

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Report Highlights:

In 2008, total agricultural, fish and forest product imports were valued at approximately \$10 billion due to inflation in world agricultural prices. High-value products accounted for 50 percent of total imports, while intermediate agricultural products were estimated at more than 1.5 billion dollars. U.S. total agricultural, fish and forest product exports to Saudi Arabia in 2008 increased 26 percent over a year earlier to \$914 million.

Post:

Riyadh

Executive Summary:

I. MARKET OVERVIEW

I. General Political Situation and Trends

The Kingdom of Saudi Arabia, located on the Arabian Peninsula, is a country of approximately 24.2 million people, including 7 million permanent non-Saudi residents. The country's current ruler is King 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 150 member Consultative Council (Majlis al-Shura) king for a four-year renewable term that has an advisory function, but can also initiate legislation. There are no political parties in Saudi Arabia.

In recent years, Saudi Arabia has been engaged in fighting AlQaida-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 many terrorist suspects have been arrested before implementing their terror plots. The overall political situation in the country remains stable.

Saudi Arabia, has been a close ally, friend and business partner of the United States for over sixty years. However, the Saudi government and people are not happy with what they call "American bias towards Israel" in the continued political deadlock in the Arab-Israeli peace process. Supports for boycotts of U.S. products are voiced whenever the Israeli-Palestinian conflict flares up.

II. Macroeconomic Situation and Trends

This is an oil-based economy with strong government controls over major economic activities. Saudi Arabia possesses 25 percent of the world's proven petroleum reserves and is the world's largest exporter of petroleum. The GDP rose by 7 percent to \$381.5 billion in 2007 compared to 2006. The oil sector GDP grew by 8 percent to \$207.6 billion in the same period, accounting for 54 percent of total GDP while the non-oil sector grew by 4.5 percent to \$224 billion. The state budget registered a surplus of \$47 billion in 2007, a decrease of 37 percent over the same period a year earlier. The balance of payments current account registered a surplus for the ninth successive year, amounting to \$95 billion in 2007. In 2007, Saudi Arabia earned \$196 billion from oil exports, representing 29 percent of total Organization of Petroleum Exporting Countries (OPEC) revenues. In 2009, revenue from oil exports is expected to decline significantly due to a slump in world demand for petroleum and petroleum products as a result of the world economic recession.

High oil prices in the past few years have boosted growth and government revenues, while enabling the government to pay back domestic debt. The government is encouraging private sector participation in the economy - especially in power generation, telecommunications, natural gas exploration, and petrochemicals - to lessen the country's dependence on oil exports and to increase employment opportunities for the increasing Saudi population of which 40 percent are youth under 15 years old. Unemployment is estimated at 15 percent mostly due to the youth population lacking the necessary education and technical skills sought by the private sector. To reduce the high unemployment, Saudi Arabia has substantially boosted spending on job training, education, and other infrastructure developments. As part of its effort to attract foreign investment and diversify the economy, Saudi Arabia joined the WTO in December 2005. The government has announced plans to establish six mega "economic cities" in different regions of the country to promote development and diversification. It is estimated that the six projects will add \$150 billion to the country's GDP by 2020, help increase the per capita income from \$13,000 to \$33,500 and create employment opportunities for 1.3 million people.

Currently the major industries are crude oil production, petroleum refining, petrochemicals, natural gas, mining, electricity, water, cement, fertilizer, construction, banking, food and non-food manufacturing. Saudi Arabia's population is growing at about three percent annually, with 70 percent under the age of 30. For 2006, total population is estimated at 24 million, of which about 7 million are foreign workers. According to 2006 government data, total labor force working in the private sector stood at 5.6 million, with Saudi nationals accounting for 13 percent.

The overall cost of living in Saudi Arabia increased by 10 percent in 2008 due to a sharp increase in housing rents and

the cost of imported food and non-food products.

III. The economy as it relates to agriculture

The Saudi government continues to heavily subsidize the agricultural sector due to the vital role the sector plays in boosting sustained economic development and achieving food security. Various subsidy programs contribute to a continued increase in grain, vegetable, fruit, date, poultry, table egg, livestock, dairy and fish production. Thanks to the subsidy programs, the country has become a surplus producer of dates, table eggs and fresh dairy milk. In 2007, total contribution of the agricultural sector to GDP was 4.8 percent and about 500,000 workers were employed in the sector. Despite government continued generous subsidies and heavy investment in the commercial dairy, poultry, fruit and vegetables sectors, growth in agricultural output increased by 1 percent in 2007 compared to 2006.

IV. Domestic agricultural policy overview

Recently, the Saudi government introduced an agricultural policy aimed at the phased elimination of water intensive agricultural crops such as wheat and alfalfa. This year, the Saudi government implemented its 2008 decree which called for a 12.5 percent annual reduction in local wheat production over an eight year period. The government's goal is to terminate local wheat production by the spring of 2016. Until then, Saudi Arabia will augment the percentage reduction in local wheat production by importing a similar percentage from the international wheat market. The government will maintain the guaranteed purchase price for locally grown wheat at \$267 per metric ton until 2016. In 2003, Saudi Arabia eliminated barley production to save water. Grain and forage production place large demands on non-renewable aquifer water, resulting in an imbalance between water recharge and water discharge. The new agricultural policy calls for selective agricultural development to achieve a balance between water and food security.

The Saudi government has continued to support selective agricultural production to encourage and support farmers by providing soft and interest-free loans, distributing free farm land, subsidizing some production equipment and animal feed. In January 2009, the government issued a revised animal feed subsidy list that consists of 17 energy and protein rich animal feed ingredients. Under the revised program, the government will provide rebates that range from \$26 (rice hulls) to \$101 (soybean meal) per metric ton, depending on the type of imported feed. The rebate will be paid directly to the local importer. The revised list added two new feed items-Rhodes grass and Sudan grass-to the subsidy list. The subsidy depends on the type of imported feed and is paid directly to the local importer.

V. General and agricultural trade situation

Saudi Arabia acceded to the WTO in 2005 and supports the efforts being exerted in the Doha agricultural negotiations to correct and prevent restrictions and distortions in world agricultural markets. Saudi standards are usually based on CODEX Alimentarius regulations and to some extent on European and U.S. standards, but are modified to reflect local conditions.

In 2008, total agricultural, fish and forest product imports were valued at approximately \$10 billion due to inflation in world agricultural prices. High-value products accounted for 50 percent of total imports, while intermediate agricultural products were estimated at more than 1.5 billion dollars. U.S. total agricultural, fish and forest product exports to Saudi Arabia in 2008 increased 26 percent over a year earlier to \$914 million. U.S. exports of consumer-oriented food products to Saudi Arabia reached a record \$245 million in 2008, an increase of 43 percent from 2007.

The vast majority of food products are subject to a 5 percent import duty. Selected processed food products, however, are assessed higher import duties. In order to protect local food processors and production from competitively priced imports, Saudi Arabia ties import duties to the level of local production of similar products. As a general rule, a maximum import tariff rate of 40 percent is applied when local production of a food or agricultural product exceeds a self-sufficiency level. Currently, a 40 percent import duty rate applies to fresh, dried and processed dates. Imports of rice, baby milk and animal feed (soybean meal, feed corn, barley, rice, sorghum, palm kernel meal, wheat bran, alfalfa hay, sugarcane molasses, rice bran, and sunflower meal, oats, canola meal, fish meal, alfalfa pellets, soy bean hulls, sunflower hulls, and rice bran) are subsidized while coffee, tea and fresh red meat enter the country duty free. Saudi Arabia has no tariff rate quota (TRQ) requirement.

On March 31, 2008, the Saudi government exempted wheat, wheat flour and other grains from import duties and reduced

duties levied on 75 other foodstuffs to 5 percent. The decree aims at alleviating the impact of the rising cost of living in Saudi Arabia. Major foodstuffs that benefited from the reduced 5 percent import tariff included chilled and frozen poultry and their products, eggs (fresh, dried and powdered), cheese, cream cheese, vegetable oils, pasta, canned meat, fruit and vegetable juices, mineral and ordinary water, long life milk, corn flakes, peas, beans, peanut butter, yeast, and baking powder. The government will review the list in April 2011.

Growing competition from both locally produced and competitively priced imported food products from third countries threaten the continued expansion of U.S. foodstuff exports. Food products manufactured in the Gulf Cooperation Countries Council (GCC)--Bahrain, Qatar, U.A.E., Oman and Kuwait-- enter Saudi Arabia duty free. Foodstuffs imported from other Arab countries, South Africa, Latin America, New Zealand, Australia and Asia are often lower priced than similar U.S. products.

VI. SPS and regulatory systems

The most important regulatory, non-tariff barriers that U.S. food product exporters encounter in Saudi Arabia include: biotech labeling, requirement for two dates on labels (production and expiration) and Arabic labeling requirements. For religious reasons, Saudi Arabia bans imports of alcoholic beverages, live swine, pork and food ingredients or additives that contain pork products, including pork fat and gelatin. Meat and poultry shipments must be accompanied by a "halal" slaughter certificate issued by an Islamic center in the country of origin. Additional statements on the health certificate accompanying poultry and livestock meat shipments must indicate that the animals slaughtered for export were not fed with feed containing protein, fat or remnants of animal origin and were not treated with any growth hormones.

Currently, the Saudi Arabian Standards Organization (SASO) is the only Saudi organization responsible for setting national standards for commodities and products, measurements, testing methods, meteorological symbols and terminology, commodity definitions, safety measures, and environmental testing. While standards are set by SASO, Saudi Food and Drug Authority (SFDA) tests imported processed and packaged food items at various ports of entry. The responsibility of setting foodstuff standards will move to the SFDA in 2010. The Saudi Ministry of Agriculture (MOA) controls imported animal feed, livestock, fruit and vegetables.

Saudi Arabia is the most influential member of the GCC. As a group, the GCC is striving to create a common set of food standards. Since SASO is a dominant standard setting agency in the region, most SASO standards are adopted as GCC-wide standards. Currently, the GCC is working on several draft standards. Two of the most important are the common food import procedures (consists mainly of mandatory import certificates) and biotech standards.

Author Defined:

Report Highlights:

A summary of Strengths, Weaknesses, Opportunities, and Threats Analysis in the Saudi market for imported U.S. foodstuffs

Strengths	Weaknesses
Strong economic ties: Saudi Arabia's currency is pegged to the U.S. dollar, making U.S. products more competitive to EU suppliers.	Saudi consumers often support boycotts of U.S. products for political reasons.
Saudi Arabia is changing its agricultural policy which eliminates production of water wasting agricultural commodities.	It is not easy to get access to key government officials to discuss agricultural policies.
Saudi Arabia has a robust and vast subsidy scheme for	Feed imports subsidy will reduce competitiveness of

the importation of feed grains.	imported poultry and dairy products.
Saudi Arabia is a dominate member of the GCC that is working to standardize agricultural imports and food safety regulations.	Member states tend to selectively implement GCC food import standards.
The U.S. is considered a supplier of quality foodstuffs. The U.S. is recognized among trade as a reliable supplier.	Price competitiveness of foodstuffs produced locally and imported from Arab, South Africa, Latin America, and Asian countries has significantly reduced the market share of U.S. agricultural products in the past few years.

Opportunities	Threats
The potential for agricultural production is limited and food imports will grow with the population.	Various government subsidies have helped local food processors significantly lower their production costs and improve their competitiveness compared to imported U.S. foodstuffs.
Manufacturer determined shelf life for most high value products (voluntary shelf life regulation) was introduced in December 2005. This increased shelf life of most U.S. high value products significantly.	Saudi Arabia maintains a two date labeling system (production and expiration).
Saudi Arabia has high per capita income (\$15,000) which continues to grow.	The economy is overly reliant on oil revenue and therefore subject to sharp swings due to volatile oil prices.
The market for retail food products is expanding and Saudis are shopping more often in supermarkets.	Local importers prefer to initiate import activity with small quantities.
Seventy percent of all Saudis are under the age of 30; younger Saudis prefer Western-style foods.	Some Saudi SPS regulations are not based on science.
The rapidly growing food processing sector relies on imported ingredients.	Freight costs from the U.S. are higher than those from Europe and Asia.
Saudi Arabia started imported wheat at the end of 2008 for the first time in more than two decades.	Strong competition for wheat market share from Canada, EU and Australian exporters.

Analysis of Opportunity and Threats

A. Opportunity

Food products made in the United States are generally viewed as meeting higher quality standards compared to imports from other countries and those produced locally. Under normal political and economic conditions, U.S. origin and brand products have highly favorable consumer preferences and demand. Each year, several new-to-market U.S. food

products are introduced to Saudi Arabia market particularly following FMI/USFES and regional shows such as Gulfood organized annually in Dubai. Saudi consumers like to try new products and are shopping more often in hypermarkets and supermarkets. The rapid increase in the number of hypermarket and supermarket outlets throughout the Kingdom offers an ample opportunity to distribute high-value U.S. food products. Saudi Arabia's population is growing at about three percent annually and its population is projected to reach 40 million in the next 20 years. With a young and rapidly growing population, Saudi Arabia will continue to be a growth market for U.S. food products in the years to come.

B. Weaknesses

Growing competition from both locally produced and competitively priced imported food products from third countries threaten the continued expansion of U.S. foodstuff exports to the Kingdom. Food products produced in Gulf Cooperation Countries (GCC) countries --Bahrain, Qatar, U.A.E., Oman and Kuwait-- enter Saudi Arabia duty free. Foodstuffs imported from other Arab countries, South Africa, Latin America, New Zealand, Australia and Asian are often lower priced than similar U.S. products. This has reduced U.S. market share of Saudi import market in recent years.

II. EXPORTER BUSINESS TIPS

Local Business Customs

All food products are imported by the private sector. The vast majority of food products are subject to a 5 percent import duty. Selected products produced in significant quantities carry a 12 or 20 percent import duty. For instance, imported poultry meat, table eggs and ice cream are charged a 20 percent import duty while peanut butter and mayonnaise are subject to a 12 percent duty. Rice, coffee, tea and red meat enter the country duty free (our Trade Policy Monitoring report SA6006 provides detailed information on the Saudi Arabian Applied Tariff Rates for Agricultural Products). For religious reasons, Saudi Arabia bans imports of alcoholic beverages, live swine, pork and food ingredients or additives that contain pork products, including pork fat and gelatin. Meat and poultry shipments must be accompanied by a "Halal" slaughter certificate issued by an Islamic center in the country of origin. Additional statements on the health certificate accompanying poultry and livestock meat shipments must indicate that the animals slaughtered for export to the Kingdom were not fed with feed containing protein, fat or remnants of animal origin and were not treated with any growth hormones.

There are dozens of food importers in the Kingdom, with about 25 accounting for the bulk of food imports from the United States.

1. Private labels are becoming common in Saudi Arabia. Some large Saudi importers pack foodstuffs under their own brand names locally and in foreign countries, including in the United States. These firms have developed private labels, which appeal to Saudis and other Arabs in the Kingdom. Others use labels with Western-sounding names to appeal to British, Americans, and other Western 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 American, British, and other Western expatriates. Another large importer 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, Freshly or Al-Alali.

--a U.S. private label representing the exporter/consolidator: such as American Garden or AFFCO.

2. Some importers contact directly with U.S. companies manufacturers of national brands, such as Kellogg's, Campbell Soup, Budweiser non-alcoholic beer and usually require sole agency agreements. The Saudi importer will help build the brand, but will request support from the U.S. company. The U.S. manufacturer usually offers promotional and marketing assistance.

3. Some companies import a wide range of food products for mass distribution, employing the use of consolidators in the United States. Often, 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.

4. The French hypermarket chain Carrefour as well as many locally-based supermarket chains, especially those with the ability to handle large volumes, are directly importing part of their needs. One local company that owns 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.

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, a significant number of U.S. origin grocery items found in Saudi supermarkets continue using stickers.

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 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. The entrance of the French hypermarket chain Carrefour in Saudi retail market in 2004 along with the opening of Hyper Panda (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 is owned by Al Azizia-Panda Inc. This is the largest supermarket chain in Saudi Arabia with more than 100 outlets distributed in all major cities of the

Kingdom. Local distributors (depending on the size and power of the distributor) are being asked for listing fees ranging from \$1,333 to \$5,333 per Stock Keeping Unit (SKU) by major hypermarkets. The bigger the distributor, the more power he 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, carry out store merchandizing activities for its products seven days a week, provide at least 60 day payment terms, rent gondolas and reimburse for expired items. Distributors frequently authorize retailers to conduct special offers to consumer such as buy one and get one mainly for products with 60 days or less of remaining shelf life.

Client Base and Consumer Preferences

Saudi Arabia is located between Europe and Asia. With its large expatriate population, the Kingdom is a multi-ethnic society. Consequently, foods from around the globe are found in Riyadh, Jeddah, Dammam, and other urban areas in the Kingdom. There are two basic consumer categories in the Kingdom:

Saudi citizens (17 million)

Expatriates workers residing in the Kingdom (7 million)

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

A growing import demand for institutional-size food products by the catering sector is being driven by the large number of expatriate third country nationals working in Saudi Arabia and the increasing number of foreign pilgrims visiting the two holy cities (Mecca and Madina). There are more than eight million expatriate workers residing in the Kingdom, most of who are from the Sub Continent of Asia (India, Pakistan, Bangladesh) and the Philippines. The number of foreign pilgrims coming for Haj and Umra rituals is estimated at about five million per annum.

Dining at fast food restaurants is popular among Saudi families and expatriate workers. International fast food chains such as KFC, Burger King, and McDonald's together with local chains such as Herfy import at least part of their food needs from the United States. Large catering companies, especially those serving Western expatriates, also buy a portion of their requirements directly from the United States.

Most expatriates are from South Asia (Indian, Pakistan, Bangladesh, Sri Lanka) Egypt, Sudan, Yemen, the Philippines, and East Africa in recent years, the number of Western expatriates residing in the Kingdom has declined significantly due to continued terrorist threats targeting mostly American and other Western citizens in Saudi Arabia. American and Europeans living in the country tend to generally meet professional occupational needs. Some Saudi supermarkets employ Americans and British general managers, operation managers, and executives.

Saudi and Western expatriates are the largest consumers of American consumer-oriented products and the principal shoppers in Class A supermarkets. The Saudi consumer is becoming increasingly educated about quality, nutritional value, price, and packaging. Saudis pay attention to expiry dates on products. Saudis and Westerners enjoy new products and supermarket managers are aware that those companies offering a wide variety of products will have the best chance for prospering in this competitive market.

A recent trend in the Kingdom has been the decline in canned food products in favor of fresh or frozen food items. Frozen foods are perceived by consumers as being fresher than canned foods. Changing lifestyles and an increasing number of women entering the workplace are driving demand for prepared foods. A significant percentage of Saudis continue to purchase a large percentage of their food at wholesale markets, but more and more Saudis are shopping regularly at supermarkets and hypermarkets, Hypermarket/supermarket shopping is considered a primary form of entertainment for the Saudi family. Recently introduced hypermarkets are huge (up to 100,000 square feet), offer up to 60 checkout counters, and provide more than 55,000 items including foodstuffs, clothing, tools, toys, computers, and various electronics. Some supermarkets have built large play areas for children and are surrounded by, specialty shops such as photo, music, and fast food outlets.

Corner grocery stores, commonly referred to as bakalahs, are found in every neighborhood in the Kingdom. They cater mainly to Saudis and third country nationals. Despite the tremendous increase in the number of Class A supermarkets and the growing number of hypermarkets, the number of bakalahs has not decreased significantly, as once predicted. Perhaps the main reason for this is that women cannot legally drive cars in Saudi Arabia. Also, many third country nationals working in the Kingdom do not own automobiles. Most expatriate housing compounds contain one or two grocery stores. The Saudi company, "Arabian Food Supplies," has small grocery stores located in many "Western" compounds in Riyadh, Jeddah, Al-Khobar and in SAUDI/ARAMCO compounds. The number of corner grocery stores is increasing in response to urban expansion. They are filled with many imported consumer-oriented products. Most have the capability to offer frozen foods, and all contain refrigerators.

If, and when, women are legally allowed to drive in the Kingdom and if Saudi-ization results in the departure of more third country national expatriates from Saudi Arabia, some analysts expect that the number of bakalahs will decrease significantly. The Saudi government has put teeth over the past few years in its long-standing Saudi-ization program by compelling private sector firms to increase the percentage of Saudis in their workplace by five percent per year. For example, the Saudi Government decreed in 2004 that all checkout counters at hypermarkets\supermarkets must be manned exclusively by Saudi citizens. In 2000, the government banned expatriates from working in fruit and vegetable markets and in 2002 the ban was extended to bakalahs (corner stores) with less than 40 square meters. There are more than 50,000 bakalahs in the Kingdom.

In addition to corner grocery stores, there are thousands 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.

Food Standards and Regulations

Key Saudi regulations which U.S. exporters must and adhere to include:

- Manufacture determined production and expiration dates (for most foodstuffs)
- Arabic labeling
- Biotech Labeling
- Halal Slaughtering
- Animal feed and growth hormone free certification for imported meat

Shelf Life

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) will no longer ban imports of food products with less than half of its shelf life remaining.

Shelf life can only be shown by clear and unambiguous production and expiration dates. The use of any of the following statements for expressing expiration date 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).

The production and expiration dates should be declared on the label of the package in 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 to 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 permissible. There shall be not more than one date of production or of expiration on the same package. Both dates shall not be subject to deletion, change or deceit.

Products with No Specific Expiration Date: for 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.

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

General Prepackaged Foodstuffs Labeling

Regulations for labeling of prepackaged foodstuffs are found in Gulf Standard 9/1995. In sum, prepackaged food product labels should be in Arabic or include an Arabic language translation of the label. At a minimum, product labels must contain the name of the product, name of the packer, country of origin or manufacture, listing of ingredients, consumer instructions, and production/expiry dates.

Biotechnology Labeling

In March 2003, Saudi Food and Drug Authority (SFDA) was established. However, in May 2009, it took over from the Saudi Arabia's Ministry of Commerce and Industry (MOCI) the responsible of inspecting imported high value food products for biotech content at the Kingdom's 27 ports of entry. SFDA will be responsible for setting new food standards and implemented existing ones starting from next year. In the past, standards were set by SASO while imported foodstuffs were tested by MOCI at ports of entry. SFDA will take over inspection of imported animal feed, fruits, vegetables and drugs in 2010.

Following is a summary of the biotech labeling decree which were implemented by the MOCI in 2001. The SFDA will continue to apply the decree until a biotech standard is issued.

On December 1, 2001, the Saudi Ministry of Commerce and Industry (MOCI) implemented the Ministerial decree number 1666 issued on December 11, 2000 regarding labeling of foodstuffs containing biotech animal products.

Following is the summary of the MOCI's Directive No 1666:

A. Positive labeling: If a product contains one or more genetically modified plant ingredient, the information should be clearly communicated to the consumer by labeling. A triangle should be drawn on the label with text that should read "Contains Genetically Modified Product (s). The Ministry will not accept a statement that says "This Product May Contain biotech Ingredients." Saudi Arabia does not permit imports of foodstuffs that contain genetically engineered animal products. According to the MOCI, local food producers must also abide by the biotech labeling requirements.

B. Bilingual labeling: The biotech statement must be clearly written in Arabic and English languages with ink color different from that of the main product tag.

C. Health certificate: Biotech products exported to Saudi Arabia must have been approved in the country of origin for human or animal consumption. Each shipment must be accompanied by a health certificate issued by a government agency stating that the biotech ingredient used in the foodstuff is approved in the country of origin for human or animal consumption.

D. PCR Real Time Method: MOC approved the PCR Real Time Method for GE testing and set 0.9 percent threshold. If the test results reveal more than 0.9 percent of GE ingredient, the product is either destroyed locally or re-exported to the country of origin. Products with less than 0.9 percent of GE content are exempt from further testing for six months. If still on the market after six months, these products must be tested and recertified. Presently, no GE-labeled retail food products are marketed in Saudi Arabia, but GE-labeled bulk commodities and products destined for institutional end users are imported and marketed.

E. Biotech health certificate: The Saudi Ministry of Commerce and Industry has agreed to accept health certificates issued by state departments of agriculture for high value products instead of the previous requirement that the certificates be issued by a federal government agency such as USDA or FDA for U.S. products. The Ministry has reiterated its refusal to consider any health certificate issued by exporting companies or other private organizations including notary public statements.

F. Quality Standard: All biotech foods products should be in compliance with legal and ethical controls observed in the Kingdom and must meet pertinent Saudi Arabian standard specifications.

Certificate of Islamic Slaughter

Per Saudi Arabia Standard No. SSA 630/1998 (Animal Slaughtering Requirements According to Islamic Law), a Certificate of Islamic Slaughter must be issued for all meat and poultry products entering the Kingdom of Saudi Arabia. This certificate is issued by Islamic institutions in the United States, which are recognized by the Saudi Embassy and/or Consulates. Information related to the approved Islamic institutions may be obtained from the Saudi Embassy in Washington, D.C. or the nearest Saudi Consulate (New York, Houston, Los Angeles). Post Export Certificate report SA6014 provides detailed information on halal and a producer or manufacturer self-certification to cover any additional requirements not related to food safety or animal health issues such as animal protein free feed declaration.

General Import and Inspection Procedures

The majority of Saudi food imports enter the country via Jeddah port on the Red Sea or Dammam port on the Arabian Gulf. About two-thirds of all foodstuffs enter Jeddah. Imports from Jordan, Syria, and nearby countries enter the Kingdom by truck.

King Khalid International Airport in Riyadh and King Abdulaziz International Airport in Jeddah also receive significant quantities of food items, particularly fresh fruits, vegetables and chilled meat. Fresh and chilled products are usually cleared within 24 hours of arrival.

Import of Samples

Samples destined to potential Saudi buyers or for display in food shows are exempt from Saudi labeling and shelf life regulations but are subject to inspection at ports of entry. Samples, usually sent to Saudi Arabia by DHL and similar carriers, require a commercial invoice specifying that the product is not for sale and has no commercial value. The invoice will provide information such as consignee's name and address, details of product (s) and country of origin of the product. A packing list also is useful if samples of many different products are shipped. The documents do not require legalization by the Saudi mission (an exporting company stamp and signature are sufficient.) It is advisable to show on the invoice a nominal value of \$5 -\$10 for Customs purposes and state that the goods are "Not For Sale – No Commercial Value".

For clearance of a commercial sea or airfreight cargo exceeding \$500, a full set of documentation is required. For courier samples which do not require special certifications such as Halal, an invoice and country of origin certificate will be sufficient, provided the value a sample is not more than \$10,000.

A Two-Stage Document Notarization Procedure

First Notarization Stage

Depending on the types of certificate required for a particular agricultural product, the following documents must be signed by an authorized person or agent and authenticated either by the National U.S.-Arab Chamber of Commerce, any U.S. - Arab Chamber of Commerce, the U.S.-Saudi Arabian Business Council, or the U.S. Chamber of Commerce located in the city or area where the exporting firm is based. Some American exporters use a local U.S. notary public

service to meet this first stage authentication requirement.

- Phytosanitary Certificate (for animal, plant, seed and grains)
- Country of Origin Certificate
- Halal Certificate for meat and cheese products if the rennet used in the cheese is of animal origin.
- Radiation Free Certificate (for foodstuffs imported from former USSR countries and Europe.) Dioxin Free Certificate (for foodstuffs imported from Europe (usually dioxin free statement is included in the health certificate).
- Quality Analysis Certificate for Grains
- Seed Analysis Certificate
- Official Biotech Free Certificate
- Fumigation Certificate
- Veterinary Certificate

Other required export documents, including a bill of lading, a packing list and weight certificate do not need notarization.

Note: On March 29, 2006, the Saudi Arabian Customs Authority issued a memorandum to drop a requirement that a Saudi embassy or consulate notarize commercial invoices and country of origin certificates issued by exporting companies to clear shipments on arrival at Saudi ports. Saudi Customs will accept the original commercial invoice and a country of origin certificate attested by a local chamber of commerce located in a city or area where the foodstuff are purchased and shipped. This measure is expected to save time and money for U.S. foodstuffs exporters to Saudi Arabia.

Second Notarization Stage

After the first attestation, documents should be forwarded to a Saudi Consulate or the Saudi Embassy in the U.S. for a final attestation.

Certification Fees

Certification fees vary depending on the certifying organization. For example, the National U.S. Arab Chamber of Commerce charges \$25.00 per page, while the U.S.-Saudi Arabian Business Council and Saudi consulates, respectively, charge \$15 and \$8 per page to certify commercial documents. Fees are paid by company checks or money orders

Standard Commercial Terms of Payment

Saudi importers use one or more of the following types of payment when importing goods from U.S. or other foreign suppliers:

1. Letter of Credit (LOC): A letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. Depending on the trust level between Saudi importers and foreign suppliers, one of the following types of LOCs are used as payments for imported products:

A. Irrevocable Letter Of Credit (ILOC): A letter of credit that cannot be canceled. This guarantees that a buyer's payment to a seller will be received on time and for the correct amount.

B. Sight Letter of Credit (SLC): A letter of credit that is payable as soon as the required documents have been presented.

C. Deferred Payment Letter of Credit -- A letter of credit that allows the buyer to take possession of goods by agreeing to pay the issuing bank or the confirming bank at a fixed future date, for example up to 90 days after shipment.) This kind of payment is used where a buyer and a seller have a close working relationship because, in effect, the seller (beneficiary of the L/C) is financing the purchase by allowing the buyer a grace period for payment.

2. Cash against Document (CAD): A payment term which states that a buyer must pay in cash before he gets shipping papers in order to get possession of the imported goods. The transaction involves a third party, usually an importer's bank, to keep shipping papers until it receives a full payment from the buyer. The problem with this type of payment is that if the importer changes his mind and does not want the goods, the exporter has to re-take possession of the goods and pay for the shipping and other costs. To use this type of payment, the U.S. exporter must have developed a close working relationship with his Saudi buyer.

3. Cash in Advance: In this case, the importer pays for his goods in advance before the exporter ships the goods to the importer. This kind of payment is the most advantageous to an exporting company.

As a final point, Post recommends that new-to-market American firms request an irrevocable letter of credit until a close working relationship is developed.

Product Inspection

The MOCI inspects all imported foodstuffs at the port of entry, with the exception of herbal preparations. The Ministry of Health inspects health and supplementary foods, while the Ministry of Agriculture tests live animals, plants, seeds and feed. If a consignment is rejected for not adhering to Saudi standards, the importer is requested to either re-export or destroy the product in the country.

Customs Clearance

As stated earlier, shipments of food products must be accompanied by a commercial invoice, health certificate, and other selected documents. An importer is responsible for translating the commercial invoice into Arabic (per Saudi Customs requirements) and to provide the translated document to his Customs agent in order to start the clearing

process. Containers are normally cleared in less than ten days provided all documents are in order and imported products meet Saudi standards and specifications.

If the SFDA at the port of entry rejects a product, an importer may submit an appeal calling for a retest. The appeal must be submitted in writing to the Director General of the Quality Control and Inspections Department of SFDA. If an appeal is accepted, the Director General orders a retest by another laboratory. If the second test verifies initial results, the exporter is ordered to re-export or destroy the product.

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 asses, mules, hinnies (fresh chilled, or frozen), frog legs, poppy seeds, hemp seeds, opium and hops and swine leather.

III. MARKET SECTOR STRUCTURE AND TRENDS

Retail Sector

Consolidation

In July 2009, the largest Saudi foodstuff retailer Savola Group signed an agreement to purchase all Géant Hypermarket outlets owned by Fawaz Alhokair Group. According to the purchase agreement, SAVOLA group agreed to pay \$117.3 million to buy the 11 Géant hypermarket outlets located in various regions of Saudi Arabia. Géant Hypermarket chain was a joint venture between Géant France and Fawaz Alhokair Group.

The purchase deal will allow SAVOLA's retail arm, Azizia Panda supermarket outlets to increase its market share from 7 to 8 percent in the Kingdom's retail sector as well as boost its turnover by 13 percent. SAVOLA Groups wants to see that Azizia Panda retail outlet increases its market share to ten percent by 2014. Currently, the Saudi retail market is estimated at SR96 billion (\$25.6 billion) annually.

Also another merging took place in February 2008 where the Saudi Giant Stores (no relation to Giant in the United States), merged with SAVOLA Group under a share swap deal. Giant Stores had 12 supermarkets in major cites in Saudi Arabia.

Currently, there are about 40 hypermarkets in the Kingdom based in the five major cites Riyadh, Dammam, Jeddah, Mecca and Madina. In 2010, the number is estimated to exceed 50 outlets as the major foodstuff retailers such as Azizia Panda, Carrefour, Danub and Sadhan open new braches in major cites of the Kingdom. Class A and B supermarkets in the Kingdom total more than 300 and are increasing in number. Most are comparable to those in the United States. Major supermarket chains include Tamimi Markets, Al Azizia-Panda, Al Raya, Watani, Danube, Farm, Al Hamada, Al Sadhan Markets, Universal Marketing Centers, Marhaba Markets, Bin Dawoud and Star Supermarkets. All of these supermarkets have modern frozen food sections and handle a number of food products from the United States. Tamimi Markets, Danub and Al Azizia-Panda import fresh fruit and vegetables directly from the United States, such as strawberries, apples, celery, lettuce, and other selected produce are flown in while others are shipped in

containers. Tamimi, Danub and Al Azizia-Panda also import a significant percentage of dry goods, chilled beef, and dairy products directly from the U.S., employing the use of consolidators.

Tamimi Markets began as a partnership with Safeway USA, but has been wholly owned by the Tamimi family since late 70s. Tamimi continues, however, to sell Safeway brand products. All supermarket chains in the Kingdom are wholly owned by Saudi companies with the exceptions of Carrefour, which is joint venture between French owners and Saudi investor. Western expatriates, mainly American and British, manage a few local supermarkets. Al Azizia-Panda, the largest local supermarket chain, has grown from a few stores in the early 1990 to more than 100 stores today, mainly through acquisition of existing supermarket chains. The firm plans to increase number of its retail outlets to 120 by 2010.

The supermarket business has become very competitive. Larger volumes will enable selected chains to import directly, in an effort to lower costs. Currently large supermarket chains are importing a percentage of their stock directly, but the majority of imported foodstuffs continue to be handled by local importers.

Strict shelf life regulations imposed by the Saudi Arabian Standards Organization makes inventory control a challenge. Saudi supermarket chains get reimbursed from distributors for products expired on the shelf. If unopened cartons of products stored with retailers expire, distributors do not have the obligation to take them back. Supermarkets also depend on merchandising services offered by importer/distributors, i.e., stocking shelves and keeping inventory. Many supermarkets also earn significant revenues from suppliers in the form of listing fees, gondola/shelf space rentals and various fees and discounts. It is not unusual for major supermarket chains to receive up to 90 days credit terms from their suppliers.

The recent introduction of hypermarkets and continued increase in the number of supermarkets in the Kingdom have produced stiff competition among retailers as each hypermarket and supermarket chain strives to gain a larger client base. Managers are looking to cut costs and expand product range. Competitive pricing is essential, but promotional and advertising support are key as well as the ability of a vendor to offer a wide selection of products. Advertising is often geared toward women, who play a greater role in purchasing decisions.

Many countries including the European Union, China, India, Australia and New Zealand are active in offering promotional assistance to local importers. Most suppliers offer attractive credit terms and price discounts on bulk purchases. Many provide promotional materials and assist with advertising. France and Brazil dominate the frozen poultry trade through attractive financing and pricing. Australia and New Zealand provide "point-of-sale" material to retailers to promote mutton and sheep meat. Until late 2000, ATO Riyadh regularly sponsored the American Food Festivals but the activities were put on hold due to the strong anti-U.S. sentiments in the Kingdom following the second Palestinians uprising (Intifadh) in fall 2000 and the U.S. invasion and occupation of Iraq in 2003, which exasperated the sentiments further.

Food Processing Sector

Local manufacturing of food products has expanded rapidly over the past few years. The Saudi government has assisted the food industry by providing attractive financing and subsidies on some equipment and by imposing higher import tariffs up to 20 percent on selected imports that compete with locally produced products (poultry meat, table

eggs, 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 other countries in the Gulf Cooperation Council (GCC): Kuwait, Oman, Qatar, Bahrain, and the United Arab Emirates. 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, Frito Lay, Delmonte, Pepsi, and Coca-Cola.

Potato chips, snack foods, juices, biscuits, peanut butter, hot sauce, cookies, cereals, and ice cream are all produced in the Kingdom. However, processed food products "produced" in Saudi Arabia depend heavily on imported ingredients.

Food Service Sector

About 70 percent of Saudis are in their teens. Dining at fast food restaurants is popular and is a major form of entertainment for the Saudi family. International fast food chains such as KFC, Burger King, McDonald's, Chili's, Fuddrucker's, TGI. Fridays, Pizza Hut, Dominos, and local chains such as Herfy, Al-Beck, Taza, Dajen, and Kudo continue to expand and are found in major urban areas. Many of the international fast food chains and selected local outlets such as Herfy import a significant share of required ingredients directly from the United States.

The demand for institutional-sized food products by the catering sector remains strong because of the large number of ex-pats (7 million) and the huge number of pilgrims visiting the Kingdom to perform Haj or Umra (more than five million annually). The Muslim pilgrims usually stay from two weeks to up to two months in the cities of Mecca, Medina, and Jeddah and require room and board. Also, with the new Saudi Government emphasis on tourism, Muslim pilgrims are allowed to visit other cities and stay up to two months in the Kingdom. This will further increase demand for food products.

A recent trend has been an increase in the number of resorts in the Kingdom, catering mainly to Saudis and other Arabs. Many are being built on the Red Sea and the Arabian Gulf.

IV. BEST HIGH-VALUE PRODUCT PROSPECTS

The following is a list of some consumer ready food products with high export potential.

Potato chips and savory snacks

Mayonnaise, tomato ketchup, and sauces

Beverage ingredients

Non-alcoholic beer

Cheese

Tree nuts

Milk products, including infant formula

Red meats

Fresh apples and pears

Processed fruits and vegetables
Jams and jellies
Fruits and vegetable juices
Honey
Sweet pastry and biscuits
Dietetic foods

V. KEY CONTACTS AND FURTHER INFORMATION

Agricultural Trade Officer
American Embassy
P.O. Box 94309, Riyadh 11693
Saudi Arabia
Tel: 966-1-488-3800, Extension 4351
Fax: 966-1-482-4364
Internet E-Mail Address: Agriyadh@fas.usda.gov

Food standards are set by the Saudi Arabian Standards Organization (SASO), with product inspection done by Saudi Ministry of Commerce and Industry Laboratories at various ports of entry. The following are coordinates for SASO and the Ministry of Commerce and Industry:

Mr. Nabil Molla
Director General of SASO
Tel: 966-1-452-0000
Fax: 966-1-452-0086

Dr. Ibrahim S. Al-Mohizea
Vice President Food Affairs
Saudi Food & Drug Authority
Tel: 966-1-275-9222, ext. 1204
Fax: 966-1-275-1788

Live animals, plants and animal feed are inspected by the Saudi Ministry of Agriculture and Water (MAW). Following are coordinates of some of the important departments.

Dr. Abdulgani Al Fadil
Director General
Plant and Animal Quarantine Department
MAW
Tel: 966-1-404-4292
Fax: 966-1-401-1323

Mr. Mohammed Al-Mazroa

Director General (registers and testes seed as well as pesticides used in foodstuffs)

Agricultural Research Department

Ministry of Agriculture and Water

Tel: 966-1-405-5848/401-6666 ext, 2062

Fax: 966-1-405-5848