

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 1/4/2012

GAIN Report Number: UAE 2011-5

United Arab Emirates

Exporter Guide

Guide for Doing Business in the GCC-5 Countries

Approved By:

Jude Akhidenor

Prepared By:

Mohamed Taha

Report Highlights:

The GCC countries with high per capita income are among the most affluent countries in the world. Harsh climatic conditions necessitate their reliance on food imports which now account for about 90 percent of their food needs. Consequently, they offer excellent markets for food exporting countries.

Post:
Dubai

Executive Summary:
SECTION I. MARKET OVERVIEW

The Gulf Cooperation Council-5 (GCC-5) countries covered by the Office of Agricultural Affairs (OAA) are a relatively homogeneous group of small nations with a total population of 13 million. Energy is the main source of revenue. Per capita income levels are high (Qatar \$179,000, U.A.E. – \$49,600, Kuwait – \$48,900, Bahrain - \$40,300, and Oman - \$25,600), according to 2011 data. Inflation rates are between 10 and 15 percent, depending on the country.

Among the GCC countries, the United Arab Emirates (U.A.E.) with its larger population, larger influx of tourists and businessmen coupled with its vibrant re-export activities is the largest market for food products, followed by Kuwait. Within the U.A.E., Dubai is the country's commercial center and the region's trade hub. Efficient infrastructure (sea, land and air ports), large free trade zones and a strong business orientation make Dubai an important commercial center in the Middle East. Dubai derives sizable revenue from the re-export business and invests heavily in infrastructure, while luring foreign investment and buyers. Other countries in the region and other Emirates in the UAE, particularly Abu Dhabi, the capital, are following Dubai's lead and model to improve their infrastructure and attract business interests.

The harsh climate, limited water resources and poor soil and water conditions continue to limit agricultural production in the GCC-5. Consequently, the countries must import nearly 90 percent of their food needs, including raw materials for further processing, and feed requirements. Annual GCC-5 food imports are estimated at \$10 billion, of which the U.A.E. share is about 60 percent. Rising populations and a dollar peg for all but one of the GCC-5 currencies have helped to boost exports of U.S. agricultural products to the GCC-5, particularly consumer-ready food products which account for about 60 percent of total U.S. food exports to the region. Due to the vast number of exit points, accurate re-export trade data are not available. It is estimated that 40-50 percent of U.A.E. food imports are re-exported to Middle Eastern, Asian and African countries. Population growth is not the only determining factor for the increase in food import growth. The level of investments in the GCC-5 and consequent recruitment of skilled labor and executive officers, growing business and tourism travel are also contributing factors to the growth in food imports. Prospects for coming years remain unclear in light of the global financial situation. However, many food importers continue to report an improvement in sales and optimism about the future, especially in retail foods. Prospects for luxury food items are less clear. Consumers demand for seafood products is met through local production and imports from Oman, Iran and India. High-end specialized items are imported from other countries, particularly the European Union. Small quantities of specialty U.S. sea foods are imported.

Population growth rates across the region are estimated at 3.5 percent annually. An interesting aspect of the GCC-5 population is that in Kuwait, Qatar and the U.A.E., the local population is outnumbered by expatriates, the majority of whom are from Asia, particularly the Indian subcontinent, and, to a lesser extent, from other Arab countries. These expatriate groups tend to perform manual labor and also occupy a sizable share of the clerical, technical and middle and upper management positions. A significant population of Western expatriates from Europe and North America also work in professional positions. In Dubai, home to the regional headquarters of most multi-national companies operating in the Middle East, the expatriate population comprises an estimated 80 percent of the population. The expatriate community throughout the GCC influences food product imports. Of the local population, a sizeable percentage travel annually overseas, including the West for business, pleasure or to obtain university degrees, exposing them to Western and U.S. foods. With the spread of international television via satellites and cable network, consumers buying decisions are being influenced by region-wide advertising campaigns. Also, the increasing number of working women, particularly married ones, has helped introduce new consumption patterns such as dining out, prepared and semi prepared meals.

Table 1: U.S. Agricultural Exports to the GCC-5 Countries (Million U.S. Dollars, FOB)

Country	CY 2008	CY 2009	CY 2010	January – July Comparison	
				CY 2010	CY 2011
Bahrain	57.8	33.5	45.1	23.8	30.1
Kuwait	161.9	130.9	147.9	86.1	120.1
Oman	82.7	45.0	49.0	20.4	60.5
Qatar	35.2	40.4	40.2*	29.3	36.7
U.A.E.	621.3	797.0	890.6*	418.5	504.4
Total GCC-5	425.5*	496.9*	683.9*	499.8	661.5*

*Record

<i>Advantages</i>	<i>Challenges</i>
<i>High quality image of U.S. products.</i>	<i>High price of U.S. goods</i>
<i>Weak dollar provides advantage as GCC currencies are pegged to the dollar except Kuwaiti Dinar</i>	<i>Higher freight rates for U.S. foods compared to other suppliers</i>
<i>High regional per capita incomes.</i>	<i>Significant competition from producers in EU, Asia, Australia, New Zealand and, increasingly, from local and regional processors.</i>
<i>Broad familiarity with U.S. culture.</i>	<i>Large Indian subcontinent population with easy access to "home grown" products and modest incomes.</i>
<i>Increasing interest in U.S. products.</i>	<i>Lack of interest from some U.S. exporters who are not willing to entertain small orders, consolidate shipments and meet local labeling requirements.</i>
<i>Increasing number of tourists to Bahrain, Oman and the U.A.E. in particular; U.S. military presence in Kuwait and Qatar.</i>	<i>Importers often want to start with small quantities and consolidate shipments.</i>
<i>Low tariffs and relatively transparent import procedures.</i>	<i>Food products must carry production/expiry dates and Arabic labels.</i>

SECTION II: EXPORTER BUSINESS TIPS

10. Be Willing to Entertain Smaller Orders, to Consolidate Shipments, or to Share a Shipment with Someone: In many cases, local importers will want to purchase small initial quantities, particularly for new-to-market products, to test the product's market potential and to develop the supplier/buyer relationship.

11. Be wary of Agency Agreements: In 1996, the UAE and Oman Governments decided to halt the registration of food brands under the agency agreement, in an attempt to curb the increasing food prices. Since then, the UAE Government has liberalized imports of essential products such as tea, edible oils, several dairy products, rice, and table eggs that had been restricted under the agency agreements prior to 1996.

SECTION III: MARKET SECTOR STRUCTURE AND TRENDS

In 2010, U.S. agricultural, fishery and forestry product exports to the GCC-5 totaled \$1,182 million, of which 60 percent were consumer-ready foods and beverages. OAA Dubai estimates that 55 percent of this trade went directly to food retail. In the case of the U.A.E., reliable trade sources estimate that up to 40 percent of imported foods are re-exported to other GCC countries, East Africa, Iran, Iraq, Yemen, former Soviet Union countries, and South Asia.

The Hotel, Restaurant and Institution (HRI) sector consumes about 40 percent of imported U.S. consumer-ready foods and beverages, particularly red and poultry meats. The HRI sector is expanding in the GCC-5 markets as countries develop their tourism and business sectors. Numerous 5 star hotels have been added, particularly in the UAE, Oman and Qatar. However, growth in this sector has slowed down in light of the global financial situation. Institutional demand is driven in large part by large labor camps that provide housing for laborers and middle to lower wage workers, many of whom are from South and East Asia. Semi-processed commodities like frozen chicken and rice are more in demand in this sector as compared to more highly processed food products. U.S. military troops and ships are served by shiphandlers. Kuwait has become an important re-export center to Iraq in general and to U.S. troops in particular. Products of particular demand in the HRI sector in the GCC-5 include red meat, poultry meat, dairy products, rice, edible oils, nuts, processed and fresh fruits and vegetables, snack foods, and processed eggs.

About 300 food processing firms operate in the UAE and a smaller number of food processors in other Gulf countries such as Kuwait, Oman and Bahrain. This sector consumes much of the bulk of U.S. intermediate and semi-processed products sold in the region. In the food-processing sector, U.S. ingredients are mainly used in the following product categories – flour and bakery products, vegetable oil, canned beans, carbonated and non carbonated beverages, chicken franks, manufactured snack foods and reconstituted juices. A soybean crushing facilities with a 4 million metric ton processing capacity/year is operating in the UAE. It is currently used for crushing rapeseed and soybeans for the production of oil and meals. Soybeans are sourced from the United States and Latin America. Local dairies and poultry farms are not large enough to meet local demand. Consequently, a number of local companies reconstitute dairy products from milk powder, primarily sourced from Europe, New Zealand and Australia. It is expected that an increasing number of multinational food companies will look to tie up with local processors. A major U.S. food manufacturer has built a cheese processing plant in Bahrain to serve the MENA area. More details on the food-processing sector in the U.A.E. are available in the Food Processing Sector Gain Report.

Food Retail Consolidation: Like many developed countries around the globe, the food retail sector in the Gulf region is undergoing consolidation due to greater competition. Hypermarkets are transforming the local retail sector by forcing local entities to expand and/or upgrade existing facilities to remain competitive. A major U.A.E.-based importer, distributor and retailer is upgrading and expanding its hypermarket/mega store chain in the region. Several other local retailers are doing the same, targeting both upscale and more middle class consumers and trying to fill particular niches for premium foods. These retailers often rely on customer feedback in making purchasing decisions. Consumer cooperatives are strong in the UAE and Kuwait markets, and to a lesser extent in Qatar. While they dominate almost 70 percent of the retail market in Kuwait, they have a 25 percent market share in the U.A.E. In addition to their loyal local shareholders and customers, the Coops attract a wide range of middle class consumers of Arab and Indian origin. Increasingly, several retail chains are providing home delivery service to their customers. The casualties of this competition will likely be small and some medium-sized groceries, depending on their locations. The number of mom-and-pop stores is on decline; however, many should survive given the multiple services they provide to their customers.

Tourism's Potential: The Gulf region offers business and casual visitors excellent wintertime weather, a long inviting coastline for water activities, and first-rate hotels with top quality food and services. In addition, the region offers some of the richest international events ranging from golf and tennis tournaments, formula 1 car racing (in Bahrain and UAE), horse-racing largest purse (Dubai), power boat racing, camel races and a host of trade events that garner broad attendance from across the Middle East and beyond. The GCC-5 countries, in particular the U.A.E. are working hard to make travel to this region more pleasurable. Overall, OAA Dubai projects U.S. food export growth to the GCC-5 at 5-10 percent annually for the next few years.

Trends in promotion/market strategies and tactics: Promotions and aggressive product marketing are essential, in view of the intense competition between countries, companies and brands, not only to gain but to also maintain market share. Newcomers to this market should be prepared to include product marketing and promotional support in their plan as the importer may not be prepared to invest in new-to-market products without initial support from the supplier.

While the spread of satellite channels are making multi-market advertng easier, the cost for small to medium size companies could be prohibitive. Regular in-store promotions and newspaper ads are still the most commonly applied advertising tools in this field.

SECTION IV: BEST HIGH-VALUE PRODUCT PROSPECTS

- | | |
|---------------------------------------|---------------------------------|
| 1. Almonds (shelled) | 10. Breakfast Cereals |
| 2. Beef & products (chilled & frozen) | 11. Confectionary Products |
| 3. Poultry Meat (frozen parts) | 12. Frozen Vegetables |
| 4. Snack foods | 13. Pulses |
| 5. Fresh Apples & Pears | 14. Planting Seeds |
| 6. Edible oils | 15. Sweeteners & Beverage Bases |
| 7. Cheeses | 16. Pet Foods |
| 8. Fruit and vegetable juices | 17. Rice |
| 9. Condiments and Sauces | |

SECTION V: KEY CONTACTS AND FURTHER INFORMATION

U.S. MAILING ADDRESS: OFFICE OF AGRICULTURAL AFFAIRS
6020 Dubai Place
Dulles, VA 20189-6020

LOCAL MAILING ADDRESS: OFFICE OF AGRICULTURAL AFFAIRS
U.S. CONSULATE GENERAL
P.O. BOX 121777
DUBAI, UNITED ARAB EMIRATES

TELEPHONE: +971-4-309-0000
FAX: +971-4-354-7279
E-MAIL: atodubai@state.gov

Pertinent Government Food Import Contacts:

Bahrain: Mr. Ahmed Al Mannai, Head of Food & Water Control Section,
Ministry of Health
Telephone: 973-17-273-683 Fax: 973-17-279-253

Kuwait: Eng. Esteglal A. Al Mussallam, Manager Imported Food Department
Kuwait Municipality
Telephone: 965-2487-4969/5387 Fax: 965-2487-9706

Oman: Mr. Saleh M. Al-Zadjali, Director
Specifications & Measurements, Ministry of Commerce
Telephone: 968-248-13418 Fax: 968-248-15992
E-Mail: dgsm@mocioman.gov.com

Qatar: Dr. Mohamed Al Thani, Director of Public Health Department,
Ministry of Public Health
Telephone: 974-4407-0100; Fax: 974-4407-0818

E-mail: gchanpong@nha.org.qa

(Abu Dhabi) Mr. Rashed Mohamed Al Shariqi, Director General
Abu Dhabi Food Control Authority
Telephone: 971-2-672-5007 Fax: 971-2-678-5961
E-mail: rashed_alshariqi@adfca.ae

(Dubai) Mr. Khalid M. Sherif, Director
Food Control Department
Dubai Municipality
Telephone: 971-4-206-4200 Fax: 971-4-223-1905
E-mail: foodcontrol@dm.gov.ae