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Report Highlights:

Saudi Arabia is a \$6 billion import market for food and agricultural products. Saudi imports of consumer-oriented products are growing approximately five percent annually and are now estimated at \$3.5 billion. Imports from the United States reached a record \$131 million in calendar 2005. Intermediate and bulk agricultural products also play a major role in U.S. agricultural trade with Saudi Arabia. With a young and growing population, Saudi Arabia will continue to be a growth market for U.S. food products in the years to come. This report provides an overview of the Saudi Arabian retail market.

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I. MARKET OVERVIEW

Political Situation

The Kingdom of Saudi Arabia, located on the Arabian Peninsula, is a country of approximately 27 million people, including 8 million non-Saudi residents. The country's current King is Abdullah bin Abdul Aziz Al Saud. The monarch is both the chief of state and head of government. Ministers are appointed by, and responsible to, the king. The Council of Ministers exercises both legislative and executive powers. The King appoints a 150 member Consultative Council (Majlis al-Shura) that mainly has an advisory function, but can also initiate legislation.

In recent years, Saudi Arabia has been engaged in fighting Al-Qaida-sponsored terrorism. Militants intensified attacks on Western and Saudi Government targets in early 2004. The government's campaign aimed at dislodging locally-grown terror cells has intensified. The number and the frequency of terrorist attacks appear to be lessening in 2006 and the overall political situation in the country has remained stable.

Economic Situation

This is an oil-based economy with strong government controls over major economic activities. Saudi Arabia possesses 25 percent of the world's proven petroleum reserves, is the world's largest exporter of petroleum, and plays a leading role in OPEC. The petroleum sector accounts for roughly 75 percent of the government's budget revenues, 45 percent of GDP (estimated at \$338 billion in 2005) and 90 percent of export earnings. In 2005, the Kingdom earned about \$155 billion in net oil export revenue, up 35 percent over 2004. Saudi oil export earnings are forecast to reach \$160 billion in 2006, with overall GDP growth, projected at 6 percent. Per capita income is estimated at more than \$12,500.

Saudi Arabia's population is growing at about three percent annually, with 70 percent of the population under the age of 30. The Kingdom's population will reach 40 million in the next 20 years.

Trade Situation

Saudi Arabia became the 149th member of the World Trade Organization (WTO) on December 11, 2005. Trade and foreign investment will benefit from the commitments made by the Kingdom as part of its accession agreement. Saudi Arabia agreed to reduce trade restrictions and improve trade and investment avenues in an effort to diversify its economy. The Saudi government is committed to reducing tariffs, eliminating import prohibitions in the manufacturing and agricultural sectors, and opening additional markets in telecommunications, energy related services, insurance, and other financial services.

The Kingdom is a member of the Gulf Cooperation Council (GCC), which includes Kuwait, Qatar, Bahrain, the United Arab Emirates and Oman. Membership confers special trade and investment privileges to member countries. Manufactured food products produced in any of these countries are imported into Saudi Arabia duty free. In January 2003, the GCC implemented its long awaited customs union. According to the agreement, the six member countries agreed to implement a five percent across-the-board duty rate on most imported foodstuffs that enter member countries from non-GCC suppliers.

Saudi Arabia also is a member of the Arab League, which recently agreed to negotiate an Arab free trade zone.

Agricultural Trade Situation

Saudi Arabia is the largest importer of agricultural, fish and forestry products among GCC countries. The potential for agricultural production in Saudi Arabia is limited due to the lack of arable land (less than 2 percent) and water. Food imports are projected to grow in tandem with the population.

In 2005, the country's total agricultural imports were estimated at more than \$6 billion. High-value products account for 50 percent of total import value. Imports of intermediate agricultural products were estimated at about one billion dollars. Total U.S. agricultural exports to Saudi Arabia in 2005 reached \$380 million, with exports of consumer-oriented food products valued at a record \$131 million. Recent data provided by major foodstuff importers indicate a continued significant growth in U.S. consumer-oriented foodstuff imports thus far this year. According to U.S. census data for January-July 2006, high value product imports from the United States increased 20 percent over the same period a year earlier. A strong euro relative to the U.S. dollar is a factor supporting import demand for U.S. food products. Most food product imports are subject to a 5 percent ad valorem duty. Corn, soybean meal, barley, crude/semi-refined corn oil and rice enter the Kingdom duty free.

Saudi buying and eating habits have changed significantly since the introduction of Western-style supermarkets and restaurants in the late 1970s. Built initially to cater to Western expatriates, modern Western-style Class A supermarkets are popular in Saudi Arabia and continue to expand in major urban areas of the Kingdom: Riyadh (Central Province), Qaseem, Jeddah, Mecca and Medina (Western Province), and Dammam, Al Khobar, and Dhahran (Eastern Province). The increased number of supermarket outlets has made it feasible for many chains to import a portion of their stock directly from the United States. Supermarket chains and other retailers, however, depend primarily on local importers for sourcing, merchandising, and inventory control.

Competition

The continued expansion of U.S. foodstuff exports to the Kingdom is threatened by a growing competition from both locally-produced and imported food products from the EU, and nearby Arab and Asian countries. The number of food processing companies in the Kingdom continues to grow. Most food processors rely extensively, if not entirely, on imported food ingredients.

Saudi consumers are discriminating and enjoy new food products. With a young and growing population, U.S. food and agricultural exports to the Kingdom will continue to expand in the coming years.

Import demand for institutional-size food products by the catering sector is being driven by the large number of expatriate third country nationals working in Saudi Arabia and the increasing number of foreign pilgrims visiting the two holy cities (Mecca and Madina). More than eight million expatriate workers reside in the Kingdom, most of whom are from the Sub Continent of Asia (India, Pakistan, Bangladesh) and the Philippines. The number of foreign pilgrims traveling to Saudi Arabia for Haj and Umra rituals is estimated at about five million per year.

Dining at fast food restaurants is popular among Saudi families and expatriate workers. American fast food chains such as KFC, Burger King, and McDonald's together with local chains such as Herfy import at least part of their food needs from the United

States. Large catering companies, especially those serving Western expatriates, also buy a portion of their requirements directly from the United States.

A summary of Opportunities and Constraints in the Saudi market for imported U.S. foodstuffs:

Opportunities	Constraints
<p>The Saudi population is growing at about 3 percent annually and is expected to nearly double in 20 years from its current level of 27 million to more than 40 million.</p> <p>The potential for agricultural production is limited. Imports of food will grow with the population.</p> <p>The market for retail food products is expanding.</p> <p>Changing lifestyles. The number of working women is expanding, and demand for prepared food items is growing.</p> <p>Saudi consumers are quick to try new products and are shopping more frequently in supermarkets.</p> <p>The U.S. is viewed as a supplier of quality foodstuffs. Under normal political and economic conditions, U.S. origin and brands associated with the United States make a favorable impression on Saudi consumers.</p> <p>Voluntary shelf life labeling was introduced in December 2005.</p> <p>More than 7 million pilgrims travel to Mecca each year.</p> <p>A growing number of fast food restaurants, hotels and resorts and a thriving catering sector all depend heavily on imported institutional food products.</p> <p>Young population: 70 percent are under the age of 30. Younger Saudis express a strong preference for Western-style foods compared to their parents.</p> <p>A rapidly growing food-processing sector depends on imported ingredients.</p> <p>Per capita income increased to more than \$12,500 in 2005.</p>	<p>Increased competition from locally produced food products and imports from Europe, nearby Arab countries and Asia.</p> <p>Freight costs from the United States are higher compared to those from Europe and Asia.</p> <p>Local importers prefer to initiate import-purchasing activity with small quantities.</p> <p>Arabic and biotechnology labeling requirements increase costs.</p> <p>Halal certification required for all meat and poultry products exported to Saudi Arabia.</p> <p>Additional manufacturer or producer statements. Health certificates must indicate that meat is derived from livestock not fed with feed containing protein, fat or remnants of animal origin.</p> <p>Saudi regulations restrict the number of different food items in one container to 25.</p> <p>Saudi support for boycotts of American products for political reasons.</p> <p>The Saudi economy is overly reliant on oil revenue and subject to sharp swings caused by volatile oil prices.</p> <p>Limited U.S. cooperator or SRTG activity for standard trade servicing.</p> <p>U.S. companies are hesitant to travel to Saudi Arabia to evaluate export opportunities due to security concerns.</p> <p>Saudi importers have reservations about traveling to the U.S. to attend agricultural trade events following 9/11.</p>

SECTION II. ROAD MAP FOR MARKET ENTRY

1. Entry Strategy

The Saudi import market for foodstuffs is dynamic, with new-to-market products introduced daily. Managers of Saudi supermarkets indicate that in order to survive in this highly competitive market, a wide array of products must be available to consumers. Recommendations applicable to new-to-market exporters who wish to enter the Saudi market include:

- Find a strong Saudi partner: A company with a professional sales force and a strong distribution network is desirable. The U.S. Agricultural Trade Office/Riyadh (ATO Riyadh) maintains lists of key importers.
- Visit Saudi Arabia: ATO Riyadh can help with logistics. A visit will enable a potential U.S. exporter to see first hand the types of products found in Saudi supermarkets, corner grocery stores, and wholesale markets; to view cold storage facilities, infrastructure, and to meet one-on-one with key importers. Face-to-face meetings in the Arab world are very important and help build trust and confidence. Most Saudi businessmen speak fluent English.
- Understand Saudi Arabia's labeling and cultural requirements: A product label showing a woman's legs would not be acceptable, for example. Likewise, a product with a recipe inside the box calling for pork would not be accepted, nor a product containing alcohol. Saudi Arabian Customs rejected several containers of gelatin a few years ago because of the detection of traces of pork in the product, even though the product label clearly indicated beef gelatin. Alcohol is banned in the Kingdom as a product and as an ingredient.
- In December 2001, the Saudi Ministry of Commerce and Industry (MOCI) implemented its biotech labeling requirement for foodstuffs containing biotech ingredients. Following is a summary of the MOCI's biotech labeling requirements:
 - Ban on Biotech Animal Products: One of the main features of the decree was an immediate and total ban on imports of foodstuffs containing genetically engineered animal products into the Kingdom. The directive did not justify this ban. However, ATO trade sources believe that the decision was taken to make sure that all imported foodstuffs are Halal and do not contain products from swine and other animals banned for consumption by the Islamic religion.
 - Positive Biotech Labeling: If a product contains one or more genetically modified plant ingredients, the information should be clearly communicated to the consumer by labeling. A triangle should be drawn and in it the text should read "Contains Genetically Modified Product (s)."
 - Bilingual Labeling: The biotech statement must be clearly written in both Arabic and English, with an ink color different from that of the main product table.
 - Health Certificate: Biotech products or genetically engineered products exported to Saudi Arabia must have been approved in the country of origin for human consumption. Each shipment must be accompanied by a health certificate issued by appropriate government agencies stating that the Biotech

- ingredient (s) used in the foodstuff is approved in the country of origin (United States) for human consumption. One certificate could be issued that certifies a list of biotech found in the food item.
- Quality Standards: All genetically modified food products should be in compliance with legal and ethical controls observed in the Kingdom and must meet pertinent Saudi Arabian standards specifications.
 - Locally Produced Foodstuffs: Biotech labeling requirements also apply to locally produced agricultural products.
 - One Percent Maximum Biotech Threshold: MOCI requires biotech labeling if biotech content exceeds one percent of product weight.
 - Random Sampling: MOCI randomly samples imported foodstuffs at ports of entry for testing. According to reports from MOCI, test results thus far have been good. Rarely have food products declared biotech free tested positive. However, there have been some cases of undeclared biotech presence detected in foodstuffs imported from Asian countries and a couple from the United States. Companies involved in exporting biotech foodstuffs without proper labeling are banned from exporting food products to Saudi Arabia.
- Understand Saudi Arabia's shelf-life requirements: In December 2005, Saudi Arabia implemented a voluntary shelf life standard (manufacturer-determined use-by dates) for most foodstuffs, with the exception of selected perishable foods (fresh or chilled meat and poultry; fresh milk and fresh milk based products; margarine; fresh fruit juice; table eggs, and baby foods) that must meet Saudi Arabian Standards Organization's (SASO) established mandatory expiration periods. The revised standard (SASO 457/2005) no longer bans imports of food products with less than half of their shelf life remaining.
 - Shelf life must be indicated by clear and unambiguous production and expiration dates. The use of any of the following statements for expressing expiration dates is permissible.
 - ❖ Expiration Date
 - ❖ Use by (date)
 - ❖ Fit for (from the day of production)
 - ❖ Use Before (date)
 - ❖ Sell by date (for food products having an expiration period exceeding 3 months).
 - Production and expiration dates should be declared on the package label in an uncoded manner as follows:
 - ❖ Day-Month-Year: for foodstuffs with an expiration period less than three months.
 - ❖ Month-Year: for foodstuffs with expiration exceeding three months.
 - Dates shall be "engraved or in relief," printed or stamped with permanent ink directly on all packages or on their original label by the producer only. Adding stickers for production and expiration dates is not permitted. Product labels may not show multiple production or expiration dates. Dates cannot be changed.

- Products with No Specific Expiration Date: products with no specified shelf life such as salt, spices, milled rice, etc., only the date of production or processing need be shown as: mm/yy.

ATO Riyadh recommends that when putting together an order for a Saudi importer, a U.S. exporter cross check information contained on his/her food label, including Production/Expiration dates, with the Saudi buyer. FAIRS report SA6008 provides detailed information on Saudi Arabia's food and agricultural import regulations.

- Provide Product Performance Information: Saudi importers and distributors usually like to know how a product performed in the United States in terms of sales before test marketing in Saudi Arabia.
- Attend FMI and Regional Food Shows: It is vital that prospective U.S. exporters consider attending the annual Food Marketing Institute (FMI) Convention held in Chicago as well as international expositions such as ANUGA in Cologne, Germany; SIAL in Paris and the Gulf Food Show in Dubai. The Gulf Show is held every year. More information on international shows can be obtained by contacting the respective FAS office located in each country. Smaller local food expositions are held bi-annually in Riyadh and annually in Jeddah.
- Consider contacting U.S.-based consolidators that source American food products from wholesalers. ATO/Riyadh maintains a list of major U.S. consolidators selling to Saudi buyers.

2. Doing Business with Saudi Importers

When searching for an importer to distribute your product, it is important to understand how the company operates. The section below outlines four basic types of importers:

1. Private labels are becoming common in Saudi Arabia. Some large Saudi importers purchase foodstuffs under their own brand names or import ingredients and pack locally using their own label. Private labels with Arabic sounding brand names appeal to Saudis and other Arabs in the Kingdom. Others use labels with Western-sounding names to position their products as high quality American or European origin foodstuffs to appeal to Saudis as well as expatriates living in Saudi Arabia. Salim Basamah Company, perhaps the largest importer of grocery products in Saudi Arabia, uses its private label, "Goody" on a wide variety of food products imported from the United States. Another large importer uses an Arabic sounding private label, "Al-Alali" to appeal to Saudis and Arabs, even though a significant percentage of its products are American origin.

Hence, a can of American peaches can be marketed in Saudi Arabia under several different labels:

--under an established U.S. brand such as Monarch or Libbys
--under a Saudi private label: like Goody, Freshly or Al-Alali.
--a U.S. private label representing the exporter/consolidator: such as American Garden or AFFCO.

2. Some importers contract directly with U.S. manufacturers of national brands, such as Kellogg's, Campbell Soup, Budweiser non-alcoholic beer and usually require sole agency agreements. The Saudi importer will help build the brand, but will request

support from the U.S. company. The U.S. manufacturer usually offers promotional and marketing assistance.

3. Some companies import a wide range of food products for mass distribution, employing the use of consolidators in the United States. Often, consolidators are sole regional agents of major U.S. manufacturers or brand owners covering the entire Middle East and African regions. Most U.S.-based consolidators assist Saudi food importers by sourcing products from wholesalers, such as Fleming, and providing services such as placing stickers on labels. Current Saudi regulations allow U.S. suppliers to place an Arabic language sticker on the original English language label. The stickers translate key ingredient and product information into Arabic. Stickering is a laborious task and many manufacturers do not want to bother with this. Most U.S. consolidators are based in Houston, New York, Miami and in other port cities that have large wholesalers.

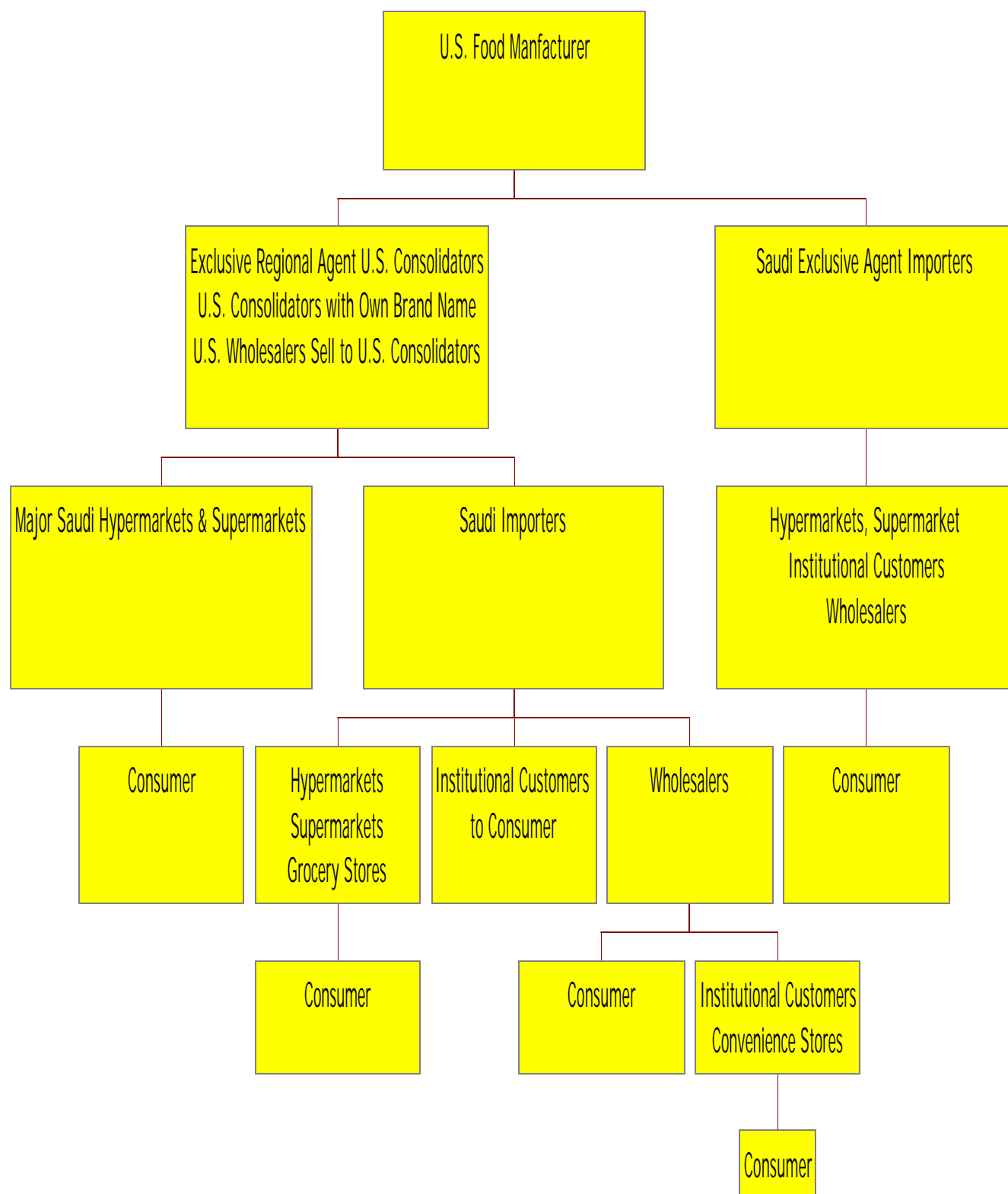
4. Géant and Carrefour (French hypermarket chains) as well as many locally-based supermarkets with the ability to handle large import volumes, are importing directly part of their needs. One local company that operates a modern supermarket chain imports several containers of American food products monthly for sale in its stores and lends support to a wide range of brands without a binding agency agreement.

If a product has performed well in the market, a U.S. company may opt to go beyond the sticker stage and develop a bilingual label in both Arabic and English. Monarch is one of many U.S. companies that has developed bilingual labels for the Middle East. Non-alcoholic Budweiser beer was launched in the Kingdom in 1999, with a red, white, and blue bilingual label. However, a significant number of U.S. origin grocery items found in Saudi supermarkets continue to use stickers.

Saudi importers are constantly searching for new products, and often request support from suppliers for promotion and advertising. The Saudi consumer is discriminating, closely examining labels and looking for the best deal. Advertising is considered a necessity to win Saudi consumers. Two-for-one deals are very popular in large supermarkets in moving items that are approaching their expiry dates. Major Saudi supermarkets are in the initial stage of introducing category management. As the system becomes more popular, many product brands are expected to be eliminated.

3. Distribution Channels:

The flow chart below highlights the different marketing channels through which a food product can arrive in Saudi Arabia from a manufacturing plant in the United States.



Food manufacturers normally sell directly to sole agency importers, wholesalers, or U.S. consolidators. U.S.-based consolidators buy from manufacturers and/or wholesalers. Some consolidators act as sole distributors for U.S. manufacturers in the Middle East. U.S. consolidators sell directly to Saudi importers and/or major Saudi supermarket chains, such as Tamimi Markets, Al Azizia-Panda, or Danube Supermarkets. About ten consolidators sell an estimated 70 to 80 percent of all U.S. high value products exported to Saudi Arabia.

Major Saudi importers operate well established Kingdom-wide distribution networks and sell directly to retailers, institutional customers, and wholesalers. Corner grocery stores and convenience stores source their products locally from wholesalers.

4. Profiles of Major Saudi Supermarkets

The table below provides a partial list of supermarket chains in Saudi Arabia. Sales data and floor space figures are not made public. There are no food publications or supermarket journals in Saudi Arabia. The U.S. Agricultural Trade Office in Riyadh compiled information shown below from personal interviews with supermarket managers.

Retailer Name and Outlet Type	Ownership	No. of Outlets	Location (city/region)	Purchasing Agent Type
Al Azizia Panda	Local	50	Riyadh, Jeddah, Dammam, Dhahran, Jubail, Rastanura, Mecca and Qassim	Importer/local buyer
Universal Marketing (Al-Othaim)	Local	35	Riyadh, Qassim, Hafalbatin	Importer/Local Buyer
Farm Supermarkets	Local	18	Dammam, Jeddah, Al-Khobar, Dharan, Qatif, Jubail, Rastanura,	Local buyer
Bin Dawoud Superstores	Local	14	Jeddah, Mecca & Madina	Importer/Local buyer
Giant Sores	Local	12	Riyadh, Dammam, Jeddah, Khamis, Jubail	Local buyer
Tamimi Markets	Local	11	Riyadh, Dammam, Al-Khobar	Importer/Local buyer
Al Raya	Local	10	Jeddah, Mecca, Medina, Taif	Local buyer
Omar Ali Balsharaf Supermarkets	Local	7	Riyadh	Local buyer
Danube	Local	7	Jeddah	Importer/local buyer
Star Supermarkets	Local	6	Jeddah, Yanbu	Local buyer
Arabian Food Supplies	Local	5	Dharan	Importers/local buyer

Retailer Name and Outlet Type	Ownership	No. of Outlets	Location (city/region)	Purchasing Agent Type
Ahmed Al-Ghamdi Supermarket	Local	5	Dammam	Importers/local buyer
Sarawat Supermarkets	Local	4	Jeddah, Medina	Local buyer
Al Hamada Stores	Local	4	Jeddah	Local buyer
Géant Hypermarket	Local/French joint venture	4	Riyadh, Jeddah, Al Khobar, Jeddah	Importer/Local buyer/
Carrefour Hypermarket	Local/French joint venture	5	Riyadh, Jeddah, Al Khobar	Importer/Local buyer
Marhaba Supermarkets	Local	3	Jeddah	Local buyer
Halwani	Local	3	Riyadh, Jeddah	Local buyer
Al Sadhan	Local	3	Riyadh	Local buyer
Sawary Superstores	Local	3	Jeddah	Local buyer
Al-Salhiya Supermarkets	Local	3	Hail	Local buyer
Al-Nakhel Supermarkets	Local	3	Jeddah	Local buyer
Astra Supermarkets	Local	2	Tabuk	Local buyer
Al-Ghounam Supermarkets	Local	2	Abha, Khamis	Local buyer
Watani Super Center	Local	2	Jeddah, Mecca	Local buyer
Max Discount Center	Local	1	Riyadh	Local buyer
Euromarche Superstore	Local	1	Riyadh	Local buyer
Al-Mandarin Supermarket	Local	1	Madina	Local buyer

5. Market Structure of Supermarkets

The chains listed above represent the larger supermarkets in the Kingdom (in terms of floor space and volume) and are referred to by the local food trade as Class A supermarkets. There are approximately 225 Class A supermarkets operating in the Kingdom. Smaller supermarkets using grocery carts number at least 100 and they are referred to as Class B supermarkets. The distinction between Class A and Class B supermarkets is not well defined in Saudi Arabia. The recently introduced hypermarkets are huge (up to 100,000 square feet), with up to 60 checkout counters, and provide more than 55,000 items including foodstuffs, clothing, tools, toys, and electronics. There are more than 10 hypermarkets dispersed in the three major cities of the Kingdom (Riyadh, Jeddah and Dammam). Saudi companies are not subject to income taxes and financial information is not available to the public.

Class B supermarkets are found in all major urban areas and medium-size cities of the Kingdom. The number of Class A and Class B supermarkets increased from about 80 in 1984 to more than 300 in 2006 and continue to grow. Factors that have contributed to the growth of supermarkets include more exposure to the West via satellite television and travel, changing lifestyles, and a craving by Saudi consumers for variety.

Major Saudi supermarkets such as Azizia-Panda, Tamimi and Danube as well as the two French hypermarkets import a significant percentage of dry goods directly from the United States, employing consolidators. Tamimi imports chilled beef, and dairy products, fresh fruit and vegetables directly from the United States. Chilled beef, strawberries, apples, celery, lettuce, and other selected produce are flown in, while others arrive by ship in containers.

6. Competition Among Major Retailers

The entrance of the two French hypermarket chains Géant and Carrefour in 2004 along with the opening of Hyper Panda (a local chain) in the same year has launched a new era of retailing in the Kingdom characterized by a state of the art shopping experience and aggressive competition. Hyper Panda, owned by Al Azizia-Panda Inc., is the largest supermarket chain in Saudi Arabia. It has 50 outlets found in all major cities of the Kingdom. Supermarkets\hypermarkets strive to reduce costs to enhance their competitiveness. They also try to increase their profitability by introducing various revenue schemes. Local distributors are being asked for listing fees ranging from \$2,000 to \$27,000 depending on the size and power of the distributor. The bigger the distributor, the more power it has to negotiate a lower listing fee. In addition to listing fees, distributors are asked to provide a specified percentage rebate on total annual turnover, contribute to advertising campaigns and provide at least 60 day payment terms and reimbursements for expired items. Distributors frequently authorize retailers to conduct special offers to consumers such as buy one and get one free for products usually with 60 days or less of remaining shelf life.

Saudi retailers are constantly searching for new products, and often request support from suppliers for promotion and advertising. The Saudi consumer is a discriminating consumer, closely examining labels and looking for the best deal. Advertising is considered a necessity to win Saudi consumers. Major Saudi supermarkets are in the initial stage of introducing category management. As the system becomes more popular, many product brands are expected to be eliminated.

7. Structure of Wholesale Markets

Traditional wholesale markets normally cover a large area and are divided by product category: a fresh fruit and vegetable market; cold storage shops selling meats, cheeses, and poultry; and stores selling a wide range of dry goods. The largest wholesale markets in Riyadh are the Utega Center and Rabwa, each located 15 minutes from downtown. About 30 percent of all food purchases by Saudis are done at wholesale markets.

8. Structure of Corner Grocery Stores

Corner grocery stores (convenience), commonly referred to as bakalahs are found in every Saudi Arabian neighborhood. Despite the growing number of modern supermarkets in Saudi Arabia, the food retailing role of bakalahs continues to be important. The bakalahs maintain some advantage over supermarkets in providing services to shoppers looking to quickly buy one or two items. A number of bakalahs have developed a credit system that allows customers to pay at the end of the month. Women in Saudi Arabia are not permitted to drive and depend on grocery stores within walking distance of their homes. Most third country nationals working in the Kingdom also do not own automobiles. Most compounds housing expatriates contain one or more corner grocery stores. Arabian Food Supplies owns and operates more than 60 corner grocery stores in Western compounds throughout the Kingdom.

Bakalahs are filled with many consumer-oriented products originating from the United States and most have refrigeration and the capacity to store frozen foods. In addition to corner grocery stores, there are hundreds of ethnic stores in the Kingdom, catering to Indians, Pakistanis, Filipinos, and other Asians. Foods from many parts of the world are found in the Kingdom.

In addition to bakalahs and ethnic stores, the number of gas station mini-marts (Gas-Marts) is increasing markedly. Virtually, all gas stations in the Kingdom have stores ranging from small kiosks to more than 500 square meter convenience stores. The stores are well refrigerated and carry a diverse variety of high-value products.

SECTION III. COMPETITION

1. Local Food Processing Sector

Food manufacturing in Saudi Arabia is expanding rapidly. The Saudi government assists this sector by providing attractive financing and subsidies on selected equipment and by imposing higher import tariffs on certain imports that compete with locally-produced goods (poultry meat, table eggs, infant foods derived from milk, sugar, macaroni and similar products). Locally-produced food products also have an advantage over imported food products because they can be exported duty-free to any country within the Gulf Cooperation Council (GCC). GCC member countries include Kuwait, Oman, Qatar, Bahrain, United Arab Emirates, and Saudi Arabia. Hence, the market for locally-manufactured products consists of the entire Arabian Peninsula, including Yemen. The expanded market has prompted many international companies to establish licensing agreements with local manufacturers in Saudi Arabia to produce their brand. Such companies include Kraft/General Foods, Delmonte, Frito-Lay, and Nestle.

The vast majority of consumer-ready food items sold in Saudi supermarkets, however, are imported. Most locally-made food products are made with imported ingredients. Sunbullah, for example, imports blocks of frozen vegetables and repackages into smaller consumer-size containers for sale in Saudi retail outlets.

2. Imports

Poultry

Saudi poultry production is dominated by broiler meat which meets 55 percent of local demand. The gap is filled by imports of frozen broilers and parts, mainly from Brazil, France, and China. According to Saudi Customs data, poultry imports in 2003 totaled about \$450 million. Brazil, France and China account for respectively 60 percent, 27 percent and 10 percent of total imports. The U.S. ranked a distant sixth at less than one percent. Strong competition from Brazil and France, coupled with increases in local production and the 2001 Saudi Government requirement that poultry meat imported into the Kingdom must be obtained from birds fed solely on vegetable protein, are major constraints facing U.S. poultry meat sales to Saudi Arabia. Additionally, poultry meat sold in Saudi Arabia must be free of growth hormones and must be slaughtered in accordance with Islamic "Halal" rituals.

Cheese

Saudi Arabian cheese imports exceed \$250 million. Leading suppliers include Denmark, Australia, France, Poland, and New Zealand. U.S. market share is no more than 1 percent. With a steady increase in demand for cheese and cheese products, coupled with the development of new cheese processing companies (there are now 7), the demand for imported bulk cheeses is expected to increase.

Red Meats

Saudi Arabian imports of red meat in 2003 were valued at \$224 million. The United States enjoys a 5 percent market share. Leading suppliers are Brazil (30 percent), Australia (28

percent), New Zealand (18) and Sudan (8 percent). Virtually all imported red meat from the U.S. is beef and is sold primarily in Class A supermarkets, "Western" hotels, and American fast food chains. The main barrier to expanding U.S. beef sales to Saudi Arabia is price, more than double alternative suppliers. Red meat exported to the Kingdom must be obtained from cattle fed solely on vegetable protein. Beef sold in Saudi Arabia must be free of growth hormones and slaughtered in accordance with Islamic "Halal" rituals.

Processed Fruit and Vegetables

The United States accounted for 15 percent of Saudi Arabia's processed fruit and vegetables imports valued at about \$170 million in 2003. Other major suppliers included the Netherlands, Spain, Egypt and the U.A.E. Processed fruit and vegetables are sold in all types of retail outlets from Class A supermarkets to neighborhood convenience stores.

Snack Foods

Saudi Arabia imports of snack foods, excluding nuts, in 2003 were valued at 205 million. Leading suppliers were the U.A.E., the Netherlands, the U.S., and Italy. U.S. exports were valued at about \$20 million. More than 60 percent of all Saudis are in their teen years, which as a group tend to be important consumers of snack foods. Local snack food production is expanding rapidly and now accounts for about 50 percent of local consumption.

Apples

Saudi Arabia is the largest GCC market for imported apples. Imports in 2003 were valued at \$46 million. Chile is the dominant supplier followed by France, the United States and Iran. Red apples dominate the market. Import demand for apples is projected to grow 4 percent annually over the next five years, with the U.S. share expected to increase to about 5 percent. Promotional activities to expand awareness of U.S. apples and varieties will be needed to maintain and increase U.S. market share.

Tree Nuts

Saudi Arabia's imports of tree nuts in 2003, consist largely of almonds, is estimated at \$27 million. The United States was the dominant supplier, accounting for nearly 45 percent. Most of the remainder was made of Iranian and Indian product. Almonds are an integral part of the Saudi diet, used in sweets, cakes, and biscuits. A marked increase in demand occurs during the holiday month of Ramadan and the Haj (the pilgrimage to Mecca).

SECTION IV. BEST MARKET PROSPECTS

A. Products in the Market with Good Sales Potential

Most Saudi importers buy for mass distribution and employ consolidators. Consolidators source products from wholesalers, apply bilingual stickers, and arrange mixed containers for shipment to Saudi Arabia. Consolidators often recommend new-to-market products to Saudi Arabian importers. Given the affinity for new products by both Saudis and expatriates living in Saudi Arabia, Saudi importers and supermarket executives are constantly searching for new food items to introduce. Popular product categories include prepared fruits and vegetables, beverages, poultry parts, snack foods, candy, honey, sauces, mayonnaise, cereals, bakery products, condiments, jams and jellies, peanut butter, salad dressings, gravies, desserts, sunflower seeds, chips, dried beans, peas, soups, seasonings, and almonds.

Demand for dietary and health foods is increasing in the Kingdom as Saudis become increasingly health conscious. Saudi Arabia's population has one of the highest rates of diabetes in the world and obesity is widespread.

B. Banned Products

For religious reasons, Saudi Arabia bans imports of alcoholic beverages, live swine, pork, and foodstuff ingredients or additives that contain pork products, including pork fat, lard and gelatin. Other banned products include donkey and mule meat, frog legs, poppy seeds, hemp seeds, hops and swine leather.

SECTION V. POST CONTACT & FURTHER INFORMATION

1. Post Coordinates:

U.S. Agricultural Trade Office
Regional Director
American Embassy
Unit 61307
APO AE 09803-1307

U.S. Agricultural Trade Office
Regional Director
American Embassy
P.O. Box 94309, Riyadh 11693
Tel: 966-1-488-3800 Ext. 4351
Fax: 966-1-482-4364
Internet E-Mail Address: Agriyadh@usda.gov

2. 2006 Post Reports Relating to the Saudi Food Industry:

By accessing the website: www.fas.usda.gov (Country, Saudi Arabia, Attaché Reports), one can obtain the following reports on the Saudi food industry, submitted by the U.S. Agricultural Trade Office/Riyadh:

SA6001:	Trade Policy Monitoring Annual Report
SA6002:	Grain and Feed Annual
SA6003:	Quarterly Barley Trade Report
SA6004:	Saudi Arabia Bans Imports of Live Bovine Animals from State of Alabama
SA6005:	Saudi Missions Notarization Requirement for Some Commercial Documents Dropped
SA6006:	Saudi Arabian Applied Tariff Rates for Agricultural Products 2006
SA6007:	Biotechnology Annual Report
SA6008:	Food and Agricultural Import Regulations and Standards Update
SA6011:	Quarterly Barley Trade Report
SA6012:	Saudi Arabian Poultry Annual Report
SA6014:	Post Export Certificate
SA6015:	Update Saudi Arabian Exporter Guide Annual Report