



Grain Silos & Flour Mills Organization (GSFMO) Kingdom of Saudi Arabia

Wheat and Feed Market in Saudi Arabia

By H.E. Eng. Waleed El Khereiiji

Director General of Grain Silos & Flour mills Organization

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GSFMO Background & Overview

KSA Wheat & Flour Market Overview

GSFMO Privatization Program

Next Steps & Implications

GSFMO is a national institution that aims to supply wheat and flour to the entire population of the Kingdom of Saudi Arabia

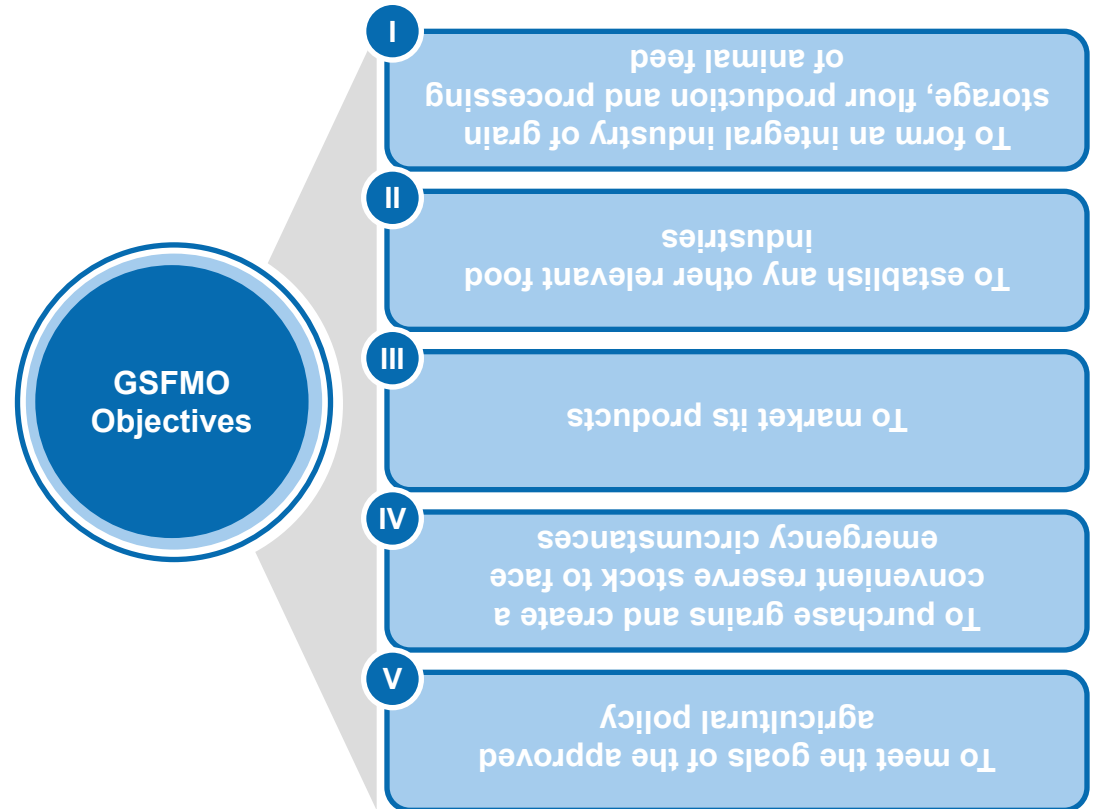
GSFMO Overview and Objectives

GSFMO Overview

▪ Grain Sinos and Flour Mills

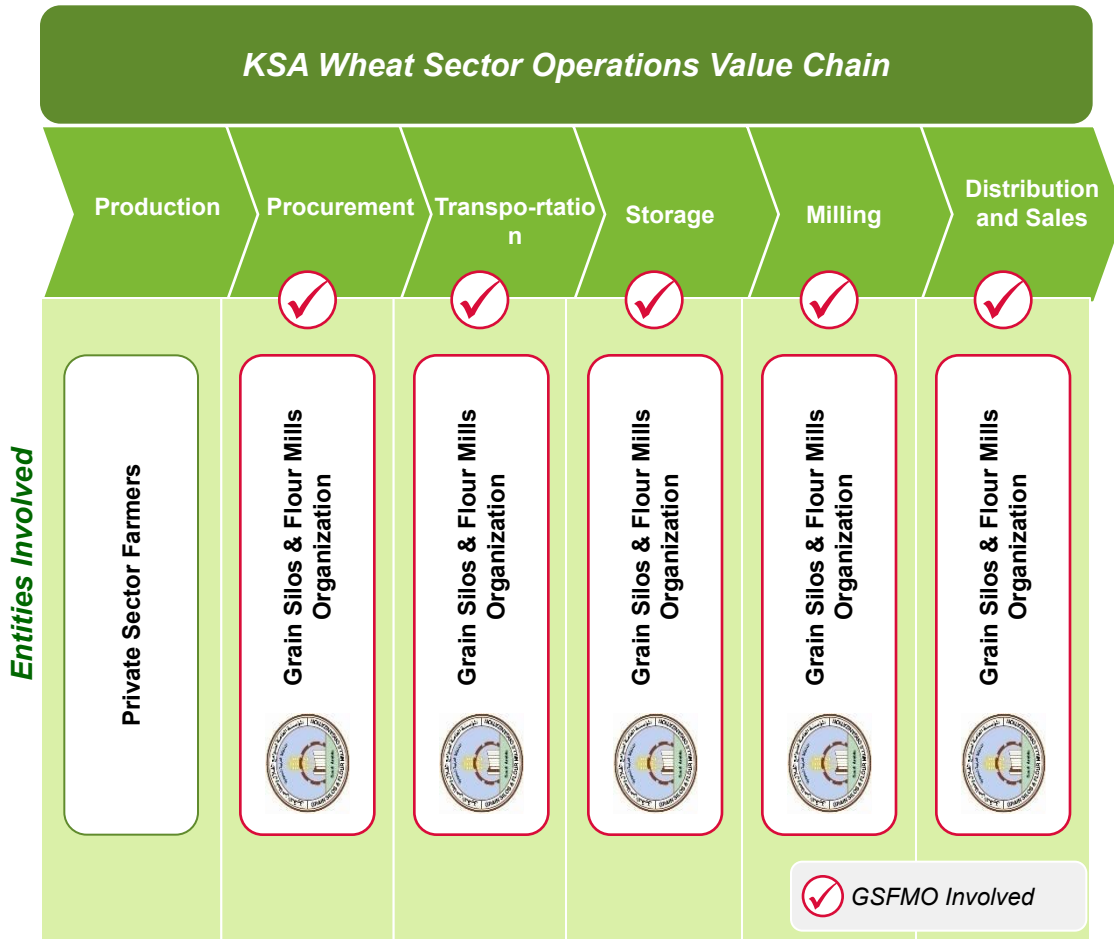
Organization (GSFMO) is considered one of the leading national institutions that has a prominent role in the achievement of economic development in the Kingdom of Saudi Arabia, and in the provision of citizens' needs of most important food materials

- *GSFMO was established by the Royal Decree issued on February 1972, which was prepared by the government to provide all means of development and progress to the Saudi people*



GSFMO fulfills its mandate through managing the full wheat and flour operating sector value chain

GSFMO Roles and Responsibilities



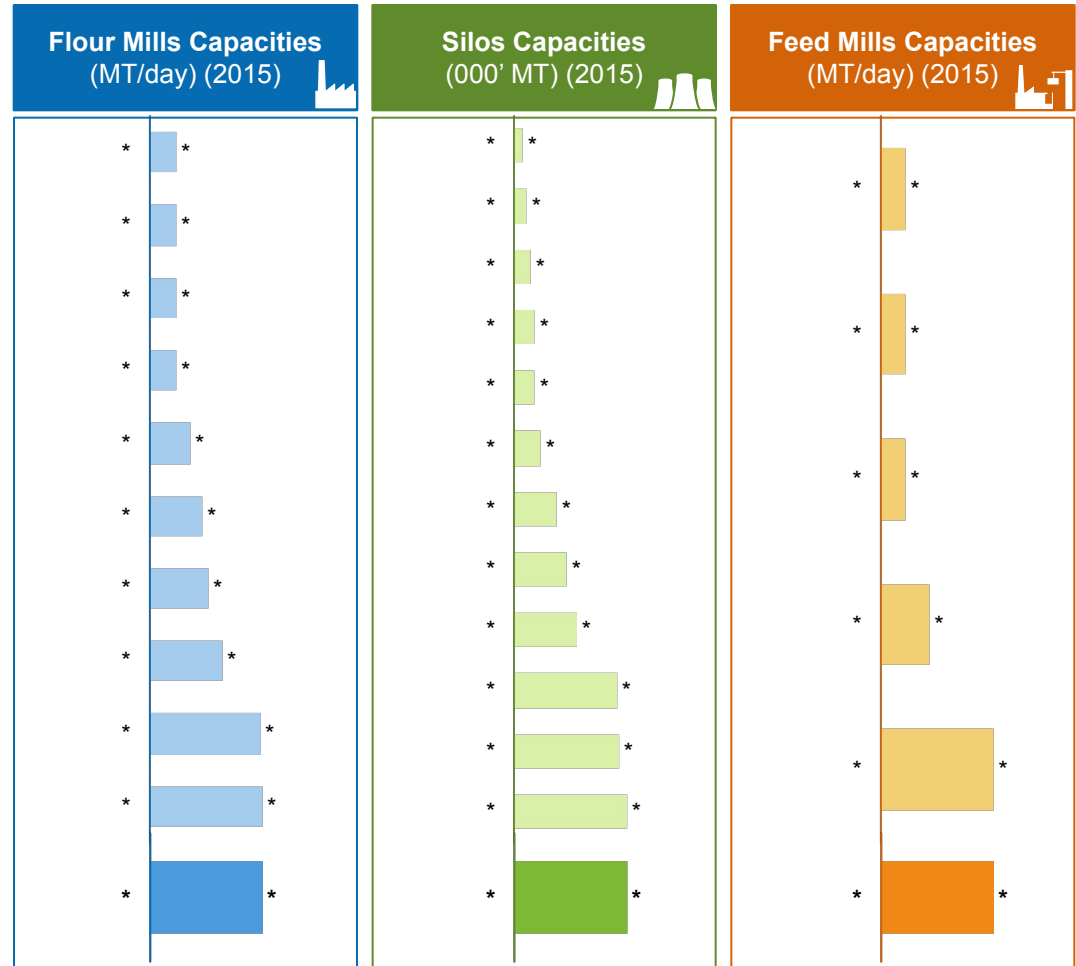
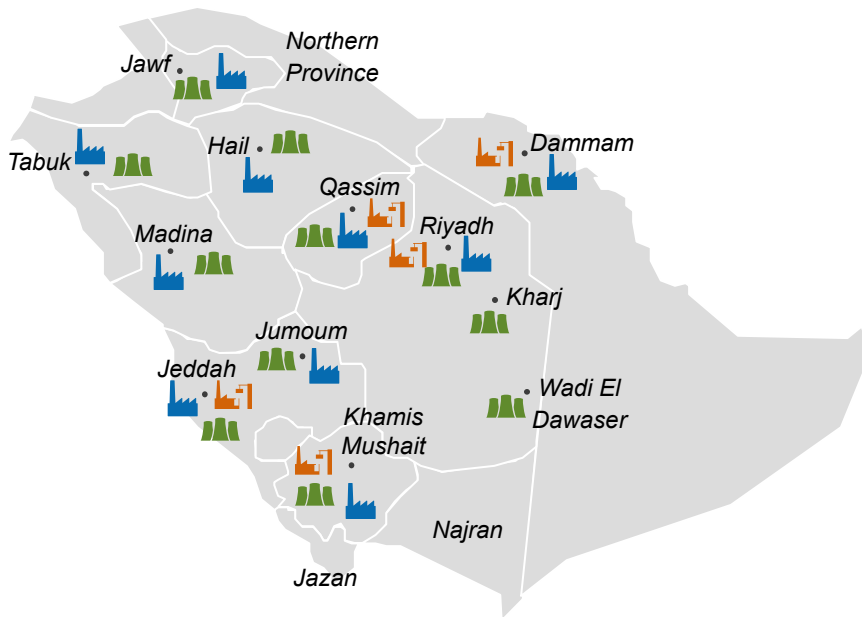
Roles and Responsibilities

- Purchase wheat from local farmers according to a set price and import the remaining demand from international suppliers for KSA
- Operate all the flour mills in Saudi Arabia and ensure adequate investments to maintain enough supply to satisfy the growing demand
- Manage all wheat storage operations in KSA, both strategic and operational storage, in order to satisfy the increasing demand
- Coordinate with Ministry of Agriculture on local wheat procurement, in order to complement it with international imports
- Coordinate annually with Ministry of Finance on budget preparation and with Ministry of Planning and Economy on Strategies
- Enforce food quality regulations at the point of purchase in storage silos and import tenders, such as protein content, weight, moisture, falling number, etc.
- Implement directives by the Ministry of Health regarding food additives, e.g. vitamin D, Folic Acid, etc.

GSFMO operates 14 branches with total capacity of ~13K MT/day of flour milling, ~3 MMT for wheat storage and ~3K MT/day for feed

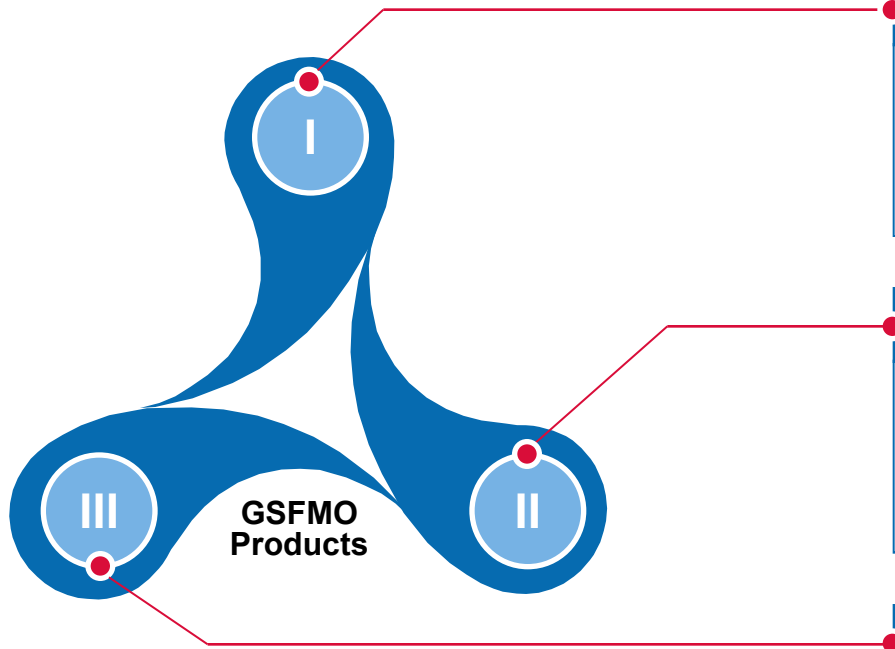
GSFMO Flour Mills, Silos and Feed Mills Capacities

GSFMO Presence across Saudi Arabia



GSFMO offers a wide range of Flour products, Feed products and other Wheat Derivatives to its clients

GSFMO Products



Flour Products

- GSFMO produces varieties of flour:
 - **Powder flour** (75-80% Extraction)
 - **Fine flour** (70-74% Extraction)
 - **Ordinary Flour** (85% Extraction)
 - **Whole Wheat Flour** (95% Extr.)



Feed Products

- GSFMO produces feed-pound (50 kilograms) of high-quality poultry feed and livestock feed (fattening / double), in addition to other feed products



Other Wheat Derivatives

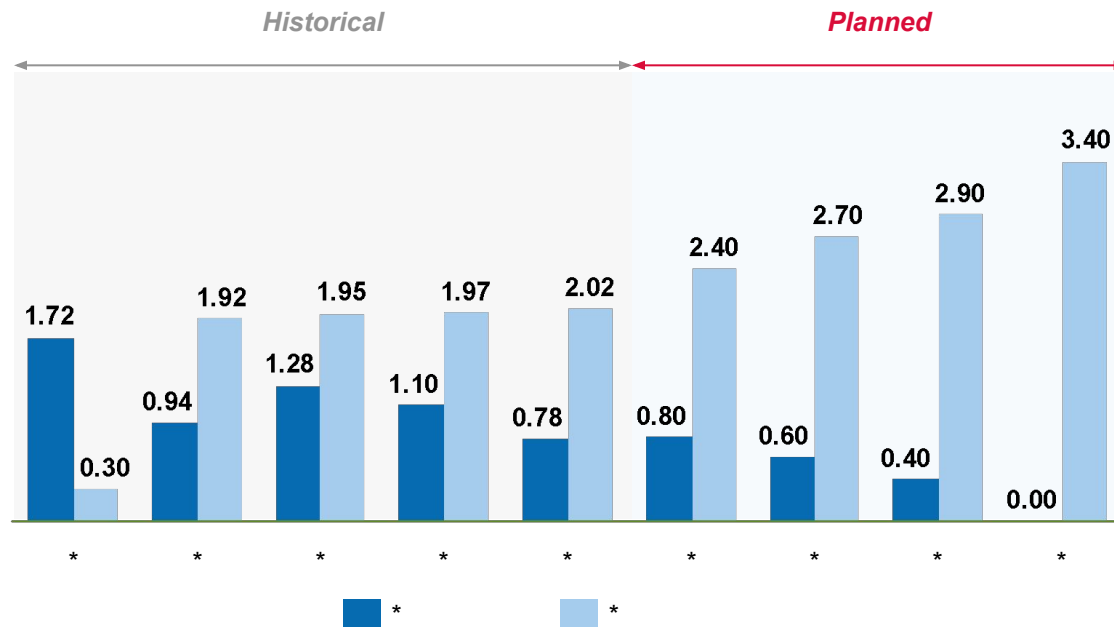
- GSFMO produces a number of wheat derivatives including:
 - **Jareesh**
 - **Harees**
 - **Bran for Human consumption**



As the sole wheat procurer, GSFMO is gradually shifting towards 100% imports of international wheat by end of 2016

GSFMO Wheat Supply

Local Wheat Vs. Imported Wheat Supply
(MMT) (2008 – 2016)



Local Wheat (%)	85%	33%	40%	36%	28%	25%	18%	12%	0%
Imported Wheat (%)	15%	67%	60%	64%	72%	75%	82%	88%	100%

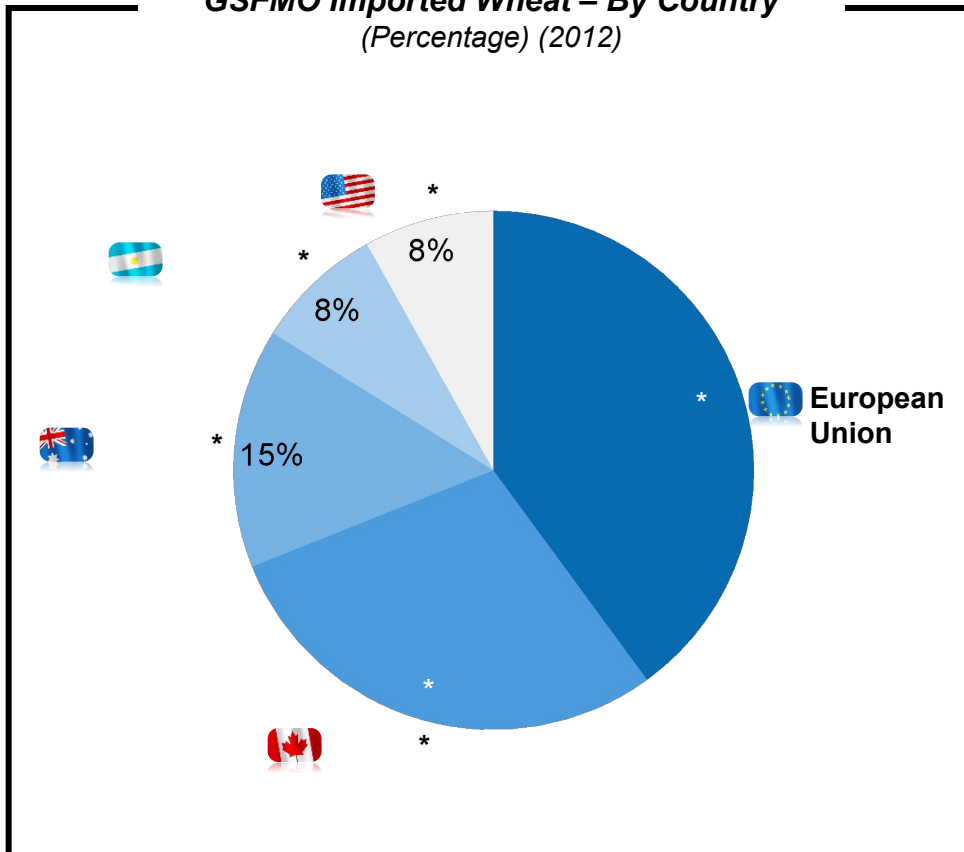
Comments

- In 2008, the Saudi government adopted a new policy to gradually reduce domestic wheat growing due to water scarcity
- The new policy envisaged replacement of domestic wheat procurement through imports; **by 2016 all of the Kingdom's wheat demand will be met by imports**
- GSFMO started applying the new policy in 2008 by importing 303 thousand tons of wheat; this quantity was increased six fold in 2009 to reach 1.92 MMT
- On the other hand, the local procurement of wheat was decreased from 1.72 million tons in 2008 to 778 thousand tons in 2012

GSFMO ensures its wheat supply from several countries and is currently looking to expand its imports base to include soft wheat

GSFMO Sources of Wheat

GSFMO Imported Wheat – By Country
(Percentage) (2012)



Import of Soft Wheat

- GSFMO has opened up new channels for soft wheat exporters, such as France, by including soft wheat for the first time in its last tender
- The kingdom is studying local consumer demand to assess potential needs for soft wheat, which is suited for products such as biscuits, and accordingly, GSFMO will gradually increase imports of soft wheat
- Saudi flour mills were traditionally built to process hard wheat, but the newly established flour mills are able to handle both hard and soft wheat

GSFMO Background & Overview

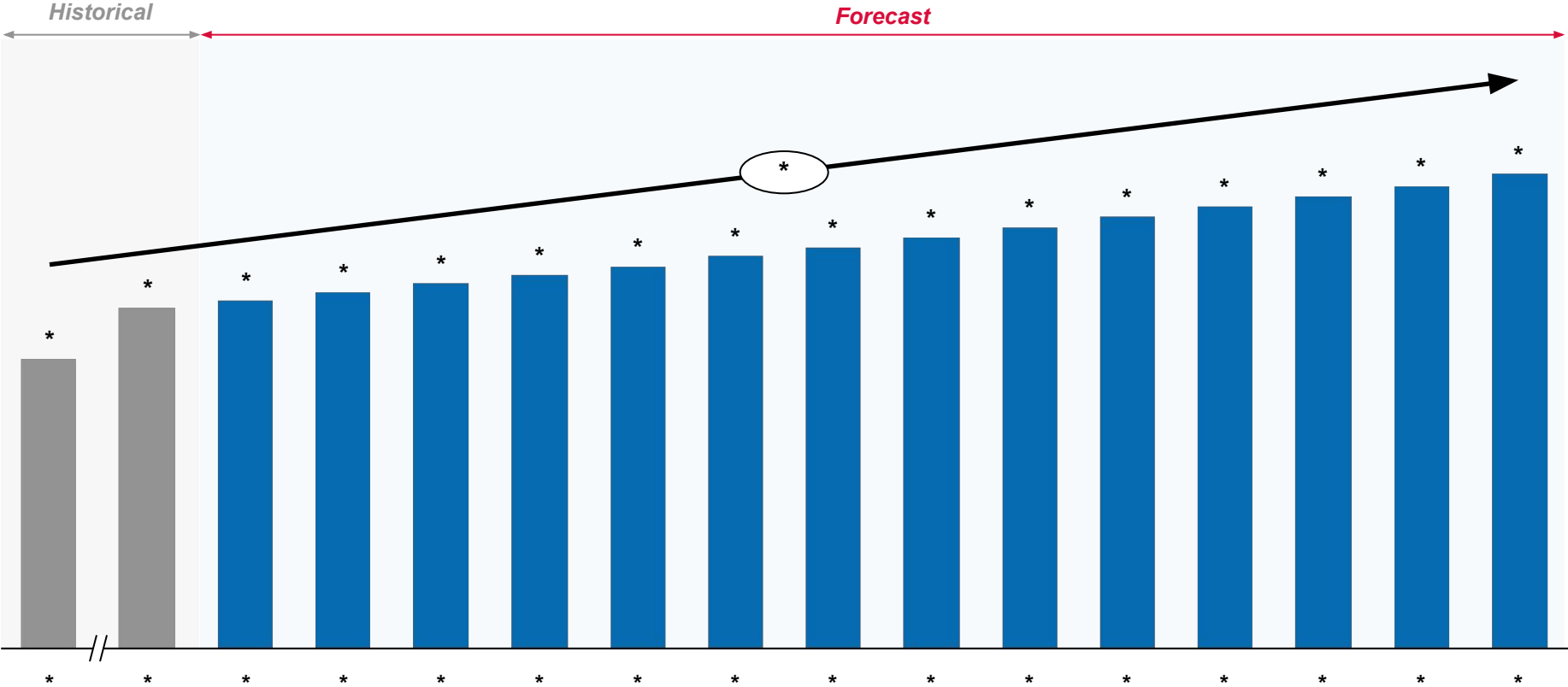
KSA Wheat & Flour Market Overview

GSFMO Privatization Program

Next Steps & Implications

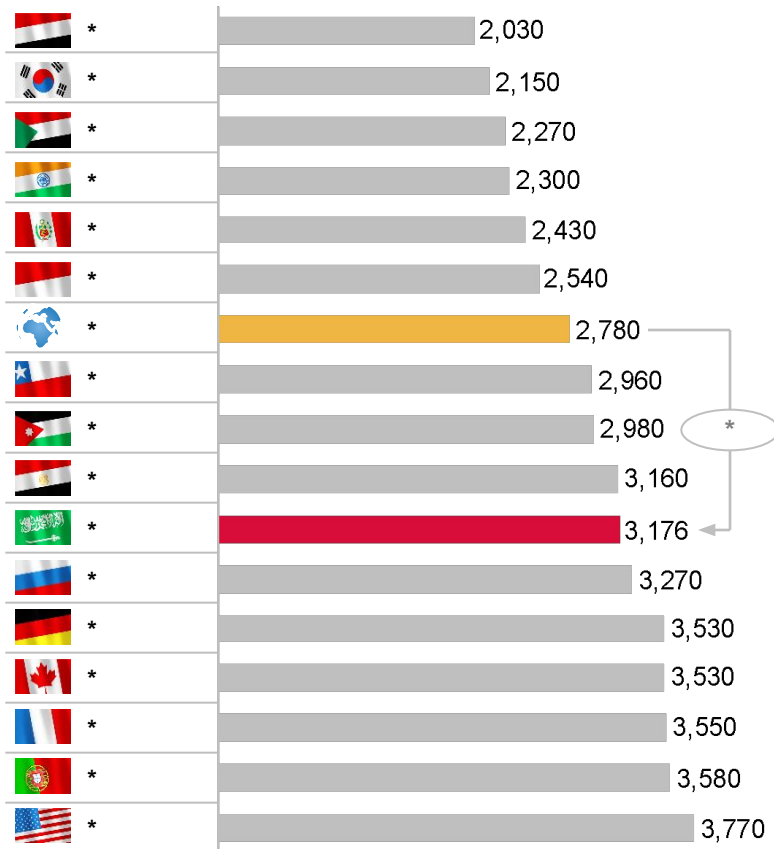
KSA's population is expected to grow at 2.4% per annum reaching a total of ~40 Million in 2025

Saudi Population Growth
(Million) (2004 – 2025)

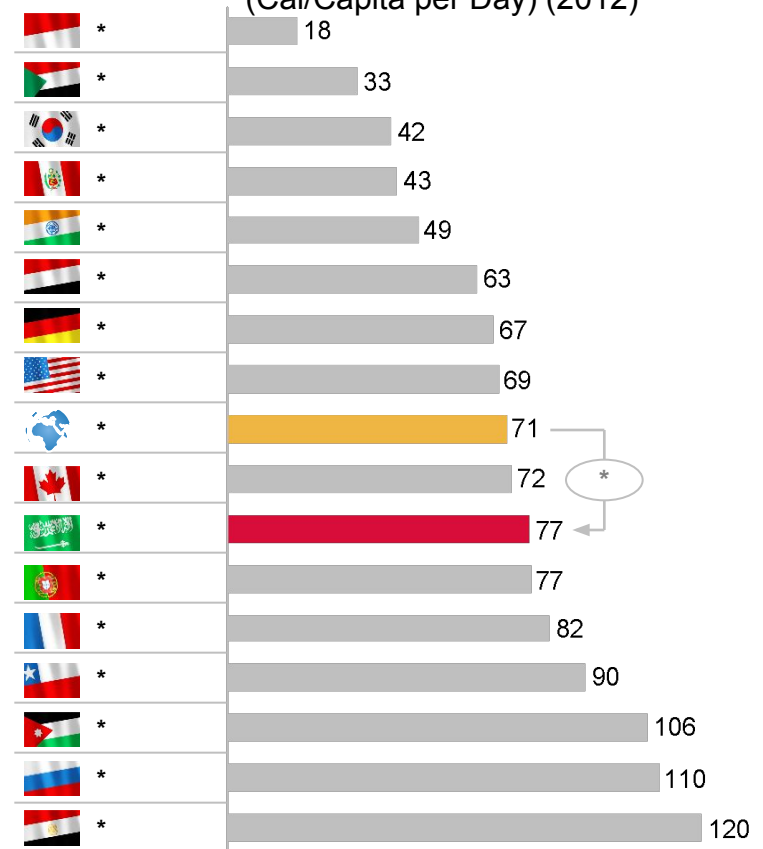


KSA average daily caloric intake is 14% above the world average resulting in higher flour consumption habits

Average Caloric Intake Benchmarks
(Cal/Capita per Day) (2010)

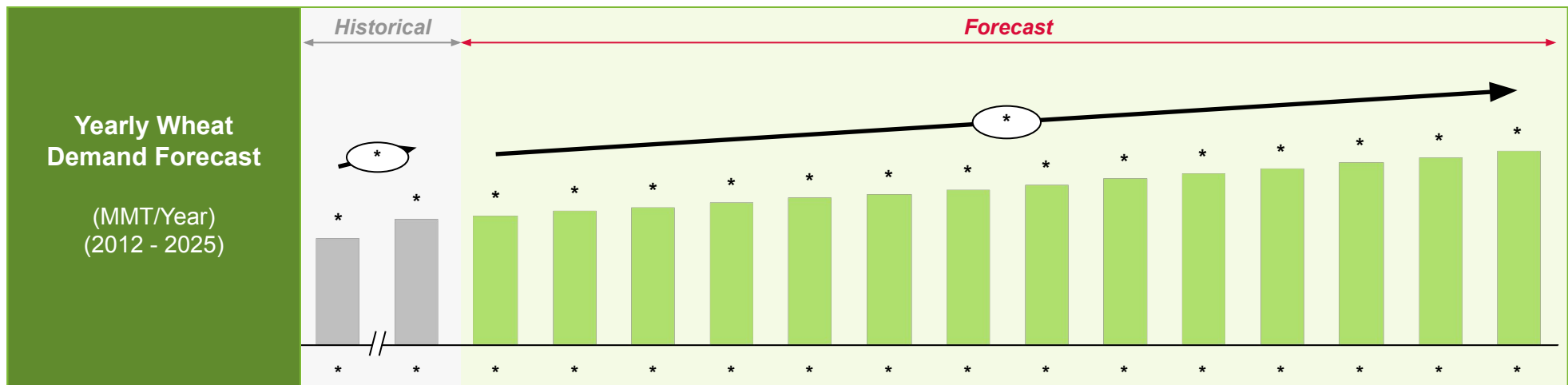
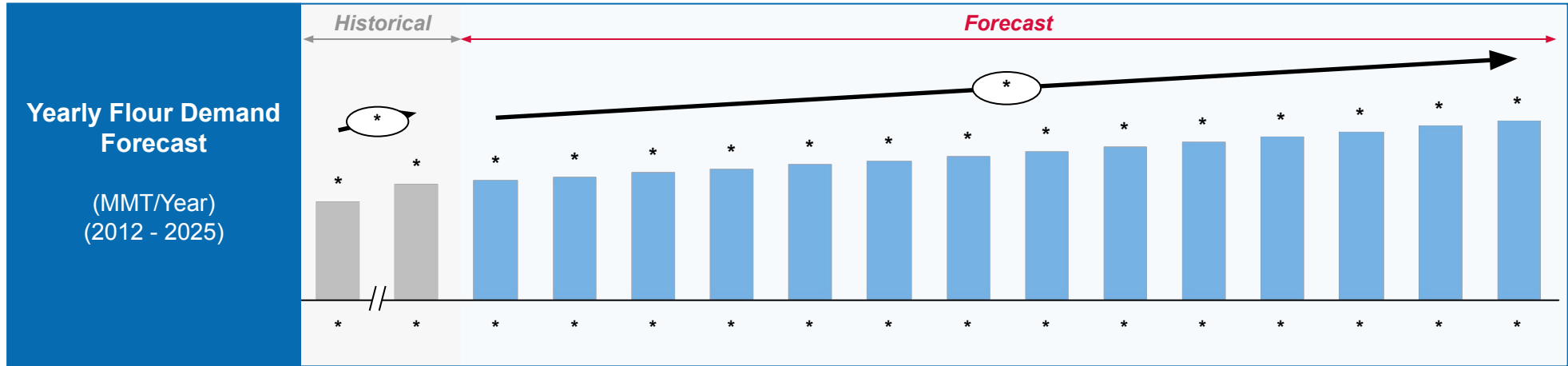


Average Flour Consumption Benchmarks
(Cal/Capita per Day) (2012)



In 2025, flour demand in Saudi Arabia is expected to reach 3.6 MMT which is equivalent to around 4.5 MMT of wheat demand

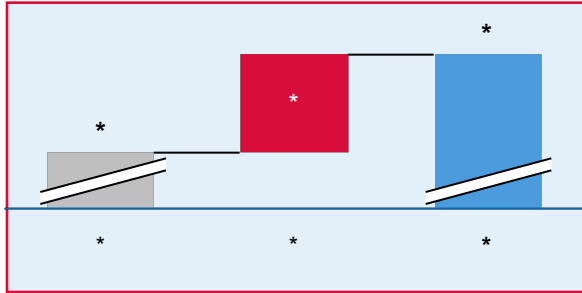
Flour and Wheat Demand in KSA



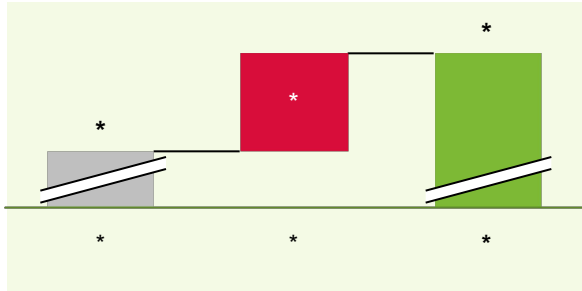
Accordingly, GSFMO has adopted milling capacity upgrades and expansion plans to continuously address KSA's wheat demand

GSFMO Capacity Upgrades and Expansion Plans

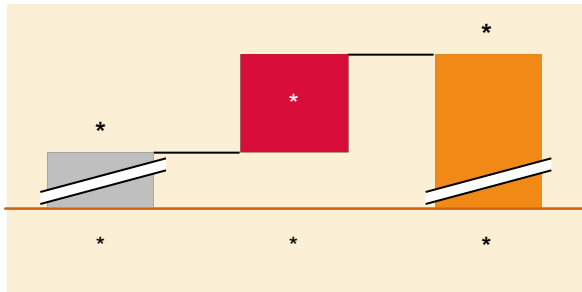
Flour Mills Plans
(MT/day)
(2013 – 2025)



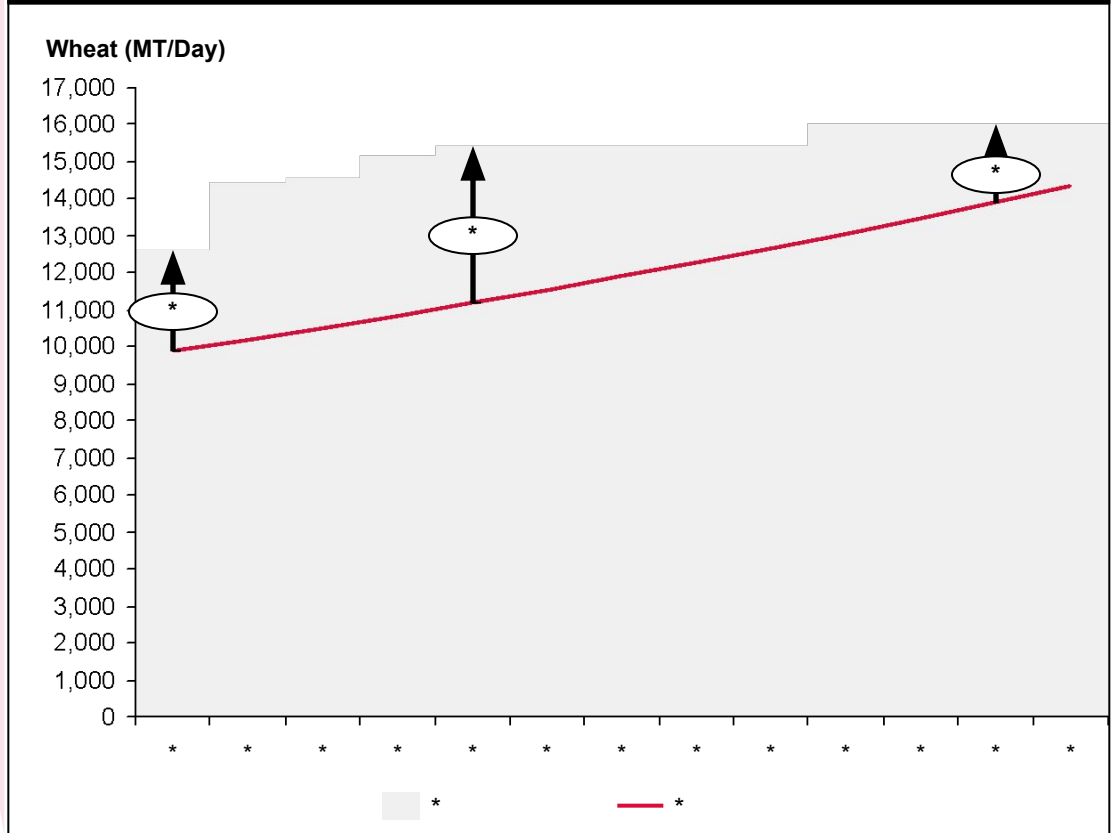
Silo Plans
(000' MT)
(2013 – 2025)



Feed Mills Plans
(MT/day)
(2013 – 2025)



Daily Wheat Supply / Demand Forecast (Mt/day) (2013 – 2025)



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GSFMO Privatization Program

Next Steps & Implications

In line with the Government strategy, GSFMO is now embarking on a privatization program...

Privatization in KSA

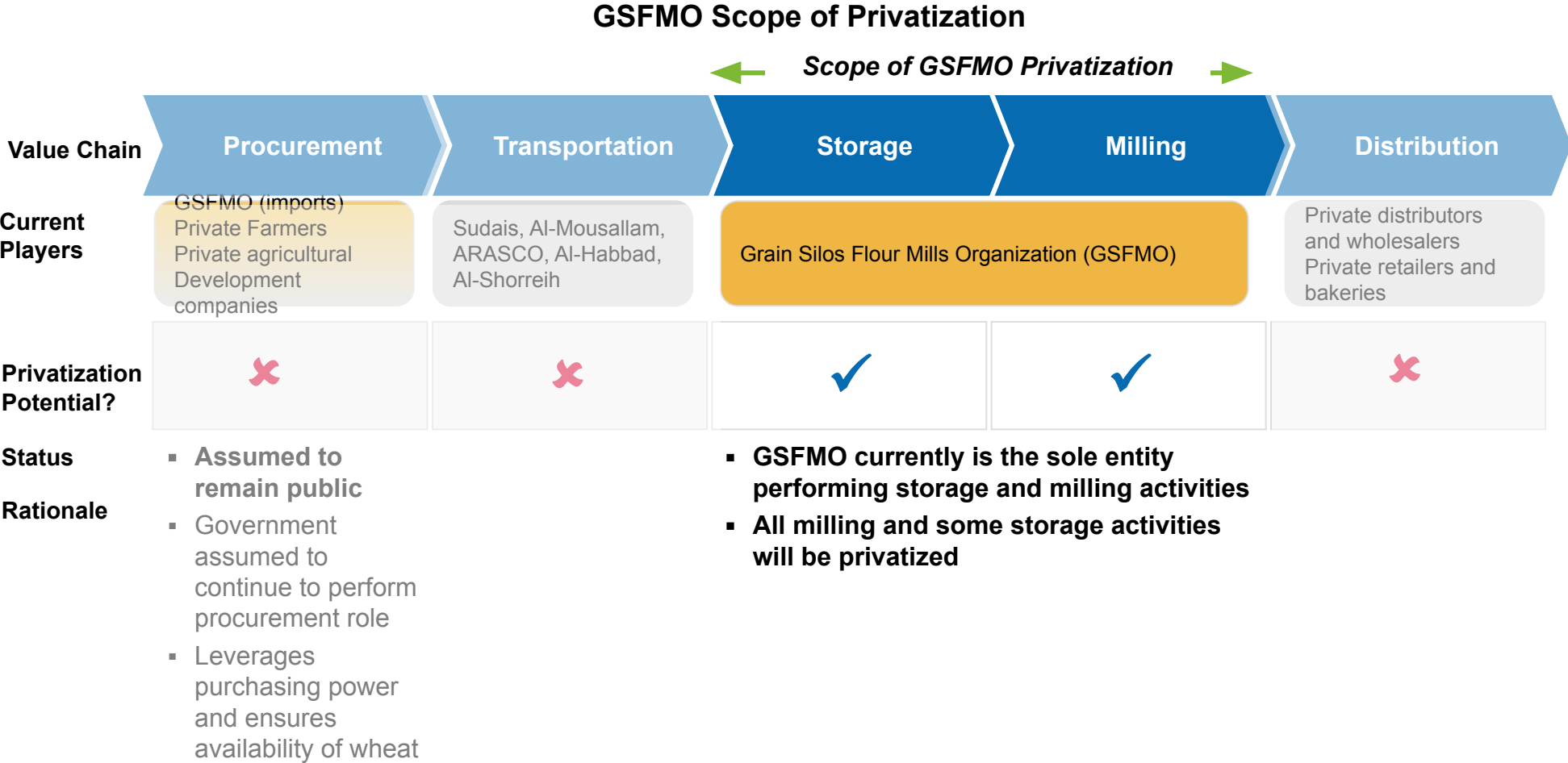
Government's Strategic Objectives

- 1 **Improving the efficiency of the national economy and enhancing its competitive ability** to meet the regional and international challenges
- 2 **Encouraging private sector investment** and effective participation in the national economy, and increasing its share of domestic production **to achieve growth in the national economy**
- 3 **Expanding the ownership of productive assets by Saudi citizens**
- 4 **Encouraging (national and foreign) local investments**
- 5 **Increasing employment opportunities**, optimizing the use of the national work force, and ensuring the continued equitable increase of individual income
- 6 **Reducing public expenditure and reducing the burden on the government budget** by giving the private sector opportunities to finance, operate, and maintain certain services that it is able to provide

Sectors Targeted For Privatization

Gov. shares in Arabic/ Islamic Investment Companies	Agricultural Services	Airport Services	Industrial Cities Services
Government shares in Public Companies	Wheat Mills and Storage facilities	Air Transportation and Related Services	Municipal Services
Government Hotels	Desalination	Port Services	Education Services
Sports Clubs	Water and Sewage Collection	Highways	Telecom Services
Health Services	Social Services	Railways	Postal Services

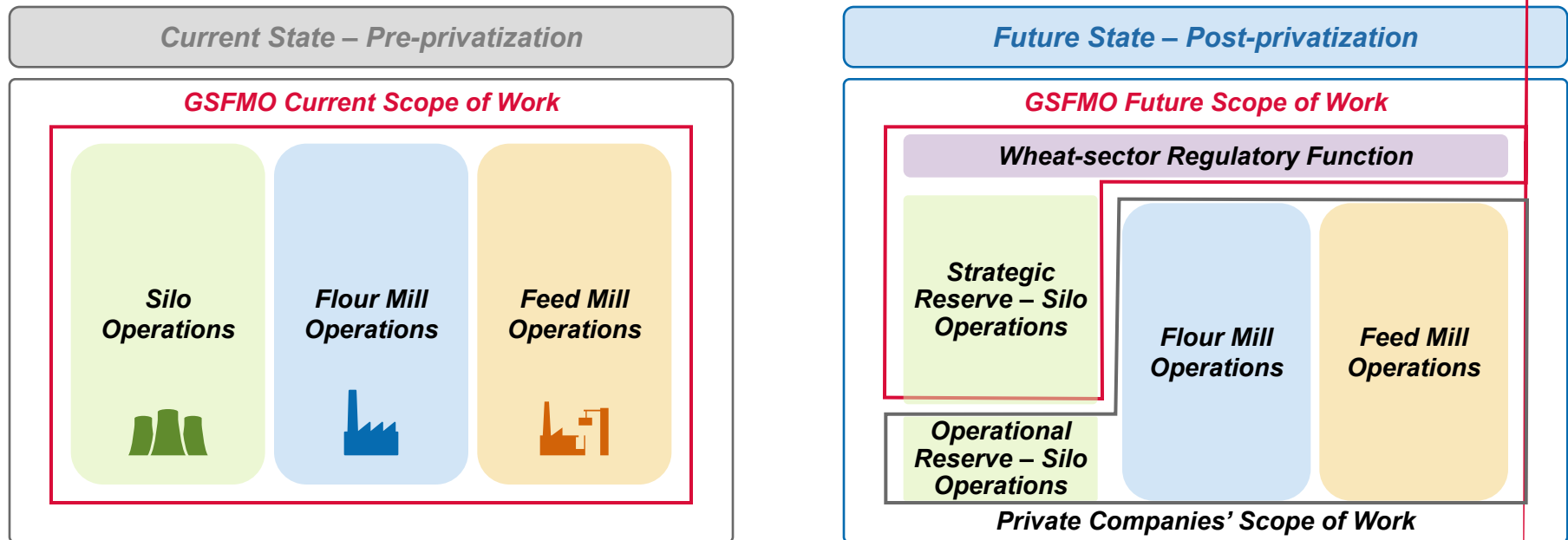
...that will cover all milling (both flour and feed) and some storage activities



Post-privatization, GSFMO will regulate the entire wheat & flour sector and manage the wheat strategic reserve for KSA

ILLUSTRATIVE

GSFMO Current Vs. Future Role



Comments

- GSFMO is expected to privatize only part of its grain storage silos – the minimal capacity needed to ensure smooth milling operations of the flour mill companies; the remaining storage capacity will be retained by GSFMO (for strategic reserve purposes)
- In the future, GSFMO is expected to undertake the role of wheat-sector regulator, entailing:
 - Setting regulations related to food quality
 - Inspecting flour mills to ensure compliance with quality regulations
 - Regulating the competition among the private flour milling operators
 - Ensuring that the market structure fosters fair competition amongst operators in the sector

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Moving forward, GSFMO will seek to develop its capabilities and materialize its privatization program

Next Steps

I Soft Wheat and Employee Development

- Given that GSFMO is shifting towards higher importations of wheat vis-à-vis domestic wheat, it is developing a better understand of the implications and considerations of importing new types of wheat on its current milling practices, in particular soft wheat
- **As such, GSFMO is currently considering the appropriate plans and designs to adopt soft wheat imports into its milling operations**
- Moreover, **GSFMO is seeking flour mills and bakeries experts to introduce employee training programs for soft wheat milling and baking techniques** in an attempt to grow capabilities related to this new product

II Privatization Program

- GSFMO Privatization Program is well underway, and the process of determining the composition of milling bundles for future private operators is being finalized
- Moving forward, GSFMO will start to scout local and potentially international private players in order to identify prospective investors for the GSFMO Privatization Program
- **When it will be ready to privatize, GSFMO will invite potential investors to participate in the bidding for its milling and silo assets associated with the privatization program**