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Retail Food Sector

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Report Highlights:

The Saudi market for imported consumer oriented food and edible fishery products increased by about four percent from 2001 to 2002, reaching approximately \$2.7 billion in CY 2002 (total Saudi food and agricultural, fish and forestry products imports amounted to \$5.3 billion in 2002). According to the U.S. census data, exports of consumer-oriented products from the U.S. to Saudi Arabia increased from \$107 million in CY 2002 to \$121 million in CY 2003.

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SECTION I. MARKET SUMMARY

Note: The Saudi Riyal is fixed to the U.S. dollar at 3.75 SR to US\$1.00.

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 food and edible fishery products increased by about four percent from 2001 to 2002, reaching about \$2.7 billion in CY 2002 (total Saudi food and agricultural, fish and forestry products imports amounted to \$5.3 billion in 2002). According to the U.S. census data, exports of consumer-oriented products from the U.S. to Saudi Arabia increased from \$107 million in CY 2002 to \$121 million in CY 2003.

Nowadays, an increasing threat to the expansion of U.S. foodstuffs exports to the Kingdom comes from a growing and fierce competition from both locally produced and imported food products mainly from 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.

Per Capita GDP (2003):	\$9,139
Total Agricultural Imports (2001 per Saudi Customs data):	\$5.3 billion
Total Imports of Consumer-Oriented Food Products (2002 per Saudi Customs data):	\$2.7 billion

Total U.S. Agricultural, Fish & Forestry Product Exports to Saudi Arabia reached \$356 million in CY 2003 according to the U.S. Trade data of which:

Bulk:	\$ 69.3 million
Intermediate:	\$140.3 million
Consumer-Oriented:	\$ 121.1 million
Forest Products:	\$ 22.5 million
Fish and Seafood:	\$ 2.1 million

2. Trends in the Saudi Food Retail Sector:

Of the Kingdom's 24 million inhabitants, about 8 million are non-Saudis, or expatriates. The expatriate population in Saudi Arabia consists mainly of workers from Arab countries, the Sub Continent of Asia (India, Pakistan, Bangladesh, Sri Lanka), the Philippines, East Africa, Europeans and Americans. The challenge for Kingdom's retailers is to meet both the needs of indigenous Saudi and that of the large expatriate consumers. Below are the recent developments in the local retail sector.

- ❖ The Saudi market for imported consumer food and edible fishery products increased by four percent from 2001 to 2002, reaching 2.7 billion U.S. dollars (total Saudi food and agricultural imports totaled more than \$5.3 billion in 2002 per Saudi Customs data). U.S. exports of consumer-oriented products to Saudi Arabia increased by 13 percent from \$107 million in CY 2002 to \$121 million in CY 2003 (per U.S. data). The main contributing reasons for the increased U.S. foodstuffs imports were the expansion in the retail sector, the capabilities of U.S. beef exporters to adapt to the Saudi Arabian meat and poultry import regulations issued in 2001 and the diminished effect of the grassroots movement to boycott American products due to the ongoing political situation in the region. Major local foodstuff importers have indicated a significant increase in U.S. foodstuffs imports thus far this calendar year. According to the U.S. census January-July 2004 data, total agriculture, fish and forestry products imports from the States increased about 22 percent, compared to the same period last year. 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 products exports to the Kingdom in the first seven months of this year.
- ❖ Saudi consumers are discriminating consumers and they enjoy new food products. With a young and growing population as well as a significant increase in retail outlets, U.S. food and agricultural exports to the Kingdom should continue to expand in the coming years.
- ❖ 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 and hypermarkets are popular with the Saudis and continue to increase in number in the major urban areas of the Kingdom: Riyadh, Jeddah, Dammam, Al Khobar, Dharan, Madina, Mecca, Taif, Tabuk, Abha, Jubail, Yanbu, Buraydah, Hail and other major cities.
- ❖ An increasing number of Saudis shop regularly at supermarkets, especially women. The retail sector now accounts for over 60 percent of all food purchases in the

Kingdom with the balance in the wholesale sector. Supermarket shopping is considered a primary form of entertainment for the Saudi family. Many supermarkets have built large play areas for children and are surrounded by several boutiques, photo, music, and barber shops, and fast food restaurants.

- ❖ Increase in the number of outlets has made it feasible for many supermarket chains to import a portion of their stock directly from the United States. Nevertheless, supermarket chains and other retailers depend largely on local importers for sourcing, merchandising, and inventory control.
- ❖ The food importing industry is equipped with modern climate controlled warehouses, cold storage facilities, fleets of refrigerated trucks, and sufficient numbers of hard-working employees.
- ❖ About 80 percent of all food items sold in retail outlets are imported as consumer-ready products; the balance manufactured locally (made predominantly with imported ingredients).

3. Advantages and challenges of pursuing the Saudi market for imported foodstuffs:

ADVANTAGES	CHALLENGES
The Saudi population is growing at about 3.5 percent annually.	Increased competition from locally produced food products and from imported food products from Europe, nearby Arab countries and Far East.
The number of upscale supermarkets continues to increase, creating greater opportunities to display new-to-market American food products.	<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>
Growing number of fast food restaurants, hotels and resorts and the thriving catering sector depend heavily on imported institutional size food products.	<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>
Rapidly growing food-processing sector depends on imported ingredients.	<p>Halal certification required for all meat and poultry products exported to Saudi Arabia.</p> <p>Additional statements on the health certificate accompanying poultry &</p>

	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.
Saudi consumers like to try new products and shop more often at supermarkets.	Saudi regulations require that the number of different food items in one container not exceed 25.
The increasing positive attitude of Saudis to mass media advertisements.	Willingness by a significant percentage of the Saudi consumers to support calls to boycott American products for political reasons.
The U.S. is considered a supplier of quality foodstuffs.	High prices of U.S. goods compared to other sources.
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.	The Saudi economy is overly reliant on oil revenue and subject to sharp swings caused by volatile oil prices.
Young population: Virtually 70 percent are under the age of 30. Younger Saudis prefer Western-style foods more than their parents.	
Changing lifestyles. The number of workingwomen is increasing, leading to more shopping at supermarkets to purchase prepared food items.	
Per capita income of \$9,139 in 2003 and this is expected to increase this year due to high oil prices.	

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:

- A. 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.
- B. 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.
- C. 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.
- D. Biotech Labeling: On December 1, 2001, the Saudi Ministry of Commerce and Industry (MOC) implemented its biotech-labeling requirement issued on December 11, 2000 regarding labeling of foodstuffs containing biotech ingredients.

Following is the summary of the MOC's biotech labeling requirement:

1. Ban on Biotech Animal Products: One of the main features of the MOC's decree was to IMMEDIATE and TOTAL ban imports of foodstuffs containing genetically engineered animal products into the Kingdom. The directive did not give reasons for the total ban of animal products. 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.
2. 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)."
3. Bilingual Labeling: The biotech statement must be clearly written in both Arabic and English with ink different from that of the main product table.
4. 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.
5. 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.
6. Locally Produced Foodstuffs: The biotech labeling requirements will also apply to locally produced agricultural products.

7. One Percent Maximum Biotech Contamination: In late December 2001, the MOC approved a one percent maximum threshold limit for defining a biotech foodstuff based on the recommendation of the Saudi Food Safety Committee.

8. Random Sampling: Since the implementation of the biotech-labeling requirement in December 1, 2001, the MOC has been randomly sampling imported foodstuffs at ports of entry for testing. According to reports from MOC, 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 U.S. According to the MOC, those companies involved in exporting the biotech foodstuffs without labeling them properly have been banned indefinitely from exporting any food products to Saudi Arabia.

E. 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.

F. 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.

G. 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 could 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.

H. Consider contacting U.S.-based consolidators that source American food products from wholesalers. ATO/Riyadh maintains a list of the major U.S. consolidators selling to Saudi buyers.

2. Modus Operandi of 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:

A. 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.

B. Sole Agency Agreements: Some importers deal with U.S. companies manufacturing and marketing national brands, such as Kellogg's, Campbell Soup, 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.

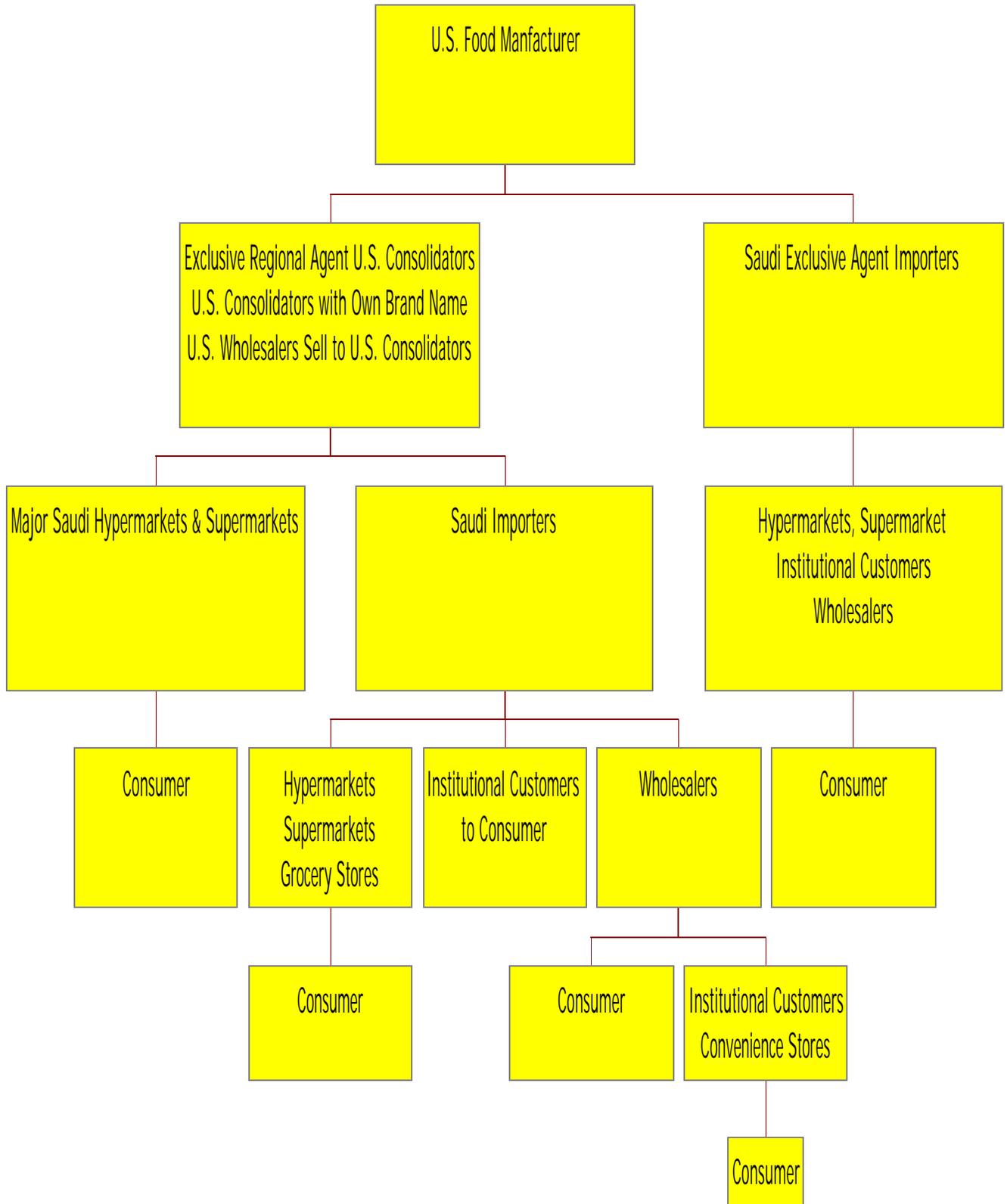
C. U.S. Based Consolidators: Some companies import a wide range of food products for mass distribution, employing the use of consolidators in the United States. Many of the consolidators are sole regional agents of major U.S. manufacturers or brand owners covering the entire Middle East and African regions. 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 and 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, which 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.

D. 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 moving 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 a 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 to up \$27,000 depending on the size and power of the distributor. The bigger the distributor, the more power he has to negotiate the least listing fee. In addition to listing fees, distributors are asked to provide specified percentage rebate on total annual turn over, contribute to advertising campaigns, provide at least 60 days payment terms, and reimbursements for expired items. Distributors authorize retailers to offer special offers to consumer such as buy one and get one free mainly for products with 60 days shelf life remaining.

3. Distribution Channels: The flow chart below highlights the different marketing channels 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	47	Riyadh, Jeddah, Dammam, Dharan, Jubail, Rastanura, Mecca and Qassim	Importer/local buyer
Universal Marketing (Al-Othaim)	Local	32	Riyadh, Qassim, Hafralbatin	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
Star Supermarkets	Local	6	Jeddah, Yanbu	Local buyer
Danube	Local	6	Jeddah	Importer/ local buyer
Arabian Food Supplies	Local	5	Dharan	Importers/ local buyer
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
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

Géant Hypermarket	Local	1	Riyadh	Importer/Local buyer/
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Source: U.S. Agricultural Trade Office/Riyadh

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 about 210. Smaller supermarkets (those which contain grocery carts) number more than 100, are referred to as Class B supermarkets. The definition between Class A and Class B supermarkets is not well defined in Saudi Arabia. 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.

Larger supermarkets are normally found in the three largest commercial urban areas of the Kingdom: Jeddah, Riyadh and Dammam, Al-Khobar, Dhahran. 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.

The introduction of French hypermarket chains Géant earlier this year, the opening of Hyper Panda a couple of months ago and the expected inauguration of Carrefour early December 2004, have helped launched a new era of retailing in the Kingdom with the state of the art shopping experience resulting in a fierce head-on competition in the Kingdom's retail sector.

Major Saudi supermarkets such as Azizia-Panda, Tamimi and Danube import significant percentage of dry goods directly from the U.S., 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.

In general, 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 moving near expiry foodstuffs. Major Saudi supermarkets are in the initial stage of introducing category management. As the system becomes more popular, many product brands will be eliminated.

6. Fierce Competition Among Major Retailers:

The introduction of the two French stores was a debut for foreign hypermarkets\supermarkets 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 for a few months due to some operational difficulties. The U.S. chain, which initially joined hands with a local businessman, exited the Saudi market by selling its shares to the 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.

The French store Géant Saudi Arabia Inc., which is a joint venture with Al-Hokhair Group of Companies, has planned to commission 16 stores in the Kingdom in the next few years. Next year, the firm will inaugurate two stores in Al Khobar/Dammam, and one store each in Riyadh, Jeddah and Mecca. Similarly, Carrefour Saudi Arabia, a joint venture between Carrefour and a Saudi trading company Olyan Holding, will inaugurate its first two stores in December (one each in Riyadh and Alkhobar cites) and has planned to establish two more stores in Riyadh and one in Jeddah in 2005. The entry of the French hypermarket chains is expected to introduce a very fierce competition in the Kingdom's retail industry. Major Saudi supermarket chains such as Azizia-Panda, Tamimi, Danube and Giant Stores have reportedly done structural changes to compete head-to-head with the new comers. All four stores have already started to build hypermarkets to match the larger sizes of the two French firms. As mentioned earlier, Azizia-Panda has already opened its Hyper Panda with 57 check out counters and has plans to open three more stores in Riyadh and several hypermarkets Kingdom wide in the next few years. The local Giant Stores will open up three huge stores in Riyadh in 2005. Other supermarkets such as Tamimi, and Danube have selected sites for their planned hypermarkets in Riyadh, Dammam and Jeddah respectively.

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 (Bakalabs):

Corner grocery stores (convenience), commonly referred to as Bakalabs are found in every neighborhood/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 bakalabs has not decreased, as once predicted. 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.

Bakalabs 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 Bakalabs 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 meters convenient stores. The stores are well refrigerated and carry good 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 products (poultry meat, table eggs, infant foods derived from milk, sugar, macaroni and similar products, etc.). 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 2002 totaled about \$331 million with Brazil, France and China accounting, respectively, for 67 percent, 21 percent and 11 percent of the total imports. The U.S. ranked a distant fourth 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 \$212 million worth of cheese in 2002. Leading suppliers were Denmark (27%), Australia (26%), France (24%), France (15%), and New Zealand (7%). 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 2 percent of the total Saudi Arabian red meat import market valued at more than \$200 million in 2002. Leading suppliers were Brazil (37%), Australia (32%), New Zealand (12%) and Sudan (10%). 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 & Vegetables: The United States accounted for 15 percent of the total Saudi Arabian processed fruit & vegetables import market valued at about \$171 million in 2002. Other major suppliers were the Netherlands (12%), Spain (8%) and Egypt (8%) and the U.A.E. (6%). Processed fruit and vegetables are sold in all types of retail outlets from Class

A supermarkets to neighborhood convenience stores.

- ⇒ Snack Foods (Excl. nuts): Saudi Arabia imported \$159 million worth of snack foods in 2002. Leading suppliers were the U.S. (13%), the U.A.E. and the Netherlands 12 percent each, and Poland (9%). 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 \$47.4 million in 2002. With 30 percent market share, Chile was the dominant supplier in 2002 followed by France (20%), the U.S. (10%), and Iran (10%). 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 \$25 million of tree nuts mainly almonds in 2002. Iran was the dominant supplier, accounting for 43 percent, followed by the U.S. (39%), and India (16%). 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-pats (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, almonds, and much more.

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential:

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.

C. 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
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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:

SA4002:	Saudi Arabian Poultry Semi-Annual Report
SA4003:	Saudi Arabian Reduces Subsidy on Locally Grown Wheat
SA4004:	Saudi Arabia Food and Agricultural Import Regulations and Standards Update
SA4005:	Saudi Arabian Grain and Feed Annual Report
SA4006:	Saudi Arabian Trade Policy Monitoring Report
SA4007:	Kingdom Bans Imports of Live Poultry & Hatching Eggs From the U.S.
SA4009:	Saudi Arabia Reduces Barley Import Subsidy
SA4011:	Saudi Arabian Poultry Annual Report
SA4015:	Update Saudi Arabian Exporter Guide Annual Report