

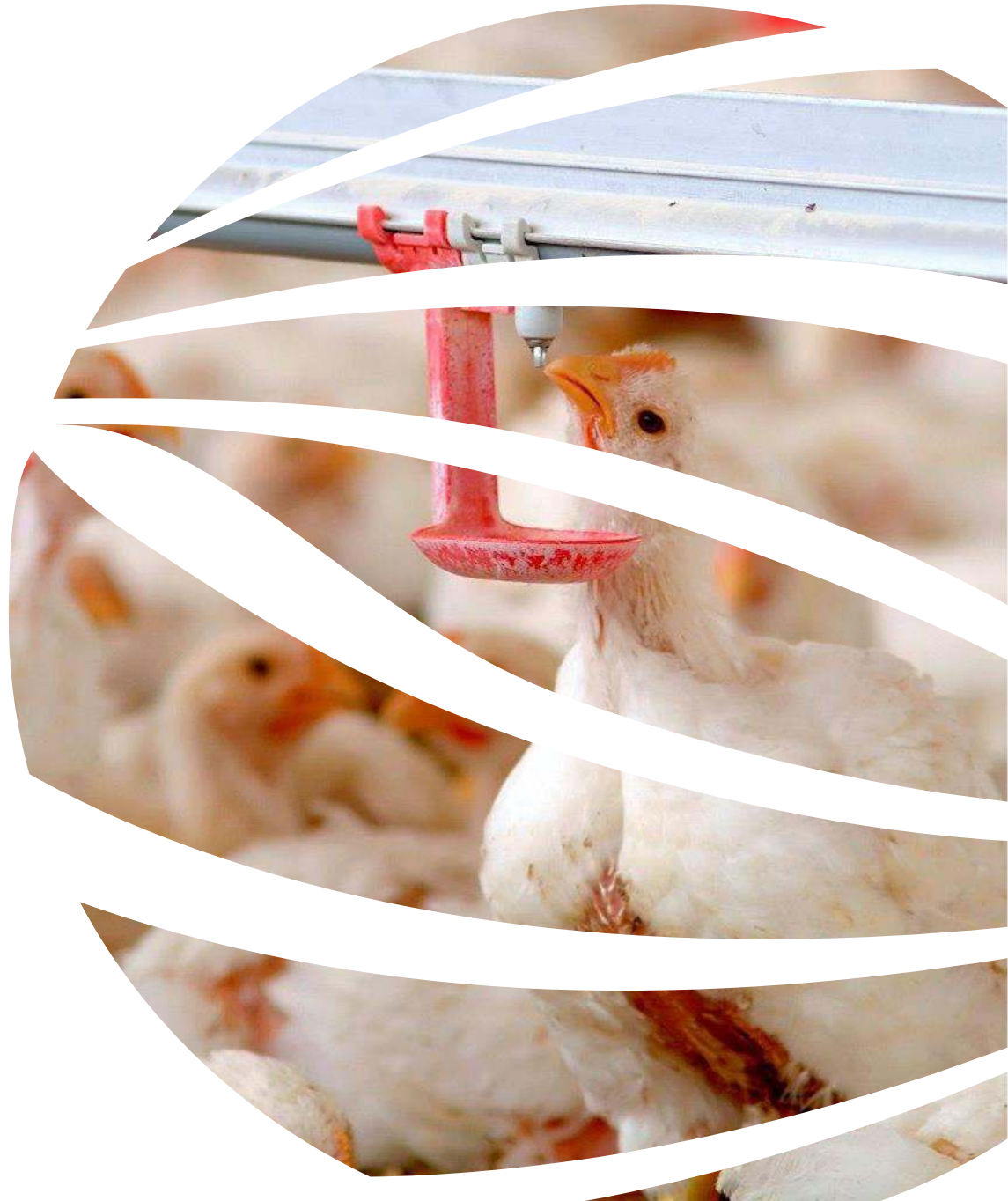


Risk and Reward in the Saudi Poultry Sector



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 **Quick read**

Introduction

The investment in and development of the Saudi poultry sector is a key goal for both the government and the private sector, however such investments could be a fraught venture, even in a region where chicken is a dinner-time favourite.

Increasing Demand

Poultry meat accounts for nearly three-quarters of meat consumption in the Saudi Arabia, compared to a global average of less than 40 percent. Consumers love chicken because it is a healthy source of protein, is versatile and is available at a low cost. The emergence of a fast-growing and discerning Saudi middle class has seen an increase in demand for both fresh poultry meat products.

The Saudi government has put into place a range of incentives for local poultry producers, with a long-term goal of reaching self-sufficiency, in order to boost the desert nation's food security.



The Saudi government has identified it as a sector in which the Kingdom could become self-sufficient over time.

Investment

It's also an attractive sector for private investors, as poultry production is relatively resource-efficient by comparison to wheat and dairy production, both of which exacerbate the Kingdom's dwindling water reserves. Poultry accounts for more than 70 percent of domestically produced meat.

Local producers can compete effectively against competing imported chicken, particularly as consumers become more discerning and demand fresh and chilled chicken products.

Demand for chicken in Saudi Arabia has been growing strongly since 2008, but it is only since 2010 that growth in local production has out-stripped import growth.

This dovetailing of public and private interests means that local production is forecast to grow by as much

- A self-sufficient poultry sector is a priority for Saudi government and businesses
- Thanks to a growing middle class, poultry accounts for 75% of meat consumption in KSA compared to a 40% global average
- Poultry is a resource-efficient product, important in a country where water scarcity is a big issue
- Local production now outstrips imports and investment in the local capacity continues to grow
- Disease control protocols are vital to ensure the risk of disease in the flock is minimised
- Dependency on imported feeds means producers are sensitive to global cereal prices
- Local producers also face stiff competition from cheap imports, especially in frozen category
- Consumer preference for locally produced fresh chicken products is a key competitive advantage for local producers.

as 50 percent over the next decade. This production is expected to come as a result of major investments by the most significant participants in the market - Al Watania Poultry, Al-Fakieh and Almarai.

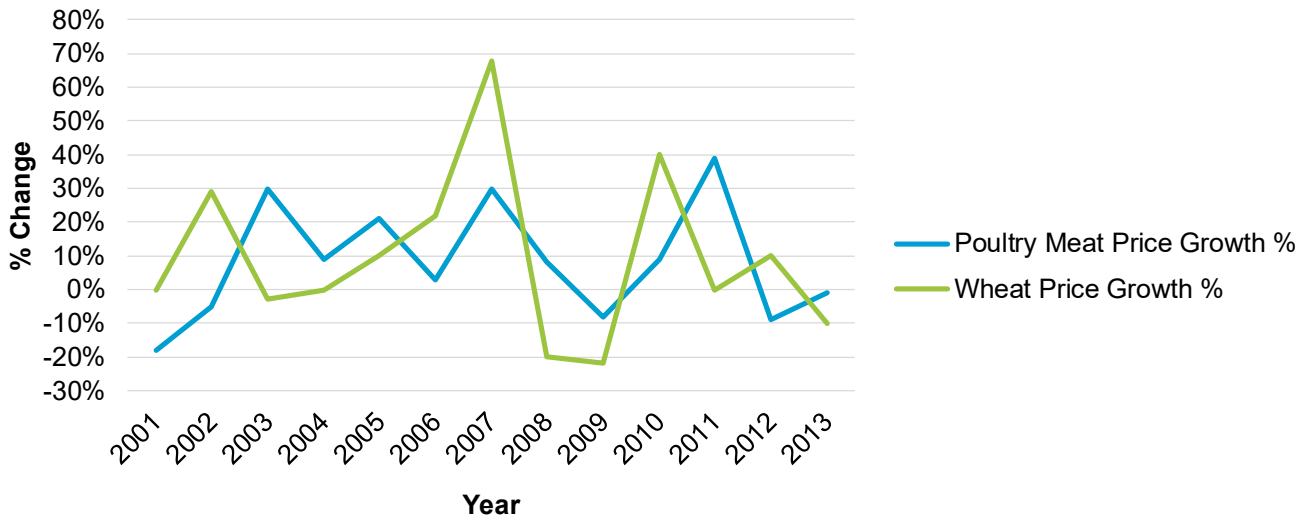
Risks

However, the sector is not without risk. Poultry diseases pose a major threat to local producers, with the risk of entire flocks being wiped out throughout a region due to lapses in disease control protocols. Such an epidemic could destabilise the sector by destroying production capacity, wiping out profits and raising production costs drastically.

Due to the dependence of local producers on imported feeds, variations in global cereal prices can have a substantial impact on local production costs, in a region where feed constitutes 70 percent of the production costs. However, government subsidies on feed help to shelter or offset most of the effects of these price increases on the supply chain.



Figure 1: The Inter-Relationship between World Wheat Prices and World Poultry Prices, 2001 – 2013



Source: OECD-FAO Agricultural Outlook



This dovetailing of public and private interests means that local production is forecast to grow by as much as 50 percent over the next decade

Competition

Local producers also face stiff competition from poultry imports, with frozen chicken accounting for almost 60 percent of consumption. Frozen chicken imports are around 15% cheaper than locally produced fresh and chilled chicken.

Consumer preference for locally produced fresh chicken products is a key competitive advantage for local producers. There is also an opportunity for Saudi producers to build consumer confidence and market share by harnessing this advantage along with addressing food safety issues through adopting the highest disease and quality control standards and procedures.

Conclusion

Poultry is by far the most consumed meat product in Saudi Arabia, due in much part to its low cost and health benefits, appealing to a growing middle class. It also fits well with KSA's need to minimise resource scarcity. There is a requirement to ensure better disease control protocols to make sure flocks are not wiped out in epidemics. Investment in a more self-sufficient domestic poultry industry also means facing up to the challenge posed by cheap imports and dependency on imported feeds. However, population preference for locally produced fresh chicken products represents a key advantage.



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