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Approved by:

Asif J. Chaudhry
U.S. Embassy, Cairo, Egypt

Prepared by:

Hussein Mousa, Fred Giles

Report Highlights:

The Saudi market for imported consumer oriented products increased by 15 percent from 2002 to 2003, reaching about \$3.1 billion in CY 2003 (total Saudi food and agricultural, fish and forestry products imports amounted to \$5.8 billion in 2003 based on U.N. data). According to U.S. census data, exports of consumer-oriented products from the United States to Saudi Arabia increased from \$107 million in CY 2002 to \$121 million in CY 2003. U.S. exports of consumer ready products in 2004 decreased 3 percent to \$118 million compared to the 2003 figure of \$121 million issued by the U.S. census bureau.

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SECTION I. MARKET SUMMARY

1. Summary and Facts

The Kingdom has more than 260 billion barrels of proven oil reserves, more than 25 percent of the world total and up to 1 trillion barrels of ultimately recoverable oil. The country is the leading oil exporter in the world and the economy depends on oil revenue and is subject to sharp swings caused by volatile oil prices. Oil and oil derivatives account for up to 95 percent of the Kingdom's export earnings. Gross domestic product (GDP) increased by an estimated 31 percent from 1999 to 2003 (\$161.0 billion vs. \$211.2 billion), increasing the per capita nominal GDP from \$8,001 to \$9,139 in the same period. The sharp increase in oil prices in the past several months is expected to further boost the country's GDP and per capita income by the end of 2004.

The Saudi annual population growth rate remains above three percent, with 70 percent of the population under the age of 30. The Kingdom's population is expected to double in 20 years from its current level of 24 million to more than 40 million.

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 increase in number in the major urban areas of the Kingdom: Riyadh (Central Province), Jeddah (Western Province), and Dammam, Al Khobar, and Dhahran (Eastern Province). Increases in the number of outlets have made it feasible for many supermarket chains to import a portion of their stock directly. Nevertheless, supermarket chains and other retailers largely depend on local importers for sourcing, merchandising, and inventory control.

The Saudi market for imported consumer oriented products increased by 15 percent from 2002 to 2003, reaching about \$3.1 billion in CY 2003 (total Saudi food and agricultural, fish and forestry products imports amounted to 5.8 billion in 2003 based on U.N. data). According to U.S. census data, U.S. exports of consumer ready products in 2004 decreased by 2.97 percent compared to the 2003 level.

Nowadays, an increasing threat to the expansion of U.S. foodstuff exports to the Kingdom comes from growing and fierce competition from locally produced and imported food products mainly from the EU, and nearby Arab and Asian countries. The number of food processing companies in the Kingdom continues to grow. Both local and foreign brand potato chips (Frito-Lay), snack foods, fruit juices, breakfast cereals, peanut butter, cheeses, tomato pastes, hot sauce, ketchup, and other products are produced in Saudi Arabia. Most food processors rely extensively, if not entirely, on imported raw ingredients.

Category	Value
Per Capita GDP (2003)	\$9,139
Total Agricultural Imports (2003 per Saudi Customs data)	\$5.8 billion
Total Imports of Consumer-Oriented Food Products (2002 per Saudi Customs data)	\$3.1 billion

Saudi Arabia is the largest agricultural, fish and forestry products importer among members of the Gulf Cooperation Council (GCC) countries. In 2003, food imports totaled about \$6 billion, of which high value products accounted for 50 percent; while intermediate agricultural products reached about one billion U.S. dollars. Total U.S. agricultural exports to Saudi Arabia increased by 11 percent over 2003 levels in 2004 despite difficult security conditions.

The Kingdom has remained the leading GCC market for U.S. agricultural product exports to the region. Under normal political and economic conditions, U.S. origin and brand products have highly favorable consumer preferences and demand. As such, the long-term outlook for U.S. agricultural product exports to Saudi Arabia is good. Due to the security situation in the country, ATO Riyadh's activities have evolved into more market intelligence, market access and trade servicing as opposed to typical marketing activities such as trade shows and in-store promotions.

Highlights for sales of U.S. agricultural, fish and forestry products to Saudi Arabia in 2004 compared to 2003 exports based on U.S. Customs data:

- Overall growth of 11 percent to \$396 million, and growth mainly in bulk, 54 percent; and forest products, 35 percent;
- Bulk products export in 2004 reached \$107 million compared to \$69 million in 2003;
- Intermediate product exports decreased from \$140 million in 2003 to \$138 million in 2004;
- Consumer ready products decreased by 2.5 percent to \$118 million in 2004;
- Forest products grew by 54 percent to \$30 million in 2004;
- Fish and seafood products exports declined by 19.7 percent to \$2.3 million in 2004.

The Saudi market for imported consumer oriented products increased by 15 percent from 2002 to 2003, reaching \$3.1 billion in CY 2003 (total Saudi food and agricultural, fish and forestry products imports amounted to \$5.8 billion in 2003 based on U.N. data). According to U.S. census statistics, exports of consumer-oriented products from the United States to Saudi Arabia decreased from \$121 million in CY 2003 to \$118 million in CY 2004. However, major local foodstuff importers have indicated a significant increase in U.S. consumer oriented foodstuffs imports so far this year. According to U.S. census data for January-July 2005, imports of high value products from the United States increased by 11 percent compared to the same period last year (\$74 million vs. \$67 million.) A strong euro relative to the U.S. dollar, to which the Saudi riyal is pegged (\$1=3.75 Saudi riyals), is one of the reported reasons for the increased U.S. agricultural exports to the Kingdom in the first seven months of this year.

The table below provides a summary of advantages and challenges inherent in the Saudi market for imported foodstuff

Opportunities	Constraints
<p>The Saudi population is growing at about 3.5 percent annually.</p> <p>The number of upscale supermarkets continues to increase, creating greater opportunities to display new-to-market American food products.</p> <p>Growing number of fast food restaurants, hotels and resorts and the thriving catering sector depends heavily on imported institutional size food products.</p> <p>Rapidly growing food-processing sector depends on imported ingredients.</p> <p>Saudi consumers like to try new products and shop more often at supermarkets.</p> <p>The increasing positive attitude of Saudis to mass media advertisements.</p> <p>The U.S. is considered a supplier of quality foodstuffs.</p> <p>The potential for agricultural production is limited in Saudi Arabia due to the lack of arable land and water, hence imports of food will continue to be strong and will continue to increase in the future.</p> <p>Young population: Virtually 70 percent are under the age of 30. Younger Saudis prefer Western-style foods more than their parents.</p> <p>Changing lifestyles: The number of workingwomen is increasing, leading to more shopping at supermarkets to purchase prepared food items.</p> <p>Per capita income of \$10,430 in 2004 and this is expected to increase to \$14,133 this year due to high oil prices.</p>	<p>Increased competition from locally produced food products and from imported food from Europe, nearby Arab countries and Asia.</p> <p>Freight costs from the United States are higher compared to those from Europe and Hong Kong.</p> <p>Local importers usually prefer to start imports with small quantities while some U.S. firms prefer to start with larger orders.</p> <p>Arabic labeling, biotechnology labeling and shelf life restrictions.</p> <p>All consumer ready foodstuffs must arrive at Saudi ports with half shelf life or more remaining.</p> <p>Halal certification required for all meat and poultry products exported to Saudi Arabia.</p> <p>Additional statements on the health certificate accompanying poultry and livestock meat shipments to indicate that the animals slaughtered for export to the Kingdom were not fed animal protein, ruminants and were not treated with growth hormones.</p> <p>Saudi regulations require that the number of different food items in one container not exceed 25.</p> <p>Willingness by a significant percentage of the Saudi consumers to support calls to boycott American products for political reasons.</p> <p>High prices of U.S. goods compared to other sources.</p> <p>The Saudi economy is overly reliant on oil revenue and subject to sharp swings caused by volatile oil prices.</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 competitive market, a wide array of products must be available to consumers. Some guidelines applicable to new-to-market exporters who wish to enter the Saudi market are as follows:

- Find a strong Saudi partner: A company with a professional sales force and a strong distribution network. The U.S. Agricultural Trade Office/Riyadh (ATO Riyadh) maintains lists of key importers.
- Pay a visit to Saudi Arabia, if possible: 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 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 ink different from that of the main product table.
 - Health Certificate: Biotech products or genetically engineered products, which are 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 items used in a foodstuff.

- 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: The biotech labeling requirements will also apply to locally produced agricultural products.
- One Percent Maximum Biotech Contamination: The MOCI approved a one percent maximum threshold limit for defining a biotech foodstuff based on the recommendation of the Saudi Food Safety Committee.
- Random Sampling: The MOCI randomly samples imported foodstuffs at ports of entry for testing. According to reports from MOCI, test results thus far have been good. Food products declared biotech free have tested negative for the most part. However, there have been some cases of undeclared biotech presence mostly in foodstuffs imported from the Far East countries and a couple from the United States. According to the MOCI, those companies involved in exporting the biotech foodstuffs without labeling them properly have been banned indefinitely from exporting any food products to Saudi Arabia.
- Understand Saudi Arabia's shelf-life requirements: Every food product sold in the Kingdom must be stamped with production and expiry dates, and must meet specific requirements set by the Saudi Arabian Standards Organization (SASO). The words "production and expiration" should be translated into Arabic.
- Provide Product Performance Information: Saudi importers and distributors convey to ATO Riyadh that they would like to know how a product performed in the United States in terms of sales before test marketing it 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 regional shows are held every other year. More information on the international shows can be obtained by contacting the respective FAS office located in each country. Smaller local food expositions are held biannually 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:

Private Labels: Some large Saudi importers pack foodstuffs under their own brand names locally and in foreign countries including in the United States. The firms have developed private labels appealing to Saudis and other Arabs in the Kingdom. Others use labels with Western-sounding names to appeal to British, Americans, and other Western and non-Arab expatriates. Salim Basamah Company, perhaps the largest importer of grocery products in Saudi Arabia, places its private label, "Goody" on a wide variety of food products imported from the United States. "Goody" appeals to expatriates as well as to Saudis due to its Western-sounding name Basamah's cousin, also a large food importer and significant food

processor, uses an Arabic sounding private label, "Al-Alali" to appeal to Saudis and Arabs, even though a significant percentage of his 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 or Al-Alali
- or under a U.S. private label: such as Monarch

Sole Agency Agreements: Some importers deal with U.S. companies manufacturing and marketing national brands, such as Kellogg's, Campbell Soup, or Budweiser non-alcoholic beer and usually require sole agency agreements. The Saudi importers will help build the brand, but request support from U.S. companies. Assistance offered by the U.S. companies includes promotional and marketing assistance.

U.S. Based Consolidators: Some companies import a wide range of food products for mass distribution, employing the use of consolidators in the United States. Many of the 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. Stickers is a laborious task and most 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.

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 have 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, significant quantities of U.S. origin grocery items found in Saudi supermarkets have stickers.

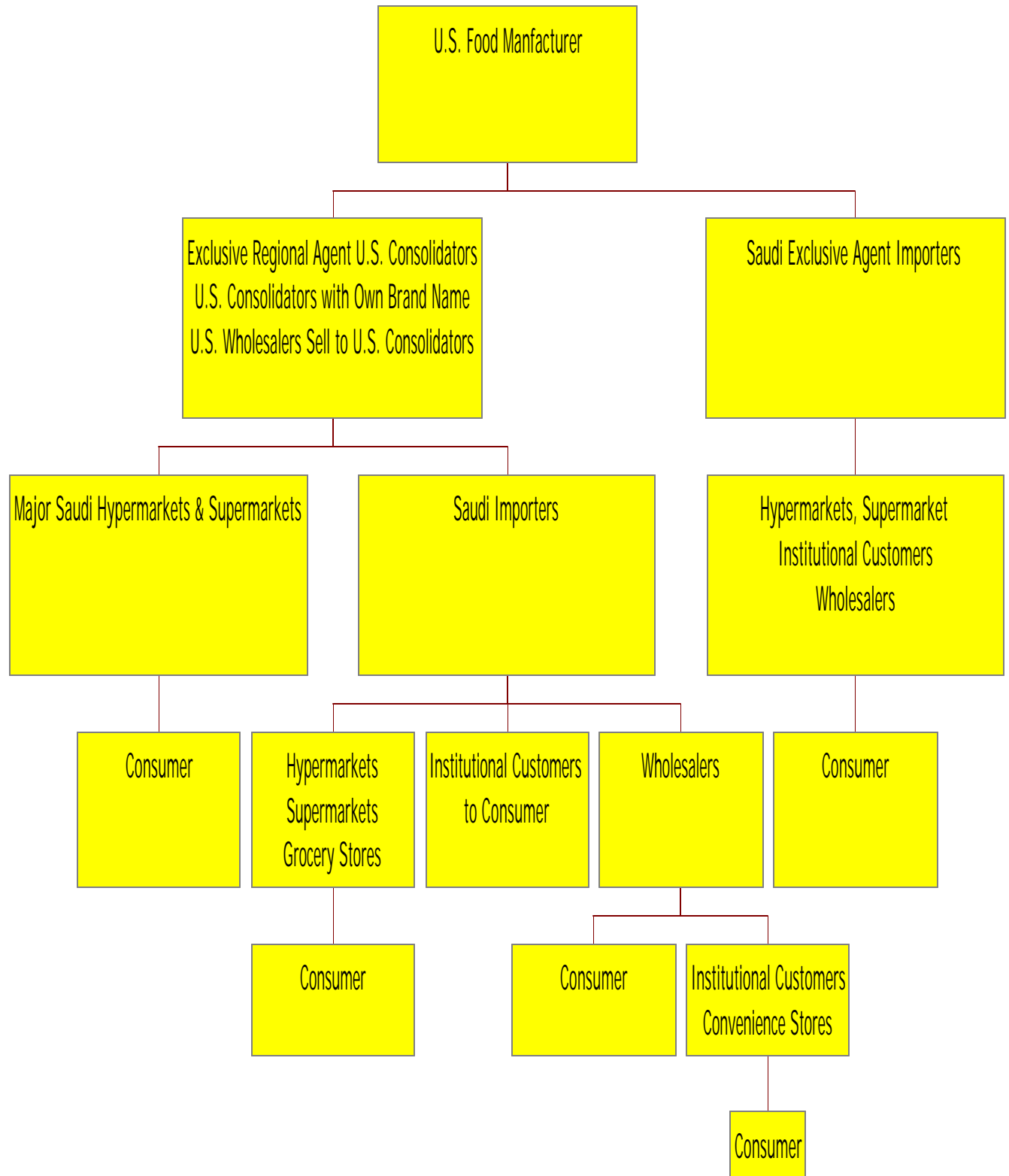
Direct Imports by Retailers: The newly inaugurated French hypermarkets and many local supermarket chains such as Tamimi Markets, especially those with the ability to handle large volumes, are importing directly part of their needs. One local company owning a modern supermarket chain imports several containers of American food products each month for sale in its stores, lending support to a wide range of brands without a binding agency agreement.

Saudi importers 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. Two-for-one deals are very popular in larger supermarkets in clearing near expiry foodstuffs. Major Saudi supermarkets are in the initial stage of introducing category management. As the system becomes more popular, many product brands that do not perform well will be eliminated. The recent introduction of French hypermarket chains Géant and Carrefour (will open early December 2004) to the Saudi retail market, as well as the opening of Hyper Panda, have launched a new era of retailing in the Kingdom with the state of the art shopping experience resulting in fierce head on competition in the Kingdom's retail sector. Hyper Panda is owned by Al Azizia-Panda Inc., the largest local supermarket chain with 47 outlets in major cities of the Kingdom. Local distributors are being asked for listing fees ranging from \$2,000 up to \$27,000 depending on the size and

power of the distributor. The bigger the distributor, the more power he has to negotiate a smaller listing fee. In addition to listing fees, distributors are asked to provide specified percentage rebates on total annual turn over, contribute to advertising campaigns, provide at least 60 day payment terms, and provide reimbursements for expired items. Distributors authorize retailers to make special offers to consumers such as buy one and get one free, mainly for products with a 60-day shelf life remaining.

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 or square meters are not available to the public. There are no food publications or supermarket journals in Saudi Arabia. The U.S. Agricultural Trade Office in Riyadh compiled the information indicated 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	49	Riyadh, Jeddah, Dammam, Dharan, Jubail, Rastanura, Mecca and Qassim	Importer/local buyer
Universal Marketing (Al-Othaim)	Local	35	Riyadh, Qassim, Hafraalbatin	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/Al Khobar, Jeddah	Importer/Local buyer/
Carrefour Hypermarket	Local/French joint venture	4	Riyadh/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 supermarket chains listed above are the larger supermarkets in the Kingdom (in terms of floor space and volume) and are referred to by the food trade as Class A supermarkets. The list shown above is a partial list of Class A supermarkets operating in the Kingdom and they total more than 220. Smaller supermarkets those that contain grocery carts number at least 100 and they are referred to as Class B supermarkets. The definition between Class A and Class B supermarkets is not well defined in Saudi Arabia. However, the recently introduced hypermarkets are huge (up to 100,000 square feet), with up to 60 check out counters, and provide more than 55,000 items including foodstuffs, textiles, clothing, tools, toys, computers, cleaning machines and various electronics. There are now 10 hypermarkets dispersed in the three major cities of the Kingdom (Riyadh, Jeddah and Dammam). It is vital to note that information on the supermarket industry and food trade in the Kingdom is virtually non-existent. Saudi companies are not subject to taxes and financial information is not available to the public.

Class B supermarkets are located in 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 over more than 300 in 2004 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 more 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 introduction of the two French stores was a debut for foreign hypermarkets to enter the growing and lucrative Saudi retail market since a trial entry by a U.S. based Safeway supermarket in late 1970s, which lasted only a few months due to operational difficulties. The U.S. chain, which initially joined hands with a local businessman, exited the Saudi market by selling its shares to a Saudi partner who renamed it Tamimi Markets. The store continues to carry Safeway brand products and is currently considered the leading class A supermarket chain in the country.

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 neighborhood and gas station in the Kingdom. They cater mainly to Saudis and citizens from developing countries. Despite the growing number of modern supermarkets in Saudi Arabia, the number of bakalahs has not decreased. The reasons are that women are not permitted to drive and depend on grocery stores within walking distance; most third country nationals working in the Kingdom do not own automobiles; continued rapid expansion of urban and suburban areas due to constructions of new homes and apartments. Most compounds housing expatriates contain one or two 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 chillers and the capability 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 significantly. Virtually, all gas stations in the Kingdom have stores ranging from small kiosks to more than 500 square meter convenient stores. The stores are well refrigerated and carry a diverse variety of high value products.

SECTION III. COMPETITION

1. Local Food Processing Sector

Local manufacturing of food products has expanded rapidly in recent years. The Saudi government assists the food industry 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 members are 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 set up 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 are imported. Most manufactured food products are made with imported ingredients. Sunbullah, for example, imports blocks of frozen vegetables, and subsequently breaks the blocks down to consumer-size packages for sale in Saudi retail outlets.

2. Imports

Markets for selected imported products are summarized below.

Poultry

The Saudi poultry production sector is dominated by chicken meat less than 16 weeks old, and accounts for about 55 percent of local demand. The gap is filled by imports of frozen broilers and parts, mainly from Brazil, France, and China. According to data from Saudi Customs, total poultry imports in 2003 totaled about \$449.3 million with Brazil, France and China accounting, respectively, for 60 percent, 27 percent and 10 percent of the 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 exported to the Kingdom must be obtained from chicken fed solely on vegetable protein are the major hurdles facing U.S. poultry meat exporters to Saudi Arabia. Poultry meat sold in Saudi Arabia must be free of growth hormones and slaughtered in accordance with Islamic rituals, or "Halal".

Cheese

Saudi Arabia imported about \$247.8 million worth of cheese in 2003. Leading suppliers were Denmark (28 percent), Australia (24 percent), France (10 percent), Poland (9 percent), and New Zealand (8 percent). The U.S. market share was less 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 cheeses in blocks is expected to increase.

Red Meats

The United States accounted for 5 percent of the total Saudi Arabian red meat import market valued at more than \$224 million in 2003. 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 sold primarily in Class A supermarkets, "Western" hotels, and American fast food chains. The main barrier to U.S. beef is its high price, which, on average, is more than double the price of other suppliers. The 2001 Saudi Government requirement that red meat exported to the Kingdom must be obtained from cattle fed solely on vegetable protein, are the major hurdles facing U.S. beef exporters to Saudi Arabia. Beef sold in Saudi Arabia must be free of growth hormones and slaughtered in accordance with Islamic rituals, or "Halal".

Processed Fruit and Vegetables

The United States accounted for 15 percent of the total Saudi Arabian processed fruit and vegetables import market valued at about \$171 million in 2003. Other major suppliers were the Netherlands (12 percent), Spain (8 percent) and Egypt (8 percent) and the U.A.E. (6 percent). Processed fruit and vegetables are sold in all types of retail outlets from Class A supermarkets to neighborhood convenience stores.

Snack Foods

Saudi Arabia imported \$205.4 million worth of snack foods in 2003, excluding nuts. Leading suppliers were the U.A.E. 18 percent, and the Netherlands (12 percent), the U.S. (10 percent) and Italy (8 percent). The last official census indicated that more than 60 percent of the Saudi population is in their teens, which as a group is a heavy user of snack foods. Local snack foods production has drastically increased in the past few years, accounting for about 50 percent of the local consumption in recent years.

Apples

Saudi Arabia is the largest market for imported apples of the 6 GCC countries, buying \$46 million in 2003. With 29 percent market share, Chile was the dominant supplier in 2003 followed by France (20 percent), the U.S. (13 percent), and Iran (9 percent). Red apples dominate the market. The overall demand for apples is forecast to grow by 4 percent in the next five years, with the U.S. share expected to increase slightly higher at 5 percent. Promotional activities to create more awareness of U.S. apples and varieties will be needed to maintain and increase the U.S. market share.

Tree Nuts

Saudi Arabia imported about \$27 million of tree nuts mainly almonds in 2003. The U.S. was the dominant supplier, accounting for 44 percent, followed by Iran (40 percent), and India (11 percent). Almonds are an integral part of the Saudi diet, used in sweets, cakes, and biscuits. A marked increase in demand occurs during the fasting month of Ramadan and the Haj (the pilgrimage to Mecca).

SECTION IV. BEST MARKET PROSPECTS

A. Products in the Market that have Good Sales Potential

Most Saudi importers buy for mass distribution and employ consolidators. Consolidators source products from wholesalers, apply bilingual stickers, and put together mixed containers for shipment to Saudi Arabia. Consolidators often recommend new-to-market products to the importer. Given the affinity for new products by Saudis and ex-patriots (particularly those from the United States and Europe), Saudi importers and supermarket executives are constantly searching for new food items to introduce into the already strong market for grocery products. Popular product categories include prepared fruits and vegetables, beverages, poultry parts, snack foods, candies, 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 are becoming more health conscious. Saudi Arabia 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, and gelatin. Other banned products include meat of donkey, mules, hinnies (fresh chilled, or frozen), frog legs, poppy seeds, hemp seeds, opium and 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. 2004 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:

SA5001:	Agricultural Policy Update
SA5002:	Saudi Arabian Poultry Semi-Annual Report
SA5003:	Grain and Feed Annual
SA5004:	Saudi Arabian Trade Policy Monitoring Report
SA5005:	Import Ban on U.S. Live Poultry Removed
SA5006:	Market Brief: Beef
SA5007:	Quarterly Barley Trade Report
SA5010:	Agricultural Biotechnology Annual Report
SA5011:	Saudi Arabia Food and Agricultural Import Regulations and Standards Update
SA5012:	Quarterly Barley Trade Report
SA5014:	Saudi Arabian Poultry Annual Report
SA5016:	Update Saudi Arabian Exporter Guide Annual Report
SA5018:	Saudi Arabia Lifts Ban Imposed on Bull Semen Imports Because of Possible Infection with BSE