



Bi-weekly Bulletin

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SAUDI ARABIA

Saudi Arabia is the world's largest importer of feed barley and during crop year 2003-04 it imported 560 thousand tonnes or about 90 million dollars worth of feed barley from Canada. However, for 2004-05, Canada is not expected to export any barley to Saudi Arabia due to stronger returns in the Canadian domestic barley market than in the overseas export market. Exports of pulse and special crops have become relatively more important in 2004-05. This situation is expected to persist during 2005-06 as well. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Canadian exports of agricultural commodities to Saudi Arabia.

Saudi Arabia holds the world's largest reserves of crude oil and it has one of the world's largest reserves of natural gas. Since the 1970s, the Saudi Arabian government has used oil revenues to finance the development of its agricultural capacity, albeit at an extremely high cost due to the limited amount of land suitable for agricultural production. To increase its agricultural capacity, about 16,200 square kilometers of land has been placed under irrigation. Although less than 2% of Saudi Arabia's land mass is arable, Saudi Arabia has been able to maintain a reasonable level of self-sufficiency for commodities such as wheat and sorghum.

In addition to frequent sand and dust storms, the country faces problems of desertification, depletion of its underground water resources, and coastal pollution from oil spills. The development of extensive seawater desalination facilities has been necessary to compensate for the lack of perennial rivers or permanent bodies of fresh water.

Economy

Saudi Arabia has an oil-based economy with strong government controls over major economic activities. The petroleum sector accounts for about 75% of budget revenues, 45% of Gross Domestic Product, and 90% of export earnings. Since 1999, the Saudi Arabian government has been privatizing its electricity and communications

facilities, and encouraging private sector growth to lessen the country's dependence on oil revenues and to increase employment opportunities for its burgeoning population. Economic reforms are however tempered by deep-rooted political and social conservatism.

Size and Structure of the Agricultural Market

The total value of the agricultural sector is estimated at about US\$28 billion (bln). The sector provides employment for about 5.5% of the labor force. The business structure of farming operations in Saudi Arabia ranges from huge farming operations such as National Agricultural Development Company with 42,000 hectares, to smaller operations between 50 to 500 hectares. The major players are joint-stock agricultural development companies but there are also some large privately owned farms. A joint-stock company is owned by five or more individuals or entities, and the shareholders are liable only to the extent of the value of their holdings.

Agricultural Trade

Saudi Arabia is a net importer of grains, most of which is feed barley for its burgeoning livestock sector. The EU supplies about one-third of the grains imported by Saudi Arabia, or about half of its barley requirements. Imports of Saudi Arabian grains from the U.S. and Canada are 10% and 4%, respectively.

Most grains enter Saudi Arabia duty free, except for pulses and sorghum which are subject to a 5% tariff. Wheat importers require an import license from the Grain Silos and Flour Mills Organization, which is responsible for the Saudi Arabian government's grain policy.

Trade with Canada

Saudi Arabia is an important market for Canadian agricultural commodities. During the past decade, Canada's agricultural exports to Saudi Arabia have averaged Cdn\$76.6 million (mln) per year. In return, Canada has imported about Cdn\$1.7 mln worth of agricultural commodities from Saudi Arabia, consisting primarily of the following: fruit and nuts; preparations of grains and pasta; and beverages and vinegar.

In terms of volume, feed barley is by far the most important Canadian export to Saudi Arabia, averaging 0.3 Mt annually during the past decade. However, those exports have fluctuated considerably during this period, ranging from nil during the two years of drought in Canada, to a record 1.1 Mt in 1996-97 when Canada produced a record 15.6 Mt of barley.

Exports of pulse and special crops to Saudi Arabia have increased significantly during the past decade, averaging 7,081.2 tonnes (t) during this period, and peaking at 10,520 t in 2003-04.

In addition to direct exports, Canadian pulse and special crops are also transhipped to Saudi Arabia through neighbouring countries.

Domestic Price Supports

Self-sufficiency in agricultural production has been a goal of the Saudi Arabian government since the 1970s, and this has been achieved to some extent by heavily subsidizing wheat and barley production. As a result of the subsidies, wheat and barley production increased dramatically during the 1980s and 1990s to the point that Saudi Arabia became a net wheat exporter.

Self-sufficiency in agricultural production comes with a price for Saudi Arabia. Concerns about the depletion of limited water reserves prompted the government to begin a series of price support reductions in the early 1980's, particularly for wheat. The subsidy provided to wheat producers has been reduced from a high of US\$933.33 per metric tonne (/Mt) in 1981, to US\$266.67/Mt in 2004.

As well, since 1993, the Saudi Arabian government has imposed quotas on wheat production and has targeted production to meet domestic consumption, which averages 2.0 Mt annually. The Saudi Arabian government also issued a decree in September 2003 that effectively eliminated the local barley production subsidy. At this point, price supports are now limited to wheat.

Trade Agreements

Saudi Arabia is a member of the Gulf Co-operation Council (GCC), along with Kuwait, Qatar, Bahrain, the United Arab Emirates, and Oman. Members of the GCC enjoy special trade and investment privileges, including the benefits of a customs union. Under this 2003 agreement, the six member countries charge a 5% duty on most foodstuffs imported from non-GCC suppliers. The exceptions are staple foods such as rice, fresh meat, and feed grains, which are exempt from duties.

Saudi Arabia is also a member of the Arab League (AL), which agreed in

principle to the elimination of most agricultural tariffs by the year 2007. Currently it is not clear how much progress there has been to eliminate tariffs between member countries.

In any case, the current GCC and AL agreements are not expected to have much of an effect on the grain imports by Saudi Arabia simply because member countries do not produce sufficient amounts of grain for export.

Other Trade Considerations

In August 2000, the Saudi Arabian Commerce Minister issued a directive on the import of genetically modified (GM) foodstuffs, effective February 1, 2001. The directive instructed Saudi Arabian merchants and importers to label their products in a way that they could certify them as being free of GM ingredients. Some exporters of foodstuffs to Saudi Arabia expressed concern that they have not been provided sufficient details with respect to the labeling requirements under the directive. In response, the Saudi Arabian government recently provided the Canadian government with a copy of their royal decree for GM labelling. In addition, the Saudi Arabian government hosted in February 2005 a biotech workshop to discuss mandatory GM labelling with Canada, U.S., the EU and other interested nations.

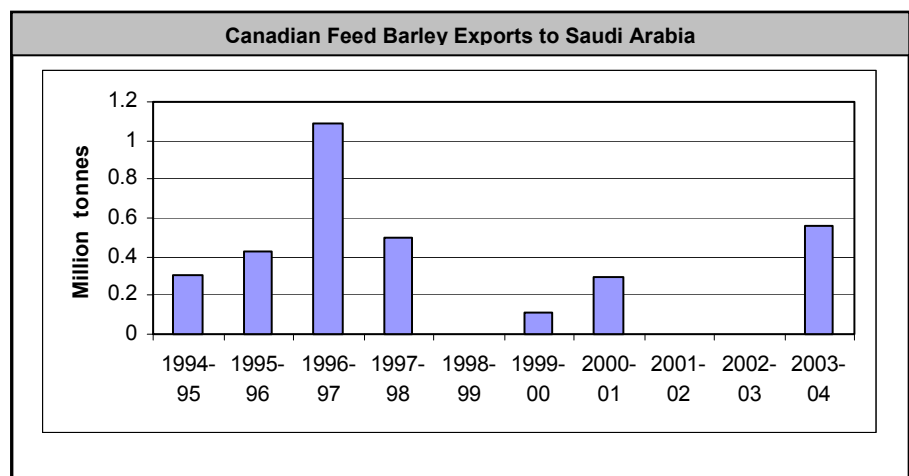
Saudi Arabia is engaged in an ongoing effort to join the World Trade Organization (WTO). Joining the WTO would increase access to world markets for Saudi Arabian oil and its petrochemical exports. In turn,

members of the WTO would enjoy increased access to this important market. Saudi Arabia is seeking to join the WTO as a developing country, but only for the agricultural sector, which generally provides a grace period of 5 to ten years to adapt trading practices to the new trade regime by reducing tariffs and domestic support.

Water Consumption

The Saudi Arabian government recognizes the importance of conserving its limited water resources. To that end, the government has introduced several measures aimed at cutting down household water consumption by up to 50%. The measures include providing conservation kits for households and reviewing price tariffs on water supplies, which are either pumped from deep underground reservoirs or processed at costly desalination plants. Under current tariffs, water is pumped into homes at the cost of about one riyal (US\$0.27) per 10 cubic meters, and the average monthly water bill for most households is less than 5 riyals. At these prices, there is little incentive for most households to cut down water use.

Household water consumption, compared to water used to irrigate farmland, is a relatively small component of total water use in Saudi Arabia. Water for irrigating farmland is drawn almost exclusively from underground reserves, and the farms consume about 20 billion cubic meters, or 90%, of the country's annual water supply. With the wasteful practice of growing crops in this manner coming



under fire, the Saudi Arabian government and the World Bank are preparing a national water plan to be completed within a year or two. The agriculture ministry is also studying water use on farms as a means of cutting down on excessive water consumption.

SITUATION 2004-05

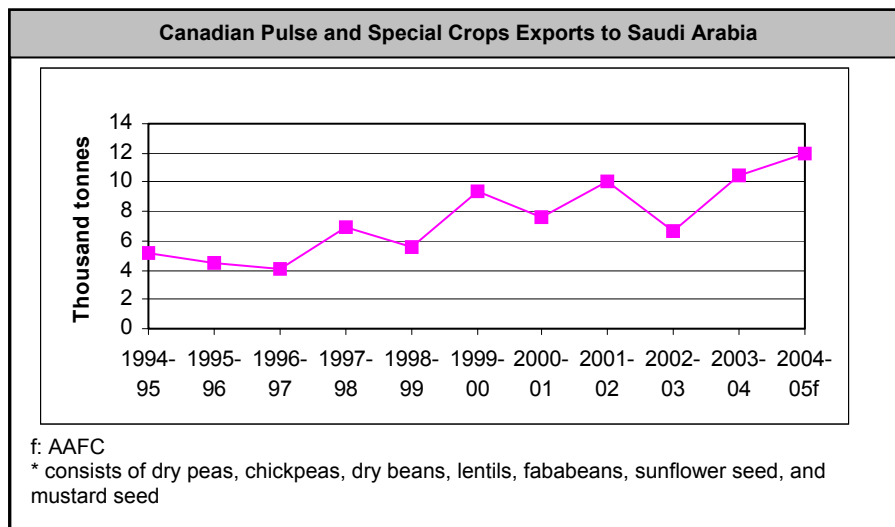
Saudi Arabia is the largest market in the Middle East, importing over US\$5 billion of food and beverages annually and offering suppliers of bulk commodities, and food processing and packaging equipment some excellent business opportunities. Saudi Arabia has long relied on imports of food products largely because irrigated lands near oases are virtually the only areas suitable for crop cultivation.

Despite the climatic disadvantages, the agricultural crop sector of Saudi Arabia has experienced steady growth since the 1970s, with much of the growth attributed to higher yields as Saudi Arabian farmers embraced new technologies and employed new and better inputs to production. In recent years, wheat for production has been on the decline, but production of other crops and livestock continues to flourish. Food processing, although still at a relatively modest level, is in an expansionary phase and is expected to increase significantly to meet growing demand for Western style food products.

Wheat

Saudi Arabia imported a record 1.3 Mt of wheat in 1979 but, since then, has systematically decreased its reliance on imported wheat by developing highly subsidized domestic supplies. In 1992, Saudi Arabia produced a record 4.1 Mt of wheat.

For 2004-05, wheat production is estimated at 1.6 Mt, down from 2.0 Mt in 2003-04. The decrease is due largely to lower domestic price supports for wheat as Saudi Arabia struggles to reduce its consumption of limited water supplies. As a result of lower domestic production and slightly higher consumption, imports are estimated at 0.4 Mt, which is the



highest level since 1982 when 0.7 Mt of wheat were imported.

The last significant wheat exports from Canada to Saudi Arabia were in 1982-83, when 26,250 tonnes were shipped. The previous export was in 1974-75, with 0.29 Mt shipped.

Barley

Barley production in Saudi Arabia has steadily decreased since peaking at 2.0 Mt in 1994-95 and is expected to be nil for 2004-05. It is the single largest barley importing country in the world. The 10-year average is 5.5 Mt and in 1986-87 it imported a record 9.0 Mt of barley.

For 2004-05, barley imports are forecast to decrease to 6.5 Mt from 5.7 Mt in 2003-04. The demand for feed barley fluctuates from year-to-year, depending on pasture conditions. The majority of the barley is fed to camels and secondarily to sheep and goats.

In recent years, Russia and the Ukraine have been the major suppliers. Australia is also a major player since it has a competitive advantage in this market due to low freight costs. The EU continues to be a major player in this market but its market share has been decreasing over time.

Canadian exports of feed barley to Saudi Arabia trended upwards during the 1990s, peaking in 1996-97, but have since decreased due largely to limited supplies of feed barley available for export. Canada's

livestock sector continues to provide higher returns to barley producers than the export market.

Livestock

Total livestock numbers in Saudi Arabia have decreased about 10% in the past five years due largely to a decrease in the number of sheep, which account for over 70% of the total Saudi Arabian livestock figure. For calendar year 2004, there were about 7.0 million (mln) sheep in Saudi Arabia, and 5.8 mln sheep are expected to be slaughtered. Of the 2.2 mln goats in Saudi Arabia, about 1.6 mln were expected to be slaughtered. Cattle are a relatively small component of the Saudi Arabian livestock sector, with only 115 thousand animals slaughtered annually.

Barley Supply and Disposition				
	- thousand tonnes -			
June/May Crop year	2002-03	2003-04	2004-05e	2005-06f
Beginning stocks	1,257	2,611	2,301	2,591
Production	100	0	0	0
Imports	7,064	5,700	6,500	6,000
Supply	8,421	8,311	8,801	8,591
Human Consumption	10	10	10	10
Feed Use	5,800	6,000	6,200	6,300
Total Use	5,810	6,010	6,210	6,310
Carry out Stocks	2,611	2,301	2,591	2,281

e: USDA – PS&D
f: AAFC

Pulse and Special Crops

Canadian exports of pulse and special crops, although relatively small, trended upward for several years during the late 1990's peaking at about 11 thousand tonnes in 2003-04.

Exports of Canadian pulse and special crops, in general, decreased in 2002-03 due to drought conditions in western Canada that affected exportable supplies.

For 2004-05, Canadian exports of pulse and special crops are forecast as follows: lentils, 5,000t; dry peas, 5,000t. Smaller volumes of chickpeas, fababeans, mustard seed and canary seed are expected to be exported to Saudi Arabia. Total exports of pulse and special crops are forecast to increase to about 12,000t mostly due to higher exports of lentils.

OUTLOOK 2005-06

Saudi Arabia's economic and political prospects are closely tied to the price of crude oil and the threat of terrorism. Those factors are expected to play an important role for Saudi Arabia. As well, the problems of increasing public debt and unemployment are expected to contribute to the country's social unrest. The end result is that Saudi Arabia's imports of agricultural and agri-food products will be affected to some extent, but there is still a need to

feed a growing population, whether that be with commodities produced domestically or those imported from countries with exportable surpluses.

More than half of the population of Saudi Arabia is under the age of 20, and the country's population is increasing at an annual rate of 3.5%. The robust population growth, coupled with insufficient arable land and limited water supplies, means that Saudi Arabia is dependent on imports of food and drink, particularly fresh and processed food products. This demand for higher value food products has given impetus to the speedy development of the Saudi Arabian food processing capacity in order to meet increasing consumer needs.

Wheat

For 2005-06, wheat production in Saudi Arabia is forecast at 1.6 Mt, unchanged from 2004-05. Imports are forecast at 0.7 Mt, and consumption is expected to increase slightly to 2.2 Mt. Ending stocks for 2005-06 are forecast at 1.2 Mt, up slightly from 2004-05 and more in line with the 10-year average.

Barley

For 2005-06, barley production in Saudi Arabia is forecast to remain nil and imports are expected to decline slightly, to 0.6 Mt, due to a larger than normal carry-in from 2004-05. Ending stocks are forecast at 2.3 Mt, down from 2.6 Mt in 2004-05, but significantly higher than the 10-year average of 1.9 Mt. Imports from Canada are expected to be minimal due to the strong domestic market for feed barley in Canada.

Pulse and Special Crops

For 2005-06, Canadian exports to Saudi Arabia are expected to increase slightly for lentils and dry peas.

Livestock

The total livestock number is expected to remain virtually unchanged at 9.9 mln for calendar year 2005. Specifically, the sheep count is expected to remain at 7.0 mln and the goat count at 2.2 mln. The total number of animals slaughtered for calendar year 2005 is forecast at 7.6 mln head, unchanged from 2004.

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Wheat Supply and Disposition

	- thousand tonnes -			
June/May Crop Year	2002- 03	2003- 04	2004- 05e	2005- 06f
Beginning stocks	1,271	1,332	1,258	1,108
Production	2,000	2,000	1,600	1,550
Imports	161	26	400	550
Supply	3,432	3,358	3,258	3,208
Human Consumption	2,050	2,050	2,100	2,100
Feed Use	50	50	50	50
Total Use	2,100	2,100	2,150	2,150
Carry out Stocks	1,332	1,258	1,108	1,058

e: USDA – PS&D

f: AAFC