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COVID-19 prompts Saudi food security focus

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Introduction

The Kingdom of Saudi Arabia's dependence on imports to feed its population means food security has long been a strategic priority for the government. The COVID-19 pandemic has highlighted the importance of the government's ongoing efforts to secure food supply.

Food Security

The need for flexible supply chains and a robust food security strategy has been heightened by the COVID-19 pandemic and related challenges in global food trade. This is especially true for import dependent countries like Saudi Arabia.

In the 1980s, Saudi Arabia's policy focus was on achieving self-sufficiency. It offered generous subsidies to produce various cereal crops. This strategy resulted in KSA becoming one the world's largest exporters of wheat in the early 1990s.

By the 2000s, the government had recognised that this policy was unsustainable, due to an overreliance on irrigation water from non-renewable fossil aquifers.

Over time, a more nuanced approach to food security has emerged. This approach focused on three key strategic pillars:

- The promotion of sustainable agricultural practices at home with a focus on shifting production to higher value crops.
- Building resilient supply chains through the development of local F&B manufacturing and logistics infrastructure;
- Oversea investment in priority areas along the global food value chain; and

The importance of food security was reinforced in the KSA's Vision 2030, where it is included as one of three core strategic objectives.[1]

Sustainable Agriculture

One of the pillar objectives of the food security agenda under the National Transformation Program is to develop high value, comparative advantage-based systems for sustainable local production. The program includes a number of initiatives aimed at improving farmer practices in the areas of production efficiency, food safety and efficient use of water.

Two important initiatives were announced in 2019. In January, King Salman launched the Sustainable Agricultural Rural Development Program (SARDP). Approximately SAR 12 billion was allocated under the SARDP to support small and medium farmers in their efforts to diversify and add value to production.

In October, it was decreed that all underground and draining water was the property of the State and that water metering would apply to all enterprises. This paves the way for the eventual introduction of water tariffs (farmers currently only bear the costs of drilling and pumping).

Water monitoring and tariffs have the potential to accelerate the adoption of efficient technologies and practices across the agricultural sector. The Agricultural Development Fund (ADF) is already providing farmers with financing of up to 70% for projects that support this transition.

Quick read

- Saudi Arabia's wealth and ongoing investment in food security means that is well positioned to withstand short-term stresses on the global food-supply chain, such as presented by COVID-19
- KSA supply chains are flexible and local companies have high levels of international procurement expertise.
- However, the country remains exposed to prolonged systemic shocks, especially for more perishable food items that are not produced to any great degree at home.
- There are significant challenges and risks associated with overseas investment in agricultural land, a favoured food security strategy by KSA.
- Each individual land investment decision needs to be underpinned by a comprehensive pre-acquisition assessment of technical and financial viability. This should include the agronomic potential of the land and optimum crop mix and farming system and an examination of the project and wider value chain risks involved.

Resilient Supply Chains

The 2007-2008 world food price crisis led to a revaluation of food supply chains across many import dependent countries.

Recognising the importance of resilience supply chains, KSA has been investing in developing related infrastructure and KSA's domestic food processing capacity.

Since 2008, the Saudi Grains Organization (SAGO) has invested heavily in storage and milling infrastructure for key grain commodities. Currently, KSA has the equivalent of about a years' worth of wheat storage capacity. SAGO's strategic grain silo storage capacity alone is estimated at some 2.5 million tonnes.

The Public Investment Fund (PIF), has been investing in the KSA food and agricultural sector with the objectives of modernising the sector, increasing self-sufficiency and stimulating processed food export growth.

PIF is behind the NEOM project in Tabuk. The project includes ambitious plans to create a local food eco-system that pioneers advanced agricultural production systems and positions NEOM as a global leader in addressing food security challenges.

In August 2020, PIF's subsidiary, the Saudi Agriculture and Livestock Company (SALIC), established the National Grains Company in a strategic partnership with the national shipping company Bahri. The partnership has committed some SAR 400 million to develop grain handling terminal in Yanbu port.

The facility will be able to handle up to 5 million tonnes of dry foods and grains each year. When completed, it will play a vital role in strengthening KSA supply chains.

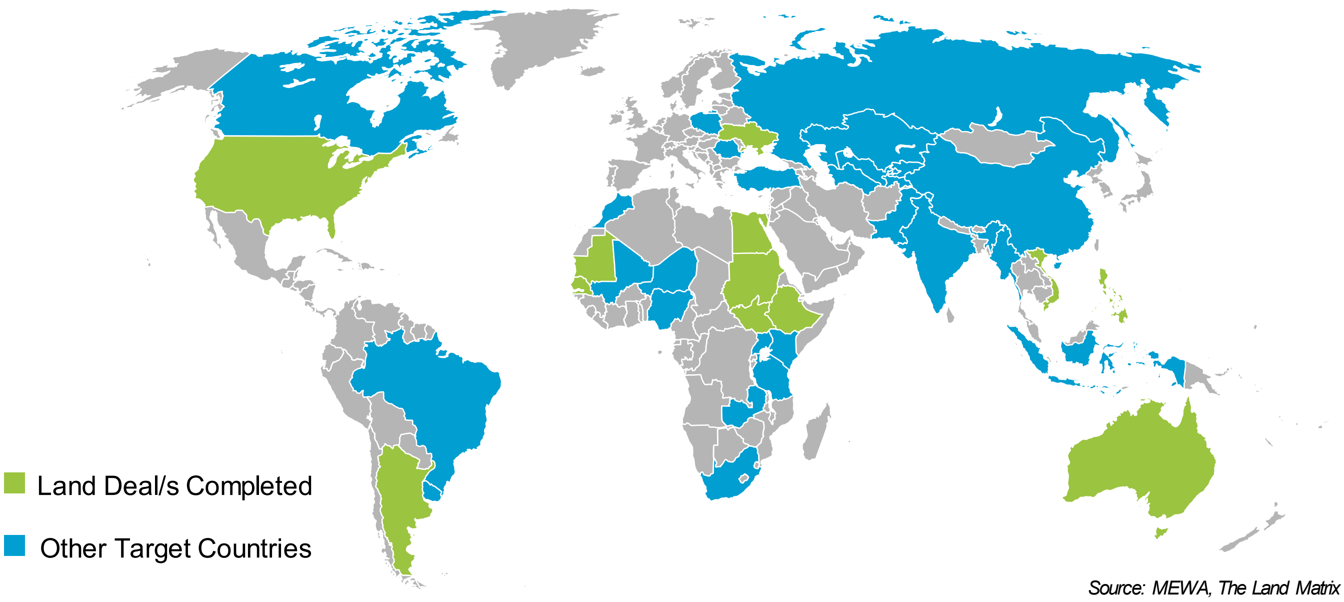
Overseas Investment

The King Abdullah Initiative was established to support Saudi private sector investments in agricultural production abroad. The emphasis was on investing in countries which have a comparative advantage in the production of strategically important crops (i.e., grain and fodder crops).

Encouraging Saudi overseas investment in farmland in more environmentally favourable countries makes sense from both water and food security perspectives.

The government has identified a host of favoured investment destination countries across the 5 continents. Saudi investors have already acquired major holdings of farmland in numerous other countries. In practical terms, KSA is incurring much lower water costs for agricultural production by investing in these countries.

Figure 12 Target Countries for KSA Oversea Agricultural Investment



Source: MEWA, The Land Matrix

Around 40 deals have been signed across 13 countries, with Saudi investors now operating large farms in several countries including the USA, Sudan, Egypt, Argentina, Australia, Ukraine. However, a number of the other investments have either been discontinued or are not yet operational as investors struggle with the significant challenges associated with investing in greenfield agricultural projects in developing countries.

A significant percentage of proposed deals also failed at negotiation stage.

The PIF subsidiary SALIC also invests in agribusiness and livestock worldwide. It has made numerous strategic overseas investments in primary production and elsewhere in the value chain. These include investments in agtech and in globally significant players involved in grain and meat production and supply. Its most recent high-profile investment was the 2019 acquisition of more than 200,000 hectares of arable farmland in Australia's wheatbelt.

In March 2020, KSA announced funding of SAR 2.5 billion to support farmers and facilitate food imports through the Agricultural Development Fund. Initiatives include bank guarantees and low-interest loans for Saudi owned companies that grow crops overseas and export at least half of production output to Saudi Arabia.

Conclusion

Saudi Arabia's wealth and ongoing investment in food security means that is well positioned to withstand short-term stresses on the global food-supply chain. The limited the impact of COVID19 related lockdowns on local food supply chains demonstrates this.

KSA supply chains are flexible and local companies have high levels of international procurement expertise. However, the country remains exposed to prolonged systemic shocks, especially for more perishable food items that are not produced to any great degree at home.

Bolstering food security is an ongoing battle. A strategy is needed that supports the development of the local food manufacturing base. Alignment with local agricultural production capabilities is important, however, a robust strategy for the food processing industry needs to go beyond this. It must also consider market potential and technical and financial feasibility.

There are significant challenges and risks associated with overseas investment in agricultural land. Each individual land investment decision needs to be underpinned by a comprehensive pre-acquisition assessment of technical and financial viability. This should include the agronomic potential of the land and optimum crop mix and farming system and an examination of the project and wider value chain risks involved.

Expert in this Insight

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