

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Saudi Arabia

Exporter Guide

Annual

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Report Highlights:

Saudi Arabia's food and agricultural import market continued to steadily grow, with total imports rising 8.2 percent in 2012. Total U.S. agricultural and food exports to the Saudi Arabia reached \$1.21 billion in MY 2012/13. There are two important changes in the Saudi import regulations that U.S. agricultural and food exporters must be aware of when considering exporting to the Saudi market. Effective January 1, 2014, the Saudi Food and Drug Authority (SFDA) will start implementing a mandatory electronic customs clearance system (E-Clearance) at the port of entry for all food imports, including pre-packaged and unpackaged products. The SFDA also announced that it will fully enforce a mandatory requirement of nutritional labeling on prepackaged food products by the end of April 2014.

I. EXECUTIVE SUMMARY

Saudi Arabia is the largest importer of agricultural products among the six Gulf Cooperation Council (GCC) countries. In 2012, the Kingdom imported about \$21.7 billion (CIF value) worth of food products, an increase of 8.2 percent over imports in 2011. Consumer-oriented food products account for 52 percent of the total Saudi agricultural products imports, totaling about \$11.3 billion in 2012. Saudi Arabia's food imports are expected to exceed \$35 billion annually by 2020.

In 2013, the total value of Saudi retail food sales was estimated at about \$33.5 billion, an increase of 87 percent compared to sales in 2007. The key factors driving the growth in the Saudi retail food sectors include population increase, higher disposable income and the increased number of retail outlets. The rapid increase in the number of hypermarket and supermarket outlets throughout the Kingdom offers a good opportunity to distribute high-value food products and to make a wider range of food products more readily available in areas that have not been exposed to them before.

U.S. high value products have benefited from the increased demand for consumer packed food products in the past few years. U.S. agricultural and food exports to Saudi Arabia in 2012 were estimated at \$1.21 billion (FOB value). U.S. exports of consumer-oriented products have been steadily growing in the past few years, totaling \$475.4 million in 2012, about 94 percent higher than exports in 2008. Year-to-date U.S. Customs data for the January-October 2013, puts U.S. exports of consumer-oriented products to Saudi Arabia at about \$449 million, an increase of 13 percent over the same period in 2012.

There are two important changes in the Saudi import regulations that U.S. exporters should be aware of when considering exporting to this growing market. In November 2013, the Saudi Food and Drug Authority (SFDA) posted on its webpage that it will implement a mandatory electronic customs clearance system (E-Clearance) for all food products, including prepackaged food products as well as raw materials, imported into the Kingdom starting on January 1, 2014. The SFDA has indicated that it will not process any customs clearance requests after January 1st unless it is submitted through the E-Clearance system. Saudi Arabia has not formally notified its trading partners of the new E-Clearance requirements of food imports. In May 2013, the SFDA announced that it will enforce the Gulf Cooperation Council's regulations concerning nutritional information on food labels. The SFDA stated that it will enforce the Gulf Standards Organization's regulation GSO 2233/2012 which requires the disclosure of the food product's nutritional information such as calories, carbohydrates, proteins, fats and other components that may affect the product's nutritional value, and consumers' health or safety. Initially, the SFDA shed gave a grace period until the first week of November to fully comply with the nutritional labeling requirements. The grace period was later extended to end of April 2014 after repeated complaints from food importers.

Food products made in the United States are generally viewed as meeting high 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.

Advantages and Challenges for U.S. food exports to the Saudi Market

| Advantages | Challenges |
|---|---|
| Saudi Arabia depends on imports to meet about 80 percent of its food needs. | Price competitiveness of local products and imports from Arab and Asian countries has impacted U.S. market share. |
| The Kingdom is a growing market for high value food products and consumers have affinity for trying new food products, offering greater opportunities for new-to-market U.S. food products. | Freight costs from the U.S. are higher than those from export competitors in Europe and Asia. |
| Ready to eat foods, home meal replacements, fast foods and "take-away" foods are increasingly popular with the young Saudi population. | Local importers prefer to initiate business deals with small orders; conditions many U.S. exporters are not willing or able to meet. |
| The market for consumer oriented food products is expanding and Saudis prefer high quality foods which enhances the demand for U.S. food products. | Saudi Arabia requires dual date labeling system (production and expiration) for all food products |
| The U.S. is recognized a reliable supplier of quality foodstuff products. Major Saudi importers are constantly looking for new to market products. | High markups, listing and other fees that major retailers charge significantly increase the cost of launching new products in the Saudi market. |
| High per capita income and purchasing power help increase increased the demand for relatively expensive imports. | Some food retailers require to get reimbursed for expired products they sell in their outlets. |
| The more than 7 million expats that live and work in Saudi Arabia creates demand for greater diversity and ethnic foods. An increasing number of pilgrims come to Saudi Arabia every year (8 million pilgrims) and create demand for institutional food services. | Negative attitude towards foods containing or made from biotech products |
| . The Kingdom is a growing market for high value food products and consumers have affinity for trying new food products, offering greater opportunities for new-to-market U.S. food products. | Freight costs from the U.S. are higher than those from export competitors in Europe and Asia. |

II. EXPORTER BUSINESS TIPS

a) Local Business Customs

Saudi Arabia imposes a 5 percent import duty on all food and agricultural products with the exception of the following products that are imported duty free. Recognizing the country's limited agricultural potential, the Saudi Government has exempted selected foodstuffs mostly in tariff schedule chapters 1, 2, 3, 7, 8, 9, 10, 12 and 17 from import duty. The products include live bovine animals, livestock, live fish, tunas, fresh vegetables, fresh fruits, tea, grains, grain flour, seeds, sugar, infant milk and food.

There are dozens of food importers in the Kingdom, with about 30 accounting for the bulk of food imports from the United States. Below are ways food products are imported to Saudi Arabia.

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

2. Some importers are agents of major U.S. manufacturers of national brands, such as Kellogg's, Campbell Soup, and Budweiser non-alcoholic beer. 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. Stickering 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, a Dubai based Lulu as well as many locally-based supermarket chains, such as Al Othaim, Panda, Tamimi, and Danube import part of their food products needs directly from suppliers. Tamimi and Danube, the two most upscale Saudi supermarkets, import several containers of American food products each month for sale at their outlets, 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 have introduced category management and eliminated low moving product brands. 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.

Local distributors (depending on the size and power of the distributor) are being asked for listing fees ranging from \$267 to \$17,067 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. Hypermarkets and supermarkets depend heavily on merchandising services offered by importer/distributors, i.e., stocking shelves and keeping inventory.

b) General 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 (20 million) in 2012

Expatriates workers residing in the Kingdom (10 million)

Per capita income \$24,267

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 (Makkah and Madina). There are ten million expatriate workers residing in the Kingdom, most of who are single and from the Sub Continent of Asia (India, Pakistan, and Bangladesh) and the Philippines. The number of foreign pilgrims coming for Hajj and Umrah rituals is estimated at about eight million per annum.

Saudi and middle income expatriates are the largest consumers of American consumer-oriented products and the principal shoppers in Class A supermarkets. The consumers in Saudi Arabia are becoming increasingly educated about quality, nutritional value, price, and packaging. They pay attention to expiry dates on products and enjoy new products. Domestic supermarkets that offer a wide variety of food products will have the best chance for prospering in this competitive market.

Saudi Arabia and the other GCC countries allow the importation of biotech food products as long as they are labeled for more than one percent GE content. U.S. biotech animal feed such as yellow corn and soybean meal have been freely imported to Saudi Arabia without any problem. Since Saudi Arabia's implementation of its processed food biotech labeling regulations in 2001, no retail packed food products with biotech content have been imported into the Kingdom to date. Saudi retail food importers do not import biotech foods due to concerns that biotech labeling could jeopardize their product image and result in their losing market shares, given that Saudi consumers have limited knowledge about agricultural biotechnology.

The demand for organic foods is very small but growing. There is a lack of sufficient marketing for organic foods and most people are not educated about the benefits of consuming organic foods.

c) Food Standards and Regulations

Saudi Arabia strictly applies Gulf standards regulations on imported foods. If Gulf standards are not available it applies its own issued standards. In the absence of Gulf and Saudi issued standards, it applies Codex or supplying countries standards such as FDA, EU and other developed countries standards. The table below lists the main GSO standards that all food products exporters should be aware of. For detailed information on Saudi Arabia's food products standards and regulations, please refer to Saudi Agricultural Import Regulations & Standards Country Report (FAIRS) on the FAS homepage: <http://gain.fas.usda.gov/Pages/Default.aspx>

Table 1.

| Standard Title | Standard Number |
|--|------------------------|
| Conditions of storage facilities for dry and canned foodstuffs | GSO 1059 |
| The maximum limits for antioxidants permitted for use in food products | GSO 383 |
| Maximum limits for pesticide residues in agriculture food products part1 | GSO 1793 |
| The two pieces aluminum round cans used for canning food, Beverages & stuff | GSO 1797 |
| Round, metal, installation, used for canning stuffs: determinations, dimensions and capacities | GSO 1374 |
| Edible casein and caseinates. | SASO 1548 |
| Sweetness permitted for use in food | GSO 381 |
| Emulsifiers, stabilizers and thickeners permitted for use in food stuffs. | GSO 707 |

| | |
|---|---------------|
| Flavoring permitted for use in food stuffs | GSO 356 |
| Preservatives permitted for use in food products | GSO 19 |
| Permitted food additives in edible oils and fats. | GSO 23 |
| Coloring matter used in food stuffs | GSO 175 |
| Salts of sulphurous acid used in preservation of food stuffs | GSO 9 |
| Labeling of prepackaged food stuffs | GSO 988 |
| Limits of radioactivity levels permitted in foods stuff part - 1. | GSO 172 |
| Benzoic acid , sodium ,benzoate ,and potassium benzoate used in preservation of food stuffs | GSO 1686 |
| Refrigerated cabinets for the sale and/or display of food products, part 1: general requirement | GSO CAC RCP56 |
| Code of practice for the prevention and reduction of lead contamination in foods | GSO 839 |
| Food packages – Part 1: general requirements. | GSO 1863 |
| Food packages - Part 2: Plastic package - General requirements | SASO-2173* |
| Food packages made of aluminum foil | GSO 150 |
| Expiration periods of food products | GSO 150 |
| Principles for food import and export inspection and certification | GSO CAC/GL 20 |
| Antioxidants permitted for use in food products | GSO 357 |
| Requirements of Nutritional Labeling | GSO 2233 |
| General Requirements for Genetically Modified Unprocessed Agricultural Products | GSO 2141 |
| General Requirements for Genetically Modified Processed Agricultural Products | GSO 2142 |

The standards are copyrighted documents and can be purchased by logging into GSO webpage:

<http://www.gso.org.sa/standards/public/standardsList.seam>

<http://www.saso.gov.sa/en/eservices/Pages/standardSearch.aspx> (for SASO standards)

d) Saudi Arabia to Enforce GCC Nutritional Labeling Requirement

The Saudi Food and Drug Authority (SFDA) announced on May 15, 2013 its intention to enforce the implementation of the Gulf Cooperation Council (GCC) regulations concerning disclosing nutritional information on food product labels that was issued in 2012. The SFDA announcement stated that Saudi Arabia will enforce the Gulf Standards Organization's (GSO) regulation GSO 2233/2012 which requires the disclosure of nutritional information on the labels of imported as well as domestically produced food products. The nutritional information required to be on food product label will include information on the amount of calories, carbohydrates, proteins, fats and other components that may affect the product's nutritional value or consumers' health or safety. Initially the SFDA established gave a grace period until the first week of November to fully enforce the nutritional labeling requirements. However, the grace period was extended to the end of April 2014 after repeated complaints from food importers. The SFDA announcement to extend the grace period included also a decision to exempt nine food product categories from the nutritional labeling requirements that include the following:

1. Food products that contain negligible amounts of calories, protein, carbohydrates, fat, saturated fat, salt or sodium, very low total sugar level as well as products with almost zero amounts such as spices and seasonings.

2. Fresh fruit and vegetables.
3. Fresh and chilled fish, livestock and poultry meat.
4. Products that are sold directly to customers at production sites such as salad, bakery products and sweets.
5. Food products that are made from one food element like rice, tea, coffee and sugar.
6. Bottled and mineral water.
7. Packed food product with container size less than 10 centimeters.
8. Food additives.
9. Food products that require further packaging or processing and are not sold directly to consumers.

In the case that food processors or exporters are interested in including nutritional information for on the above mentioned products, it is mandatory that they abide by the requirements stipulated in the nutritional labeling regulation number GSO 2233/2012.

e) 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.

f) Import of Product 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.

g) Document Notarization

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 local U.S. Chamber of Commerce located in the city or area where the exporting firm is based.

- Health Certificate
- 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).
- Animal Protein Free Feed to certificate to confirm that the bovine animals and poultry slaughtered were not fed with feed containing animal-protein, animal-fats or animal-manure and that the animals were not treated with growth hormones.

h) Product Inspection

The SFDA inspects all imported foodstuff, feed concentrates, health, herbal preparations and supplementary foods at ports of entry. The Ministry of Agriculture tests live animals, plants, seeds and grain 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.

i) 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.

j) New Procedures for Food Import, E-Clearance System

In November 2013, the SFDA posted on its webpage its intention to fully implement a mandatory electronic customs clearance system (E-Clearance) for all food products, prepackaged and un-packaged products, imported through Saudi ports of entry starting from January 1, 2014. The SFDA indicated that it will not process any customs clearance requests after January 1st unless it is submitted electronically.

It called upon all food products importers and customs brokers to complete their products and contact information registration process online at the e-service site managed by the Executive Department for the Control of Imported Food Products. We are not aware of any WTO notification to Saudi Arabia's partners concerning the enforcement of the new E-Clearance requirement.

k) SFDA Border Inspection Posts (BIPs)

Imported foods are generally inspected independently by SFDA inspectors at the port of entry without any interference from the SFDA headquarters in Riyadh. If imported consignment is in compliance with pertinent Saudi or GCC standards and regulations, it is cleared. Otherwise, it will be rejected. The domestic importer has no access to SFDA internal report during the process. SFDA informs the importer of its final decision whether to clear the product for sale in Saudi Arabia or reject it due to non-compliance with established standards or regulations. The Rejected products must be re-exported or destroyed domestically under SFDA's supervision.

SFDA's mandatory a four stage verification process at BIPs involves the following:

1. Required documents verification
2. Identity check
3. Physical examination
4. Laboratory test

Failure to comply with pertinent Saudi or GCC standards and regulations at any of the above stage may result in a rejection of the imported food product.

If a product is rejected by one of SFDA's BIPs for alleged lack of adherence to established specifications at any of the above four stages, the domestic importer has the right to appeal the decision in writing to the Executive Department of the Imported Food Control (EDIFC) at the SFDA headquarters and ask for reconsideration of the inspection results. In such cases, EDIFC forwards appeal to SFDA's especial committee that studies shipment documentation and the BIP test results to verify compliance with established rules and regulations. If the BIP action was found to be in compliance with the rules and regulations pertain to the rejected product, then EDIFC considers the BIP findings and decision as final. If, for any reason, there was a misjudgment by the BIP inspectors, EDIFC repeals the decision and inform the importer to clear the consignment cleared from Customs.

l) 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 Outlets

In 2013, the total value of Saudi retail food sales was estimated at about \$33.5 billion, an increase of 87 percent compared to sales in 2007 which was estimated at \$17.89 billion. The total value of retail food

sales is forecast to reach \$44.44 billion in 2017, an increase of about 33 percent over 2013.

Key factors driving the huge growth in retail food sales are as follows:

- a) **Population Growth:** the Saudi population which estimated at 30 million in 2012 grows at about 3 percent annually and his expected to reach 38 million by 2025. Currently, about 70 percent of Saudis are under the age of thirty.
- b) **Increased disposable income:** Saudi Arabia's economic growth in recent years has helped in increasing per capita income, from \$20,267 in 2008 to \$24,267 in 2012. With higher income, large number of Saudi can afford to shop high quality food products at retail outlets and Saudis spend about 27 percent of their income on food. The Saudi government offers various direct or indirect subsidies to keep the prices of staple food products at very low levels.
- c) **Increased in the Number Retail Outlets:** In 2013, an estimated about 1,120 retail outlets were added to the growing retail food network in Saudi Arabia. Saudi food retailers carry a wide range of products, from domestically processed food to imported upscale specialty and organic food products. U.S. exports of consumer-oriented products to Saudi Arabia have been rapidly growing, totaling \$475.4 million in 2012 and more than 105 percent higher than 2008. The fast growth of retail food outlets in Saudi Arabia provides an excellent opportunity for U.S. suppliers of consumer products to expand their exports throughout the Kingdom.

- **Hypermarkets**

Hypermarkets, which were first introduced to Saudi Arabia in 2004, have huge size up to 200,000 square feet and 50 checkout counters. They provide more than 55,000 items including foodstuffs, clothing, tools, toys, and electronics. To date, there are 90 hypermarkets dispersed in the major cites of the Kingdom (Riyadh, Jeddah, Dammam, Makkah and Madina) and their number increases significantly every year. Shopping at hypermarkets is very popular as it is considered family outings and form of entertainment that substitutes going to movie theaters or nightclubs because many hypermarkets have play grounds for children. The Saudi family tends to spend several hours during their shopping trips in the vicinity of hypermarkets, which increases the likelihood of impulse shopping and increase overall purchase of grocery items as well as snacks food and confectioneries for children. The popularity of hypermarkets shopping and the huge revenues that they generate has obliged many supermarket chains to open some hypermarket outlets in major Saudi cities. Though the number of hypermarkets currently operating in the Kingdom is very low compared to the more than 40,000 total retail outlets found in the Kingdom, they account for about 18 percent of total food sold in the country.

- **Class A Supermarkets**

Currently, there are 460 Class A supermarkets operating in the Kingdom. Class A supermarket is defined as a retail store with more than 1,000 square meters, five or more checkout 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**

Class B supermarkets have up to 500 square meters of store space and have two or more checkout counters. The number of Class B supermarkets is estimated at about 300 stores and they are found in all major urban areas and medium-size cities of the Kingdom. Class A and Class B supermarkets combined are estimated to account for 26 percent of all retail food products sold in the Kingdom.

The main factors that have contributed to the growth of modern retail chains are the increased urbanization, increased disposable income, more exposure to high quality foods via satellite television advertisements, grocery shopping as a form of family outings, changing lifestyles and a craving by Saudi consumers for variety foods.

- **Bakalas** (convenience grocery stores)

Bakalas are found in every neighborhood in the Kingdom and their number is estimated at about 40,000. Bakalas are estimated to account for 56 percent of all retail food products sold in Saudi Arabia. Despite the rapid increase in the number of hypermarkets and supermarkets, the number of bakalahs has not decreased significantly as was previously predicted, due to the fact that third country nationals who do not have cars or women who cannot drive still use Bakalas for daily shopping. 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. Meed, the only known chain corner grocery stores in Saudi Arabia, has 255 bakalas in major Saudi cities. 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 the Saudi-ization work policy results in the departure of more than third of the country national expatriates from Saudi Arabia, some analysts expect that the number of bakalahs will decrease significantly.

Recent Trends

In the past two decades, Saudi Arabia has experienced rapid socio-cultural changes caused by the fast growing economy and increase personal income that allowed Saudis to travel to the West for education and tourism, and to learn more about western food and culture. The rapid expansion in western style supermarkets and fast food restaurants has significantly changed Saudi consumer tastes and preferences. Increasing numbers of Saudis look for high quality foods and are willing to pay more for quality. Most hypermarkets are now severing cooked meals, marinated meat, ready to go salad and chilled pizza to meet the growing demand for prepared foods in retail outlets.

One of the noticeable trends in the Kingdom has been the decline in consumers' preference for canned food products in favor of fresh or frozen food items. Frozen foods are perceived by consumers as being of better quality than canned foods. Changing lifestyles and an increasing number of women entering the workplace are driving demand for prepared foods. A significant segment of Saudi consumers continue to make a large percentage of their food purchases at wholesale markets, but the majority of Saudis is still shopping regularly at supermarkets and hypermarkets.

Saudi consumers are becoming increasingly educated about food prices, quality, nutritional value, and packaging. They pay attention to expiry dates on products and enjoy new products. Domestic supermarkets that offer a wide variety of food products will have the best chance for prospering in this competitive market.

Dining at fast food restaurants has become very popular among Saudi families and expatriate workers. American fast food chains such as KFC, Burger King, and McDonald's as well as casual dining restaurants such as Chili's, TGI Fridays, Applebee's, Sizzler, On The Border, Fuddrucker's and some local fast food chains such as Herfy and Kudu, 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.

Hotel, Restaurant and Institutional (HRI)

The value of food purchased by restaurants and cafés to produce meals in 2010 was estimated at of \$4.2 billion. The huge institutional food sector in Saudi Arabia serves about 8 million Hajj and Umrah pilgrims who visit Saudi Arabia annually. It also caters to workers camps, company cafeterias, hospitals, universities, military, prisons, airline catering, and special events. There is no official government data on value of food products used by the institutional food service but it serves several million meals a day and depends on imports for more than 80 percent to meet the demand for institutional food products. In 2013, the total revenue of the institutional food sector was estimated at \$5 billion.

m) Food Processing Sector

Local manufacturing of food products has expanded rapidly over the past few years and it depends heavily on imports for its raw materials needs. However, there is no published data on the total size of the domestic food processing industry. The Saudi government has assisted the domestic food industry by providing interest free loans and access to subsidized raw materials such as wheat flour. Saudi produced food products are exported to the five GCC countries (Kuwait, Oman, Qatar, Bahrain, and the United Arab Emirates) which give them competitive advantage over imports from other countries.

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.

n) Marketing and Product Promotion Trends

Saudi retailers are constantly searching for new products, and often request support from suppliers for promotion and advertising. Advertising is considered a necessity to win Saudi consumers. Competitive pricing, weekly promotional offers, advertising support from vendors and the ability of retailers to offer a wide selection of products at competitive prices are key promotional strategies followed by retailers.

Weekly newspapers advertising are very common and the advertising is mostly geared toward women, who play a greater role in purchasing decisions.

o) Online Sales

Currently, there are no Saudi food retailers that offer online food shopping. Al Othaim Supermarket, the second largest food retail chain in Saudi Arabia, introduced internet based grocery sales in the city of Riyadh in 2011. However, the service was discontinued in summer 2013 due to lack of interest by consumers. In Saudi Arabia, shopping at hypermarkets and supermarkets is considered as a form of outing due to lack of other entertainment options such as cinemas and theaters. The extreme climatic conditions also makes outside activities very difficult during the day which makes spending time at air conditioned hypermarkets very attractive.

IV. BEST CONSUMER ORIENTED PRODUCTS PROSPECTS

Table 2. Saudi imports of select food products by major supplier in 2012

| Product Category and Total Import Value | Major Supply Sources | Strengths of Key Supply Countries | Advantages and Disadvantages of Local Suppliers |
|---|--|---|---|
| Frozen Broiler Meat \$1.5 billion | Brazil (79.1%), France (18.2%), U.S. (1.2%) and Argentina (1.1%) | Brazil is the most price complete supplier that also meets food service size, moisture and fat content requirements. | Local broiler meat production accounts only for 42 percent of total consumption. |
| Vegetable oils exc soybean oil \$650 million | Indonesia (35.5%), U.S. (17.4%), Malaysia (15.4%), Ukraine (10.7%), Spain (4.7%) | Indonesia is the most price complete palm oil supplier to Saudi Arabia while the U.S. is the dominant corn oil supplier to the food service sector. | Saudi Arabia does not produce cooking oil. Saudi SAVOLA Oil Company imports refined palm and corn oil and retail pack them for local distribution. |
| Fresh Fruit \$498 million | South Africa (21.2%), Turkey (19.8%), Chile (11.4%), India (9.9%), Italy (8%) and U.S (6.4%) | Price and availability are the major criteria when importing fresh fruit. | Saudi Arabia produces very limited fruits such as citrus, grapes, and pomegranate. |
| Processed fruit and vegetables \$495 million | U.S. (16%), China (15.6%), Netherlands (11.9%), Spain (8.9%) and Belgium (8.7%) | U.S. exports of these products have been steadily increasing in recent years due to its price competitiveness and quality. | Some local food processors import blocks of frozen fruit and vegetables for repacking into smaller consumer-size containers for sale in Saudi market. |
| Snack Foods \$434 million | Netherlands (15.8%), Italy (15.3%), Turkey (14%), Poland (9.6%), U.S. (7.4%) | EU countries to dominate the snack food sector due to products quality and competitive prices, | Local snack food producers depend on imported raw materials and they do not pay import tariff on food products imported for reprocessing. |

| | | | |
|-----------------------|---|--|--|
| Beef \$426 million | India (51.1%), Brazil (37.7%), Australia (5%), U.S. (3.4%) and New Zealand (1.7%) | India benefited the most from SFDA beef import bans placed on U.S. and Brazilian beef imports. | No significant beef production in the country. |
|-----------------------|---|--|--|

Table 2 continued.

| | | | |
|---|--|---|---|
| Fish and Seafood Products \$319 million | Thailand (46.4%), Indonesia (17%), India (10.6%), Taiwan (6%) and Japan (4.5%). | Thailand has been the dominant and the most price competitive supplier of fish and seafood supplier to Saudi market. | Saudi Arabia has recently become a significant exporter of high quality commercial produced red sea shrimp to EU, U.S. and Japan. |
| Cheese \$246 million | New Zealand (26.7%), U.S. (14.3%), Poland (12.6%), France (9%), Turkey (8.1%) | Price competitiveness and quality are the key factors in making purchasing decision in this market. New Zealand has been the dominant export of cheese to Saudi Arabia. | Some local food processors imports cheese blocks for repacking into smaller consumer-sizes for sale in the market. |
| French Fries (frozen potatoes) \$176 million | Netherlands (44.3%) Belgium (20.4%) U.S. (14.8%), France (10.9%), and Egypt (6%) | French fries is one of the strategic foods that is mostly used fast food restaurants. The huge demand has created fierce competition among major suppliers both in prices as well as quality. Netherlands French fries meet both the price and quality requirements of Saudi food service sector. | Local potatoes production is used fresh and by some local potatoes chips producers. |
| Tree Nuts \$141 million | U.S. (40.4%), India (31.8%), Turkey (7.5%), Iran (4.2%) and Sir Lanka (4.1%) | Almonds accounts for the largest percentage of tree nuts imported to Saudi Arabia. The U.S. has been a dominant supplier of almonds to Saudi Arabia for the past several years. | No local production of tree nuts. |
| Fresh Vegetables \$115 million | China (31.7%), Netherlands (19.2%), India (14.2%), Turkey (11.2%) and Australia (5.7%) | China has been gaining market share in the fresh vegetables market due to its price competitiveness compared to other suppliers. | Saudi Arabia is 85 percent self-sufficient in fresh vegetables production. Prices of locally produced vegetables are usually higher than imports. |

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, tree nuts, dairy products, red meats, fresh apples and pears, processed fruits and vegetables, jams and jellies, fruits and vegetable juices, honey, sweet pastry and biscuits, dietetic foods, snack foods, poultry meat, fresh fruit, processed fruit and , vegetables, and organic food products.

V. KEY CONTACTS AND FURTHER INFORMATION

1. Post Coordinates

Office of Agricultural Affairs
 American Embassy
 P.O. Box 94309, Riyadh 11693
 Tel: 966-11-488-3800 Ext. 4351
 Fax: 966-11-482-4364
 Internet E-Mail Address: Agriyadh@fas.usda.gov

2. OAA Riyadh Reports

Several OAA Riyadh issued reports on the Saudi food industry can be obtained by visiting FAS website at the below link: <http://gain.fas.usda.gov/Lists/Advanced%20Search/AllItems>

APPENDIX

TABLE A. KEY TRADE AND DEMOGRAPHIC INFORMATION FOR 2012

| | |
|--|----------|
| Agricultural Imports From All Countries (\$Mil) | \$21,700 |
| U.S. Market Share (%) | 5.5 |
| Consumer Food Imports From All Countries (\$Mil) estimated at 52% of total imports | \$11,300 |
| U.S. Market Share (%) | 4.2 |
| Edible Fishery Imports From All Countries (\$Mil) | \$319 |
| U.S. Market Share (%) | 0.2 |
| Total Population (Millions) | 30 |
| Annual Growth Rate (%) | 3% |
| Urban Population (Millions) | 22.3 |
| Annual Growth Rate (%) | N/A |
| Number of Major Metropolitan Areas | 13 |
| Size of the Middle Class (Millions) Growth Rate (%) | N/A |
| Per Capita Gross Domestic Product (U.S. Dollars) | \$24,354 |
| Unemployment Rate (%) | 12.10% |
| Per Capita Food Expenditures (U.S. Dollars) estimated at 27% of GDP | \$6,576 |
| Percent of Female Population Employed | 15.4% |
| Exchange Rate US\$1 = 3.75 Saudi Riyals (SR) | SR 3.75 |

Source: Major exporting countries data and Saudi Government's Statistics