

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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United Arab Emirates

RETAIL FOOD SECTOR

UAE Retail Sector Report 2009

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Report Highlights:

The UAE enjoys a modern, diverse and growing retail food sector. The emergence of hypermarkets in recent years has led to a number of new players in the large store market. An estimated 90 percent of food is imported and prices are relatively high given transportation costs and exchange rate fluctuations. Consequently, consumers are price sensitive and often reluctant to pay higher prices for foods that might be perceived as luxury items. Nevertheless, there are few retailers of organic and gourmet products. After several years of rapid growth, retail food sales slowed during the early part of 2009 as global economic conditions worsened, but many retailers report that sales have begun to rebound. In the absence of official data, major retailers estimate the annual value of the U.A.E. retail market at \$5

billion and the expected annual growth in retail sales at 10-15 percent.

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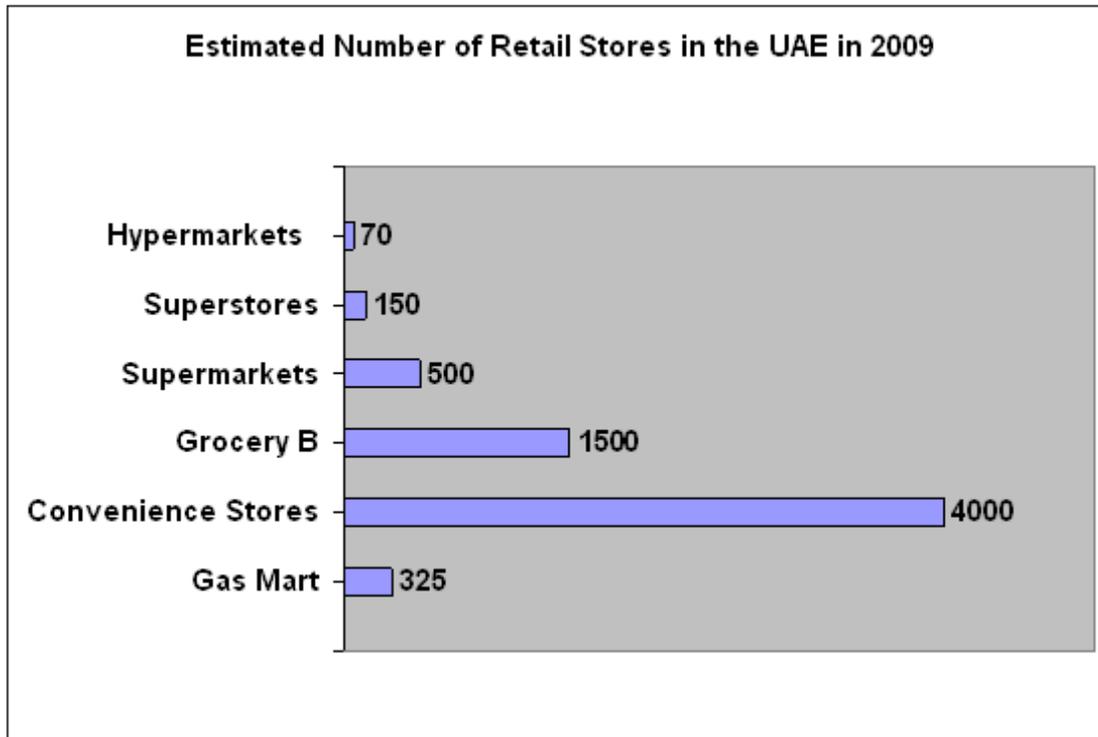
Executive Summary:

I. MARKET SUMMARY

After several years of rapid growth, retail food sales slowed during the early part of 2009 as global economic conditions worsened, but many retailers report that sales have begun to rebound. In the absence of official data, major retailers estimate the annual value of the U.A.E. retail market at \$5 billion and the expected annual growth in retail sales at 10-15 percent.

An estimated 85 percent of retailed foods are imported or made locally with imported ingredients. Local agricultural production is limited and includes chicken, eggs, dairy products and some vegetables. Local date processing is a growing industry.

The introduction of hypermarkets and superstores is re-shaping the retail sector. The number of hypermarkets has increased to 70, a 15 percent increase in the past three years. Trade sources indicate that number of retail stores is expected to increase, albeit at a slower pace.



Note: Above figures for different classes of retail outlets in the UAE are based on data gathered from major retailers, distribution companies, chambers of commerce and research companies. The data reflected in Table II-A: “Superstores, supermarkets and hyper markets - Company Profile,” covers major chains and is based on data gathered by ATO Dubai from major retailers. Given the large number of small chain and single store operations, it is not possible to completely account for all retail outlets in Table II-A. Hence, there is a discrepancy between the number of outlets reported in the table above and Table II-A.

Although retail development is more focused in Abu Dhabi, Dubai and Sharjah, the three largest emirates of the UAE which account for nearly 75 percent of the population, major retailers are including smaller emirates in their expansion plans. Consumers in the three large emirates tend to shop more at larger stores and less at smaller grocery and convenience stores; such stores are relied upon for last minute food needs. However, in the more distant suburbs and the less-populated areas of the country, grocery and convenience stores play an important role in the retail business.

Hypermarkets, superstores and supermarkets, despite their limited number, are gradually gaining larger market share, accounting for about 50 percent of all retail sales. Smaller-sized groceries and convenience stores account for the balance.

Despite the growing market share for larger stores, rapid development of residential areas in recent

years has prompted some retailers to focus on smaller neighborhood or ‘express’ outlets that consumers can reach more easily in new areas and neighborhoods. Small stores have always been a feature of UAE food retailing, but these newer stores tend to more closely resemble western-style outlets in terms of product selection and ambiance. There are a limited number of specialty stores offering gourmet foods. This is a relatively new trend in a price-conscious market.

Co-operatives are a unique feature of the UAE retail sector and account for about 30 percent of UAE retail sales. Some coops receive support from the local government of the emirate in which they are established. They also attract broad-based support, particularly from U.A.E. nationals, who usually hold shares in these coops and receive an annual rebate on their purchases. Coops are known for competitive prices on a more limited range of products.

Some major retailers are sourcing more of their products directly rather than working through local importer/distributors. Even the coops, which traditionally sourced their products from the local market, they have a “joint” purchase policy which allows them, through their union to directly purchase essential foods such as rice, tea, edible oils, tea, powdered milk and many others.

The ability to consolidate shipments is an important consideration for U.S. exporters. Most importers, wholesalers, and distributors do not require an entire container of a single product or products from a single brand or company. Instead, they rely on mixed containers of assorted products to meet their needs. This is especially important for U.S. exporters who face higher freight costs than other closer suppliers. Retailers often depend on importers, wholesalers, and distributors to handle the logistics of importing and storing items. In some cases, local agents have been appointed to handle a particular company’s products. Starting in 1996, the government has eliminated nearly all officially sanctioned agency agreements for food items. However, many contractual arrangements continue between supplier and agent.

Companies involved in the importation and distribution of food are equipped with modern warehousing facilities, fleets of trucks, and a staff of sales representatives.

Many stores extend their range of services to include sections for cooked products, ready-to-cook prepared foods, home delivery, cafeterias, banks, bakeries, laundries, audio/video shops, pharmacies, flower shops and more. Coops extend their services to include Dubai Police offices for driving license renewal and payments of fines.

The distribution and sale of alcoholic beverages is limited to a few authorized dealers. Pork products are sold in special areas for non-Muslims in certain stores.

Advantages	Challenges
The U.A.E. enjoys one of the highest per capita incomes in the world.	Consumers are very price conscious when it comes to food.
The retail sector continues to grow and modernize as reflected by the resources devoted to upgrading existing stores and construction of new outlets.	Lack of importer knowledge of the wide range of U.S. products and brands.
The U.S. enjoys a fixed exchange rate with the UAE Dirham.	Stiff competition with regional suppliers who enjoy freight and delivery time advantages.
U.S. products are perceived as high quality and importers like to deal with U.S. suppliers.	Consumers have varied tastes and preferences.
The U.A.E. imports 85 percent of its food requirements.	Lack of awareness of U.S. products by consumers.

II. ROAD MAP FOR MARKET ENTRY

Entry Strategy

1. *Study Each Market:* Importers often complain that U.S. suppliers are not well informed about local market conditions and requirements. Market information and trade data for the GCC-5 can be obtained from the internet at <http://www.fas.usda.gov>. U.S. companies may obtain information on ATO Dubai activities by contacting ATO Dubai directly.
2. *Visit the Region:* Making personal contacts is perhaps the single most important action a U.S. company can take. Letters faxes and e-mails alone do not generally suffice in terms of generating serious interest among potential buyers. Repeat visits are also important as they demonstrate a commitment to the market.
3. *Participate in the Gulfood Show:* If serious about penetrating this market, attending the Middle East's largest food show, the annual Dubai-hosted Gulfood Show, should be part of your strategic plan. This event has grown to be the most important food trade show in the Middle East and attracts

trade visitors from around the region. Please contact ATO Dubai for more details about the February 21-24, 2010 exhibition. Note: Contact your state department of agriculture to learn if support can be provided for your participation in this show.

4. Exhibit at a Major U.S. or International Food Show: If you cannot visit the region or attend Gulfood, notify potential customers of your participation in various U.S. or international food shows. Give your contacts plenty of advance notice so travel arrangements can be made. Each year approximately 40-50 major GCC-5 based food importers travel to the U.S. and foreign food shows such as ANUGA, SIAL, Private Label Show, NRA, Bakery Ingredients, SNAXPO and Fancy Foods.

5. Target Reliable Importers: In addition to the foreign buyers list which is available through the Overseas Trade Support Branch (OTSB)/Office of Trade Programs/ FAS/Washington, which can provide a list of local importers, by product, ATO Dubai (Fax: 971-4-311-6189; E-mail: atodubai@usda.gov) can provide a directory of GCC-5 companies known to be importing U.S. food products. This directory is arranged by product category, brand and country. It is also updated annually.

6. Study Local Food Regulations and Requirements and Be Prepared to Discuss Product Price, Preferably on a C&F Basis: Be sure to include the cost of label modification to meet local regulatory requirements. Production and expiry dates are mandatory on the original package label. You will also be required to include an Arabic label or sticker on your product.

7. Bring Samples and be Prepared to Discuss Marketing Strategy and Possible Promotional Assistance: Samples are an important market introduction tool. To help encourage introduction of new-to-market products, offering importers assistance with advertising, in-store displays and even price discounts may be necessary.

8. Help Advertise: Print advertising is perhaps the most cost effective means of promoting a new product. Television advertising is quite effective if targeting a regional audience, but very expensive. Be prepared to assist in payment of listing and shelf keeping fees, these costs have increased considerably in recent years.

9. Provide Website URL: Provide contacts and consumers with contact information through which they can submit queries on the products. Websites help importers to browse through your line of products and view your label.

10. Be Willing to Entertain Smaller Orders, to Consolidate Shipments, or to Share a Shipment with

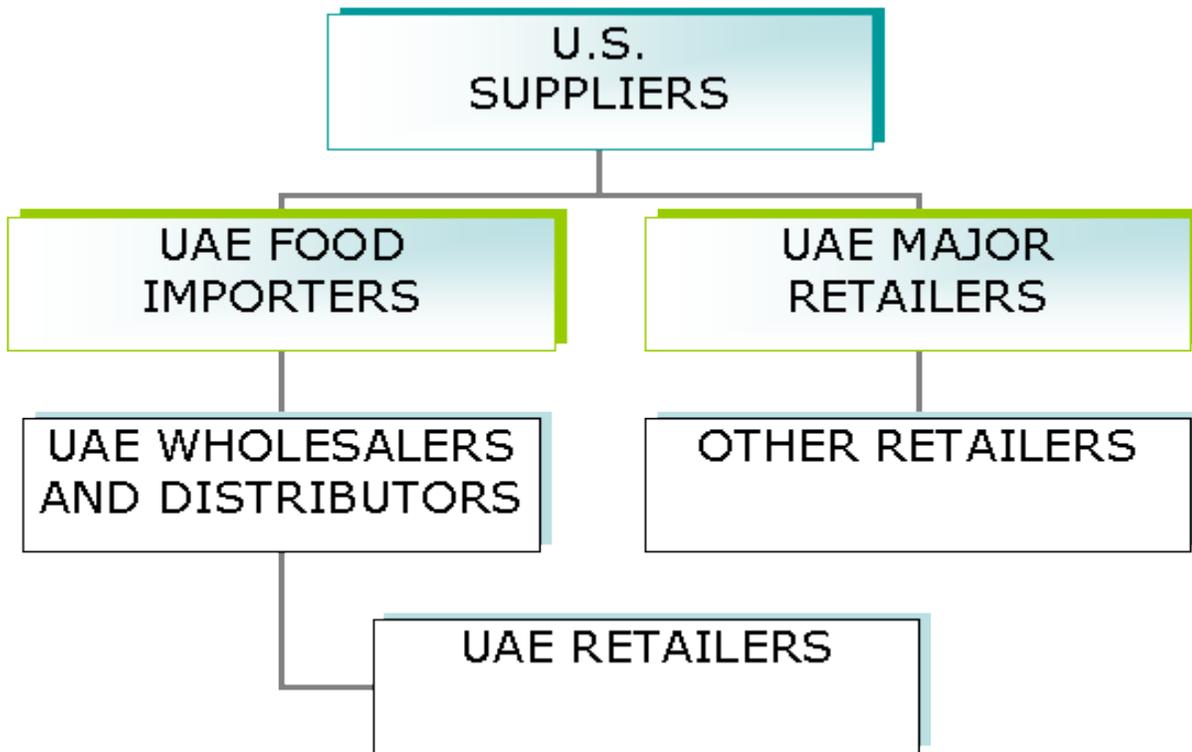
Someone: In many cases, local importers will want to purchase small initial quantities, particularly for new-to-market products, to test the product's market potential and to develop the supplier/buyer relationship.

11. Agency agreements: The agency agreement law is no longer required for most food products in the U.A.E. since 1996.

12. Pre-approve your labels: The local municipalities extend their services to food exporters and local importers to include advance label examination and approval. This greatly helps in avoiding future problems when products physically arrive to market.

Market Structure:

UAE DISTRIBUTION CHANNEL



Market Characteristics

Most growth in the retail sector is occurring in large-sized stores. Consumers tend to conduct their primary shopping in larger stores, but some stores are opening smaller stores in newly developed residential areas.

Hypermarkets, supermarkets, and superstores are generally located in urban areas. Smaller-sized stores are scattered in urban, suburban, towns and rural areas, with a larger concentration found in the country's interior.

Locally processed food (often with imported ingredients) may represent only 20 percent of all retail products but this sector is slowly growing. New-to-market products are welcome, but promotion is vital.

Expatriates represent about 85 percent of the total U.A.E. population

The UAE has high per capita income.

SUPERSTORES, SUPERMARKETS AND HYPER MARKETS - Company Profiles:

Retailer Name & Outlet Type	Ownership local/foreign	Size	No. of Stores	Locations City/Region	Purchasing Agent Type
Abela Stores	Local	S	1	Abu Dhabi	Importer/local buyer/wholesaler
Abu Dhabi Co-op	Local	M	10	Abu Dhabi & Sharjah	Importer/local buyer
Al Maya Group	Foreign	L	26	Regional	Importer/local buyer/distributor
Al Safer Group	Foreign	L	25	Regional	local buyer/little import
Aswaaq	Local	S	7	Local	Buys locally
Carrefour/MAF Hypermarkets	Local	L	12	Regional	Buys locally/

					import
Carrefour Express	Local	M	11	Regional	Buys locally/ import
Cooperative Societies	Local	L	100*	Regional	Direct
Emirates Co-op	Local	S	6	UAE	Importer/local buyer
EMKE Group (Lulu / Al Falah)	Foreign/Local	L	40	UAE	Importer/local buyer
Geant	Local	L	2	Dubai	Local buyer
Lebanese Fruit Co. (LIFCO)	Local/Foreign	M	7	Sharjah/Abu Dhabi/Dubai	Importer/local buyer/distributor
Park n' Shop	Foreign	S	1	Dubai	Importer/local buyer/distributor
Safestway/Giant Supermarket	Local/Foreign	S	11	Regional	Importer/local buyer/wholesaler
Spinney's Dubai	Local	L	41	Regional	Importer/local buyer/wholesaler
T. Choithram & Sons (TCS)	Foreign	L	26	Regional	Importer/local buyer/distributor

*: This number is inclusive of all the cooperatives in the UAE including the Emirates and Abu Dhabi Cooperatives that are listed in the table.

B. Grocery Stores, Convenience Stores, Gas Marts - Company Profiles:

Retailer Name and Outlet Type	Ownership (local/foreign)	No. of Stores	Locations (City/Region)	Purchasing Agent Type
Emarat Gas Marts	Local	90	Regional	Local buyer
Emirates Petroleum Co.	Local	140	Dubai/Sharjah	Local buyer
ADNOC				

	Local	94	ABU DHABI	Local buyer
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Note: Above information sourced from trade and ATO estimates for 2009

Convenience and grocery stores are too diverse and numerous to list in the table format. Hence, the table above focuses solely on gas marts. Major convenience and grocery store chains include 24/7, 7-11, Shop and Save, Pick & Save, and the express type of stores from Lulu, Carrefour and Spinneys.

Convenience/Grocery (C/G) stores far outnumber all other types of retail outlets. In urban centers, convenience stores serve as last minute, one-or-two item suppliers. However, in rural and interior areas these stores are the often primary shopping options.

C/G stores account for about 50 percent of the retail business but this market share is expected to decline given the rise of hypermarkets in more rural areas and to some extent retailers open small grocery stores in some of the newly developed areas.

Generally, food importers and local processors deliver their products to C/G stores. In some cases, C/G owners augment store supplies by going to the importer or wholesaler. The latter case is particularly true when fresh produce is involved.

Most C/G stores provide home delivery service thus their prices tend to be slightly higher than those offered by larger retail outlets.

C/G stores are not suitable for marketing activities or introducing new-to-market products. They mostly stock products of frequent demand and carry a limited number of U.S. products.

The number of Gas Marts outlets is rising rapidly. Companies are investing in this concept, giving outlets trendy new looks and stocking with a wide range of products, in effort to attract a more consistent customer base. Several Gas Mart operations have staged in-store promotions, but results are not readily available. They also include fast food chains and ATM machines.

III. COMPETITION

The U.A.E. depends heavily on imports to fill the gap between limited domestic food production and demand from a growing population base. Despite attempts to increase local production of food products in recent years the U.A.E. still imports 85-90 percent of its total food requirements.

Drawn by the country's affluence, food suppliers from all over the world vigorously compete for market share. EU and Asian products pose the greatest competition to U.S. products. Both hold a proximity advantage, which translates to lower freight costs. Locally processed food products are limited in range and are most competitive in the categories of snack food, juices, poultry, bottled water, dairy products and some confectionery items.

Competitors are generally able and/or willing to meet the UAE food import labeling requirements, including Arabic labels and production and expiration dating, which can give them an advantage if a U.S. food company is reluctant to modify labels for a relatively small market.

The U.S. market share for food imports is 8-10 percent. Nearly 60 percent of products imported from the U.S. are consumer-ready. Some U.S. origin food is re-exported to countries throughout the region. Food re-exports (from all sources) totals an estimated \$3-4 billion annually. U.S. market share could increase if more exporters were willing to consolidate shipments. The UAE Dirham is pegged to the dollar which currently creates an advantage for U.S. exporters.

Locally processed foods are made primarily from imported ingredients. In many cases, the U.S. is a significant supplier of those imported ingredients.

<u>Product Category</u>	<u>Major Suppliers</u> (% based on volume)	<u>Major Suppliers Advantages</u>
<p>Beef</p> <p>Net imports: 72,350 MT</p> <p>U.S.A. 2,165 MT U.S. \$20.2 million</p>	<ol style="list-style-type: none"> 1. India: 59% 2. Brazil: 17% 3. Australia: 9% 4. USA 3% 5. New Zealand 3% 	<p>India: Really buffalo meat instead of beef, price competitive, negligible freight cost due to proximity.</p> <p>Brazil: Price competitive due to low cost of production.</p> <p>Australia: Competitively priced and strong marketing efforts.</p>

<p>Poultry</p> <p>Net imports: 263,235 MT</p> <p>U.S.A. 33,975 MT U.S. \$47.6 million</p>	<ol style="list-style-type: none"> 1. Brazil: 73% 2. USA: 13% 3. France: 7% 4. Oman: 2% 	<p>Brazil: Competitively priced.</p>
<p>Powdered Milk</p> <p>Net imports: 71,554 MT</p> <p>U.S.A. 593 MT U.S. \$2.1 million</p>	<ol style="list-style-type: none"> 1. New Zealand: 20% 2. India: 14% 3. Netherlands: 13% 4. Australia: 13% <p>US market share: Negligible</p>	<p>New Zealand: Aggressive marketing has helped NZ to establish a solid market for all its dairy products.</p> <p>India: Lower prices for products and freight</p> <p>Netherlands: Lower prices and good marketing practices.</p> <p>Australia: Competitively pricing and focus on region.</p>
<p>Rice</p> <p>Net imports: 1,357,040 MT</p> <p>U.S.A. 5,860 MT U.S. \$6.2 million</p>	<ol style="list-style-type: none"> 1. India: 57% 2. Pakistan: 31% 3. Thailand: 10% <p>US market share: Negligible</p>	<p>India: Proximity and strong consumer demand for basmati rice.</p> <p>Pakistan: Large expat population that seeks basmati and certain long grain varieties, proximity to the UAE.</p> <p>Thailand: Favored by some expatriate groups and has good reputation for quality.</p>
<p>Chocolates</p> <p>Net imports: 49,965 MT</p> <p>U.S.A. 2,759 MT U.S. \$12 million</p>	<ol style="list-style-type: none"> 1. Netherlands: 24% 2. Italy: 10% 3. Turkey: 9% 4. UK: 9% <p>US market share: 6%</p>	<p>Netherlands & Italy: Reputation for good quality, strong marketing program.</p> <p>Turkey: Proximity, competitive pricing.</p> <p>U.K.: Traditional supplier with broad name recognition.</p>
<p>Confectionery</p>	<ol style="list-style-type: none"> 1. China: 15% 	<p>China: Competitively priced.</p>

Net imports: 44,983 MT U.S.A. 450 MT U.S. \$1.7 million	2. Vietnam: 14% 3. Colombia: 7% 4. Saudi Arabia: 7% US market share: Negligible	Vietnam & Colombia: Competitively priced. Saudi Arabia: Proximity.
Fresh Vegetables Net imports: 794,098 MT U.S.A. 3,345 MT U.S. \$8.4 million	1. India: 29% 2. Jordan: 15% 3. Saudi Arabia: 13% 4. Iran: 10% 5. China 9% US market share: Negligible	India, Jordan, Saudi Arabia and Iran: Proximity, competitively priced, wide variety. China: Competitively priced, especially for certain products.

Note: Data provided above are based on trade statistics and ATO estimates

U.S. snack foods enjoy a significant market share. Similar products of local origin are of lesser but improving quality. Snack food products produced in other Gulf States and other European and Asian countries are also imported. Some U.S. brands are sourced from origins other than the United States.

Demand for private label is on the rise. Several retailers and food importers have developed their own brand names and source products from a variety of locations including the United States.

U.S. breakfast cereal brands marketed in the U.A.E. are produced primarily in Europe under licensing agreements with U.S. companies. Generally, breakfast cereals are sourced from the UK, Germany and Australia.

Beef destined for the processing industry is sourced mainly from India. Beef destined for consumer retail is sourced primarily from Brazil and Australia. U.S. beef has a better presence among the upper end hotels and restaurants. A few retailers have begun to carry small quantities of U.S. beef.

Poultry and poultry products imports are dominated by Brazil. However, U.S. export statistics point to an increase in exports of more than 60 percent over the past three years. U.S. whole chickens have also made inroads, despite traditionally strong competition from Brazil, France and Denmark. U.S. poultry

products, particularly leg quarters, are growing in popularity, mainly in the HRI sector.

Cheeses are sourced from many countries, led by France, Holland, Australia, Switzerland and the U.K. U.S. cheeses command a premium price, as most is flown-in by some major retailers in limited quantities. Milk powder is imported from Holland, Denmark, Australia and New Zealand. Other dairy products, such as fresh, re-constituted and UHT milk, yogurt and other Arabic-style dairy products are mostly produced or processed locally.

Interest in imports of U.S. table eggs has increased in recent months, especially for the HRI sector because labeling requirements are not as stringent. In addition to local production, Brazil, Oman and other regional suppliers meet the needs of the egg market. Locally produced eggs and eggs imported from other Gulf States are in demand for their freshness, though they are much more expensive.

Pears are sourced primarily from the United States, China and Lebanon. The U.S. is the second largest supplier of fresh apples after Iran. Many other fresh fruits and vegetables are imported from Iran, India, Pakistan, Saudi Arabia, Lebanon, Jordan, South Africa, Australia, Syria, Pakistan and Egypt.

Almonds are imported primarily from the United States. Other types of nuts are imported from Iran, Turkey and India.

Non-alcoholic beverages are produced mostly locally though the market carries a broad range of such products from around the globe. The United States and South Africa remain the primary suppliers of high quality juices.

Alcoholic beverages are imported primarily from the EU, Australia and India. The United States ships a limited quantity of beer, wine and bourbon to the market.

Nursery stock is imported from Holland, India and Pakistan. In recent years, the number of local nurseries has increased.

Pet foods are imported from the E.U., Australia and the United States.

Dates, tomatoes, certain other vegetables and strawberries are widely produced in the U.A.E. Organic fruits and vegetables produced in U.A.E. (Cucumber, eggplant, watermelon among others) are found in some retail outlets. Fresh milk is supplied by a handful of large local dairy operations. Fresh chicken and table eggs are also locally produced but command higher prices than similar imported products.

IV. BEST PRODUCTS PROSPECTS

Products holding strong market potential include:

Product Category	2008 Imports (MT)	3-Year Avg. Annual Import Growth	Import Tariff Rate percent	Key Constraints for Market Development	Market Attractiveness for USA
Beef	72,352	40% per annum	0	Competition from established suppliers from India, Australia and New Zealand	HRI sector which is expanding rapidly to service the growing population and tourism industry.
Poultry	263,234	20% per annum	0	Competition from established suppliers from Brazil, France, and Oman	Poultry parts for the HRI sector
Almond	22,709	15% per annum	5	Competition from alternative nuts	Raw, shelled and processed almonds for the Retail and HRI sectors as well as its high quality
Fresh Apples	157,707	13% per annum	0	Strong competition from Iran, a major producer of low-priced red and golden apples, other varieties from Chile, France, China, New Zealand	Retail sector. With U.S. advanced production and storage technology, U.S. apples are available to the market most of the year.
Food Preparations NES	57,508	10% per annum	5	Intense competition from products produced in neighboring countries as well as other Asian states	Retail and HRI sectors.

Sauces	36,286	65% per annum	5	Increasing local production, imports from neighboring countries of less expensive products	HRI sector, particularly fast food and casual dining, and major retail outlets.
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Note: Data provided in the above table are based on trade statistics ATO estimates

1. In addition to the products listed above, the following products also hold strong potential if marketed aggressively:

- Alcoholic beverages (beer, wine)
- Assorted non-alcoholic beverages
- Stone fruit and strawberries (fresh)
- Corn and other vegetables (frozen)
- Health foods and products for special needs such as diabetic foods
- Honey
- Ice cream
- Pet foods
- Snack Foods (salted, high quality)

2. Products not present in significant quantities, but which have good sales potential if marketing efforts focus on ‘quality’:

- Citrus fruits (fresh)
- Desserts (frozen)
- Jams and marmalades
- Pasta products
- Cheeses, Powdered milk
- Spices
- Breakfast cereals
- Fruits & vegetables (canned)
- Confectionery products, candies and chocolates
- Edible oils
- Rice

3. Products Not Present Because They Face Significant Barriers:

This category is not relevant to the U.A.E. as the market is dependent on imported food products. Moreover, the U.A.E. applies a free trade policy that permits importation of food products with import duty varying between 0 and 5 percent. Staple food products enter duty free. Currently, the UAE restricts imports of U.S. beef from cattle over thirty-months of age.

Locally produced foods and beverages are limited to salty snack foods, dairy products, catsup, some frozen vegetables, refined sugar, soybean oil, flour and pasta products, canned beans, chocolates, candies, cakes, internationally known brand name soft drinks produced under licensing agreements, packaged edible oils and juices.

Food Import Regulations:

The 2009 revised version of the "U.A.E. Food and Agricultural Import Regulations and Standards Report," currently available via the USDA/FAS home page. URL: <http://www.fas.usda.gov>

4. Other ATO Publications and Reports Concerning the U.A.E.

A. Publications

American Food Directory 2009: This annual publication lists American food companies and franchises operating in the five Gulf countries administered to buy ATO Dubai as well as their local distributors. A free copy may be requested from the ATO Dubai.

B. Attaché Reports

Latest ATO Dubai market reports may be viewed via the USDA/FAS home page. URL: <http://www.fas.usda.gov>

V. POST CONTACT AND FURTHER INFORMATION

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