

Country Market Profile: Saudi Arabia

Euromonitor reports that the economy in Saudi Arabia expanded in real terms in 2021, driven by increasing domestic consumption, public investment and external demand. An anticipated budget surplus from surging oil revenues is expected to boost government reserves, strengthen the country's financial situation and shield from major future risks. However, the persisting pandemic-related threats, supply constraints and global inflationary pressures raise the uncertainty and weigh on the country's economic outlook.

- Following real gross domestic product (GDP) growth at 2.8% in 2021, the Saudi Arabia's economy is expected to expand by an average annual rate of 2.4% in real terms over the medium term.
- Inflation in Saudi Arabia is forecast to slow down to 2.3% in 2022, from 3.3% in 2021.
- Saudi Arabia's exports increased by 58.7% and imports rose by 10.1% during 2021, with the country remaining a net exporter.
- Foreign direct investment (FDI) inflows into Saudi Arabia increased over 2020, and FDI intensity reached 0.8% of GDP.
- Public debt in Saudi Arabia fell to 29.9% of GDP in 2021 from 32.4% in 2020, pointing to the country's improving fiscal health.

Saudi Arabia is encouraging the growth of the private sector in order to diversify its economy and to employ more Saudi nationals. Approximately 6.5 million foreign workers play an important role in the Saudi economy, particularly in the oil and service sectors; at the same time, however, Riyadh is struggling to reduce unemployment among its own nationals. Saudi officials are particularly focused on employing its large youth population.

Saudi Arabia's population is growing at a brisk pace. The total number of inhabitants was 35.3 million in 2022 (CIA World Factbook Est.) – an increase of 14.7 million since 2000. By 2030, the country will be home to 39.3 million – more than four times the total for 1980. Although the population is still relatively young, an ageing process is underway. Median age was 30.8 years in 2021, up from 21.3 years in 2000.

USDA's Office of Agricultural Affairs (OAA) in Riyadh reports that Saudi Arabia is a significant market for U.S. food and agricultural products. In 2021, Saudi Arabia's GDP was estimated at US\$723 billion, positioning the country as the largest economy in the Arab world. They are projected to invest nearly US\$70 billion in the food manufacturing sector in 2030 making it a major producer of agricultural products in the region. In 2021, the United States exported approximately US\$1.3 billion in agricultural and related products to Saudi Arabia. Escalating petroleum prices have been boosting Saudi Arabia's GDP this year.

There are plenty of opportunities for a wide range of new U.S. food products in the Saudi market; especially, healthier products aimed at a generation with more disposable income. Unfortunately, there are also significant impediments to trade including several

halal related restrictions on meat and poultry products as well as exporting facility registration requirements. Despite these issues, U.S. food products are generally viewed as a higher quality product and are well-positioned to meet Saudi Arabia's changing dietary habits over the next few years.

Market Opportunities and Key Issues in the Saudi Food Market

Market Opportunities

- The U.S. is considered a reliable supplier of quality food products
- Saudi Riyadh (SR) is pegged to the U.S. dollar at the rate of US\$1 to 3.75 SR, and historically favors U.S. exporters
- High per-capita income and purchasing power has increased demand for healthier/organic type food products
- Hypermarkets have become popular destinations for shopping as well as family outings
- The 12 million expats that live and work in Saudi Arabia create a strong demand for diversified and ethnic food imports
- Saudi retail outlets are well equipped to carry all types of food products, including fresh as well as frozen items
- The increasing number of pilgrims and tourists creates demand for institutional food products
- Major retail chains are constantly looking for new to-market U.S. products

Key Issues

- Price competitiveness of local products and imports from parts of Asia, Brazil, the EU, New Zealand, and Turkey
- Freight costs from the U.S. are higher than those from export competitors in Europe and Asia
- Local importers prefer to initiate business deals with small orders; conditions many U.S. exporters are not willing or able to meet
- Saudi Arabia maintains dual date labeling system (production and expiration) for all food products
- High markups, listing and other fees that major retailers charge significantly increase the cost of launching new products in the Saudi market
- Some food retailers return products that are not sold by the expiration date and seek full refunds as a result
- General lack of brand awareness and loyalty by most of the Saudi consumers

U.S. Exports of consumer ready products to Saudi Arabia decreased 4% to US\$534.8 million in 2021. That is the 2nd highest total in the region after UAE. The Kingdom is an active importer of U.S. processed foods as well, the top market in the GCC-6 bringing in some US\$459.5 million in 2021, an increase of 6% from the prior year. Top U.S. processed food exported to Saudi Arabia in 2021 included:

- Processed/Prepared Dairy Products
- Fats & Oils
- Condiments, Sauces, Jams & Jellies
- Processed Vegetables & Pulses
- Food Preparations & Ingredients
- Snack Foods
- Chocolate & Confectionery

Food Retail Sector:

Euromonitor has estimated 2022 retail sales in the Saudi packaged food market to be US\$23.1 billion. That represents an increase of 15.6% and nearly US\$3.1 billion from 2018. They also forecast sales of packaged food in the Saudi market to reach US\$27.9 billion by 2026, an increase of nearly US\$4.8 billion and 21.1% from 2022. High growth products in the forecast include:

- Baby food
- Ice Cream
- Processed Meat, Seafood & Alternatives to Meat
- Savory Snacks
- Sweet Biscuits, Snack Bars & Fruit Snacks
- Ready Meals
- Confectionery
- Soup
- Sweet Spreads

FAS Riyadh reports that the traditional Saudi retail sector is losing ground to hyper and supermarkets as demand for packaged food continues to increase. Major drivers of this transition include increasing disposable income, a growing population and the creation and expansion of urban centers. Total 2021 retail sales of packaged food were approximately US\$36.2 billion, and of that amount, 55% was generated through traditional channels while 45% came through modern retail channels.

There are no specialized food publications or retail journals in Saudi Arabia and as a result, reliable data on food retailers' sales and floor space is not readily available. Panda Retail Company: The largest retailer in Saudi Arabia. This publicly traded Saudi company has 230 retail outlets (hypermarkets and supermarkets) in Saudi Arabia. The firm also has two hypermarkets in Egypt and one in Dubai, United Arab Emirates (UAE). Most of the company's purchases are local, but it also imports directly. Othaim Supermarket Chain: This Saudi company has 227 stores in Saudi Arabia and 46 stores in Egypt. The company has also several wholesale outlets. Most of the company's purchases are local, but it also imports directly.

BinDawood Holding: This Saudi Company operates a total of 73 stores across the country, including the BinDawood and Danube supermarket chains and purchases food

products locally as well as internationally. It recently announced that it is filing an IPO. Farm Superstores: This Saudi company has 69 supermarkets in the Kingdom, and most of the company's purchases are local. It also imports directly. Al Raya Supermarkets: A Saudi-UAE company with 54 supermarkets in the western and southern regions of the Kingdom. It purchases domestically and imports some staple food products.

Tamimi Supermarkets: An upscale supermarket with 45 branches in Saudi Arabia and one in Bahrain. The company is one of the largest consolidated U.S. food products importers in Saudi Arabia. It is the only Saudi supermarket that currently sells chilled U.S. beef. LuLu Hyper\Supermarkets: A Dubai headquartered retailer with 38 outlets in Saudi Arabia, mostly hypermarkets. It has more than 150 hypermarkets in the Middle East and Asia. Carrefour Saudi Arabia: It is a subsidiary of Majid Al Futtaim of UAE; the exclusive Carrefour franchisee in 38 countries across the Middle East, Africa, and Asia. They have 18 Saudi hyper and supermarkets, and mainly imports from France. Post has helped place some U.S. products in Carrefour.

Lulu, Tamimi, Danube, and Manual Supermarkets (a chain with nine outlets throughout Jeddah) imports a significant percentage of the food products they sell directly from the United States. LuLu owns and operates Y International USA, Inc.; a U.S. purchasing and logistics company based in Lyndhurst, New Jersey, that will be opening additional U.S. branches. The logistics company sources and exports U.S. food products and consumer goods directly to LuLu in the Middle East and Asia while the other three retailers make extensive use of consolidators. Some products (like blueberries, strawberries, lettuce, cherry tomatoes, and other fresh produce) are shipped by air, but most products are shipped by sea.

Best Product Prospects:

Post reports that currently, more consumers in Saudi are seeking out the following products: healthier lifestyle products (diet foods, organic etc.), beef, poultry meat, beverage ingredients, non-alcoholic beer, tree nuts, dairy products, plant-based meats, fresh fruit and vegetables, processed fruits and vegetables, fruit and vegetable juices, honey, and snack foods.

Foodservice Sector Highlights:

FAS Riyadh Post reports that as a result of millions of religious pilgrims, foreign workers, and a developing tourism industry Saudi Arabia has a large and resilient hotel, restaurant, institutional (HRI) sector. In 2021, changes to social policies, along with evolving Saudi lifestyles, have significantly benefitted the HRI sector. The sector experienced a sharp contraction due to COVID-19 in 2020 but has been improving since early this year due to an increase in tourism.

Unfortunately, the catering sector (e.g., weddings and conferences) is still suffering due to a COVID-19 related governmental ban on gatherings of more than 50 people. However, demand at Quick Service Restaurants (QSR) has fully rebounded, mainly due to home delivery apps. Likewise, fine dining establishments have nearly recovered from

previous lows as a result of a high vaccination rate in the country. Post expects the HRI sector to resume its long-term growth of approximately 3% per year once the economy fully rebounds from COVID-19.

Meanwhile, some food service companies that operate foreign casual dining or fast food franchises have regional purchasing offices located outside Saudi Arabia. For instance, McDonald's uses a Saudi company based in Dubai as its exclusive supplier of imported food products for its Middle East operations. On the other hand, the Al-Ahlia Restaurant Company, which operates KFC, Hardee's, TGI-Friday's, Chicken Tikka, Krispy Kreme, Longhorn Steakhouse and Red Lobster in Saudi Arabia, has a regional purchasing office in Cairo, Egypt.

Regional offices are responsible for purchasing food service food products and ingredients from approved suppliers worldwide. These and other large fast and casual dining firms import directly, between 30%-85% of their food products. The food products that are directly imported include: beef, poultry, cheese, sauces, French fries, potato wiggles, frying oil, mix buns, ketchup, deserts, salad dressing, seafood (shrimp, salmon and other fish) and syrup.

Independent stores and chains account for approximately 73% of total revenue in the consumer food service sector. Recent trends in the Saudi consumer food service includes smoke houses, Turkish fine dining steakhouses, fine dining restaurants, high-end sandwich outlets, and food trucks. In recent years, local investors have also developed new home-grown QSR chains along with expanding their franchises. The Maestro pizza chain, established in Riyadh in 2013, has become a household name in a span of seven years. With nearly 170 outlets, the pizza chain is preferred by many Saudi and Arab consumers for its quality and price, and the firm has become a formidable competitor to several U.S. pizza chains such; especially, Domino's and Pizza Hut.

Euromonitor reports that as part of Vision 2020, the Saudi government seeks to boost tourism and is investing in developing the entertainment sector, such as with sporting events and concerts. Such investments are likely to also benefit consumer foodservice in the forthcoming years as such events will draw tourists from abroad. The resumption of religious pilgrimage or Hajj will also benefit restaurant outlets in leisure, lodging, retail and travel locations as international tourists and pilgrims are usually a key target audience for these outlets.

E-visas are also extended to citizens of certain countries for them to come visit the Kingdom as tourists. Riyadh season is one such festival that attracts international visitors. In 2022 there will be four such festivals, in Riyadh, Jeddah, Al Ula and Aseer. At the festival in Al Ula, for example, there were a large number of fine dining pop-ups and food trucks. All in all, the opening of the country to tourists from abroad and the development of the entertainment industry will benefit the consumer foodservice industry going forward.

Best Product Prospects:

The Saudi HRI sector is constantly seeking suppliers for high quality and competitively priced of high value and intermediate food products such as dairy products, fresh fruit, fresh vegetables, red meats, condiments and sauces, beverage and other coffee shop ingredients baked frozen pastries, and frozen sandwich bread.

Food Processing Sector Highlights:

FAS Riyadh reports that Saudi Arabia is the largest economy in the Arab world and home to a growing food manufacturing and processing sector. Total investments in the sector are projected to reach US\$70 billion in 2030, an increase of approximately 59% over total investments in 2016. Most Saudi food manufacturers depend on imports for food ingredients and subsequently imported a total of US\$2.8 billion (US\$317 million from the United States) worth of intermediate food products in 2021. While the United States continued to thrive on traditional exports, FAS anticipates healthier foods will be a major driver in Saudi Arabia over the next several years. In 2021, the United States exported approximately US\$1.3 billion in agricultural products to Saudi Arabia, an increase of 22% from the prior year.

Saudi Arabia is home to a growing food manufacturing sector that benefits from population and income growth, life-style changes, state support, and favorable trade agreements. Demand for packaged foods is growing and more multinational companies are entering the market as a result. Saudi based exporters do not face tariffs on exports to the six Gulf Cooperation Council (GCC) countries or to the members of the Greater Arab Free Trade Area (GAFTA). This Pan-Arab free trade zone was created in 1997 and has 22 members. As a result, several major companies have built facilities in Saudi Arabia since it accounts for more than 50% of the GCC market.

In 2021, Saudi Arabia exported approximately US\$1.1 billion worth of food products to the region, which is an increase of nearly 2% since 2020. The main products consisted of dairy, snack foods, processed foods, processed dates, processed fruit and vegetables, sugar and sweeteners, and poultry meat. Demand for packaged foods is growing due to changing lifestyles and diets as well as the expansion of the food retail and food service sectors. Saudi women are entering the workforce in larger numbers and driving demand for prepared and simpler-to-prepare foods. As a result, the retail sector has rapidly shifted from traditional markets to hypermarkets driving demand for packaged foods. Some locally produced food products particularly livestock/poultry meat and products as well dairy products benefit from the perception that they abide by higher halal standards than imported ones.

In recent years, several multinational companies have entered the Saudi food processing sector to overcome the constantly changing and tighter imports regulations and requirements as well as because of more local demand for packaged food and the opportunity to export duty free to other Arab counties. Most of these companies entered the market via joint ventures with Saudi companies, co-packing agreements with Saudi food manufacturers, licensing agreements or by taking over existing Saudi food processing companies. Multinational companies with a presence in the food processing

industry include Mars Inc., Mondelez International, Cargill, Del Monte, PepsiCo, Heinz, Danone Ltd., Arla Foods Amba, Fonterra's, United Biscuits (UK) Limited, Coro Foods, Unilever, Ülker and the Lactalis Group.

Best Product Prospects:

The following is a listing of food products and ingredients that have high export potential in the Saudi food processing market: poultry meat, beef, skimmed milk powder, full cream milk powder, block cheese, butter, milk protein concentrate, anhydrous milk fat (AMF), butter oil, and whey powder.

Other food processing ingredients in demand include margarine, vegetable oil, vegetable fat, grape leaves, spices, fruit pie fillings, seasonings, shortenings, sauces, chocolates, cooking oil, vegetables, dehydrated chicken powder, jam ingredients, tree nuts, tomato paste, legumes, pulses, french fries, wheat, rice, beverage ingredients, bakery and pastry ingredients, juice concentrates, ice cream ingredients, chili sauce and specialized flours.