

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** Saudi Arabia Partly Privatizes Its Flour Mills

**Country:** Saudi Arabia

**Post:** Riyadh

**Report Category:** Grain and Feed

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**Report Highlights:**

Saudi Arabia privatized two of its four flour milling companies for 740.5 million USD on July 8, 2020. The remaining two are expected to be sold in the next few weeks. If privatization is followed by the removal of wheat import subsidies there may be more opportunity for U.S. wheat exporters. Saudi Arabia imported 3.45 million MT of wheat worth \$809.17 million in MY2019/20 (July 2019/June 2020) via tenders issued by the Saudi Grains Organization (SAGO).

## **Saudi Arabia Completes the Privatization of Two Wheat Flour Mill Companies**

On July 8, 2020, Saudi Arabia privatized two of its four flour milling companies for 740.5 million USD. The milling companies were reportedly sold through a competitive bidding process to two consortiums of Saudi and the United Arab Emirates (UAE) investors. The remaining two are expected to be sold in the next few weeks.

Saudi Arabia has traditionally imported and milled wheat, and then sold the resulting flour at subsidized prices. But it has been moving toward privatization for a number of years. As part of this process, the Saudi government approved the establishment of four milling companies on November 9, 2015. They were split off from the Grain Silos and Flour Mills Organization. It had been the exclusive wheat importer and miller in Saudi Arabia. Responsibility for wheat importation and storage was taken over by SAGO. The four milling companies produce and distribute flour from the subsidized wheat.

While there is interest in ending the wheat subsidy and supporting low income Saudis directly, it is not known when or if that will occur. If it does, there may be more opportunity for high quality wheat and product differentiation. Until a royal decree changing the wheat subsidy policy is issued, the privatized flour mills will continue to receive wheat from SAGO, and mill and distribute it at subsidized rates. Most of the revenue of the private mills is expected to come from milling fees. The privatized mills are allowed to import wheat for non-subsidized flour. This could be used for premium products, but volumes are expected to be small.

Flour prices to bakers and industrial clients have not changed for approximately the past four decades. But the wholesale price of consumer-packed flour increased by 50 percent from \$0.27/kg to \$0.40/kg in 2017. Large bakeries and industrial users purchase wheat flour directly from the four flourmills, while smaller bakeries and retailers receive their assigned quotas from SAGO-appointed distributors. SAGO's wholesale prices vary based on the flour type and extraction rate. Bakers purchase at prices from \$5.30 to \$8 per 45 kg based on flour extraction rates, and flour type. Industrial users purchase in bulk for prices that range between \$117.30 and \$160 per MT.

In MY2019/20 (July 2019/June 2020), Saudi Arabia imported 3.45 million MT of wheat worth \$809.17 million via tenders issued by SAGO.

It is not clear if any SAGO owned silos were included in the privatization. SAGO has silos collocated with flour mills in 13 cities with a combined storage capacity of 3,230,000 MT. A small amount of storage was expected to be privatized with the mills.

Detailed information on the two wheat milling groups sold last week is below:

**First Mills Company:** Headquartered in the Red Sea city of Jeddah, the First Mills Company has flour mills in western, central, northern and eastern Saudi Arabia. The company was sold for \$540,533,333 to the Raha Al-Safi consortium led by the Saudi company Al-Mutlaq Group. The consortium includes another two Saudi firms – Al-Safi and Abunayyan Holding - and the UAE company Essa Al Ghurair Investment. The First Mills Company has 4,200 MT of wheat milling and 900 MT of feed processing capacity per day.

### **Information on First Mills Company**

Branch Name	Daily Wheat Milling Capacity (MT)	Daily Animal Feed Milling Capacity (MT)
Jeddah	2,100	300
Al Qassim	900	600
Tabuk	600	0
Al Hasa	600	0
<b>Total</b>	<b>4,200</b>	<b>900</b>

**Third Mills Company:** Headquartered in the southern city of Khamis Mushait, the Third Mills Company was sold for \$200,000,145. The buying consortium is made up by Al-Rajhi, a Saudi company, and two UAE companies - Al Ghurair Foods and Masafi. The company has flourmills in southern, western and northern Saudi Arabia. The Third Mills Company has 3,451 MT of wheat milling and 1,400 MT of animal feed processing capacity per day.

### **Information on the Third Mills Company**

Branch Name	Daily Wheat Milling Capacity (MT)	Daily Animal Feed Milling Capacity (MT)
Khamis Mushait	1,650	1,400
Al-Jumum	1,200	0
Al-Jawf	600	0
<b>Total</b>	<b>3,451</b>	<b>1,400</b>

The Saudi government is in the process to privatizing the following remaining two groups of flourmills in the next few weeks.

**Second Mills Company:** Headquartered in Riyadh, the Second Mills Company has mills in central, southern and northern Saudi Arabia. This company has 4,350 MT of daily wheat milling capacity.

### **Information on the Second Mills Company**

Branch Name	Daily Wheat Milling Capacity (MT)	Daily Animal Feed Milling Capacity (MT)
Riyadh	2,550	0
Jazan	1,200	0
Hail	600	0
<b>Total</b>	<b>4,350</b>	<b>0</b>

**Fourth Mills Company:** The Dammam based Fourth Mills Company has flourmills in eastern, western and central Saudi Arabia. It has daily wheat and animal feed milling capacity of 3,150 MT and 300 MT, respectively.

### **Information on The Fourth Mills Company**

Branch Name	Daily Wheat Milling Capacity (MT)	Daily Animal Feed Milling Capacity (MT)
Dammam	1,350	300
Madina Al-Munawara	1,200	0
Al-Kharj	600	0
<b>Total</b>	<b>3,150</b>	<b>300</b>

## **SAGO Role after Privatization**

SAGO will remain the sole importer of subsidized milling wheat and will maintain ownership and operation of most of the wheat silos across the country. SAGO will manage the strategic wheat reserves and ensure the Kingdom's food security objectives.

SAGO's post-flour mill privatization roles will include the following:

- Issuing import permits for unsubsidized wheat to interested flour mills
- Setting regulations related to wheat flour quality
- Maintain strategic wheat reserve
- Inspecting flour mills to ensure compliance with quality regulations
- Encouraging and regulating competition among private flour mills; and
- Ensuring enough wheat flour is produced and delivered

## **Attachments:**

No Attachments.