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Saudi Arabia

RETAIL FOOD SECTOR

Update 2009

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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. The U.S. total agricultural, fish and forest product exports to Saudi Arabia in 2008 increased 26 percent over a year earlier to \$914 million.

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Saudi Arabia's Retail Food Sector Update 2009

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 Al-Qaida-sponsored terrorism. Militants intensified attacks on western and Saudi government targets in early 2004. However, the government's continued campaign aimed at dislodging locally grown terror cells is showing results and 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. The total U.S. 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.

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 the importation of feed grains.	Feed imports subsidy will reduce competitiveness of 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	Various government subsidies have helped local food processors significantly lower their

population.	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.

SECTION II. ROAD MAP FOR MARKET ENTRY

Entry Strategy

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

- Find a strong Saudi partner: A company with a professional sales force and a strong distribution network is desirable. The U.S. Agricultural Trade Office/Riyadh (ATO Riyadh) maintains lists of key importers.
- Visit Saudi Arabia: ATO Riyadh can help with logistics. A visit will enable a potential U.S. exporter to see first-hand the types of products found in Saudi supermarkets, corner grocery stores, and wholesale markets; to view cold storage facilities, infrastructure, and to meet one-on-one with key importers. Face-to-face meetings in the Arab world are very important and help build trust and confidence. Most Saudi businessmen speak fluent English.
- Understand Saudi Arabia's labeling and cultural requirements: A product label showing a woman's legs would not be acceptable, for example. Likewise, a product with a recipe inside the box calling for pork would not be accepted, nor a product containing alcohol. Saudi Arabian Customs rejected several containers of gelatin a few years ago because of the detection of traces of pork in the product, even though the product label clearly indicated beef gelatin. Alcohol is banned in the Kingdom as a product and as an ingredient.
- In December 2001, the Saudi Ministry of Commerce and Industry (MOCI) implemented its biotech-labeling requirement for foodstuffs containing biotech ingredients. Following is a summary of the MOCI's biotech labeling requirements:
 - Ban on Biotech Animal Products: One of the main features of the decree was an immediate and total ban on imports of foodstuffs containing genetically engineered animal products into the Kingdom. The directive did not justify this ban. However,

ATO trade sources believe that the decision was taken to make sure that all imported foodstuffs are Halal and do not contain products from swine and other animals banned for consumption by the Islamic religion.

- Positive Biotech Labeling: If a product contains one or more genetically modified plant ingredients, the information should be clearly communicated to the consumer by labeling. A triangle should be drawn and in it the text should read "Contains Genetically Modified Product (s)."
- Bilingual Labeling: The biotech statement must be clearly written in both Arabic and English, with an ink color different from that of the main product table.
- Health Certificate: Biotech products or genetically engineered products exported to Saudi Arabia must have been approved in the country of origin for human consumption. Each shipment must be accompanied by a health certificate issued by appropriate government agencies stating that the Biotech ingredient (s) used in the foodstuff are approved in the country of origin (United States) for human consumption. One certificate could be issued that certifies a list of biotech found in the food item.
- Quality Standards: All genetically modified food products should be in compliance with legal and ethical controls observed in the Kingdom and must meet pertinent Saudi Arabian standards specifications.
- Locally Produced Foodstuffs: Biotech labeling requirements also apply to locally produced agricultural products.
- Less than One Percent Maximum Biotech Threshold: MOCI requires biotech labeling if biotech content exceeds 0.9 percent of product weight.
- Random Sampling: MOCI randomly samples imported foodstuffs at ports of entry for testing. According to reports from MOCI, test results thus far have been good. Rarely have food products declared biotech free tested positive. However, there have been some cases of undeclared biotech presence detected in foodstuffs imported from Asian countries and a few from the United States. Companies involved in exporting biotech foodstuffs without proper labeling are banned from exporting food products to Saudi Arabia.
- Understand Saudi Arabia's shelf-life requirements: In December 2005, Saudi Arabia implemented a voluntary shelf life standard (manufacturer-determined use-by dates) for most foodstuffs, with the exception of selected perishable foods (fresh or chilled meat and poultry;

fresh milk and fresh milk based products; margarine; fresh fruit juice; table eggs, and baby foods) that must meet Saudi Arabian Standards Organization's (SASO) established mandatory expiration periods. The revised standard (SASO 457/2005) no longer bans imports of food products with less than half of their shelf life remaining.

The requirements are as follows:

- Shelf life must be indicated by clear and unambiguous production and expiration dates. The use of any of the following statements for expressing expiration dates is permissible.
- Expiration Date
- Use by (date)
- Fit for (from the day of production)
- Use Before (date)
- Sell by date (for food products having an expiration period exceeding 3 months).
- Production and expiration dates should be declared on the package label in an uncoded manner as follows:
- Day-Month-Year: for foodstuffs with an expiration period less than three months.
- Month-Year: for foodstuffs with expiration exceeding three months.
- Dates shall be "engraved or in relief," printed or stamped with permanent ink directly on all packages or on their original label by the producer only. Adding stickers for production and expiration dates is not permitted. Product labels may not show multiple production or expiration dates. Dates cannot be changed.
- Products with No Specific Expiration Date: products with no specified shelf life such as salt, spices, milled rice, etc., only the date of production or processing need be shown as: mm/yy.

ATO Riyadh recommends that when putting together an order for a Saudi importer, a U.S. exporter cross check information contained on his/her food label, including production/expiration dates, with the Saudi buyer. FAIRS reports SA7014 and SA7015 provide detailed information on Saudi Arabia's food and agricultural import regulations and list and describe certificates that should accompany all food and agricultural product imports into Saudi Arabia. The following suggestions may assist prospective U.S. export enter Saudi Arabia's imported consumer-oriented

food products market:

- **Provide Product Performance Information:** Saudi importers and distributors usually like to know how a product performed in the United States in terms of sales before test marketing in Saudi Arabia.
- **Attend FMI\NASDA and Regional Food Shows:** It is vital that prospective U.S. exporters consider attending the annual Global Food & Style Expo held in Chicago as well as international expositions such as ANUGA in Cologne, Germany; SIAL in Paris and the Gulfood Show in Dubai. The Gulfood Show is held every year in February. This year, the fair will be held February 21-24. More information on international shows can be obtained by contacting the respective FAS office located in each country. Smaller local food expositions are held annual in Jeddah and Riyadh.
- **Consider contacting U.S.-based consolidators that source American food products from wholesalers.** ATO/Riyadh maintains a list of major U.S. consolidators selling to Saudi buyers.

Doing Business with Saudi Importers

When searching for an importer to distribute U.S. products, it is important to understand how the companies operate in the Kingdom. The section below outlines four basic types of importers:

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

Hence, a can of American peaches can be marketed in Saudi Arabia under several different labels: under an established U.S. brand such as Monarch or Libbys, under a Saudi private label: like Goody, Freshly or Al-Alali, or under a U.S. private label representing the exporter/consolidator: such as American Garden or AFFCO.

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

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

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

If a product has performed well in the market, a U.S. company may opt to go beyond the sticker stage and develop a bilingual label in both Arabic and English. Monarch is one of many U.S. companies that 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 to use stickers.

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

Distribution Channels

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



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

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

Profiles of Major Saudi Supermarkets

There are no food publications or supermarket journals in Saudi Arabia. As such, reliable food retailers' sales data and floor space figures are not readily available.

Market Structure of Supermarkets

Currently, there are more than 250 Class A supermarkets operating in the Kingdom. Smaller supermarkets using grocery carts are estimated at more than 200, and they are referred to as Class B supermarkets. A Class A supermarket is defined as a retail store with more than 1,000 square meters, five or more check out counters with complete self-service, modern IT systems and which carries comprehensive grocery and other products such as produce, butchery, bakery, frozen, chilled, and non-food ranges. Products are supplied direct from suppliers.

Class B supermarkets have up to 500 square meters of store space and have two or more check out counters. The stores are found in all major urban areas and medium-size cities of the Kingdom. The number of Class A and Class B supermarkets increased from about 80 in 1984 to more than 450 in 2009 and continue to grow. Factors that have contributed to the growth of supermarkets include more exposure to the West via satellite television and travel, changing lifestyles, and a craving by Saudi consumers for variety.

The recently introduced hypermarkets are huge (up to 100,000 square feet), with up to 60 checkout counters. They provide more than 55,000 items including foodstuffs, clothing, tools, toys, and electronics. To date, there are more than 50 hypermarkets dispersed in the three major cities of the Kingdom (Riyadh, Jeddah and Dammam). Saudi companies are not subject to income taxes, and financial information is not available to the public.

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

Competition Among Major Retailers

The entrance of the two French hypermarket chains Géant and Carrefour in 2004 along with the opening of Hyper Panda (a local chain) in the same year has launched a new era of retailing in the

Kingdom characterized by a state-of-the-art shopping experience and aggressive competition. Panda Hyper and Supermarket chain is the largest retailer in the Kingdom.

Supermarkets and hypermarkets strive to reduce costs to enhance their competitiveness. They also try to increase their profitability by introducing various revenue schemes. Local distributors are being asked for listing fees ranging from \$2,000 to \$27,000 depending on the size and power of the distributor. The bigger the distributor, the more power it has to negotiate a lower listing fee. In addition to listing fees, distributors are asked to provide a specified percentage rebate on total annual turnover, contribute to advertising campaigns and provide at least 60 day payment terms and reimbursements for expired items. Distributors frequently authorize retailers to conduct special offers to consumers such as buy one and get one free for products usually with 60 days or less of remaining shelf life.

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

Profile Major Local Supermarkets

1. Panda Supermarkets

Panda Supermarkets was established in 1979 and currently has 100 retail in major cities of Saudi Arabia and has plans to increase the number to 130 by the end of 2010 (100 supermarkets and 30 hyper markets). In 2007, the firm entered international activity by opening its first hypermarket in Dubai. Panda is owned by Savola Group, the leading food products company in Saudi Arabia with interests in edible oil, sugar, dairy farm, fast food restaurants and packaging.

In July 2009, 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 cities in Saudi Arabia.

2. Al Othaim Markets Company

Al Othaim Markets Company has 42 supermarkets, 21 corner stores and 7 wholesale outlets located in central, eastern, northern and southern parts of the Saudi Arabia.

3. Farm Supermarkets

Farm Supermarkets which is owned by the Saudi Marketing Company (SAMCO) was established in 1978 in Dammam, Saudi Arabia. Currently, the firm has 26 major supermarkets and nine corner stores mainly in the Eastern part of country.

4. Tamimi Markets

Tamimi Markets, which opened its first supermarket in Riyadh in 1979, is considered the pioneer of the upscale supermarket concept in Saudi Arabia. The firm currently has 11 stores in the Eastern and Central Provinces of Saudi Arabia. Tamimi Markets carries the largest range of American foodstuffs compared to other supermarkets in Saudi Arabia.

5. Carrefour Hypermarkets (Saudi Hypermarkets CO)

Carrefour Saudi Arabia was established in 2004 as a joint-venture between Al-Olayan Group (Saudi company) and the Majid Al-Futtaim Group (U.A.E. company) has 11 hypermarkets in three main cities of Saudi Arabia. The firm will increase the number of its hypermarkets to 15 by 2010. Carrefour Saudi Arabia has plans to increase the number of its outlets to 20 by 2016.

6. Bin Dawood

Bin Dawood was established in 1962 with businesses that which include supermarkets, bakeries, restaurants, catering, manufacturing, direct imports and exports. Currently, the firm has 17 class B supermarkets covering the cities of Jeddah, Makkah and Madinah.

7. Danube Hyper and Supermarkets

Danube hypermarket\supermarket chain was established in 1987. In 2001, the outlet was purchased by Bin Dawood Group of Companies. Currently, Danube has five hypermarkets and five supermarkets mostly in Jeddah.

8. Al Raya Supermarket:

The first Al-Raya supermarket was opened in 1992. Since then the firm has increased the number

of its stores to 17 covering seven regions (Jeddah, Najran, Taif, Khamis Mushayt, Baha, Sabya and Jizan.)

9. Al Sadhan Supermarkets

Currently, Al Sadhan Supermarkets has 4 hypermarkets and 4 supermarkets in Riyadh. The firm has plans to increase the number of its retail outlets 18 in the next eight years.

10. Balsharaf Supermarkets

Riyadh based company has seven supermarkets in Riyadh cities.

Structure of Wholesale Markets

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

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

Structure of Corner Grocery Stores (Bakalahs)

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

Prices tend to be high but bakalahs maintain an advantage over supermarkets by providing services to shoppers looking to quickly buy a few items. A number of bakalahs have developed a credit system that allows customers to pay at the end of the month. Women in Saudi Arabia are not permitted to drive and depend on bakalahs within walking distance of their homes. Also bakalahs are very important to third country nationals working in the Kingdom who do not own automobiles. Most compounds housing expatriates contain one or more corner grocery stores.

Bakalahs are filled with many consumer-oriented products originating from the United States and

most have refrigeration and the capacity to store frozen foods. In addition to corner grocery stores, there are hundreds of ethnic stores in the Kingdom, catering to Indians, Pakistanis, Filipinos, and other Asians. Foods from many parts of the world are found in the Kingdom.

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

SECTION III. COMPETITION

Local Food Processing Sector

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

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

SECTION IV. BEST MARKET PROSPECTS

Products in the Market with Good Sales Potential

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

chips, dried beans, peas, soups, seasonings, and almonds.

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

Banned Products

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

SECTION V. POST CONTACT and FURTHER INFORMATION

1. Post Coordinates

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

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