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Saudi Poultry Situation Update

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Report Highlights:

To halt soaring poultry prices that triggered calls to boycott chicken consumption, the Saudi government issued a decree in early October banning poultry meat exports. The average price of imported chicken jumped 30-40 percent, while locally produced chicken rose 15 percent. Activist groups took to Twitter to vent their rage and send a message that they were not going to tolerate price gouging by traders and the government's lack of action. Poultry importers and local producers attributed the price hikes to the rising poultry feed costs. Heeding government's counsel, major retailers offered price discounts to customers, while some poultry producers promised to sell products at cost until the end of year. In light of the crisis, the Saudi government is encouraging the major poultry companies to speed up expansion plans that would more than double the current Saudi poultry meat production by 2015.

Soaring poultry Prices Triggers Consumers Revolt

In an effort to halt soaring poultry prices that triggered public campaigns to boycott poultry consumption, the Saudi Ministry of Commerce and Industry (MOCI) issued a decree on October 3, 2012 banning the export of locally produced broilers. Between mid September and early October, the average price of imported chicken jumped 30-40 percent, while the average price of locally produced chicken increased by 15 percent, reaching 14.5 Saudi Riyal/kg (about \$3.85 kg). Reacting to the sharp price rises, some activists and consumer groups resorted to social media like Twitter and Facebook to vent their rage and to send a message that they were not going to tolerate traders' price gouging and the government's lack of action to monitor and control prices. The activists started the so-called "Let it Rot" and "If you stop eating chicken, prices will go down" campaigns urging people to boycott poultry meat consumption and use other protein alternatives. They blamed importers and poultry producers for the crisis and asked the government to intervene and reign in these "greedy" traders.

On the other hand, the importers and local producers attributed price hikes to the rising cost of poultry feed ingredients such as corn and soybean meal that rose by more than 40 percent in recent months. The increase in feed grain prices was mostly due to a tighter supply in the world markets and drought conditions in major grain producing countries such as the United States. Normally, feed cost accounts for about 70 percent of chicken total production costs. The Ministry of Agriculture has indicated that recent increases in chicken prices were also due to a significant decline in domestic chicken production as a result of a higher than normal mortality rate and outbreaks of poultry diseases in many poultry farms this year. It was reported that the mortality rate in some farms reached 50 percent.

To calm the market and soothe public sentiment, the SAG established a Ministerial Committee for Supply (MCS) at the Riyadh Chamber of Commerce that includes the MOCI and the Ministries of Finance and Agriculture to be in charge of monitoring poultry prices. The role of the MCS is to exchange information on the prices and supplies of basic food commodities and to coordinate appropriate government measures to mitigate their impact on consumers. The MOCI has stated that the ban on Saudi poultry exports is a temporary measure and will be lifted as soon as the market has sufficient supplies and prices are stable. With total Saudi poultry exports relatively small (less than 40,000 MT annually out of a 1.3 million MT market) trade analysts have doubted that the ban would have an impact in stabilizing poultry prices. The main importers of Saudi broiler meat are the United Arab Emirates, Bahrain, Qatar, Kuwait, Oman, Yemen, and Jordan.

The boycott campaign seems to have had some impact. The MOCI has asked the main Saudi poultry producers and retailers, with whom it meets regularly, to take some measures, as a goodwill gesture, to lower poultry prices. It was reported that some companies offered their customers 10 percent discount on chicken meat prices, while others decided to sell their products at cost until the end of 2012. MOCI officials publicly commended the retailers and poultry companies for being good corporate citizens and acting with a sense of patriotic duty.

Saudi Poultry Market: Current Situation and Outlook

Saudi Arabia's poultry consumption has been steadily growing at an average rate of 5 percent annually during the last two decades. In 2011, total poultry meat consumption was estimated at about 1.3 million MT, with per capita consumption estimated at 47 kg per year. The Saudi poultry market has a cyclical nature, with consumption rises sharply during the month of Ramadan and the Hajj season, when millions of Muslim pilgrims visit to the country every year to perform their religious rituals. It is estimated that more than three million people come to Saudi Arabia during the Hajj period and additional four million visitors come throughout the year to perform Umras (non-proscribed pilgrimages).

Despite the steady growth in poultry consumption in recent years, local poultry production has not kept pace with the increased demand. In 2007, Saudi Arabia's total poultry production was estimated at 490,400 MT, providing about 51 percent of the country's consumption needs, while 475,000 MT were provided through imports. In 2011, Saudi poultry production declined to 420,000 MT, contributing only 35 percent of the market's needs, while imports climbed more than 60 percent to 780,000 MT. In 2011, the bulk of Saudi Arabia's poultry meat imports came from Brazil (623,000 MT) and France (149,000). U.S. poultry exports to the Saudi market are very small, about 10,000 MT. This is mainly due to Saudi import requirements that imported meat must be from chicken fed only on vegetable-origin feed and are hormone-free. These conditions are very difficult for most U.S. poultry producers to satisfy.

It should be noted that the overall policy objective for the Saudi poultry sector is to encourage local poultry production and increase self-sufficiency. In the last two decades, this policy has been implemented through various support measures that included providing subsidies for poultry feed ingredients, interest-free loans for purchasing equipment, as well as packaging and cold storage facilities. With the soaring prices of poultry feed, Saudi poultry producers have been asking the government to increase the subsidy levels for feed commodities. The last government revision of these subsidy rates was made in July 2011 and included a list of 31 feed ingredients, such as soybean meal which received the highest subsidy rate of \$202 per MT and barley straw that received the lowest rate of \$49 per MT.

In mid October 2012, the Saudi Minister of Agriculture reiterated the government's support for local poultry producers and called on agri-business companies to increase investment in poultry projects, especially for hatching eggs, baby checks and chicken grandparent farms. In recent weeks, the MOCI has been engaged with major Saudi poultry companies in a strategic dialogue to speed up construction of production expansion projects and to address growing market needs. It has been reported that the three largest Saudi poultry producers, Al-Watania Farm, al-Fakieh Farm and Al Marai Farm, have been implementing expansion plans that would add about 510,000 MT of poultry meat annually to total Saudi production by 2015. If and when completed, these projects would more than double Saudi Arabia's poultry meat production, currently estimated at 425,000 MT.

The recent poultry crisis has also revived previous calls in Saudi Arabia to establish strategic poultry reserves sufficient for six months of annual poultry consumption. Although there are no details available on the strategic reserve plan, its general concept suggests that the government and the private sector would join efforts to build strategic stocks of about 650,000 MT, with the government would be responsible for financing the product imports while private sector companies would be responsible for building and managing the cold storage facilities that will be needed for the poultry strategic reserve.