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United Arab Emirates

Retail Food Sector Report

1999

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Report Highlights:

The $2.5 billion UAE retail market is developing rapidly. Imported foods account for most retail shelf space and retail with about 85 percent market share. An annual growth rate of 5-10 percent is projected by major retailers, and U.S. retail product growth is forecast at 10-15% annually.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Dubai[UAE],

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I. MARKET SUMMARY

- The retail sector has developed rapidly in the last 5 years in the United Arab Emirates. Many companies upgraded their existing stores which was also coupled with the construction of state of the art new stores that are a match for the newest retail outlets found in Western Europe or North America, for example.

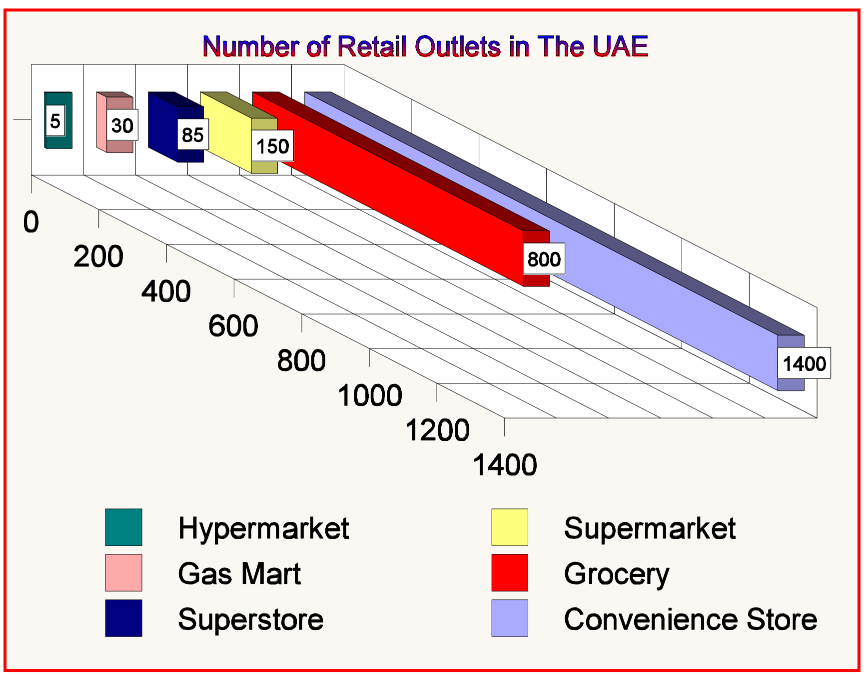
- In the absence of official statistics, the current annual value of the U.A.E. retail market is estimated at about $2.5 billion.

- Estimated annual average sales growth is about 5-10 percent. Newly established retail outlets have reported higher growth rates than those claimed by established firms.

- Nearly 85 percent of all foods that are sold in retail outlets are imported consumer-ready products, while the remaining 15 percent is food that is processed locally. With the exception of fresh tomatoes used in the production of tomato paste and catsup and a small quantity of fresh vegetables used for the production of frozen vegetables, almost every ingredient used in the local production of food is imported.

- The introduction of hypermarkets and superstores is helping to re-shape the retail industry.

- In big cities, consumers tend to shop more at big stores and depend less on grocery type and convenience stores except for last minute, spur of the moment food needs. In the suburbs, and less developed areas of the country, grocery and convenience stores play an important role in the retail business.



- It is reported that nearly 50 percent of total retail sales is done within hypermarkets, superstores and supermarkets despite their limited number. The remaining 50 percent is conducted through smaller-sized groceries and convenience stores.

- The Co-op movement is growing from year to year. Co-ops in the UAE receive enormous support from the local government and attract a broad base of shoppers, particularly UAE nationals, who are usually shareholders of these Co-ops, Arab expatriates and other expatriates with medium to low-incomes. Co-ops generally cater to local and Arab clientele and are known for their competitive prices, though there is a limited range of products displayed. The Co-ops' market share is estimated at 15-20 percent.

- With the exception of the Co-ops, all major chains directly import a big part of the products they stock, especially through consolidated shipments which gives them an edge over the Co-ops. These chains, however, depend on local companies (importers/wholesalers/distributors) to supply the items that are:

    1. Handled by an exclusive agent; or
    2. More economical to purchase locally if required quantity is limited

- Major food companies (importers/retailers/wholesalers), staffed with active sales representatives and equipped with fleets of dry and refrigerated trucks, run organized food distribution/wholesaling.

- New stores are extending their range of services to include sections for cooked products, ready-to-cook prepared foods, home delivery, cafeterias, banks, bakeries, laundries, audio/video shops, pharmacies, flower shops, etc......

- Distribution/retail of alcoholic beverages is limited to a few authorized dealers only.

Advantages	Challenges
The UAE enjoys one of the highest per capita incomes in the world	Lack of awareness by consumers of U.S. products
The retail sector is experiencing a revolution showing in upgrading existing stores and building new ones	Lack of importers knowledge of U.S. brands
Growing HRI sector	Competition with other low-priced products
U.S. products are perceived as high quality and importers like to deal with U.S. suppliers/products	High freight rates make U.S. products less competitive if compared to products imported from the EU, for example
The UAE imports nearly 85 percent of its food requirements	It is a very competitive market, considering the number of suppliers in this diverse, demanding market

II. ROAD MAP FOR MARKET ENTRY

A. Hypermarkets, Superstores, Supermarkets

<u>Entry Strategy</u>

- U.S. companies are encouraged to exhibit at major trade shows in the area, particularly the Gulf Food (GF) Show which takes place in Dubai, United Arab Emirates every 2 years. This show is attended by food company representatives from all over the Gulf. Next GF is scheduled for February 25-28, 2001. In addition, the 1st Annual FAS/FCS Catalog/Sample Show will be held April 2-3, 2000. For more information, please contact ATO Dubai.

- Visit the region. Personal contact is the most effective means in conducting business in the UAE as local food importers are often showered with letters and faxes are sent by potential product suppliers from all over the world.

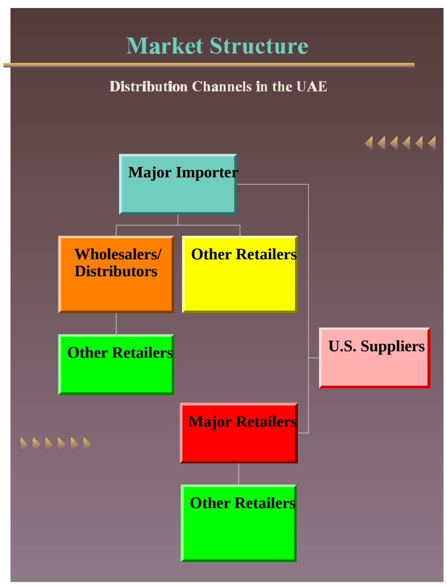
- Exhibit at the FMI/NASDA show since a large number of major importers usually travel to the U.S. to attend the show hoping to bring new product(s).

- Study the market and be prepared to comply with its labeling requirements and discuss pricing and marketing plans with companies that are interested in your products.

- Entertain orders that are smaller than normal or share a shipment with other U.S. exporters.

- Local importers are mainly interested in long term commercial relationships.

Distribution Channels



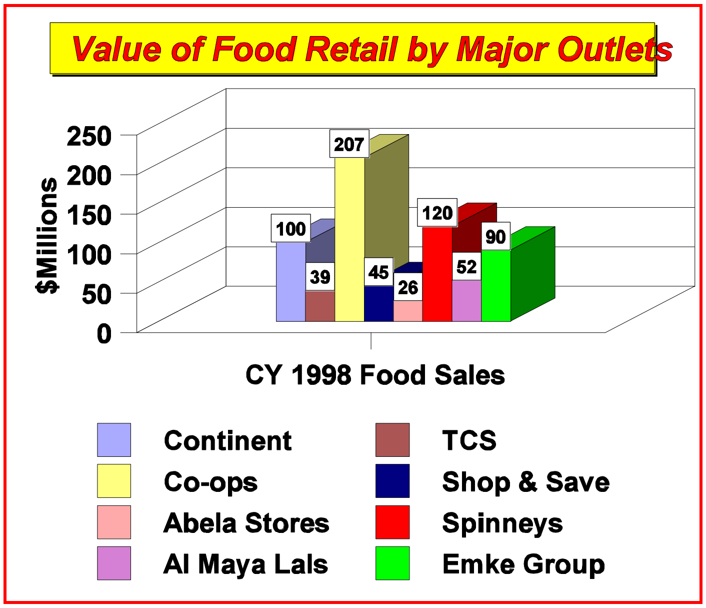
The UAE's food wholesaling and distribution system is advanced, well equipped and direct.

- Importers and food manufacturers sell directly to retail outlets.
- Major retailers also act as importers for a number of products and sell directly to other retailers.
- Co-ops are represented by a "Consumer Cooperative Union" that orders private label products under the Co-op brand name which are retailed only at the Co-op stores.
- Major importers also sell products to wholesalers/distributors who sell these products to retail outlets across the country.

Company Profiles

Retailer Name and Outlet Type	Ownership (local/foreign)	Sales ($Mil)	No. of Outlets	Locations (City/Region)	Purchasing Agent Type
T. Choithram & Sons (TCS)	51/49	39	25	Regional	Importer/local buyer/distributor
Consumer Co-op	Local	110	82	Regional	Direct
Emirates Co-op	Local	17	5	Dubai	Direct
Baqer Mohebi	Local	8	1	Dubai	Importer/wholesaler/distributor
Abu Dhabi Co-op	Local	80	9	Abu Dhabi	Importer/local buyer
Abela Stores	Foreign (Lebanese)	26	3	Abu Dhabi/ Dubai/Sharjah	Importer/Wholesaler/local buyer
Emke Group	Local	90	17	Abu Dhabi/ Dubai	Importer/local buyer/wholesaler
Shop n Save	Indian	45	35	Regional	Local buyer
Spinney's	Pakistani	120	10	Regional	Importer/local buyer/wholesaler
Modern Bakery & Supermarkets	Local	6	10	Regional	Importer/buys locally/distributor
Al Maya Lal's Group	Offshore Trdg Group	52	12	Regional	Importer/local buyer/distributor
Continent Hyper Market	Local	100	2	Dubai/ Ajman	Buys locally/ Importer
Giant Supermarket	49/51 UAE/Indian	12	10	Regional	Importer/local buyer/wholesaler

Note: Above information are trade and ATO estimates for 1998



Market Characteristics

**Hypermarkets, super markets, and superstores are generally located in the main cities. Smaller-sized stores are located in big cities, towns and rural areas, with higher concentration in the interiors.

**Most development in the retail sector is in large-sized stores. Consumers tend to shop more in big stores and are less dependent on grocery and convenience stores in the cities.

**Food processed locally represents only 15 percent of retailed products but this sector is growing. Imported products account for the lion's share of products. New-to-market products are welcome, but promotion is vital.

**The UAE is an affluent country with one of the highest per capita incomes in the world.

**UAE nationals and expatriates with high incomes, probably close to 1 million individuals or 1/3 the population, are principal consumers of value-added food products.

**Expatriates represent about 80 percent of the total UAE population

B. Grocery Stores, Convenience Stores, Gas Marts

- Convenience/Grocery (C/G) stores outnumber other types of retail outlets.
- In the main cities, convenience stores serve as last minute, just-one-item-or-two stores, but are essential in the suburbs and the interiors.
- C/G stores have 40-50 percent of the retail business market share. This percentage is expected to decline in view of the current development in the retail sector.
- Generally, food importers/local processors take the initiative to deliver their products to the C/G stores. In some cases, C/G owners obtain store supplies by sourcing from importers/wholesalers.
- Most C/G stores provide home delivery services, and their prices are slightly higher than larger retail outlets.
- C/G stores are not felt to be suitable to conduct any marketing activity or introduce new-to-market products.
- Gas marts are gaining in popularity and are expected to grow rapidly over the next few years.
- C/G store ownership is broad as each store is usually owned by one person.

III. COMPETITION

- The UAE is heavily dependent on imports to fill the gap between limited domestic supply and increasing demand. Generally, the UAE imports about 85 percent of its total food requirements.

- In this affluent country, suppliers from all over the world vigorously compete for market share. Competition from EU and Asian products pose the largest threat to U.S. products. Both have a proximity advantage, hence lower freight costs. Locally processed food products are limited in range and do not pose much threat to products of U.S. origin.

Locally processed foods are usually made mostly of imported ingredients. In many cases, the U.S. is a significant supplier of these ingredients.

- The U.S. market share for food imports is about 6 percent, according to 1997 official import trade statistics. Just over 80 percent of the products imported from the U.S. are consumer-ready and find their way to the UAE retail market or are re-exported to countries throughout the region. Indeed, some estimates peg the value of UAE food re-exports (from all sources) at $1 billion, while others speculate that as much as ½ of UAE imports are, in turn, re-exported.

- The U.S. dominates the market for high quality snack food products, though products of improving but lesser quality are produced locally. Limited quantities of Swiss and German snack food products are also imported.

- The UAE imports large quantities of cereals that are produced in the EU under licence from U.S. companies. Other cereals of U.S. origin are also imported. Generally, the UK, Germany and Australia are the principal suppliers of breakfast cereals.

- India is the main supplier of beef. New Zealand and Australia are the principal suppliers of lamb and mutton. U.S. beef is popular within the upper range of the HRI sector, but it is too expensive for the retail sector.

- France, Brazil and Denmark are the principal poultry product suppliers. Together, they have nearly 80 percent of the poultry market.

- Cheeses are mostly imported from France, Holland, Australia and the UK. A limited quantity of U.S. cheese is flown in for major retailers, at a premium price. Milk powder is imported from Holland, Denmark and New Zealand. Other dairy products such as fresh, re-constituted and UHT milk, yogurt and other Arabic style dairy products are locally produced.

- Holland is the principal supplier of table eggs with about 75 percent market share. Locally produced and Indian eggs share the remaining 25 percent.

- The U.S. is the principal pear supplier to the UAE and the second largest supplier of fresh apples after Iran. Lebanon, Chile, Turkey, France and China also supply smaller quantities of apples and pears to the UAE. Other types of fresh fruits and vegetables are imported from Iran, India, Pakistan, Saudi Arabia, Lebanon, Jordan, South Africa, Australia, Syria, Pakistan and Egypt.

- The U.S. is the main supplier of almonds. Other types of nuts are imported from Iran and India.

- A number of non-alcoholic beverages are locally produced. Also, a wide range of these products is imported from a large number of suppliers across the globe. However, high quality juices are imported mainly from the U.S. and South Africa.

- Alcoholic beverages are mainly supplied by the EU, Australia and India. A limited quantity of beer, wine and bourbon is imported from the U.S.

- Nursery stocks are imported from Holland, India and Pakistan. Recent years have witnessed an increase in the production of locally produced nursery products.

- The EU, Australia and the U.S. are the principal suppliers of pet foods.

- Besides dates, tomatoes and certain other vegetables, strawberries, the UAE's agricultural output is represented by milk production from a handful of large-size dairy operations, as well as poultry and egg production from a limited number of farms.

IV. BEST PRODUCTS PROSPECTS

A. Products present in the market which have good potential, include:

- Alcoholic beverages
- All types of sauces and condiments
- Assorted beverages
- Breakfast cereals
- Canned fruits & vegetables
- Confectionery products, candies and chocolates
- Edible oils
- Fresh pears, apples and strawberries

- Frozen vegetables and corn
- Health foods and products for special needs such as diabetic foods
- Honey
- Ice cream
- Packaged juices
- Pet foods
- Planting seeds
- Poultry and meat products
- Rice
- Salted high quality snack foods
- Shelled almond and other tree nut products and dried fruits such as raisins and prunes

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

- Fresh citrus fruits
- Frozen meat and products
- Frozen desserts
- Jams and marmalades
- Pasta products
- Powdered milk and cheeses
- Spices
- Table eggs
- Whole chicken

Note: Heading C, *Products Not Present Because They Face Significant Barriers*, does not apply to the UAE market which is dependent on imported food products in view of the limited amount of locally produced food products. Moreover, the UAE's liberal trade policy allows the importation of food products at no import duty, except for pork products which are subject to a 4 percent import tariff.

Retail outlets are generally stocked with a wide range of fresh, canned, chilled and frozen food products.

Locally produced foods represent little threat or competition to imported foods. We estimate locally processed products represent no more than 15 percent of the total volume of food products sold in retail stores.

Locally produced foods are limited to salty snack foods, soft drinks under licence from leading world brands, packaged edible oils and juices, processed dairy products in addition to a small quantity of locally grown frozen vegetables.

The total food retail sector is currently estimated at about $2.5 billion. Retailed food products are sourced from the six continents of the world. Products imported from the EU dominate the shelves in most retail stores.

Food Import Regulations:

ATO Dubai's "UAE Food and Agricultural Import Regulations and Standards Report" was last listed in ATO

Dubai's report TC8031 dated September 15, 1998. This report may be perused on the USDA/FAS home page on the following URL: http://www.fas.usda.gov/gainfiles/199809/25362005.pdf

C. Other ATO Publications and Reports Concerning the UAE

1. Publications

American Food Directory 1999. This annual publication lists the American food companies and franchises present in the five Gulf countries covered buy ATO Dubai as well as their local distributors in each of these countries. A free copy will be provided to interested U.S. suppliers and local food importers by ATO Dubai.

2. Attache Reports

The following and other Attache reports of trade interest may be perused on the USDA/FAS home page on the following URL: http://www.fas.usda.gov/scriptsw/attacherep/default.htm

UAE Fresh Fruit Report - TC9024 dated 7/11/99
Promotion Opportunities Report - TC9029 dated 11/15/99
Exceptional Growth in U.S. Food Exports to the Gulf - Report TC 9012 dated April 7, 1999 Food Exporters' Guide - Report TC 9018 dated June 8, 1999
UAE Annual Poultry Meat Report - Report TC 9025 dated August 16, 1999
GCC-5 Food Industry Sector - Report TC 8001 dated March 4, 1998
GCC-5 Food Retail Sector - Report TC 8011 dated June 21, 1998
GCC-5 Ice Cream Production - Report TC 8018 dated July 22, 1998

V. POST CONTACT AND FURTHER INFORMATION

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