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EM10 and Africa: Saudi Arabia—Africa's food potential draws attention

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Research Analysts

Simon Freemantle*
Simon.Freemantle@standardbank.co.za
+27-11-3787318

Jeremy Stevens*
Jeremy.Stevens@standardbank.com.cn
+86-10-66496761

Highlights

- **Saudi Arabia is one of the world's most water scarce countries; just 1% of its land mass is suitable for agriculture**. Meanwhile, per capita income is the highest in the EM10—twelve times greater than India's. This, coupled with population growth and altering dietary patterns is placing immense strain on domestic food security.
- **Local production is buckling, forcing reliance on often volatile global agricultural trade markets.** Poultry consumption in 2012 is likely to be 800,000 tonnes higher than local production, while wheat production will be deficient by 1.8 million (m) tonnes. Saudi Arabia's barley imports account for around 40% of global barley trade. To protect renewable water reserves, the Saudi government is phasing out local wheat production—necessitating elevated imports. Meanwhile, volatile global soft commodity prices—especially since 2008—exemplify the threat for food importing nations.
- **The Saudi government is seeking external sources of food production.** Under the *King Abdullah Initiative for Saudi Agricultural Investment Abroad*, Saudi agribusiness investors are provided with credit and strategic support to invest in foreign farmland. A core principle of the initiative is that the investor must have the right to export at least half of the farmed produce to Saudi Arabia.
- **Geographical proximity and the abundance of under-utilised farmland has focused Saudi Arabia's attention on Africa.** Saudi investors have reportedly planned or concluded investments covering 800,000 hectares (ha) of land in Africa (accounting for almost 70% of all large deals struck by Saudi firms globally). Countries in the Nile River Basin, primarily Egypt and Sudan, have been prioritised. In one deal, Saudi Star is looking to expand its current 10,000ha farming operation in Ethiopia to incorporate a further 290,000ha in the country's fertile Gambela region.
- **For African countries courted by Saudi agribusiness firms, a clear appreciation of the value of the asset on which they rest is essential.** Under-selling of agricultural assets (both land and water) remains a profound threat. Meanwhile, the social strains brought about by the relocation of local inhabitants has the potential to be deeply destabilising.
- **Yet, leveraged effectively, Saudi capital could provide critical support in the elevation of African agricultural productivity.** Meanwhile, for African exporters of agricultural goods, Saudi Arabia, and indeed the wider Gulf region, will be an increasingly key market. In 2011, Egypt exported almost USD450m worth of fruit, nuts, vegetables and dairy products to Saudi Arabia. In the same year Saudi Arabia imported USD120m worth of coffee from Ethiopia, and, in 2010, imported roughly USD230m and USD125m worth of live animals from Sudan and Somalia, respectively.

Since May 2009, we have been scripting a monthly report on BRIC and Africa relations. This focus has been necessary, particularly given China, India and Brazil's dramatic (though varied) advances on the continent. Yet, increasingly, reference to BRIC-Africa relations falls short in explaining the broad sweep of new partnerships Africa has forged over the course of the past decade. As such, the BRIC and Africa series will henceforth become the EM10 and Africa series, allowing an incorporation of wider developments shaping Africa's course. *This is the fourth report in the EM10 and Africa series.*

Introduction

Saudi Arabia's rising, more affluent population is giving rise to a steady elevation in food demand. Meanwhile, the country's ability to meet this demand sector is waning, primarily due to a critical shortage of renewable water reserves. It is in this context where connections to Africa become pronounced. As pressure continues to build on the globe's ability to produce affordable food for its growing population, partnerships with relatively under-farmed countries, the bulk of which are in Africa, will be critical. Saudi Arabia's intentions in this regard are clear—and form the crux of their inclusion in the EM10.

Trade: Saudi oil exports are dominant

Briefly considering Saudi Arabia-Africa trade relations provides comparative context. Last year, Saudi-Arabia's trade with Africa trade amounted to approximately USD15.8bn, meaning that Saudi Arabia was Africa's sixth-largest EM10 trade partner (Figure 1). Saudi exports to Africa amounted to USD12.6bn last year, and consisted mostly of mineral fuels (predominantly crude oil) and, to a lesser extent, plastics.

Roughly two-thirds of Saudi Arabian exports to Africa were channelled to South Africa (USD4.4bn) and Egypt (USD2.5bn) in 2011. Of exports to South Africa, over 80% (USD3.9bn) consisted of crude oil, with just 5% (USD247m) consisting of organic chemicals, 3% of plastics and articles of plastic (USD130m) and fertilizers (USD135m), respectively. A similar map, though with a stronger leaning to Saudi Arabian exports of plastics and articles of plastics (USD610m) is true for Egypt (Figure 2).

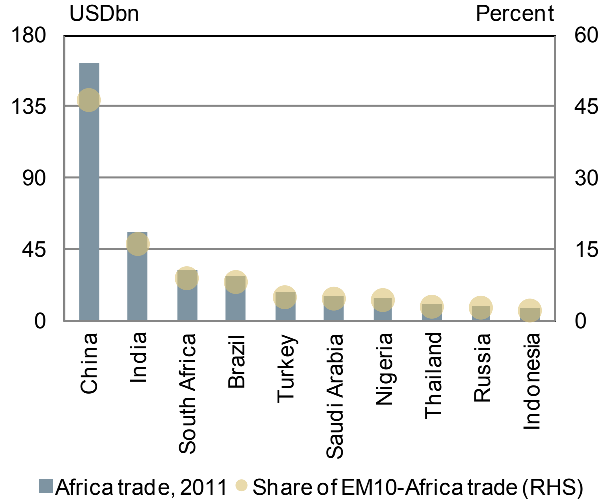
Saudi Arabian imports from Africa last year totalled approximately USD3.2bn—with roughly 60% coming from Egypt (USD1.9bn), with a further 12% from South Africa (USD360.4m). Imports from Egypt were fairly diverse, consisting of iron and steel (and articles of iron and steel) (30%); edible fruit and nuts (9%); dairy products (7%); vegetables (7%); and electrical and electronic equipment (7%). Overall, given the weight of Saudi Arabian oil exports to Africa, the country ran an overall trade surplus with the continent of approximately USD9.4bn last year.

Investment: spurred by food demand

Relatively robust economic growth, as well as a rising, youthful, and more affluent population is elevating per capita food consumption in Saudi Arabia. Several indicators bear testimony to these alterations:

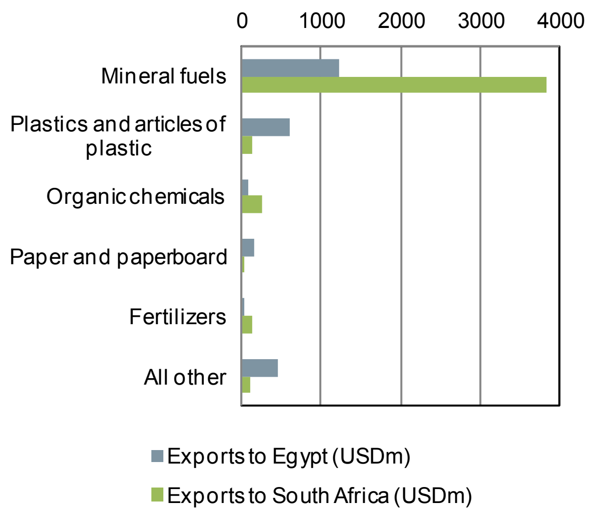
- Saudi Arabia's population is expected to increase from 27.4m today, to 45m by 2050. Today, half of the population is younger than 25 years old.

Figure 1: EM10-Africa trade, Saudi Arabia sixth



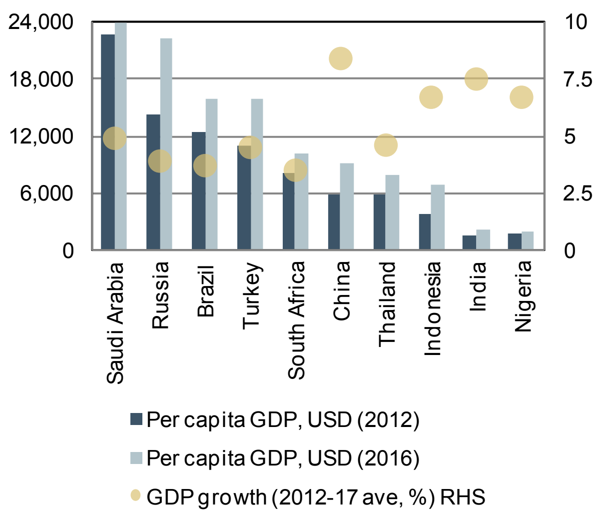
Sources: ITC; WTO; Standard Bank Research

Figure 2: Saudi exports to South Africa and Egypt, 2011



Sources: ITC, WTO, Standard Bank Research

Figure 3: Per capita income is the highest in the EM10



Sources: IMF; Standard Bank Research

- Saudi Arabia's per capita income—at around USD20,200 this year—is the highest in the EM10, double Turkey's, twelve times greater than India's and almost four times greater than China's (Figure 3).

- Having stood at USD1,500 last year, per capita food consumption is expected to swell by 40%, to USD2,100 by 2016, well above many of Saudi Arabia's emerging market peers (Figure 4). Total nominal food consumption amounted to USD42bn last year, and is likely to expand to USD66bn by 2016.

- Meanwhile, consumer habits are also altering—already, Saudi Arabia accounts for 75% of the Gulf's fast food consumption.

- Total mass grocery retail sales amounted to USD26bn last year, and are expected to increase by 70% to touch USD45bn by 2016 (BMI, 2012b).

- In 2011, Saudi Arabia's food, drink and tobacco imports totalled an estimated USD13.1bn—compared to exports of USD2.5bn, forging a deficit of USD10.6bn. By 2016 this deficit is expected to widen to USD15.6bn as imports rise to USD18.1bn and exports contract to USD2.1bn (BMI, 2012b).

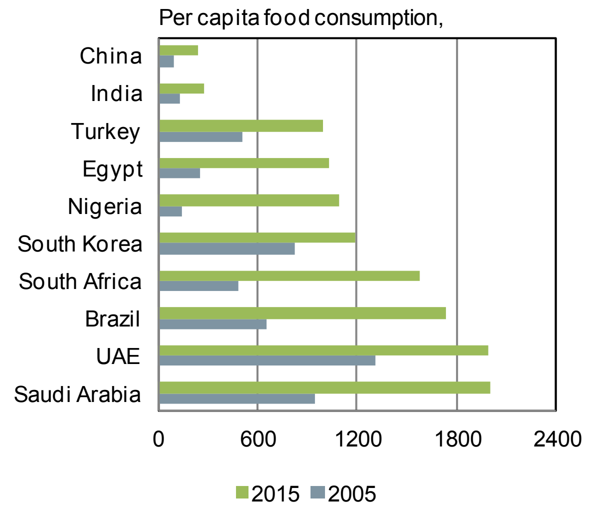
Meanwhile, local production is under strain

For the most part, rising Saudi food demand is not being met by increased local production. With the exception of dairy produce, there is a significant and growing gap between local production and consumption of key agricultural commodities. Local poultry production in 2012 is likely to be almost 800,000 tonnes lower than consumption, while wheat production will be deficient by around 1,800,000 tonnes and corn by 1,880,000 tonnes (Figure 5).

These shortfalls are structural, created mostly by severe limitations on Saudi Arabia's agricultural sector brought about principally by limited availability of arable land and severe scarcity of renewable water. Just 1% of Saudi Arabia's land mass qualifies as agricultural land. Meanwhile, in line with the demographic adjustments outlined above, water consumption has doubled since 2006—from 960bn gallons, to 2,130bn gallons in 2012. Desalination plants do provide around 3.4m cubic metres of water per day (much of which is used for human consumption), but the process is costly and energy-intensive (BMI, 2012c). Estimates also suggest that a further increase in water consumption to 3,125bn gallons by 2016 is plausible (Figure 6). The Maplecroft Water Stress Index ranks Saudi Arabia as the fourth-most water-stressed country in the world (behind Bahrain, Qatar and Kuwait) (Maplecroft, 2011).

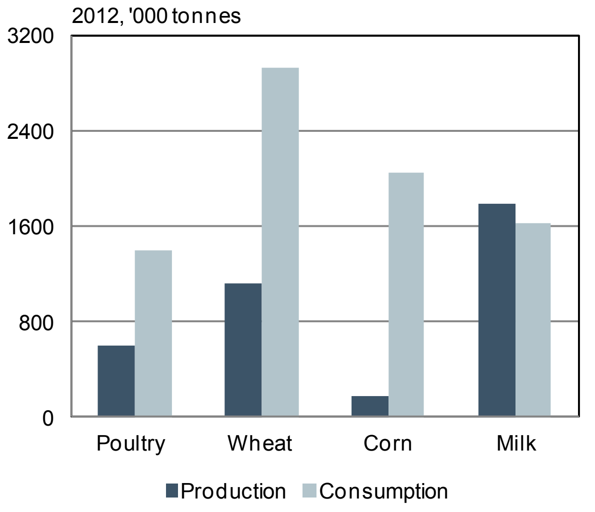
These strains have driven the Saudi government to decide to phase out local wheat production. By 2016, the government

Figure 4: Saudi Arabia's increasing appetite



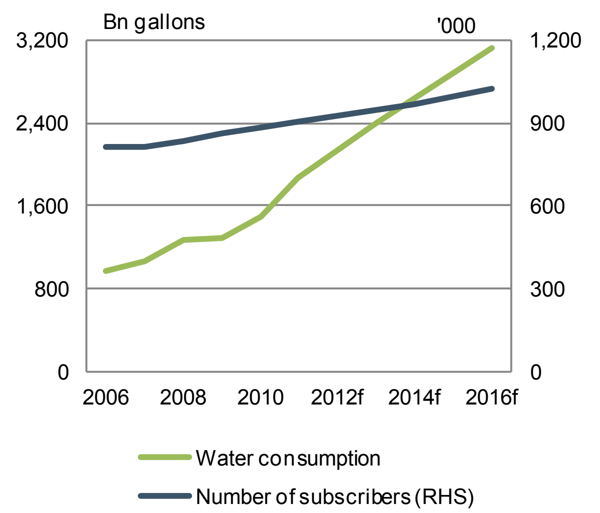
Sources: Business Monitor International (BMI); Standard Bank Research

Figure 5: Shortfalls in key agricultural commodities



Sources: BMI; USDA; Standard Bank Research

Figure 6: Water tensions are mounting



Sources: Ministry of Economy and Planning; BMI, Standard Bank will no longer purchase locally-grown wheat. As a result, wheat production is likely to contract by almost 50% to around 670,000 tonnes by 2015/16. Given profound local production shortfalls, Saudi Arabia's is principally turning to trade avenues for reprieve. Already, Saudi Arabia imports over 1m metric tonnes of rice per year, almost three times more than China. Poultry imports of 680,000 metric tonnes in 2011 were only 20% less than total poultry imports into the European Union. And barley imports of around 7m metric tonnes in 2011 accounted for over 40% of global barley trade for the year. According to the United States Department of Agriculture (USDA), Saudi Arabia's total wheat imports will reach 2.5m tonnes in 2012/13, of which 1.8m tonnes will be imported for human consumption. By 2020, Saudi Arabia is expected to import over 3.3m metric tonnes of wheat per year (Figure 7).

Unsurprisingly, agricultural imports from Africa are a defined feature of bilateral trade with the continent: in 2011, Saudi Arabia imported almost USD450m worth of fruit, nuts, vegetables and dairy products from Egypt, as well as USD120m worth of coffee from Ethiopia, and around USD100m of fruit and nuts from South Africa. And, in 2010, Saudi Arabia imported roughly USD230m and USD125m worth of live animals from Sudan and Somalia, respectively (Figure 8).

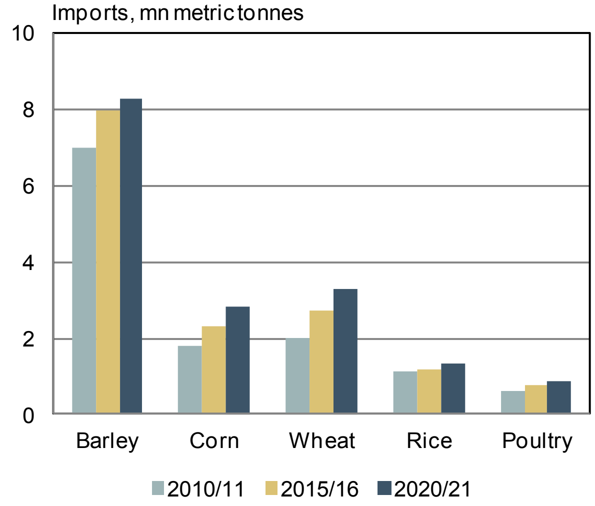
Attention is turning to new sources of agricultural production

Yet, relying on food imports exposes Saudi Arabia to global volatility in supply, and price (Figure 9), especially as tight food supply tends to result in countries reigning in exports. As a means to offset this vulnerability, the Saudi government is clearly looking to leverage its considerable resources (official foreign exchange reserves officially stand at around USD560bn) to invest in offshore agricultural production as a means to ensure a long-term, reliable supply of staple commodities.

In order to support this drive, the Saudi government recently established the *King Abdullah Initiative for Saudi Agriculture Investment Abroad,* under which large Saudi agribusiness firms are provided with credit, as well as strategic and logistical support to invest abroad. In addition to preserving domestic food security, the initiative aims to establish a strategic reserve of basic food commodities to meet Saudi Arabia's needs and hedge against future food crises.

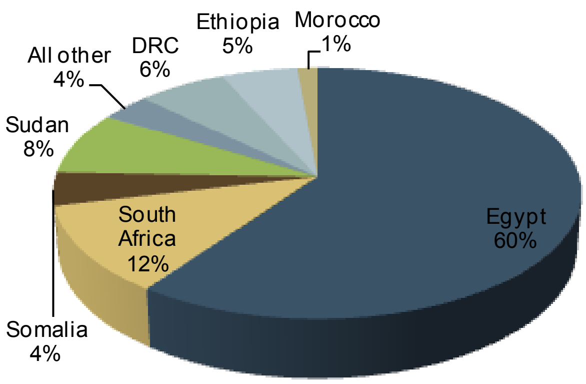
Factors considered in identifying suitable host countries for agricultural investments include the availability of resources and infrastructure, political and socio-economic stability, and favourable relations with the Saudi government. Under this initiative, bilateral government-to-government deals can be struck which allow more fluid access for Saudi firms in target markets. A guiding principle of the initiative is that the investor must have the right to export at least 50% of the farmed produce to Saudi Arabia. The primary products targeted are wheat, barley and corn, and the principally targeted countries

Figure 7: Imports will rise considerably



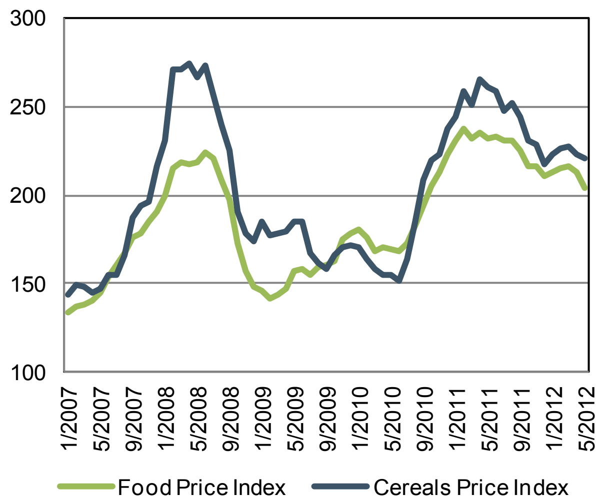
Sources: US Department of Agriculture; Standard Bank

Figure 8: Imports from Africa (2011), agriculture matters



Sources: US Department of Agriculture; Standard Bank

Figure 9: Price volatility harms net food importers



Sources: FAO; Standard Bank Research

are Sudan, Egypt, Ethiopia, Turkey, Ukraine, Kazakhstan, Philippines, Vietnam, and Brazil (Saudi Arabia Ministry of Agriculture, 2010).

Large Saudi agribusiness firms have heeded the government's call. In 2009, for instance, the Al Rajhi Group brought together a range of other large Saudi agribusiness firms to form a joint venture, Jenat, which aims to purchase between 150,000 and 200,000ha of overseas farmland, as well as the Far East Agricultural Company, which is mandated to focus on land for rice production in Asia (GRAIN, 2012).

And Africa takes centre stage

Geographical proximity and abundance of supply of underutilised arable land *(see Africa Macro: Africa's dormant resources potential. 7 October, 2011)* has focused Saudi Arabia's outward investment attention on Africa. While reliable information quantifying the size of agricultural investments in Africa is often elusive, according to a recent GRAIN database (which considered large—10,000ha or above—foreign land deals), Saudi Arabia's activity on the continent is pronounced, and focused. Indeed, of the total area of almost 800,000ha covered by concluded and planned Saudi investments in foreign farmland, almost 70% are in Africa (Figure 10). Strong correlations with the investment factors outlined by the *King Abdullah Initiative for Saudi Agriculture Investment Abroad*, have meant that North, and to an extent East, Africa have been prioritised. Some of the larger recorded deals include:

- *Egypt*: In 2007 the Egyptian government reportedly signed an agreement with the Al Rajhi Group for a project to produce wheat and feed crops for export to Saudi Arabia on 10,000ha of land in the first phase—increasing to 52,500ha in the second phase. Also in Egypt, Jenat has invested USD18m to cultivate 10,000ha for barley, wheat and livestock feed.

- *Ethiopia*: The Ethiopian government's ambitious plans to lease an initial 3m ha of land to foreign investors have attracted the attention of Saudi firms. Saudi Star, owned by Sheik al-Amoudi, has begun farming on a 10,000ha plot it leased from the government in 2008 in the Gambela region. The company has plans to lease a further 290,000ha of land in southern Gambela. Saudi Star's stated ambition is to produce 1m tonnes of rice per year, as well as maize, teff, sugarcane and oilseed.

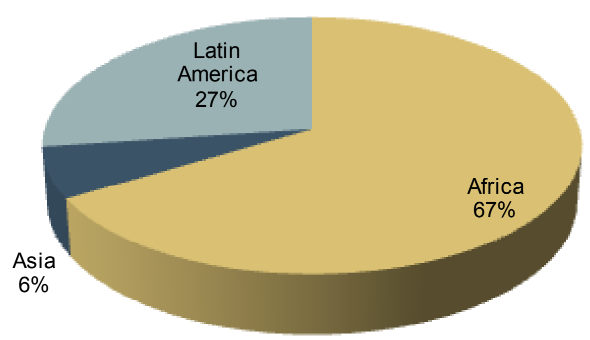
- *Mali*: Saudi company Foras International Investment Co. (which acts as the investment arm of the Organization of the Islamic Conference) has reportedly completed a pilot study on a 5,000ha plot it has under long-term lease in Mali's Office du Niger. Foras intends to expand land under lease in Mali to between 50,000-100,000ha as part of a wider bid to cultivate rice on 700,000ha in various African countries.

- *Mauritania*: In 2010, the Al Rajhi Group was reportedly granted 50,000ha of land by the Mauritanian government. Al Rajhi is also said to be pursuing a USD1bn aquaculture project with Saudi-based National Prawn Company in the country.

- *South Sudan*: While details are limited, Norwegian People's Aid has reported that Saudi Prince Budr Bin Sultan has signed a 25-year lease covering 105,000ha of land in Gwit at a cost of USD125,000 per year.

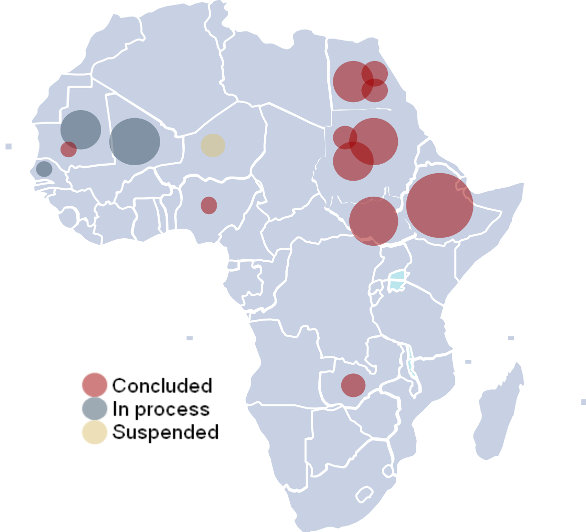
- *Sudan*: The largest of several recorded deals in Sudan has been by Foras International Investment Co., which acquired an estimated 126,000ha of land in Sennar State for the production of cereals. In another

Figure 10: Concluded land deals by Saudi firms



Sources: GRAIN; Standard Bank Research

Figure 11: Large Saudi agribusiness investments in Africa



Sources: GRAIN; Standard Bank Research deal, in February 2010, Saudi Arabia's National Agricultural Development Company (NADEC) announced the acquisition of 42,000ha of land in the Nile province (The Al Rajhi Group is an investor in NADEC).

- *Zambia*: Menafea Holdings, established by Al Rajhi Group owner, Sheik Mohammed al-Rajhi, has announced plans to invest USD125m to develop a 5,000ha pineapple and fruit processing plant.

Other projects include a 10,500ha deal signed by Kingdom Agricultural Development Holding (KADCO) in Egypt; as well as three proposed or agreed projects by Foras International Investment Company: a 2,000ha proposed deal to produce rice in Mauritania; a 1,000ha USD100m investment in Nigeria; and a USD22m project to build a vertically-integrated poultry farm in Senegal (GRAIN, 2012). While not a direct investment in farmland, the recent (13 June, 2012) announcement of the USD2.4bn Saudi Arabia South African Holdings (SASAH), which intends to jointly invest in farming, mining and petrochemical opportunities, is notable.

Conclusion

The rationale for Saudi Arabia's inclusion in the EM10 is clear—acute shortages of water and rising demand for food necessitate outward agricultural investments. With vast potential, Africa has absorbed much of this external focus—with countries along the Nile River Basin clearly prioritised. To be sure, Saudi Arabia is not the only foreign entity pursuing African farmland: it is estimated that a total of over 3m ha of land has been leased out in Ethiopia, 5.6m ha in Sudan, and 2.6m ha in South Sudan. However, the fact that Saudi Arabia's programme has accelerated rapidly, emboldened by coherent government support, deserves attention.

For African countries courted by Saudi agribusiness firms, a clear appreciation of the value of the asset on which they rest is necessary. Under-selling of agricultural assets (both land and, perhaps more critically, water) remains a profound threat. Meanwhile, as large tracts of land are sold or leased off to foreign investors, the social strains brought about by the relocation of local inhabitants has the potential to be deeply destabilising. Attention focused on the negative ramifications, whether real or perceived, of foreign land acquisitions must be heeded.

Yet, an acknowledgement of the acute need for investment in the sector must be a balancing force. Ensuring commensurate skills transfer to local communities, as well as that a generous portion of crops produced by foreign-owned firms in Africa are guaranteed for the local market, would aid. Meanwhile, transparency in the manner in which land deals are struck, and adequate consultation with affected local communities, must be compulsory. Channelling investment into agricultural infrastructure, particularly storage and transport, would provide tremendous support.

Meanwhile, as the advance on African farmland intensifies, policymakers should principally focus on ensuring domestic food security, rather than viewing agriculture (as has traditionally been the case throughout much of the continent) as a means to generate export revenue. For those countries with sufficiently established agricultural sectors, and thus able to expand on exports of select products, Saudi Arabia, and indeed the wider Gulf region's, rising demand should provide clear new opportunities.

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