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Egypt

Retail Foods

Egypt Retail Sector Report – Annual 2019

Approved By:
Ali Abdi, Minister-Counselor
Prepared By:
Ibrahim Al-Habbal, Marketing Assistant

Report Highlights:
Demand for food and beverage products is expected to rise in the coming years. The economic policy reforms implemented in 2016 are yielding positive results on macroeconomic stability, but consumers still face high inflationary pressures. The Egyptian retail food sector continues to be dominated by traditional grocery stores, though supermarket chains, convenience stores, and online retailing platforms are growing in number and popularity. Products from the United States face stiff competition from countries with which Egypt has trade agreements; however, opportunities exist for U.S. exporters.

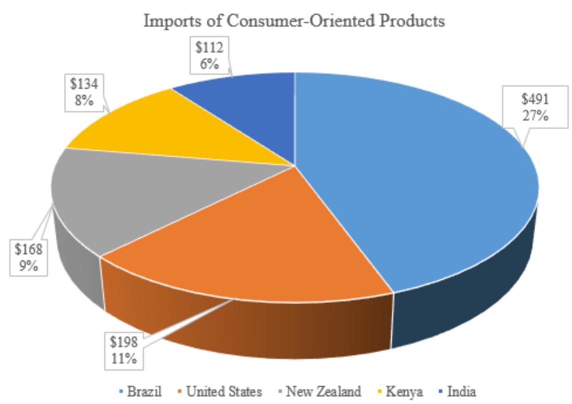
Market Fact Sheet: Egypt

Executive Summary

Egypt faced high inflation in the months following the November 2016 currency devaluation. Upward price pressures have now begun to fall and demand is improving. Higher-income consumers were less impacted by inflation and growing government austerity, while mid to low-income buyers were forced to alter their consumption patterns. Sources in the retail sector expect increasing demand and growth of 15-20 percent over the next five years as consumer purchasing power recovers. Consumer-ready products from the U.S. face stiff competition from suppliers in countries with more favorable trade relationships. In 2018, the highest value U.S. products exported to Egypt were beef livers and other beef offal, milk products, and food preparations.

Imports of Consumer-Oriented Products

Egypt imported $1.8 billion in consumer-oriented products in calendar year (CY) 2018. Primary suppliers were Brazil, United States, New Zealand, Kenya and India.



Food Processing vs. Imports in the Retail Sector

In 2016, the Egyptian government implemented policies that discouraged the import of consumer-oriented products. Ingredients and products for further processing are a priority. There are over 7,000 food processing and manufacturing companies in Egypt, generating sales of about $17 billion in 2018. Although improving, local production remains more limited in terms of quality and variety.

Retail Food Industry

The Egyptian retail foods sector size is around to $15 billion. Higher income consumers drive much of the demand for imported products, while low- and middle-income consumers substitute imports with domestic alternatives. As incomes recover, in tandem with increased purchasing power, the market will grow. Sources foresee growth of 15-20 percent over the next five years. Traditional outlets still dominate the Egyptian market, representing 98 percent of total outlets and around 75 percent of total sales. Modern retail outlets are nonetheless growing in number and volume of sales. Online retail platforms are increasingly popular as internet penetration increases.

Quick Facts CY 2018 (Jan-Jun)

<u>Imports of Consumer-Oriented Products</u> US$1.8 billion

<u>List of Top 10 Growth Products in Egypt</u>

1) Frozen Beef	2) Beef Liver
3) Black Tea <3kg	4) Butter
5) Crm, Cntd,Swt,Powdr 1.5%	6) Food Preparations
7) Apples, Fresh	8) Cheese
9) Milk Conc. FAT>1.5% from Milk	10) Fats & Oils

<u>Consumer Oriented Foods (US$ billion) 2018 (Jan-Jun)</u>

Consumer Oriented Food Sales	$15.2
Exports*	$2.1
Imports*	$1.8
Inventory	N/A
Domestic Sales	$17
Retail	$16
Food Service	$1

Note: * Refers to consumer-oriented products only.

<u>Top Egypt Retailers</u>

- Carrefour	- Mansour Holding
- Seoudi Markets	- On-the-Run
- HyperOne	- Spinneys
- BIM	- Kazyon
- Gourmet	- Alfa Market

<u>GDP/Population</u>

Population *(millions)*: 99.4
GDP *(billions USD)*: $299.59**, $336.3 (2016)
GDP per capita *(USD)*: 14,030 PPP (Intl dollars)

Sources: International Monetary Fund, FAS Cairo office research. ** IMF GDP estimates as of June 2018.

Strengths/Weaknesses/Opportunities/Challenges

Strengths	**Weaknesses**
1. Large consumer market 2. Consumer acceptance of U.S. origin products	1. High tariffs 2. Complex import regulations
Opportunities	**Threats**
1. Growing demand	1. Trade

2. Increase of modern supermarkets, convenience stores and online ordering platforms	competitors with free trade-agreements 2. Trade competitors with closer proximity

Data and Information Sources: FAS Cairo office research.

Contact: FAS Cairo AgCairo@fas.usda.gov

SECTION I: MARKET SUMMARY

The Egyptian government unpegged the Egyptian Pound in November 2016, allowing it to devalue markedly and driving up inflation. Core inflation peaked in July 2017 at 35.26 percent. The Central Agency for Public Mobilization and Statistic (CAPMAS) announced in April 2019 that Egypt's annual inflation rate reached 13.8 percent in March 2019 compared to 13.1 in March 2018. High inflation rates have eroded purchasing power for many Egyptians. Under these macroeconomic conditions the Egyptian food and beverage retail market has become increasingly price sensitive, especially so for middle and low-income consumers. This has driven consumers to substitute domestic products for those previously imported.

Modern supermarket and hypermarket chains operating in Egypt confronted increased price sensitivity by running promotions, creating loyalty programs, and offering bulk discounts. In some cases, they have also substituted imported products for domestic alternatives. Modern retail channels, such as supermarkets, hypermarkets and convenience stores, have a combined 3,913 outlets and represent around 26 percent of total sales. Traditional grocery retailers have 113,724 and represent 74 percent of total sales. Small traditional grocers remain the dominant retail outlet in Egypt. There are an estimated 113,724 traditional grocers in Egypt, controlling around 74 percent of the total market share. These outlets are conveniently located in urban centers, carry a wide variety of food and beverage products, provide reasonably priced home delivery service and, in some cases, offer credit to buyers. Two modern supermarket chains, Turkish BIM and Egyptian Kazyon, have followed this model setting up chains of small neighborhood stores. The former now boasts 300 outlets across Egypt, while the latter has a reported 414 locales.

In spite of the recent macroeconomic upheaval, demand amongst higher-income consumers is already increasing. Middle and lower-income consumers are expected to revert to their normal consumption patterns as inflation moderates and incomes improve. Industry sources expect retail demand to grow by 15-20 percent in the next five years. While U.S. products could be competitive in the Egyptian market, they face stiff competition from exporters in regions with preferential trade agreements. Currently, beef, infant formula, apples, cheese, tree nuts and certain confectionaries represent the best growth prospects in Egypt.

Table 1: Advantages and Challenges Facing U.S. Suppliers of Consumer-Oriented Products

Advantages	Challenges

U.S. origin products continue to enjoy acceptance in the Egyptian market.	Higher tariffs often levied on imported consumer-oriented products.
U.S. products are associated with high quality.	Many importers indicate that there is a lack of U.S. supplier interest in Egypt.
New-to-market products benefit from the recent expansion of supermarket and hypermarket chains.	Geographic proximity to competing suppliers.
	Egyptian import regulations are at times non-transparent.

SECTION II: ROADMAP FOR MARKET ENTRY

Entry Strategy

Firms interested in exporting to Egypt should begin by identifying an Egyptian importer or distributor, with whom they can build a relationship. These Egyptian firms are best suited to navigate local regulations, understand distribution chains, and have relationships with food retailers. Some larger retailers import directly; however, the lion's share of small and medium retailers work through importers. More information can be found in the 2018 Annual Retail Foods report from FAS Cairo.

Market Structure

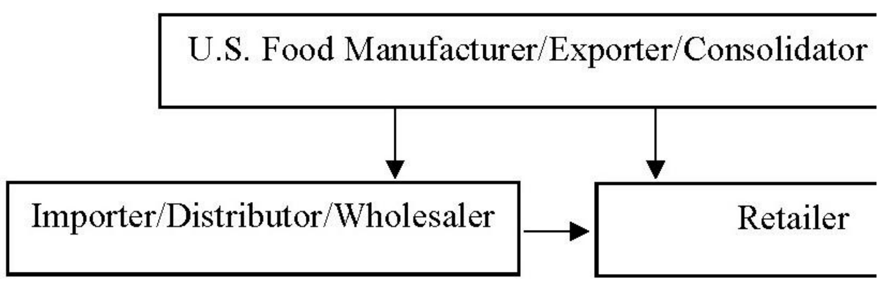


Table 2: Company Profiles and Retailers

Company	**Activity**	**Outlets**	**Remarks**
Carrefou	Supermarket/Hyperma	37	Domestic &

r	rket		Imported Goods
Mansour Group	Retail/Distribution	100	Domestic & Imported Goods
Seoudi	Retail	12	Domestic & Imported Goods
On-the-Run	Convenience Store	27	Domestic & Imported Goods
HyperOne	Retail	2	Domestic & Imported Goods
Spinneys Egypt	Retail	13	Domestic & Imported Goods
BIM	Retail	300	Primarily Domestic Goods
Kazyon	Retail	414	Primarily Domestic Goods
Gourmet Egypt	Retail	9	Domestic & Imported Goods
Alfa Market	Retail	7	Domestic & Imported Goods
Ayman Afandi	Importer/Distributor	Marketing & Distribution	
Al-Shaheen Co.	Importer/Distributor	Marketing & Distribution	
GMA	Importer/Distributor	Marketing & Distribution	
Amin Trading	Importer/Distributor	Marketing & Distribution	
AM Foods	Importer/Distributor	Marketing & Distribution	
Egyptian Group	Importer/Distributor	Marketing & Distribution	
Bassiouni Sons	Importer/Distributor	Tree Nut Importer/Processor/Distributor	
Samo	Importer/ Distributor	Tree Nut	

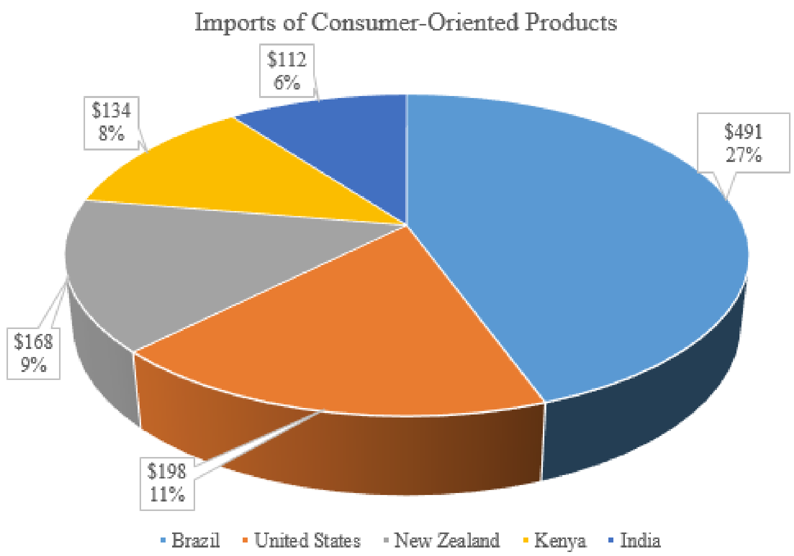
Trading		Importer/Processor/Distributor

SECTION III: COMPETITION

Consumer-oriented products from the United States face heavy competition from both domestic and imported products. Egyptian produced substitutes have gained ground following the devaluation and now fill much of the domestic demand for chips, crackers, and cookies. Though domestic production has grown, imported products are perceived as being of higher quality and often offer greater variety. Higher income consumers continue to purchase imported retail products. Egypt's import of consumer ready products in 2018 (Jan-Jun) was around $1.8 billion. The U.S. share of imports was around 11 percent, or $198 million.

In 2018 the main exporters of consumer-oriented products to Egypt were Brazil at 27 percent ($491 million), United States at 11 percent ($198 million), New Zealand at 9 percent (168 million), Kenya at 8 percent (134 million), and India at 6 percent ($112 million).

Figure 1: Top Exporters of Consumer Oriented Products to Egypt



Source: GTIS & FAS Cairo Research.

Table 3: Egypt – Major Imports and Competing Suppliers (2018) (Jan-Jun)

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages

			of Local Suppliers
Beef Frozen $463.5 million	1. Brazil – 89% 2. India – 9% 3. Paraguay – 1% 7. USA – 0.16%	Low production cost.	- Limited domestic production - High demand
Beef Livers, Frozen $189 million	1. USA – 72% 2. Brazil – 19% 3. Australia – 4% 4. India – 3%	Competitors cannot supply sufficient quantities at reduced price.	- Limited domestic production - High demand
Black Tea $152 million	1. Kenya – 87% 2. India – 10% 3. Sri Lanka – 1% 11. USA – 0%	Low production cost, year-around supply. Proximity.	- No local production - High demand
Butter $91.5 million	1. New Zealand – 60% 2. India – 27% 3. USA – 4% 4. Ukraine – 3%	Low production cost, year-around supply.	- Limited domestic production - High demand
Milk and Cream, Concentrated $85 million	1. Germany – 27% 2. France – 16% 3. Canada – 15% 7. USA – 9%	EU duty-free access and proximity. Lower production cost (Canada)	Limited domestic production. - High demand.
Food Preparations	1. Ireland – 38% 2. UK – 9%	Low cost of production, and	Limited domestic production.

$84 million	3. Netherlands – 7% 8. USA – 3%	proximity. EU duty-free access.	- High demand.
Apples Fresh $58.4 million	1. Italy – 24% 2. Poland – 20% 3. Syria – 20% 13. USA – 0.03%	EU duty-free access. Proximity.	Limited domestic production. - High demand.
Cheese Including Cheddar and Colby $48.4 million	1. Netherlands – 33% 2. New Zealand – 19% 3. Ireland – 14% 6. USA – 5%	EU duty-free access. Proximity	Limited domestic production. - High demand.
Milk and Cream in Solid Forms. $46.4 million	1. New Zealand – 66% 2. Denmark – 8% 3. Uruguay – 5% 22. USA – 0%	Low cost production. EU duty-free access.	Limited domestic production. - High demand.
Fats and oils derived from milk. $41 million	1. New Zealand – 74% 2. India – 11% 3. France – 7% 00. USA4 – 0%	Low cost production. EU duty-free access. Proximity	No domestic production - High demand.

Source: GTIS & FAS Cairo Research.

SECTION IV: BEST PRODUCT PROSPECTS CATEGORIES

- Products present in the market, which have good sales potential, such as cheese, infant formula and beef products, continue to represent good prospects for U.S. exporters. Egypt is a net importer of processed dairy products, and U.S. products may be competitive based on exchange rates and other considerations. U.S. powdered infant formula and other milk products are generally competitive. As in past years, Egypt remains an important market for U.S. beef liver and offal. The country remains the largest importer of U.S. beef liver. U.S. Beef muscle cuts are well known for their quality among affluent buyers and represent a category with growth potential.

- Top consumer-oriented products imported from the world include frozen beef, beef liver, cheese, infant formula, butter, fresh apples, frozen whole chicken, chocolate and cocoa products, and tree nuts.
- Top consumer-oriented products imported from the United States include beef liver, dairy products, and tree nuts.
- Products not present in significant quantities but which have good sales potential among the more affluent Egyptian consumers include tree nuts, sweets and snacks, healthy and nutritional foods, and pet foods.
- Products not present because they face significant barriers include fresh apples due to high tariffs and poultry parts due to non-tariff barriers.

SECTION V: KEY CONTACTS AND FURTHER INFORMATION

For further information, see: Food and Agricultural Import Regulations and Standards (FAIRS) EGYPT – Narrative and Certificate 2017 reports, as well as GAIN – EGYPT Exporter Guide 2017, GAIN – EGYPT HRI Food Service Sector 2017, and the Country Commercial Guide reports.

Cairo Chamber of Commerce
4 Falaki Square, Bab Ellok, Cairo Governorate
+20-2-2795-8261 and +20-2-2795-8262 ● Fax: +20-2-2796-3603 and +20-2-2794-4328
info@cairochamber.org.eg ● http://en.cairochamber.org.eg

American Chamber of Commerce
33 Soliman Abaza Street, Dokki - Giza
+20-2-3333-6900 ● Fax: +20-2-3338-1060
info@amcham.org.eg ● http://www.amcham.org.eg

General Organization for Export and Import Control
Sheraton Al Matar, Heliopolis, Cairo

+20-2-2266-9627
http://www.goeic.gov.eg

Egyptian Customs Authority
Ministry of Finance Buildings, Tower 3, Ramsis Street Extension,
Cairo Governorate
+20-2-2342-2247
info@customs.gov.eg ● http://customs.gov.eg

Ministry of Agriculture and Land Reclamation
1 Nadi El-Seid Street, Dokki, Giza
+20-2-3337-2677, +20-2-3337-2758
Fax: +20-2-3749-8128

FAS Cairo
U.S. Embassy Cairo, Office of Agricultural Affairs
8 Kamal El-Din Salah Street, Garden City, Cairo, Egypt
+20 2-2797-2388
AgCairo@fas.usda.gov