



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - Public distribution

**Date:** 1/4/2009

**GAIN Report Number:** EG8027

## Egypt

### Retail Food Sector

### Retail Food Sector

### 2009

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**Report Highlights:**

Food retail sales have shown strong growth over the past ten years, the growth varying between 5-15%. Increasing spending power, a growing interest in ready meals and branded goods, and progressing economic development have increased grocery sales figures. Growth in retail sales over the next few years is projected to increase steadily. This will be supported by an improving economy, controlled inflation, and an increasing influx of Western products, which is expected to fuel consumer spending.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Annual Report  
Cairo [EG1]  
[EG]

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## I. MARKET SUMMARY

Retail sales have increased dramatically in the last ten years due to the expansion of international chains, variety of products on offer, and an increase in the level of income and brand advertising. The food retail sector in the Egyptian market continues its rapid development, which began with the opening of 27 Metro outlets, a local supermarket chain, and the presence of a number of multi-national firms, such as Carrefour (France), and MACRO Cash and Carry (Egypt) which will open in 2009.

### a) General Background

- Population of Egypt is around 75.7 million (2008); the largest cities are Cairo (15 million) and Alexandria (5 million).
- GDP– current prices (US dollars / FY 05/06): 115.9 billion
- GDP per capita: \$1,550 in 2007
- Inflation rate (2007): 11.0 percent
- Total food and agricultural imports (2007): \$27 billion
- Total U.S. food and agricultural imports (2007): \$1.8 billion
- Total U.S. consumer oriented products (2007): \$146 million
- U.S. food and agricultural market share: 27%

### b) Highlights of recent trends that impact the retail sector:

- The demand for ready-made foods is increasing rapidly, as the increase of women working pushes the demand for convenience-based food even further. The traditionally family-run stores are gradually declining in number as the numbers of independent modern supermarkets and hypermarkets rises. The Egyptian market sees increasing growth of supermarkets in urban areas. More acceptances of Western products are expected to bring more Western chains into the country. There are several domestic chains such as Metro, Ragab Sons, Abu Zekri, and others featuring open, modern stores with wide product ranges, including imported Western products in inner-city areas. The chains may be small in comparison but the trend is worth noticing.
- Egyptian consumers are beginning to expect cleanliness, quality, and a wider variety of products. Consumers are currently asking for convenience, and shopping at supermarkets is becoming a leisure activity. Consumers depend less on neighborhood grocery and convenience stores except for last minute, spur of the moment food needs. In the suburbs and less developed areas of Egypt, grocery and convenience stores still play an important role in the retail business. The biggest share of the retail market is still held by traditional stores and it will take a long time before supermarkets will acquire a dominant position. It is estimated that 90-95% of the food outlets can be categorized as small grocery stores. Supermarkets account for no more than 5% of the outlets.
- The introduction of hypermarkets (area of more than 5,000 square meters), supermarkets (more than 450 square meters), and mini markets (more than 150 square meters) is helping to re-shape the retail industry as well as the shopping habits of customers. Hyper markets have been well accepted, especially by families. They offer a one-stop shopping experience for their customers. Hypermarkets use economies of scale to keep price low. Their business model is based on low overheads—a result of expansive stores located on the outskirts of cities where property prices are lower – coupled with selling large volume of goods at low profit margins. The savings are passed along the consumers. One way in which hypermarkets were able to shave percentage points off prices was by lower packaging costs. They sell fast-moving products like rice, cereal, and detergent in economy packages, weighing more than five

kilograms. They also negotiated contracts with local suppliers to supply a growing line of private –label brands, thereby employing economies of scale while satisfying a demand for cheap, high quality goods. The desire to sell at the lowest possible prices initially discouraged hypermarkets and supermarkets chains from importing goods, which were subject to high tariffs and lengthy customs procedures. However, tariff reduction in Feb 2007 and the prospect of less tortuous customs clearance encouraged these chains to resuscitate plans to stock imported goods.

- The supermarket sector has been progressing rapidly over the past ten years in Egypt. There are now an estimated 550 independent supermarkets in Egypt, built on Western concepts. About 220 of these are in Cairo. Inner-city sites are the most popular as product ranges are mainly aimed at middle to upper-class customers. Shopping in modern, clean supermarkets with a variety of different products is becoming a lifestyle and leisure activity among Egyptians. There are also a growing number of smaller chains.
- One of the biggest challenges is the limited availability of shelf space. Hypermarkets need enough spaces, storage area, and a big parking area, which are factors are not available in Central Cairo. There are currently around 140,000 outlets, of which only 10,000-12,000 are equipped with freezers, out of these; there are no more than 150 outlets that could be categorized as supermarkets, including every thing from hypermarkets to medium-sized supermarkets. The rapidity of growth of supermarkets is hindered by a large part of the population living in poverty, unable to buy products in the more expensive supermarkets.
- The opening of City Stars early 2005 caused a dramatic boost to the Egyptian retail industry. This center is the largest shopping mall in the Middle East and North Africa, with a 14,000 square meter hypermarket, three international hotels, 16-screen multiplex cinema, food court, living compound, the largest playing center for kids, a medical facility, and a world class business center with 70,000 square meters serving multinational and major local companies. City stars, set between the two relatively affluent suburbs of Heliopolis and Nasr City, was a natural place to open the first outlet, the mega –mall complex become a magnet for Cairo’s pocket change since its 2005 opening.
- One of the newcomers to Egypt is the Middle East retail Spinneys opened its first 13,500 square meter outlet in Cairo’s in City Stars in 2006. The average daily sales of Spinneys are \$200,000. The opening of Spinneys has increased competition not just for Carrefour but also for supermarket retailer Metro. Spinneys plans to open branches in some of the capital’s most populous areas. Spinneys plans to open outlets in Zamalek, Mohandessein, and Sixth of October City.
- An Egyptian retailer, El-Hawary, has opened the first domestic -operated hypermarket under the Hyper One name in March 2005. The two-story outlet is located in Sixth of October City about 20 Km west of Cairo. It is considered more discount oriented than the average Carrefour market, and appeals to the average and lower income groups.
- Carrefour (4 branches, three in Cairo and one in Alexandria), the first international hypermarket to open in Egypt, succeeded in changing the way Egyptians shop, making it possible to buy everything under one roof with a weekly shopping list rather than visiting a series of small groceries, meat and produce vendors on a daily basis. This change has prompted some local retailers to reinvent themselves. The French international is targeting Egyptian middle-class families and is relying on local goods primarily. The average daily sales of Carrefour are \$300,000 (the highest is the El-

Maadi outlet with daily sales of \$500,000). Carrefour currently stocks over 500 private label products and expected to increase this number shortly. The chain has plans to open 18 stores in Egypt over the next decade, beginning with one on the Suez Road expected to draw customers nearby Heliopolis. It also intends to open stores in the yet-overlooked Delta cities.

- Metro Markets has about 27 branches so far and offers wide varieties of fresh foods and quality ranges of groceries. Metro average daily sale is \$12,000 per store (27 stores), compared to \$18,000 for Ragab sons (15 outlet). In June 2006, Metro opened its first discount rate stores under the Keir Zaman banner name, and it has 8 outlets so far. Keir Zaman was developed to target the lower income shoppers. It opens stores in the densely populated areas of Cairo. The chain boasts the most competitive prices in the market and provides only local or locally manufactures international products. More stores are planned for similar areas. The stores have a promising strategy likely to be a success on the Egyptian market.
- The South African retailer Shoprite had several stores in Cairo and Alexandria, but the company decided to cut its losses and exit the market. The same happened to U.K. retailer Sainsbury.
- The franchising operation –in all sectors- started in 1980's with mostly fast food chains-the number has grown substantially to more than 300 franchises and 4,000 outlets, with ever widening diversity. Direct franchise sales in Egypt topped LE 7 billion in 2006, while indirect sales reached as high as LE 30 billion. The franchise boom has also a positive impact on employment, creating more than 40,000 direct jobs and over 500,000 indirect positions for Egyptian workers. While the number of franchises in Egypt's metropolitan cities of Cairo and Alexandria is quickly increasing, upscale tourist hot spots are also an important target for investors. Some well-known chains such as Hard Rock Café are choosing chic tourist hubs such as Sharm El-Sheikh before coming to Cairo.
- The devaluation of the Egyptian pound, which took place in January 2003, has led to an increase in the price of imported products by 50 percent and 35 percent for the local products. The devaluation had a strong impact on retail sales, and consumers adjusted their expenditures to the new price levels.
- The Sinai, Red Sea, and Luxor and Aswan regions are currently Egypt's main tourist destination. This includes the cities of Hurgada, Sharm El Sheikh, Dahab, Soma Bay and Marsa Alam, all of which are heavily populated with tourists from all over the world. The influx of tourists in such areas has encouraged food retailers to open outlets in Hurgada and Sharm El Sheikh.
- The average consumer spends about \$12 per basket. However, this varies from one area to another and from one store to another. Middle and upper-middle income shoppers are drawn to supermarket chains.
- Home delivery service is becoming very popular among the large retailers. The objective of the delivery service is to create customer loyalty. None of the retailers charges extra fees for delivery. Distribution/retail of alcoholic beverages is limited to a few authorized dealers only.
- Internet retailing is a new trend that is currently rising. Many retailers are currently viewing the Internet as the number one medium for advertising their products. Internet access became very affordable for the average citizen and many websites have been

launched towards enhancing consumer expenditure.

- The United States of America, France, Germany, Italy, Switzerland, Greece, Holland, Denmark, and recently Thailand, and China are the dominant suppliers of consumer-ready food products to Egypt.
- The following tables illustrate retail sales as a percentage of GDP and consumer expenditure and advantages and challenges in this market:

**TABLE 1: RETAIL SALES**

<b>EGYPT</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Retail sales as % of GDP	25.7	25.9	26.0	26.0
Retail sales as % of consumer expenditure	32.0	31.9	32.4	33.2

Source: CAPMAS and Euromonitor

**TABLE 2: ADVANTAGES / CHALLENGES IN THE EGYPTIAN MARKET**

<b>ADVANTAGES</b>	<b>CHALLENGES</b>
Out of 75 million Egyptians, about 13 million can afford to purchase imported food products.	Lack of product availability and limited income.  Egyptian import regulations and labeling requirements are too stringent.
Products perceived as both Western and new-to-market have a wide appeal to Egyptians.  U.S. products are perceived as "high quality."	Lack of U.S. supplier interest in the Egyptian market.  Tariff on most processed food products ranges from 20-30% in addition to 10% sales taxes
Expansion of the number of supermarket chains. International companies interested in the Egyptian market include, Carrefour, Makro Cash and Carry Egypt (opens in 2009).	With the growing size of supermarket chains, the desire to introduce a broad array and new-to-market products is strengthening.

## II. ROAD MAP FOR MARKET ENTRY FOR U.S. SUPPLIERS

### A. SUPERMARKETS, HYPERMARKETS, AND DISCOUNTERS

#### International Supermarkets and Hypermarkets

- Two multi-national food retailers have started to invest in Egypt:
  - Makro Cash and Carry Egypt has just arrived in Egypt. Its purposes are the huge wholesale stores for professionals: hotels, restaurants, offices, etc. its activities also includes fresh vegetables and fruits, meat, and fish. The company is targeting to open its first shop in 2009.
  - The French chain Carrefour has revolutionized the retail industry in Egypt by introducing a new format for hypermarket shopping. Carrefour opened four hypermarkets: three in Cairo and one in Alexandria. The first Carrefour opened in December 2002, covering 28,000 sq. meters of retail space. Two of them opened in 2003, covering 32,000 sq. meters, and the last one just opened recently (2008). Carrefour is now reporting an average of 15,000 visitors per day on weekdays and 38,000 visitors on the weekends; an average of 7,000 transactions a day during week days and 12,000 daily on weekends. While their focus is on middle-income families, they rely primarily on local goods.

#### Local Supermarkets and Hypermarkets

- Metro, Egypt's largest food retailer is currently operating 27 outlets in Cairo, Alexandria and Ismailia. Metro plans to expand in other governorates, such as Hurgada and Mansoura. This adds to the rapidly growing retail sector and services to consumers and strengthens Egypt's retail distribution network. Metro carries a variety of products including over 16,000 food items and 6,000 non-food items. The company applies a shop and drop concept in their chains where they deliver the goods to the customer's door.
- Alfa market was the biggest market in Cairo - with six outlets- before Carrefour, it has only two branches now. Alfa carries about 70,000 items out of which 20,000 are food items. They provide consumers other services, such as laundry, video rentals, shoe repair service. Alfa Market has a strategy of conducting monthly discount promotions on various products in the range of 10-20%. Also, Alfa created several types of customer loyalty cards, such as "Family Cards," offering 3-10% discounts.
- Hyper One, a second local hypermarket, has opened in early 2005 on the outskirts of Sixth of October City near Cairo. The project includes 10,000 square meter hypermarket, 20 shops, food court and a children's entertainment area.

#### Discounters

- With the expansion of local supermarkets and international supermarkets and hypermarkets, discounters have recently upgraded their outlets and services to maintain their presence in the Egyptian market.
- Ragab Sons, El-Mahmal and Abou Zekry are leading discounters which face fierce

competition from supermarket chains. However, Ragab Sons implemented a promotion strategy on various products with discounts in the range of 10-20%. Also, the chain has extended its operating hours to 24-hour in some outlets.

## ENTRY STRATEGY

### FAS Cairo Upcoming Activities

- FAS Cairo organizes an Egyptian delegation to attend the Food Expo or FMI show every May and to the Gulfood in Dubai every February. The objective is to acquaint Egyptian importers/distributors with the high quality of U.S. products. With the expansion of the number of supermarket chains and the introduction of hypermarkets in the Egyptian market, there is a good opportunity to introduce new-to-market products.
- FAS Cairo cooperates with U.S. food associations to participate in Egypt's biggest food show called "HACE". In November 2008 a delegation from SUSTA visited Egypt and participated in the show and exhibited samples from their member companies. The association will participate again in HACE 2009.

### U.S. Suppliers Strategy

- U.S. suppliers should study the market and be prepared to comply with Egypt's labeling requirements, entertain orders that are smaller than normal, share a shipment with other U.S. exporters or mix products in one shipment.

### Distribution Channels

Importers either sell their products to wholesalers who distribute food products to retail outlets, or sell directly to retailers. There are two supermarket chains, namely Carrefour, and Oscar that import food products directly. There are over 30 food companies that import processed food from U.S. and deliver it to the different supermarkets and hypermarkets.

Distribution channels for Food, alcoholic beverages and confectionery:

Food	<ul style="list-style-type: none"> <li>➤ Hypermarkets and supermarkets</li> <li>➤ Large grocery stores</li> <li>➤ Medium and small grocery stores</li> <li>➤ Hotels and Restaurants</li> </ul>
Alcoholic Beverages	<ul style="list-style-type: none"> <li>➤ Hotels</li> <li>➤ Restaurants with a license for alcoholic beverages</li> <li>➤ Liquor shops (very limited)</li> </ul>
Confectionery	<ul style="list-style-type: none"> <li>➤ Hypermarkets and supermarkets</li> <li>➤ Large grocery stores</li> <li>➤ Medium and small grocery stores</li> <li>➤ Petro/gas/service stations</li> <li>➤ Kiosks</li> <li>➤ Pastry shops</li> </ul>

**TABLE 3: COMPANY PROFILES (2006/07)**

<b>Retailer Name &amp; Outlet Type</b>	<b>Ownership</b>	<b>No. of Outlets</b>	<b>Locations (City)</b>	<b>Purchasing Agent Type</b>
Metro	Local	27	Cairo, Alexandria, Ismailia	Direct / Distributor
Ragab Sons	Local	15	Cairo	Direct / Wholesaler
Fathalla	Local	5	Alexandria	Direct / Importer / wholesaler
Zahran	Local	5	Alexandria	Direct
Alfa	Local	2	Cairo & Alexandria	Direct / Importer of household items
El Hawari	Local	5	Cairo	Wholesaler
Hyper one	Local	1 (A modern hyper market opened in early 2005)	Cairo	Direct / Importer
Seoudi	Local	5	Cairo	Direct
Oscar	Local	2	Cairo	Direct / Agent / Importer
Carrefour	International	4	Cairo / Alexandria	Direct / Importer
Abu Zekri	Local	6	Cairo	Direct
Markato	Local	1	Cairo	Direct/ importer

**Number of different types of food outlets**

<b>NO. OF OUTLETS</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Supermarkets	526	437	492	524
Hypermarkets	7	8	10	12
Convenience stores	415	420	425	428
Cooperatives	230	228	225	220

Discounters	72	74	77	80
Independent Groceries	315	317	320	325

### Demand and Supply Trends

- Mid to upper income consumers are becoming more and more demanding and are increasingly perceiving traditional supermarkets in Egypt as inadequate. Retailers have begun to become customer driven in their approach to staff, cleanliness, product range, and service.
- Consumption of prepared foods is growing rapidly. The increasing number of working women has led to an increase in purchasing power and the demand for ready made meals and/or easy to cook meals.
- The trend for purchasing frozen products is increasing.
- Choices for dietetic or low calorie food items are very limited.
- Most importers tend to bring in a wide range of products, but only in small quantities. With a few exceptions, wholesalers and retailers do not import directly.

### B. CONVENIENCE STORES, GAS MARTS AND KIOSKS

Convenience stores, kiosks, and gas marts sell imported candy, snacks, juices and soft drinks. They do not import items, but make their purchases from local importers/wholesalers and distributors. The most popular gas marts are Mobil Mart, Esso, Caltex, and Shell. Exxon Mobil, namely "On The Run", has introduced a new concept of convenience stores. They currently operate about 25 stores and have plans to open 10-15 stores within the next couple of years. The gas station stores called "El-Emirate Misr" has 20 outlets. These stores range in size from 60-200 sq. meters. They are open 24 hours and sell a variety of products including ready-made meals.

La Poire, a well-known patisserie and bakery chain, has conquered the convenience store sector through its chain La Poire Express. The stores are mainly located in gas stations like Cooperation, and offer a wide range of food and beverages, such as the chain's famous pastries.

- The average gas mart outlet is 30 to 50 square meters with a few exceptions (some Mobil Mart outlets have 100 square meters).
- Average sales differ according to the gas mart location; for example the medium outlet sales is \$4,000/day.
- Dealers are in complete control of the outlets.
- Gas mart profit margins are about 25 percent of sales.

Convenience stores are not suitable for marketing activities or introducing new-to-market products.

### ENTRY STRATEGY

- U.S. suppliers must make sure that products are consistently available in the market in

order to build product loyalty. Suppliers should appoint a reliable distributor to ensure that products are available in sales outlets at all times.

### C. "MOM AND POP" SMALL INDEPENDENT GROCERY STORES

Small grocery stores offer a limited number of imported food products. It is perceived that the small grocery stores will diminish with the expansion of large supermarket chains and hypermarkets. Small groceries still account for the largest share of low-to-middle-income shoppers.

### III. COMPETITION

In 2007, according to UN Trade Data, total exports to Egypt from the U.S. for consumer oriented products were \$146 million compared to \$41.2 million in 2003. This decrease is attributed to the current political situation in the Middle East and the devaluation of the Egyptian pound, which has lost about 40 percent of its value against the dollar since January 2003. Major importers are reporting a decrease of 30 percent in sales as a result of these conditions.

The U.S., the European countries, mainly France, Spain, Italy, Germany, Greece, Holland and Denmark, and recently China and Thailand are the dominant suppliers of consumer-ready products to Egypt.

The following table illustrates Egyptian imports of the main products, the main suppliers, and U.S. share:

**Egypt's total imports in 2007, and U.S. share**

Food Group	Total (\$ Million)	U.S. (\$Million)	U.S. Share (%)	Main suppliers
Live animals	35.00	0	0	Sudan, Djibouti, Ethiopia
Meat and edible meat offal	581.57	66.95	11.51	Brazil, USA, Argentina
Fish & crustaceans	166.00	8.33	5.01	Netherlands, Japan, Norway
Dairy products	174.67	12.18	6.97	New Zealand, Netherlands, U.S.
Products of animal origin	2.08	0.09	4.33	New Zealand, Germany, Saudi Arabia
Live trees & other plants	1.45	0.42	28.97	Liberia, Netherlands, France
Edible vegetables, roots, and tubers	244.75	1.32	0.54	Australia, France, UK
Edible fruit and nuts	62.65	8.91	14.22	Lebanon, Syria, Turkey
Coffee, tea, mate', and spices	67.16	1.01	1.50	Indonesia, Syria, Vietnam
Cereals	2,537.26	1,132.79	44.65	USA, Russia, Australia
Milling products, malt, starches	8.64	0.02	0.23	Italy, Germany, Syria
Oil seeds	487.15	207.25	42.54	USA, Argentina, Sudan

Lac, gums, resins and other and vegetable saps and extracts	7.48	1.03	13.77	India, Germany, France
Vegetable plaiting materials	1.45	0	0	Singapore, Ukraine, Brazil
Animal and vegetable fats and oils	357.13	9.84	2.76	Indonesia, Malaysia, Argentina,
Preparation of meat, fish, and crustaceans	60.29	0.17	0.28	Thailand, Brazil, Saudi Arabia
Sugars and sugar confectionary	146.02	0.52	036	Brazil, U.S., EU
Cocoa and cocoa preparation	15.92	0.58	3.64	UAE, Malaysia, UK
Preparations of cereals, flour, and starch	46.05	0.89	1.93	Belgium, Netherlands, France
Preparation of vegetables, fruit, nuts, or other parts of plants	24.25	1.24	5.11	Syria, UAE, Thailand
Miscellaneous edible preparations.	32.10	3.02	9.4	Germany, Netherlands, Thailand
Beverages, Spirits, and Vinegar	8.49	0.95	11.19	UAE, Italy, France
Residues of Food Industries, Animal fodder	269.32	101.57	37.72	U.S., Argentina, Brazil
Tobacco	230.74	3.73	1.62	China, Poland, Thailand
Wood, and wood products	874.74	19.69	2.25	Russia, Finland, Romania
Cotton	142.22	1.20	0.84	Syria, Greece, Turkey
<b>TOTAL</b>	<b>6584.58</b>	<b>1583.7</b>	<b>24.00</b>	

*Source: Central Agency for Public Mobilization and Statistics (CAPMAS)*

## Tariff rates for the most important products in 2007

<b>Product</b>	<b>Feb. 2007</b>
Live bovine animals, sheep, goat	Free
Live poultry, Turkey	5%
Meat of bovine animals, sheep, goat	Free
Poultry	30%
Beef liver	5%
Fish (most types), shrimp	5%
Dairy products	5-20%
Live trees and other plants	2%
Roses	30%
Fresh or chilled vegetables	5-10%
Nuts	5%
Tomato paste	5%
Prepared or Preserved vegetables, fruits	20%
Dried fruits	10%
Citrus, grapes, apples, pears, apricots, fruit juices	20%
Cherries, strawberries, plums, peaches	5%
Jams	20%
Coffee: not roasted	Free
Coffee: roasted	10%
Tea, spices	2%
Wheat, corn, barley, and their flour	Free
Rice	Free
Sorghum, millet, soybeans, linseeds, starches	5%
Vegetable seeds	Free
Fat of bovine animals	5%
Vegetable oil: crude	0-2%
Vegetable oil: Semi-refined	0-5%
Vegetable oil: Put-up for retail sale	10%
Sugar	2%
Molasses	10%
Chewing gum	30%
Cocoa beans, paste	Free
Cocoa butter, fat, oil	5%
Chocolate	10-20%
Mineral water	30%
Beer	1200%
Wine, whiskies	1800-3000%
Sawn Wood	2-5%
Fiberboard	10%
Wood panels	20%
Raw cotton	5%

Source: Tariff book, Ministry of Finance

#### IV. BEST PRODUCTS PROSPECTS

##### A. Products in the market, which have good sales potential:

- Dressings, sauces and seasonings
- Apples
- Nuts and dried fruit
- Juices
- Salted snacks and potato chips
- Mexican food items

##### B. Products not present in significant quantities, but which have good sales potential:

- Microwave popcorn
- Cheese
- Candies
- Baking mixes
- Topping
- Pudding sauces
- Canned shrimps

##### C. Products not present in supermarkets because they face significant barriers:

- Wine (high custom tariff rate)
- Beer (High custom tariff rate)
- U.S. high quality beef: should be boneless beef and is only available in 5 stars hotels (BSE ban and a maximum of 7% fat content on imported beef)
- Turkey (modest quantities of processed turkey are imported)

#### V. POST CONTACT AND FURTHER INFORMATION

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Web page: [www.egypt.usembassy.gov](http://www.egypt.usembassy.gov)

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- Trade Policy Monitoring Report (EG8014)
- Food and Agricultural Import Regulations and Standards- FAIRS (EG8015)
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