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Report Highlights:

Saudi Arabia is a \$7 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 of high-value products from the United States reached a record \$153 million in calendar 2006. Intermediate and bulk agricultural products also play a major role in U.S. agricultural trade with Saudi Arabia. Saudi Arabia's young and growing population, factors that will make it an important 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 about 25 million people, including 7 million permanent non-Saudi residents. Saudi Arabia's population is growing at approximately three percent annually, with 70 percent under the age of 30. The Kingdom's total population is projected to exceed 40 million in the next 20 years. 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 also appoints a speaker and a 150 member Consultative Council (Majlis al-Shura) that has an advisory function, but also can 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. However, the government's continued campaign aimed at dislodging locally grown terror cells is showing results and the frequency of terrorist attacks has fallen in 2007. The overall political situation in the country remains stable.

Economic Situation

Saudi Arabia has an oil-based economy with strong government controls over major economic activities. The country possesses 25 percent of the world's proven petroleum reserves, is the world's largest exporter of petroleum, and plays a leading role in the Organization for Petroleum Exporting Countries (OPEC). The petroleum sector accounts for roughly 75 percent of the Kingdom's budget revenues, 45 percent of GDP (estimated at \$350 billion in 2006) and 90 percent of export earnings. In 2006, oil export revenue was estimated at nearly \$194 billion.

Trade Situation

In December 2005, Saudi Arabia became a member of the WTO; it agreed to ease trade restrictions and improve trade and investment opportunities in an effort to diversify its economy.

The Kingdom is a member of the Gulf Cooperation Council (GCC), which also includes Kuwait, Qatar, Bahrain, the United Arab Emirates and Oman. Membership confers special trade and investment privileges to member countries. Processed food products manufactured in any of these countries can be exported to other GCC countries duty-free. In January 2003, the GCC formally instituted its Customs Union. A five percent across-the-board common external tariff now applies to most imported food and agricultural products that enter from non-GCC suppliers. Also, the GCC is moving forward with its plan for greater economic integration and with ambitious plans to establish a monetary union, a common market, and a unified currency by 2010.

Saudi Arabia is also a member of the Arab League, which a couple of years ago 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. Potential for expanding agricultural production in Saudi Arabia is limited due to a

scarcity of arable land and water. Future food import dependence will continue to be high, and import volumes will grow proportionally with the population.

In 2006, the Kingdom's total agricultural product imports were valued at roughly \$7 billion. High-value products accounted for 50 percent of total imports, while intermediate agricultural products were estimated at about \$1 billion. In 2006 U.S. agricultural exports to Saudi Arabia increased 18 percent over the previous year to about \$450 million while consumer-oriented food products reached a record \$153 million in the same year. These figures do not include re-export shipments of U.S. agricultural products from the U.A.E. to Saudi Arabia estimated at about \$25 million annually.

For the first eight months of 2007, U.S. agricultural products export to the Kingdom increased by 22 percent over the same period a year earlier (\$372 million vs. \$305 million) while consumer-oriented food products imports increased by 9 percent (\$110 million vs. \$101 million). 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. Leading U.S. agricultural exports include: rice, yellow corn, soybean meal, planting seeds, crude and semi-refined corn oil, hardwood lumber, sweeteners, tree nuts (mainly almonds), snack foods, fresh apples and pears, processed fruit and vegetables, dairy products, red meat, and a wide assortment of other consumer-oriented products.

The government provides a rebate of \$133.33 per metric ton toward purchases of imported yellow corn and soybean meal, while barley importers receive a subsidy payment of \$186.67 per metric ton. These subsidies are paid directly to the importer. The subsidy on corn is based on U.S. number 2 yellow corn.

Saudi Arabia's biotech labeling requirements and additional manufacturer/producer statements for imported livestock and poultry meat remain major concerns for U.S. exporters. For religious reasons, the Kingdom requires a manufacturer/producer declaration that imported meat was derived from animals that were not fed feed containing animal protein, fat or remnants of animal origin.

Highlights for sales of U.S. Agricultural, Fish and Forestry Products to Saudi Arabia in 2006:

- Overall increase of 18 percent to \$450 million.
- Intermediate agricultural products continue as the leading product category, with sales of approximately \$160 million.
- U.S. exports of consumer-ready products reached a record high \$153 million.
- Bulk products increased 38 percent to \$113 million.

Regulatory System

The Saudi Arabian Standards Organization (SASO) is the government body responsible for setting national standards for agricultural products and foodstuffs. While standards are set by SASO, the Saudi Ministry of Commerce and Industry (MOCI) tests imports of processed food items, and beef and poultry meat at various ports of entry. The Ministry of Agriculture is responsible for testing imported fresh fruit and vegetables, livestock, feed and seed. The Ministry of Municipality and Rural Affairs tests foodstuffs at the point-of-sale to confirm that they meet established food safety standards.

In December 2001, MOCI implemented its biotech labeling decree for processed foodstuffs. The decree requires positive biotech labeling if a product contains genetically modified vegetable (plant) ingredients. In a similar move, the Saudi Ministry of Agriculture (MOA) implemented in January 2004, a comparable biotech-labeling requirement for animal feed and fresh fruit and vegetables. At the same time, the MOA banned imports of biotech seeds.

In February 2005, the Saudi government announced the establishment of a national committee to conduct a comprehensive policy review of its biotech labeling requirements. In early 2006, the committee distributed three sets of draft standards for public comment: (1) General Requirements for Genetically Modified Processed Food, (2) Feed and General Requirements for Genetically Modified Unprocessed Agricultural Products and (3) General Requirements for Risk Assessment and Traceability. The comment period for the three draft standards ended in April 2006 and SASO is now reviewing received comments to determine if another set of draft standards will be issued for public review or whether enough information has been collected for SASO to issue final standards.

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

| Opportunities | Threats |
|--|--|
| The Saudi population is growing at about 3 percent annually. Total population is expected to expand from 25 million to 40 million in 20 years. | Various government subsidies have helped local food processors significantly lower their production costs and improve their competitiveness compared to imported U.S. foodstuffs. |
| The potential for agricultural production is limited and food imports will grow with the population. | Locally produced food products can be exported duty free to any country within the GCC. |
| The market for retail food products is expanding. | Price competitiveness of foodstuffs imported from Arab, South Africa, Latin America, and Asian countries has significantly reduced the market share of the U.S. agricultural products in the past few years. |
| Changing lifestyles: The number of working women is expanding and purchases of prepared food items are growing. | Freight costs from the U.S. are higher than those from Europe and Asia. |
| Saudi consumers like to try new products and are shopping more often in supermarkets. | Local importers prefer to initiate import activity with small quantities. |
| The U.S. is considered a supplier of quality foodstuffs. Under normal political and economic conditions, U.S. origin and brand products have highly favorable consumer preferences and demand. | Arabic and biotechnology labeling requirements increase costs. |
| Voluntary shelf life introduced in December 2005. | Halal certification required for all meat and poultry products exported to Saudi Arabia. |
| More than 7 million pilgrims come to Mecca each year. | Additional manufacturer or producer statements on the health certificate indicating that meat exported to Saudi Arabia is derived from animals that were not fed animal protein, fat or ruminant material. |
| A growing number of fast food restaurants, hotels and resorts and a thriving catering sector that depends heavily on imported, institutional-size food products. | Saudi regulations restrict the number of different food items in a container to 25. |
| Young population: 70 percent of all Saudis are under the age of 30. Younger Saudis prefer Western-style foods compared to their parents. | Saudi support for boycotts of American products for political reasons. |
| A rapidly growing food processing sector that depends on imported ingredients. | An economy that is overly reliant on oil revenue and therefore subject to sharp swings due to volatile oil prices. |
| Per capita income in 2006 increased to \$15,000. | Limited U.S. cooperator or SRTG activity for standard trade servicing. |
| | U.S. companies are hesitant to travel to Saudi Arabia to pursue export sales opportunities because of security concerns. |
| | Saudi importers have post 9/11 concerns about traveling to the U.S. to attend agricultural trade events. |

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.
 - Less than One Percent Maximum Biotech Threshold: MOCI requires biotech labeling if biotech content exceeds 0.9 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 few 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.

The requirements are as follows:

- 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 reports SA7014 and SA7015 provide detailed information on Saudi Arabia’s food and agricultural import regulations and list and describe certificates that should accompany all food and agricultural product imports into Saudi Arabia. The following suggestions may assist prospective U.S. export enter Saudi Arabia’s imported consumer-oriented food products market:

- 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 Global Food & Style Expo held in Chicago as well as international expositions such as ANUGA in Cologne, Germany; SIAL in Paris and the Gulfood Show in Dubai. The Gulfood Show is held every year in February. This year, the fair will be held February 24-27. More information on international shows can be obtained by contacting the respective FAS office located in each country. Smaller local food expositions are held annual and bi-annually in Jeddah and Riyadh respectively.
- 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 U.S. products, it is important to understand how the companies operate in the Kingdom. 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 of U.S. 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, or under 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, and Budweiser 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.

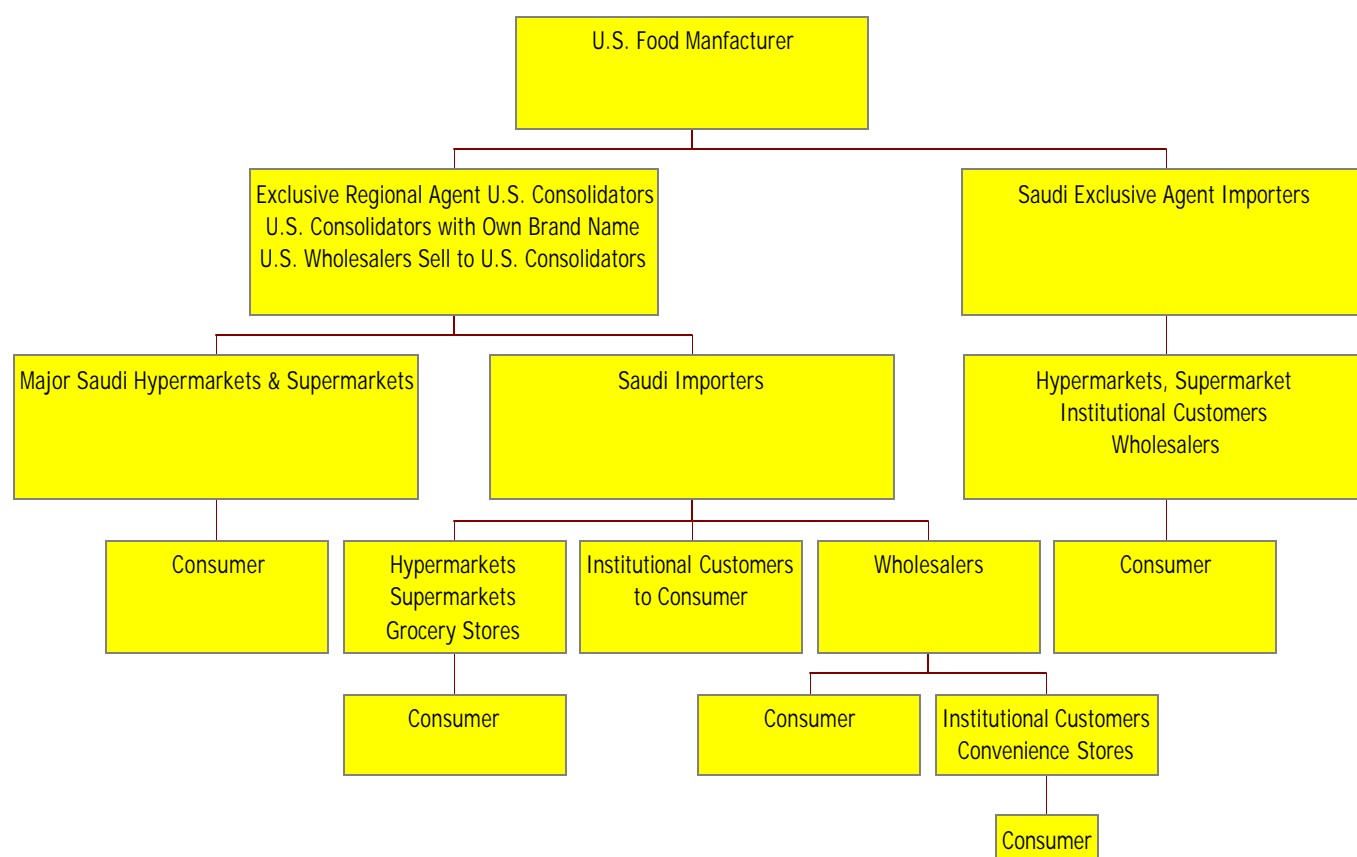
4. Géant and Carrefour (French hypermarket chains), as well as many locally based supermarkets with the ability to handle large import volumes, are directly importing part of their needs. One local company that operates a modern supermarket chain imports several containers of U.S. food products monthly 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.-based consolidators. Many 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, Panda, or Danube Supermarkets. About ten consolidators sell an estimated 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 | Number of Outlets | Location/City | Purchasing Agent Type |
|---------------------------------|----------------------------|---|--|-----------------------|
| Panda Super and Hypermarkets | Local | 61 (52 supermarkets 9 and Hypermarkets) | Riyadh, Jeddah, Dammam, Dhahran, Jubail, Rastanura, Mecca and Qassim | Local buyer/importer |
| Universal Marketing (Al-Othaim) | Local | 42 | Riyadh and, Qassim regions | Local Buyer/importer |
| Farm Supermarkets | Local | 18 | Dammam, Jeddah, Al-Khobar, Dharan, Qatif, Jubail, Rastanura, | Local buyer |
| Al Raya | Local | 15 | Jeddah, Mecca, Medina, Taif | Local buyer |
| Bin Dawoud Superstores | Local | 14 | Jeddah, Mecca & Madina | Local buyer |
| Giant Sores | Local | 12 | Riyadh, Dammam, Jeddah, Khamis, Jubail | Local buyer\importer |
| Tamimi Markets | Local | 11 | Riyadh, Dammam, Al-Khobar | Local buyer/importer |
| Omar Ali Balsharaf Supermarkets | Local | 7 | Riyadh | Local buyer |
| Danube Super and Hypermarkets | Local | 7 (5 supermarkets and 2 hypermarkets) | Jeddah, Riyadh | Local buyer/importer |
| Al Sadhan | Local | 7 (4 supermarkets and 3 hypermarkets) | Riyadh | Local buyer |
| Carrefour Hypermarket | Local/French joint venture | 6 | Riyadh, Jeddah, Al Khobar | Local buyer\importer |
| Géant Hypermarket | Local/French joint venture | 6 | Riyadh, Jeddah, Al Khobar, Al-Kharj, | Local buyer\importer |
| Star Supermarkets | Local | 6 | Jeddah, Yanbu | Local buyer |
| Arabian Food Supplies | Local | 5 | Dharan | Local buyer/importer |
| Watani Super Center | Local | 5 | Jeddah, Mecca, Riyadh | Local buyer |
| Ahmed Al-Ghamdi Supermarket | Local | 5 | Dammam | Local buyer/importer |
| Sarawat Supermarket | Local | 4 | Jeddah, Medina | Local buyer |
| Al Hamada Stores | Local | 4 | Jeddah | Local buyer |
| Marhaba Supermarkets | Local | 3 | Jeddah | Local buyer |
| Halwani | Local | 3 | Riyadh, Jeddah | 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 |
| Euromarche | Local | 1 | Riyadh | 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. Currently, there are more than 250 Class A supermarkets operating in the Kingdom. Smaller supermarkets using grocery carts are estimated at more than 150, and they are referred to as Class B supermarkets. A Class A supermarket is defined as a retail store with more than 1,000 square meters, five or more check out counters with complete self-service, modern IT systems and which carries comprehensive grocery and other products such as produce,

butchery, bakery, frozen, chilled, and non-food ranges. Products are supplied direct from suppliers.

Class B supermarkets have up to 500 square meters of store space and have two or more check out counters. The stores 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 400 in 2007 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.

The recently introduced hypermarkets are huge (up to 100,000 square feet), with up to 60 checkout counters. They provide more than 55,000 items including foodstuffs, clothing, tools, toys, and electronics. To date, there are 25 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.

Major Saudi supermarkets such as 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 SAVOLA group, is the largest supermarket chain in Saudi Arabia. The firm operates 52 supermarkets and 9 hypermarkets outlets in all major cities of the Kingdom. The firm has an ambitious plan to double the number of its stores to 130 outlets (100 supermarkets and 30 hypermarkets) by 2010. Al Sadhan, another local retailer, announced a plan to increase the number of its hypermarkets from 3 in 2007 to 18 outlets in the next ten years. Carrefour and Géant intend to triple the number of their outlets in next the seven years. Currently, Carrefour and Géant have six stores each.

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 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.

Wholesalers have store space ranging from 50 to 500 square meters. They are unsophisticated, with only a few having a proactive sales force. They sell in bulk to institutional customers, caterers, bakalahs and large families. A few of the large wholesalers do stock comprehensive ranges. They offer some credit facilities to selected institutional customers and retailers. A limited number of large wholesalers account for most of the total wholesale trade.

8. Structure of Corner Grocery Stores (Bakalahs)

Corner grocery stores (convenience stores), commonly referred to as bakalahs are found in every Saudi Arabian neighborhood. They have floor size less than 50 square meters. Bakalahs have limited access to distributors, they deal on a cash basis and purchase most of their stocks from wholesalers except for a few fast moving brands that are delivered by importers. Despite the growing number of modern supermarkets in Saudi Arabia, the food-retailing role of bakalahs continues to be important.

Prices tend to be high but bakalahs maintain an advantage over supermarkets by providing services to shoppers looking to quickly buy a few 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 bakalahs within walking distance of their homes. Also bakalahs are very important to third country nationals working in the Kingdom who do not own automobiles. Most compounds housing expatriates contain one or more corner grocery stores.

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 GCC. 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 ¹

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 most recent available data, poultry imports in 2003 totaled about \$450 million. Brazil, France and China accounted for 60 percent, 27 percent and 10 percent respectively 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

In 2003, Saudi Arabian cheese imports exceeded \$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, 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 enjoyed a 5 percent market share. Leading suppliers were 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, which is 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 \$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.

¹ All import data in this section are based on Saudi Customs official data reported in 2003, the most recent year available.

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 United States, 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, consisting largely of almonds, were approximately \$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

1. 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.

2. 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 and FURTHER INFORMATION

1. Post Coordinates

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. By accessing the website: www.fas.usda.gov (Country, Saudi Arabia, Attaché Reports), the following reports can be obtained on the Saudi food industry:

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| SA7001: | Quarterly Barley Trade Report |
| SA7002: | Grain and Feed Annual |
| SA7005: | Discovery of Avian Influenza in Saudi Arabia |
| SA7007: | Quarterly Barley Trade Report |
| SA7010: | GCC Issues Draft Harmonized Food Inspection Procedures |
| SA7012: | Biotechnology Update |
| SA7013: | Quarterly Barley Trade Report |
| SA7014: | FAIRS Country Report |
| SA7015: | FAIRS Export Certificate Report |
| SA7016: | Exporter Guide |
| SA7017: | Quarterly Barley Trade Report |