0
GDP per capita (US\$)	6,081	6,495	7,362	6,837
Inflation (%)	-0.2	-1.2	-1.0	0.0

Land area: 1.9 million square kilometres
Cultivated Land: 5.7 million hectares (2000 estimate)

e: estimate; f: forecast

Source: Saudi American Bank (SAMBA) February 2001

CURRENCY

Since June 1986, the exchange rate of the Saudi riyal (SR) has been fixed at 3.745SR per US dollar. Interest rates are allowed to float and capital flows freely across borders. The combination of low oil prices, high domestic debt and a fixed exchange rate led to the SR coming under some speculative pressure in 1999. Effective interventions by the Saudi Central Bank, and the recovery of oil prices, eased the pressures considerably.

AGRICULTURE PROGRAMS

A land distribution and reclamation program was introduced in 1968 and provided fallow land (up to 400 hectares) to farmers under the condition that at least a quarter of the land would be cultivated within 2-5 years. More than 2 Mha of uncultivated land were distributed. Full ownership was later transferred to the farmer.

The agriculture sector has benefited from low cost water, fuel, and electricity and duty free imports of raw materials and machinery. About 45% of agricultural equipment and 50% of fertilizer costs are covered by the Saudi Arabian government. The Ministry of Agriculture and Water constructs and maintains irrigation and drainage networks, and provides research and assistance to farmers. Improvements to roads have been made to link producing areas to consumer markets.

Subsidies to farmers have also played an important role, but cash shortages resulting from the Gulf War (1990-1991) and lower oil revenue led to a decrease in subsidies. Price supports are limited to wheat, barley, and dates.

The customs duty on the majority of food products is 5% ad valorem on the cost, insurance, freight (CI&F) value and 20% on some imports that compete with domestic production. Barley, livestock and meat, rice, and sugar are imported duty free. Saudi Arabia is one of the largest food importers in the Middle East. For religious reasons, imports of alcohol, pork, and products derived from pork are prohibited. Meat, including poultry, beef, veal, and lamb/mutton must meet Islamic halal slaughter requirements.

The Grain Silos and Flour Mills Organization (GSFMO) is a government corporation which manage grain silos with total storage capacity of 2.4 million tonnes (Mt) of wheat and 0.2 Mt of barley. The GSFMO is also involved in the

improvement of existing types of wheat flour and the production of new types. It authorizes the growing and sale of wheat and barley to the government by issuing quotas to individual farmers, thereby setting production targets. Wheat and barley farmers receive government support prices only for production within the pre-assigned quotas.

WATER RESOURCES

Per capita consumption of water is high in Saudi Arabia and demand has been increasing steadily. Underground aquifers constitute the country's major source of water. However, this source is considered unrenowable and its supply is limited. Agriculture accounts for 80% of Saudi Arabia's fresh water demand. The high cost of providing water is highly subsidized by the Saudi Arabian government.

GROWING IN THE DESERT

Rainfall averages 10-500 millimetres per year. The soil consists primarily of sand, has a high PH level and a low phosphorus content. To sustain and increase crop production, the application of fertilizers, pesticides and water is essential. Through the introduction of new and modern technology, fertilizers, imports of drought-resistant seeds, and other methods of cultivation, Saudi Arabia has succeeded in modernizing its agriculture sector throughout the 1990s. The introduction of greenhouses boosted cultivation of a wide range of fruit, vegetables, and exotic flowers. Saudi Arabia now exports vegetables and flowers around the world. Food exports in 1998 were valued at US\$0.44 billion.

AGRICULTURAL PRODUCTS

Canada's agri-food exports to Saudi Arabia are mainly cereal grains, mostly feed barley. In 1997-1998 (August-July), agri-food exports were valued at \$100 million of which 80% was bulk grains. In 1999-2000 total exports were valued at \$32 million and cereals consisted of only about \$16 million due to low exports of feed barley. For 2000-2001, exports (August-April) have recovered to \$60 million, of which

85% was feed barley.

Wheat

The production of all basic foods made significant advancements starting in the 1970s. Wheat is considered to reflect the strength of Saudi agriculture, based on the fact that nowhere else in the world has a field crop like wheat been cultivated on a large scale on desert land. The dramatic push for wheat production in the 1980s was designed to reduce the nation's dependence on imports and improve its food security. It added more than \$1 billion to the rural economy, and provided a way to distribute petroleum wealth to rural residents. It also created profits and incentives for new cropland investment and development and provided quick returns to farmers.

The support price for wheat has dropped from a high of US\$1,035 per tonne (t) in 1981 to the current price of US\$400/t with a quota of 1.8 Mt. Wheat production costs are estimated to range from US\$190/t to \$270/t, depending on farm size, irrigation well depth and overall farmer efficiency. Driven by large Saudi Arabian government subsidies, production exceeded consumption for the first time in 1985 and reached a peak of about 4.1 Mt in 1992.

During the period from 1985 to 1995, Saudi Arabia began to export their excess supplies. In 1996 lower subsidies caused production to decrease significantly and exports ceased. Production in 2001 is expected to be 1.8 Mt, unchanged for the last several years. Total domestic consumption is expected to be 1.9 Mt in 2001-2002. All aspects of wheat production and disposition continue to be controlled by the GSFMO. In 1998, wheat import tariffs increased from 12% to 100%. The GSFMO is currently discussing

SAUDI ARABIA: WHEAT SUPPLY AND DISPOSITION				
<i>April-March marketing year</i>	1998 -1999	1999 -2000	2000 -2001e	2001 -2002f
Harvested Area (thousand ha)	335	400	400	400
Yield (t/ha)	5.37	4.50	4.50	4.50
.....thousand tonnes.....				
Carry-in Stocks	775	775	775	775
Production	1,800	1,800	1,800	1,800
Imports	45	100	100	100
Total Supply	2,620	2,675	2,675	2,675
Feed	50	50	50	50
Food, Seed, Industrial Use	1,795	1,850	1,850	1,850
Total Domestic Use	1,845	1,900	1,900	1,900
Exports	0	0	0	0
Carry-out Stocks	775	775	775	775
e: estimate, f: forecast Source: USDA				

SAUDI ARABIA: BARLEY SUPPLY AND DISPOSITION

<i>April-March marketing year</i>	1998 -1999	1999 -2000	2000 -2001e	2001 -2002f
Harvested Area (thousand ha)	57	57	57	57
Yield (t/ha)	7.02	7.02	7.02	7.02
thousand tonnes.....			
Carry-in Stocks	1,474	1,527	977	677
Production	400	400	400	400
Imports	5,853	4,800	5,000	6,000
Total Supply	7,727	6,727	6,377	7,077
Feed	6,000	5,550	5,500	6,400
Food, Seed, Industrial Use	200	200	200	50
Total Domestic Use	6,200	5,750	5,700	6,450
Exports	0	0	0	0
Carry-out Stocks	1,527	977	677	627
<i>Imports (October-September)</i>	5,814	5,800	5,000	5,000

e: estimate, f: forecast
Source: USDA

privatization of the country's six flour mills with World Bank officials. When the mills become privatized, it is likely that the government will significantly reduce the wheat import tariff, to allow traders to buy wheat on the world market. The challenge will be to reconcile current wheat production policy with a liberalized trading policy.

Barley

Imported barley, mostly consumed as feed, for sheep, goats and camels, comprises about 95% of all domestic use. Farmers depend heavily on barley when pasture conditions in Saudi Arabia are poor.

Canadian feed barley exports (August-July) to Saudi Arabia have fallen from 1.05 Mt in 1996-1997 to about 300,000 tonnes (t) in 2000-2001 due to a lack of exportable supplies. In Canada, a growing livestock industry and changes in grain transport policies, have helped to make the domestic feed barley market more attractive. Saudi barley imports (April-March), estimated to be 5.0 Mt in 2000-2001, have come primarily from the European Union (EU), and to a lesser extent, Australia and other nations.

Until April 1998, all barley imports were purchased and distributed by the GSFMO. In April 1998, two private companies, were each given permission to import 25,000 t of barley. These purchases represented a major shift in Saudi grain policy towards liberalization of the Saudi barley market. Private traders were allowed to buy on the international market without restrictions and subsidies. March 4, 1999 marked the last barley import tender by the GSFMO of 1.14 Mt, and there now are approximately 8-10 private importers of barley.

0.4 Mt, despite the government support price of US\$267.67/t with a production quota of 1 Mt. Feed consumption is expected to increase to 6.4 Mt from 5.5 Mt in 2000-2001, as a result of poor pasture conditions. Imports are expected to increase to 6 Mt (April-March). However, feed barley imports from Canada are expected to decrease slightly from the 2000-2001 (August-July) level of 0.3 Mt due to lower supplies in Canada.

Other Grain

For 2001-2002, **sorghum** production is forecast at 200,000 t, the same as it has been since 1996-1997 and equals to the total domestic consumption required, therefore no imports are expected. **Corn** production for 2001-2002 is forecast at 4,000 t, the same since 1991-1992. Saudi imports indicate a gradual upward trend, which can be attributed to a growing livestock industry. In 2001-2002 imports are forecast at 1.6 Mt, compared to 1.5 Mt in 2000-2001 and 1.3 Mt in 1999-2000.

Oilseeds

The tariff on all oilseeds, vegetable oils, and oilseed meals is 12% with the exception of soybean meal, which is imported without tariff. As oilseed imports are not subsidized, imports of oilseeds for crushing for oil extraction have not been economic to date. **Soymeal** imports have been increasing steadily since 1976 and are expected to reach a record 623,000 t in 2000-2001, 85% of which are sourced from the United States (U.S.). Soymeal is commonly used as an ingredient in both poultry and livestock rations. The current subsidy for soymeal is about US\$24/t.

On June 11, 2000, the Saudi Arabian government announced a temporary reinstatement of subsidies on barley imports due to high retail prices for imported barley. Subsidies of about US\$55/t are paid to importers, based on import prices of US\$130/t C&F. Corn and soymeal imports have been subsidized at the rate of US\$24/t.

For 2001-2002, production is forecast to remain constant at

Canola products are not widely used in Saudi Arabia. Canadian exports of canola in 1999-2000 were 25 t. The advantages of canola meal in dairy rations include a higher milk protein quality and improved milk production. However, to-date, no canola meal has been sold to Saudi Arabia due to subsidies provided to soymeal.

Edible oil is imported in bulk and then refined and packed locally. Annual consumption of edible oils in Saudi Arabia is estimated at 246,000 t in 2000-2001, with a per capita consumption of 11.28 kg. The market for edible oils is dominated by **palm oil**, comprising about 91% of all imported oils. Other types of oil imported are olive and soybean oil. Palm oil is used extensively by Saudi food factories as well as catering companies. The growth in the Saudi market for edible oils is estimated at 2-5% annually based on factors such as the population growth rate and the increased consumer demand for fast convenience foods.

Special Crops

Currently, Saudi Arabian imports of Canadian special crops are relatively small, however it has proven to be a growth market. For 2000-2001, Canadian **dry pea** exports are expected to reach 4,000 t, **lentil** exports are forecast at 2,000 t, dry beans at 3,000 t and **chick peas** at 1,000 t. In addition, smaller volumes of **fababeans**, **mustard seed** and **canary seed** are exported. However, these export estimates include only direct exports and there are significant re-exports through other Middle-Eastern countries.

Poultry

Poultry consumption has steadily risen since 1975. The total 2001-2002 poultry production forecast is 410,000 t, which is about 55% of domestic consumption. Of this total, about 400,000 t is broiler meat. Per capita poultry consumption has increased slightly with a forecast of 33.4 kg in 2001-2002 from 32.5 kg in 1998-1999. Saudi Arabia is the largest importer of frozen poultry meat in the Middle East. Expansion projects at two of Saudi Arabia's largest poultry producers in 1996, caused poultry output to increase by 30%. As a result corn and soymeal exports to Saudi Arabia rose 26% from 1996-1997 to 2000-2001. Continued increases in per capita demand and population growth should result in a growing poultry sector and larger imports of corn and soymeal.

Dairy

Dairy operations in Saudi Arabia are quite advanced. The largest vertically integrated dairy operation in Saudi Arabia is Almarai

Company Ltd., accounting for 40% of the dairy products market. Almarai has over 19,000 lactating cows and approximately 19,000 dry and replacement cows on four farms. The company's dairy processing plant processes and packages approximately 500 million litres annually. Milk production in Saudi Arabia has reached an annual rate of 1,800 gallons per cow, one of the highest in the world. Saudi Arabia exports a significant volume of milk to Gulf countries.

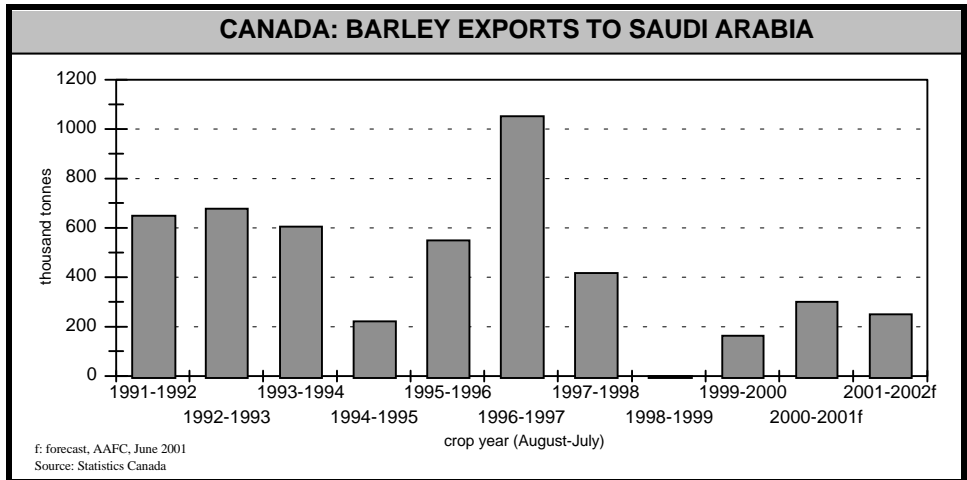
Livestock

About 11.5 million head (Mhd) of **sheep** are slaughtered annually in Saudi Arabia. Consumption is very high during the Eid Al Adha, or the Feast of Sacrifice, which commemorates Abraham's intention to sacrifice his son in fulfilment of God's order. Business usually stops five days prior to the event. This major celebration begins on the twelfth month of the Muslim lunar calendar and typically lasts four days. In 2001, the festivities took place in late February. During this very important Islamic holiday, about 3 million rams are consumed. On average, Saudi Arabia imports 5.5 Mhd of sheep annually. Somalia is the top supplier of sheep, goats and camels to Saudi Arabia but traditional suppliers include Sudan, Jordan, Syria, and New Zealand. Saudi Arabia has in the past also imported from suppliers such as China and Latin America. Market opportunities also exist for other countries but price competitiveness remains the biggest issue. With continued growth in the livestock industry, Saudi Arabia's demand for protein meal and barley is expected to increase.

Beef and veal production is estimated at 17,000 t for 2000-2001 which is the same as the last several years but down from the all time high of 30,000 t in 1994-1995. Consumption has been variable in the last 10 years, ranging from 62,000 t in 1990-1991 to 98,000 t in 1993-1994, and has been trending upwards. Consumption in 2000-2001 is expected to surpass 83,000 t. Imports have also been variable, and trending upwards. The EU provides over half of all exports to Saudi Arabia, but due to Foot and Mouth Disease in 2001, all EU beef and veal have been banned since January. It is not known when the ban will be lifted, but it is expected to last until the end of 2001. As a result, Saudi Arabia is expected to import more beef and veal from countries, such as Australia.

PROCESSED FOOD MARKET

With a population growth rate over 3%, and 50% of the population below the age of 18,



the Saudi Arabian food market is growing at a fast pace. Western influences, particularly satellite television, lifestyle models, and about 250 large, modern, western-style supermarkets are creating demand for higher value processed goods. The typical Saudi Arabian family is considered large by North American standards, thus large volume grocery products are very popular. For example, breakfast cereals have been a profitable market for the U.S. which is estimated to have shipped US\$18 million in cereals to Saudi Arabia in 2000. Cheeses and meats, excluding pork or pork derivatives, are imported mostly from Europe. Snack foods and cookies, cake mixes, and pancake mixes also enjoy popularity. Frozen foods are chosen over canned goods, due to the perception of greater "freshness."

Consumers are increasingly more price conscious but are also willing to pay a premium for quality. Nutritional value and packaging are also important considerations.

OUTLOOK

In 2001, the Saudi economy is expected to have slightly lower revenues from oil. The first balanced budget in 17 consecutive years reflects the government policy of shifting the responsibility for growth to the private sector. The government's seventh development plan emphasizes spending on schools, hospitals, and municipal services (water), in line with demographic demands, rather than agriculture. Saudi Arabia's interest in joining the WTO, should lead to lower import tariffs and domestic subsidies. With potentially lower domestic production, this may provide a larger export market.

Canadian barley exports to Saudi Arabia will depend on the availability of feed barley in Western Canada and the relationship

between domestic and international feed barley prices. The prospects for continued growth for imports of Canadian special crops, processed foods, and canola meal, as an alternative to soymeal, are favourable.

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