Thought Leadership Report
MIDDLE EAST FOOD SECTOR 2016

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SOMAR PORT/FREEZONE
The food retail market in the GCC is estimated to be worth over US$150 billion annually, with 70% of food products imported from overseas.

Because of climatic conditions and scarce water resources, farming activities are limited and the GCC will remain dependent on food imports well into the future. That’s why, in addition to our three main pillars of logistics, metals and petrochemicals, SOHAR recently launched a fourth pillar: food. Work is progressing fast on the construction of a US$170 million state-of-the-art Food Zone, combining the region’s first dedicated agro terminal with flour and sugar mills, as well as the infrastructure for downstream food manufacturing and processing industries.

We asked MEED Insight to prepare this special report on the Middle East food industry as part of a series of SOHAR sponsored thought leadership reports. We define thought leaders as people or organisations whose efforts are aligned to improve the world by sharing their expertise, knowledge, and lessons learned with others. We believe this knowhow can be the spark behind innovative change, and that’s what we’ve set out to inspire by commissioning this series of reports.
GCC Macroeconomic Overview

OVERVIEW
GCC economies have had a good run over the past few decades, however the global economic crisis and the resultant sharp fall in oil prices has decelerated economic activity across the GCC region. A decline in oil export receipts has increased the fiscal burden on the economy, which has led to budget cuts and fiscal tightening. Governments have tried to mitigate the situation by focusing on developing the non-oil sectors. One of the most aggressive plans to develop the non-oil sector was put in motion by Saudi Arabia, which aims to increase the contribution of non-oil GDP to 50 per cent by 2030, from its current share of 16 per cent. However, despite increasing hydrocarbon production and a slight recovery in oil prices, the IMF predicts GDP growth will be sluggish at 1.7 per cent in 2016, and 2.5 per cent in 2017.

Development of the non-oil sectors has been a key theme among the GCC nations in the last decade. The member countries have made efforts to develop their non-oil sectors through higher spending on infrastructure, health and education, among others. The food sector is also core to diversification efforts as the governments recognize its employment generation capabilities, import cost reduction, and re-export potential. The other areas of focus included trade liberalisation and foreign direct investment (FDI). However, fiscal tightening and declining liquidity in the financial sector, has reduced non-oil GDP growth to 3.8 per cent in 2015, from an average of 7 per cent in 2000-2014. It is further projected to reduce to 1.8 per cent in 2016, but expected to be back to 3 per cent in 2017.

The fall in oil prices is expected to cut the GCC region’s energy export receipts to about US$390 billion in 2016, from US$743 billion in 2012, leading to a fiscal balance deficit for most GCC economies. The region’s consolidated fiscal balance is expected to decline from a surplus of 4.8 per cent of GDP in 2014, to a deficit of 12.5 per cent of GDP in 2016, according to Moody’s. Governments have taken efforts to reduce the fiscal deficit by controlling the oil supply and introducing spending cuts, such as controlling public wage bills. The IMF’s most recent update predicts that the GCC’s cumulative fiscal deficits are expected to be about US$765 billion in 2016-2021, compared with an earlier forecast in April 2016, of US$1.1 trillion.

Unemployment rates among the national populations remains a major concern for GCC governments. Fiscal adjustments made by governments have further stirred the situation. According to the IMF, the unemployment rate is expected to increase from 12 per cent to 16 per cent in 2017. Although the unemployment levels differ across countries in the region, it is a growing problem for most countries. Youth unemployment is most prominent in Saudi Arabia, where around 30 per cent of youths are unemployed. Similarly, in Oman, Bahrain, and Kuwait about 20 per cent of the youth population is unemployed. Governments have taken steps such as employment insurance schemes, education and training schemes, and localisation programmes to tackle the problem. However these steps are yet to deliver results.

The oil price decline has significantly affected the fiscal situation of the GCC economies and they are expected to remain sluggish in 2017.
The global food sector’s performance is strong but is complex and peculiar. Demand growth for food products is not uniform across regions. The developing world on one hand, where population and urbanisation is growing at a rapid pace, is witnessing double-digit growth in the demand for food products. Contrarily, the developed world has struggled with low population growth, leading to a declining growth in demand. Although improvements in productivity have ensured sufficient food supply across the world in the last few decades, feeding the global population has re-emerged as a critical issue. Based on current trends, crop demand for animal feed and human consumption is expected to surge at 100 per cent by 2045. Simultaneously, growth challenges will emerge in addition to the uncertainty of meeting a 35 per cent increase in demand for water, by 2025.

Another challenge for the sector will be the degradation of arable land. This is a severe problem as more than 15 per cent of the arable land worldwide is already degraded. Although advanced technologies would benefit the sector to preserve arable lands better, a large process improvement is needed to achieve significant benefits. Since the mid-2000s, food prices have risen and, at times, have been volatile. Consumers in both developed and developing economies have faced the impact of higher food prices, and their producers are under pressure due to higher input costs.

### Import bills of total food and major foodstuffs (US$ billion)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1,282</td>
<td>1,129</td>
</tr>
<tr>
<td>Developed</td>
<td>776</td>
<td>690</td>
</tr>
<tr>
<td>Developing</td>
<td>506</td>
<td>439</td>
</tr>
<tr>
<td>Least Developed</td>
<td>38</td>
<td>32</td>
</tr>
<tr>
<td>Low-income Food-Deficit</td>
<td>76</td>
<td>65</td>
</tr>
<tr>
<td>Countries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>46</td>
<td>41</td>
</tr>
</tbody>
</table>

Source: FAO

### Annual growth rate of world agriculture commodity consumption

![Annual growth rate of world agriculture commodity consumption](source)

Over the last decade, the GCC region had one of the highest population growth rates in the world, at about four times that in other emerging markets and the US.
The global food and agriculture sector is a US$5 trillion market, which represents 10 per cent of consumer spending and 40 per cent of employment globally.
There is an increasing trend towards packaged food and protein-rich diets.

**TRENDS**

**Growing packaged food market**

The packaged food market has matured in North America and Western Europe. Meanwhile, rapid lifestyle changes and economic growth, backed by rising population in Asia-Pacific countries such as China and India, are driving the growth rate of packaged food in the region. Asia-Pacific is expected to grow at the fastest rate of 5.4 per cent from 2015–2020, driven primarily by rising disposable income levels and high urbanisation. Other factors fuelling growth include increased focus on health and food safety. These factors are encouraging consumers to shift from unpackaged food to packaged food products.

Apart from Asia-Pacific, the growth rate in South America and the Middle East is expected to be higher than that of developed economies. Companies such as Nestlé, Kraft Foods and Tyson foods are investing heavily in increasing brand awareness and promotions about product differentiation in the packaged food sector, as well as partnering with regional players. For instance, Kraft Foods partnered with Heinz to expand its business in the US, while Tyson Foods collaborated with Godrej in India.

**Increased focus on aquaculture**

As seafood production struggles to keep pace with the rising demand, there is an increased interest in aquaculture and fish farming to bridge the widening gap between demand and supply. Constant declines in natural fish stocks have further added to supply constraints. The edible fish supply from aquaculture was 30 per cent in 2003, which increased to 50 per cent in 2013-2015. The global aquaculture and fisheries market is projected to reach 188 million tonnes by 2020.

The demand for seafood is increasing primarily owing to a shift towards protein-rich diets and increased demand for exotic fish species, such as shrimp and oysters. Also, the demand for seafood is increasing from emerging economies to combat malnutrition. Urban aquaponics techniques are receiving greater attention in these regions, in hope of ensuring a steady supply of seafood.

Low per capita protein consumption, coupled with rising disposable incomes, offers immense growth opportunities in developing countries. Asia-Pacific, the fastest growing market, is expected to expand at a CAGR of 5 per cent from 2014-2020. China, the leading aquaculture producer globally, is the most lucrative market for fish products.

**FOOD CONSUMPTION**

Food consumption in the GCC region stood at 39 million metric tonnes (MT) in 2014 and is expected to rise at a CAGR of 4.5 per cent between 2014 and 2019. An expanding population base is a key driver of the rise in food consumption. The population of the GCC region is expected to reach about 57 million in 2020, registering a CAGR of 1.8 per cent over 2014-20. Increasing tourist inflow into the region could also stimulate food consumption, particularly of packaged foods and restaurant meals.

Currently, cereals such as rice, wheat, barley and maize are the most consumed food products in the GCC, accounting for 55 per cent of the total food demand. Meanwhile, there was a sharp decline in the dairy segment in 2014. The international prices of all dairy products fluctuated in 2014 from their 2013 peak, in particular for skimmed milk powder (SMP) and whole milk powder (WMP), affecting the segment. The rise in per capita consumption of meat indicates a shift in dietary preference towards meat consumption.

### Packaged food market (US$ trillion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (US$ trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>2.6</td>
</tr>
<tr>
<td>2020</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Source: Research and Markets

### Food Consumption in GCC (Million MT)

<table>
<thead>
<tr>
<th>Year</th>
<th>Fish</th>
<th>Meat</th>
<th>Dairy</th>
<th>Vegetables</th>
<th>Cereals</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>25%</td>
<td>21%</td>
<td>21%</td>
<td>55%</td>
<td>13%</td>
<td>3%</td>
</tr>
<tr>
<td>2014</td>
<td>14%</td>
<td>21%</td>
<td>44%</td>
<td>10%</td>
<td>13%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: Arab Agricultural Statistics Yearbook, MEED Research

### Category-wise food consumption in GCC

<table>
<thead>
<tr>
<th>Category</th>
<th>2006</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals</td>
<td>15%</td>
<td>13%</td>
</tr>
<tr>
<td>Fruits</td>
<td>21%</td>
<td>19%</td>
</tr>
<tr>
<td>Dairy</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>Vegetables</td>
<td>25%</td>
<td>26%</td>
</tr>
<tr>
<td>Meat</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Others</td>
<td>12%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Source: Arab Agricultural Statistics Yearbook

### Food Consumption in GCC Country-wise (Million MT)

<table>
<thead>
<tr>
<th>Region</th>
<th>2006</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>KSA</td>
<td>38</td>
<td>39</td>
</tr>
<tr>
<td>UAE</td>
<td>39</td>
<td>40</td>
</tr>
<tr>
<td>Kuwait</td>
<td>39</td>
<td>39</td>
</tr>
<tr>
<td>Oman</td>
<td>40</td>
<td>39</td>
</tr>
<tr>
<td>Qatar</td>
<td>48</td>
<td>48</td>
</tr>
</tbody>
</table>

Source: Arab Agricultural Statistics Yearbook

The demand for foreign halal beef has grown steadily. By 2019, the UAE will be among the world’s top 10 nations in per capita consumption of meat, according to Euromonitor International and VDMA.

Home to over 75% of the GCC’s population, Saudi Arabia and the UAE are the largest food consumption centres. While Saudi Arabia accounts for the highest consumption, primarily owing to its large population base, the UAE’s share in overall food consumption has decreased, while consumption in Kuwait and Qatar has increased considerably.

Among the GCC member countries, Qatar will have been the fastest-growing market for food consumption between 2012 and 2017. The country is likely to witness 5 per cent growth in this period compared to the GCC average of 2.4 per cent. This growth is attributed to the rapidly rising population in the country, owing to mega events such as the 2022 FIFA World Cup, which increased the inflow of foreign workers mainly in the construction sector.

Urbanisation has led to increased demand for processed and western foods in the region. In 2015, 99 per cent of Qatar’s total population lived in urban areas and cities. Moreover, the high obesity rate in Qatar has led to an increased consumption of healthier foods.

Changing demographics and high dependence on global supply dynamics are changing the consumption patterns in the GCC.
GCC Food Sector

FOOD PRODUCTION

Total food production in the GCC stood at 12 million MT in 2014, meeting about 30 per cent of the domestic food requirements. Factors such as limited water resources, dry climate conditions, and inadequate arable land have forced the region to rely on food imports. The excess imports render the region susceptible to food price rises. During the 2007–2008 global food price crisis, many countries suspended exports due to global food shortages, resulting in an almost 60 per cent surge in the price of staples in the region. However, demand, backed by a steadily growing population, was still driving food imports.

As a result, production of cereals fell to less than 1 million MT of total food production in 2012, from 3 million MT in 2006. The UAE’s contribution to total GCC production declined considerably. The country reduced the production of red and white meat significantly in 2014. However, to reduce import dependency, the GCC governments are pushing domestic food production. The Food Security Centre of Abu Dhabi is taking initiatives for the development of local farms for poultry, fruits and vegetables. Also, the GCC governments are investing in fish-farming initiatives to boost domestic seafood production. Qatar has set up an aquatic research centre, at an investment of US$63 million, to replenish its fast-depleting fish stocks.

Other countries such as Oman and Kuwait are increasing their contribution to food production with initiatives taken by their respective governments for encouraging domestic production. The Omani government has initiated various projects to promote domestic production of meat, poultry and dairy. In May 2015, Kuwait’s government announced plans to achieve food self-sufficiency by 2040. The country is expanding domestic production of poultry, eggs, fruits and vegetables.

The GCC’s food sector is an import-driven market. Lack of sufficient arable land and acute water shortage restrict farming activities in the region, forcing member countries to rely heavily on food imports to meet their food needs. As the region primarily depends on imports, food security is a key focus area for the GCC governments. The member countries are also investing aggressively in the food space globally and inviting foreign players to invest in the region.

Saudi Arabia and the UAE together account for three-quarters of the food retail market in the region. Saudi Arabia, with 60 per cent of the GCC population, accounts for half of the total food retail market. On the other hand, the food retail market in the UAE which accounts for 21 per cent of total food retail sales, is mainly driven by increasing international tourist footfall.

Consumer shift from traditional to modern retail formats

Consumers are now shifting from traditional to modern retail formats, such as hypermarkets and supermarkets, which are gaining popularity due to their emergence as one-stop shops. These cater to the food retail segment in GCC. Hypermarkets are the fastest-growing retail channel in the region.

The UAE was one of the earliest nations to witness the entry of modern retail formats in the region. Hence, these formats are more established in the UAE compared to other GCC member countries. In 2014, hypermarkets and supermarkets together accounted for more than 72% of overall sales of grocery retailers in the UAE.

In 2014, hypermarkets and supermarkets in Saudi Arabia accounted for over 40% of overall grocery sales, while the unorganised 40,000-plus traditional shops comprised the major share. Traditional shops are generally situated in the local vicinity and require less time to reach when compared to hypermarkets and supermarkets, making them convenient for shoppers. This convenience factor is likely to ensure continued dominance of traditional shops, especially since driving regulations are restrictive for women in the country.

Gulf Cooperation Council Food Sector

GCC FOOD RETAIL OVERVIEW (1/2)

The GCC’s food sector is an import-driven market. Lack of sufficient arable land and acute water shortage restrict farming activities in the region, forcing member countries to rely heavily on food imports to meet their food needs. As the region primarily depends on imports, food security is a key focus area for the GCC governments. The member countries are also investing aggressively in the food space globally and inviting foreign players to invest in the region.

Food retail sales are growing at a faster pace and now account for 45 per cent of total retail sales in the region.
The GCC food market, backed by a huge demand from a growing population, is underpenetrated and offers a positive outlook for hyper/supermarket expansion.

A fragmented logistics sector is a big challenge in the GCC region, except the UAE, which has a well-established distribution network.
The region is also witnessing the development of cold storage infrastructure, necessary for the storage of perishable items.
Demand Drivers Food Sector (1/3)

DEMOGRAPHICS
The fast growing population in the GCC region is a major driver of the food sector. The GCC population is expected to increase at a CAGR of 1.8 per cent, much higher than the aggregate global population growth rate of 1.2 per cent between 2014-2020. By 2020, the region’s population is projected to increase to 57 million. The inflow of expatriates, increased life expectancy and improved standards of living are contributing to this population growth. Among the member nations, Qatar has the highest life expectancy rate (78.2 years), followed by UAE (77.1 years).

Expatriates constitute about 50 per cent of the total population. They come from various parts of the world and have different purchasing patterns. The high proportion of expats in the population is driving demand for a variety of processed foods, fast foods and dining out options in the region.

Over 80 per cent of the region’s population falls within the age group of 0-44 years, mainly comprising youth and working population. These population groups not only drive the demand of the food sector, but also direct the changing patterns of food consumption. The youth population is generally inclined towards healthy, processed and fast food. They quickly adapt to international cuisine, and this is driving the demand for international food restaurants and eateries in the region.

The high proportion of youth population is driving the demand for processed and ready-to-eat foods in the GCC region.

Demand Drivers Food Sector (2/3)

GROWING TOURISM AND MODERN RETAIL FORMATS

Growing Tourism
The international tourist inflows to the GCC are expected to reach 83 million in 2026, from 46 million in 2015. Of the GCC member nations, Saudi Arabia and UAE are the major tourism centres, which attracted over 34 million international tourists in 2015, accounting for 76% of the total international tourist arrivals in GCC. While Saudi Arabia mainly attracts religious tourists to its holy cities of Mecca and Medina, the UAE is internationally known as a business and leisure destination. Most GCC nations are focusing on the tourism industry as a part of their economic diversification strategy. The region is also preparing to host mega events such as Dubai World Expo 2020 in UAE and FIFA World Cup 2022 in Qatar. These are expected to further boost the tourism sector, which would also have a positive impact on the food sector.

The GCC plans to introduce a unified visa, which will allow tourists to visit all six, member countries on a single visa. The move will further enhance the tourism experience and ease tourist mobility. The expected rise in tourist inflows to the region would increase consumption of food, especially packaged food and cooked meals in restaurants.

Modern Retail Formats
Modern retail formats such as hypermarkets, supermarkets and department stores are increasing in numbers, driving food consumption in the region. Such stores attract greater attention as they serve as a one-stop shop for all consumer needs, by offering a wide variety of products. These stores stock a wide range of food products and categories, catering to diverse tastes and preferences. Also, direct imports enable retailers to offer food products at competitive prices. The sales at supermarkets/hypermarkets in the region are increasing at a CAGR of 9 per cent and projected to reach US$60 billion by 2018. While traditional shopping appears as an age-old practice in modern Arab culture, shopping malls play a vital role as lifestyle destinations for the entire family. Such stores have a strong presence in major shopping centres, which are usually visited by most consumers for non-grocery shopping. Hypermarkets are by far the leading channel. Among the GCC nations, the UAE was one of the earliest adopters of the modern retail formats, whereas in Saudi Arabia, the traditional shops still hold the lion’s share. However, modern retail formats account for a small share of the retail markets of Kuwait, Bahrain, Qatar and Oman.

Changing demographics backed by rising tourism create a conducive environment for growth of the food sector in the GCC.
Demand Drivers
Food Sector (3/3)

UPCOMING INTERNATIONAL EVENTS

The GCC food sector is expected to receive an additional boost from various big international events scheduled in the region over the next few years. These events are Dubai Expo 2020 and FIFA World Cup 2022, to be held in Qatar. The UAE and Qatar, host countries to the events, are likely to witness an increase in opportunities in various sectors such as food, tourism, construction, engineering, logistics, hospitality and retail. All these factors would lead to a stronger economy and increased disposable income in the region.

Dubai Expo 2020 is expected to attract 25 million visitors over a six-month period, with 70 per cent of visitors from abroad. The prestigious event will attract leading F&B talents from across the world. Authorities in Dubai estimate that the event will create 111,000 new jobs in the hotel and restaurant sector. According to Euromonitor, several tourist attractions are expected to open by 2020 in Dubai, notably Dubai Parks and Resorts and Dubai Water Canal, which is expected to increase tourist footfall, which would benefit the country’s food sector. At present, Dubai has 82,000 hotel rooms and apartments, and there is a need to double this capacity by 2020 to meet the demand of expected visitors.

Similarly, FIFA World Cup 2022 is expected to boost the hotel and restaurant sector in Qatar. The event is expected to attract about one million international tourists to Qatar and the government also plans to spend about US$200 billion on development of new infrastructure in preparation for this prestigious soccer event. Doha currently has 74 hotels, with 13,595 rooms, but the target is for the construction of 60,000 rooms by the time of the FIFA event in 2022. This implies a significant potential for the development of food retail in the country.

Modern retail formats are creating new supply opportunities, and the sector is expected to get a boost due to upcoming international events in the region.
Inhibitors - Food Sector

ACUTE WATER SHORTAGE AND UNEVEN FOOD SUPPLY

Acute Water Shortage

Water availability in the GCC is among the lowest in the world. According to the seventh Arab Environment Food Security report by the Arab Forum for Environment and Development (AFED), the per capita water resources of the six member countries was less than 100 cubic metres per year, compared to 6,000 cubic metres per year globally in 2014. Of the GCC nations, Oman held the highest levels of per capita water resources at 385.5 cubic metres, and Kuwait held the lowest at 5.9 cubic metres. An expanding population base has led to a surge in food demand, resulting in additional stress on water resources.

Low irrigation efficiency is one of the biggest contributors to water wastage in the region. About 12-15 litres of water is required to irrigate 1 square metre of land daily through traditional irrigation methods, such as spray irrigation. Between 2011 and 2016, the GCC governments allocated over US$100 billion towards advanced desalination technologies involving solar energy, wastewater treatment and recycling.

Constant depletion of water reserves poses a threat to food security in the GCC region. As the GCC is import-driven, securing a steady food supply is difficult. Another factor impeding a steady food supply is inadequate private sector participation in food projects, due to lack of clarity on government regulations with regard to incentivising the private sector. Above all, an unstable socio-political environment in the neighbouring countries in the Middle East poses a threat to food imports to the region. For instance, political instability in countries such as Egypt, Syria and Lebanon has forced Saudi Arabia companies to divert investments towards Australia and New Zealand. Similarly, supply concerns arose after Iran threatened to close the Strait of Hormuz in 2012. With the rising political instability and conflicts in the Middle East, the Gulf nations may face food supply disruptions.

Declining Oil Prices

The fall in oil prices has severely affected GCC countries. While no direct connection between the oil and food sectors is apparent, there seems to be a strong indirect correlation between the two sectors, particularly in the GCC region where most of the investments are financed by petrodollars. Subdued oil prices could mean limited public investments in the food sector, which will lead to lower job creation, wages, production, and consumption.

Although bigger economies such as the UAE, Saudi Arabia and Qatar may withstand the low oil-price scenario, small economies such as Oman, Bahrain and Kuwait could be severely affected if the on-going low oil prices persist.

Uneven Food Supply and Socio-Political Instability

Food security is a big challenge in the GCC region. As the GCC is import-driven, securing a steady food supply is difficult. Another factor impeding a steady food supply is inadequate private sector participation in food projects, due to lack of clarity on government regulations with regard to incentivising the private sector. Above all, an unstable socio-political environment in the neighbouring countries in the Middle East poses a threat to food imports to the region. For instance, political instability in countries such as Egypt, Syria and Lebanon has forced Saudi Arabia companies to divert investments towards Australia and New Zealand. Similarly, supply concerns arose after Iran threatened to close the Strait of Hormuz in 2012. With the rising political instability and conflicts in the Middle East, the Gulf nations may face food supply disruptions.

Split of water consumption in GCC (%) 2013

<table>
<thead>
<tr>
<th>Country</th>
<th>Agricultural</th>
<th>Domestic</th>
<th>Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>44%</td>
<td>2%</td>
<td>54%</td>
</tr>
<tr>
<td>Kuwait</td>
<td>44%</td>
<td>2%</td>
<td>54%</td>
</tr>
<tr>
<td>Oman</td>
<td>39%</td>
<td>3%</td>
<td>58%</td>
</tr>
<tr>
<td>Qatar</td>
<td>88%</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>KSA</td>
<td>88%</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>UAE</td>
<td>83%</td>
<td>2%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: PwC

Dry weather conditions and lack of arable land have prompted the GCC region to turn to fish farming and aquaculture

Increasing Investments in Fish Farming

Increasing investments in fish farming are driven by the lack of fresh water sources, dry weather conditions and lack of suitable soil for farming. The GCC region has shifted towards aquaculture. Furthermore, the increasing focus on eating healthy has increased the demand for seafood in the GCC. As it is considered a high protein, low fat diet.

Currently, the entire GCC’s fishing industry produces 392,000 tonnes of fish per year. According to a report by the United Nations Food and Agricultural Organization (UNFAO), per capita fish consumption across the GCC is estimated at 10 kg per year. With the UAE leading the regional rankings in the per capita consumption of seafood at 33 kg per year. However, with a sharp decline in fish stocks, due to overfishing and pollution, the region is turning to fish farming to meet the surging demand for protein-rich seafood.

The GCC governments are also investing in fish farming initiatives to boost domestic seafood production. Oman is at the forefront of aquaculture in the Gulf region and has announced plans to invest US$1.3 billion in fisheries development in 2013-2020. The Oman government granted aquaculture license to 19 projects worth US$332 million in 2014. Similarly, Qatar’s Ministry of Environment announced plans to boost fish production and has established an aquatic research centre to replenish its fast depleting fish stocks.

The centre will contribute to the resilience of the fish hatchery sector through special field experiments. It will also select the species that can survive in Qatar’s climate, taking into account the market appetite for such species. In 2013, Saudi Arabia’s Ministry of Agriculture invested US$10.6 billion in aquaculture projects with an aim to produce one million tonnes of fish in the next 16 years.

Healthy and Organic Food Consumption Trend

Healthy and organic products, marketed as healthy alternatives, are becoming an integral part of grocery retailing. According to Euromonitor, the global healthy food products market is estimated to reach US$1 trillion by 2017, primarily driven by the shift in societal, demographic and governmental factors. The GCC organic food market is anticipated to reach US$1.5 billion by 2018, rising at a CAGR of 20 per cent from 2014.

Recognising the risks arising from obesity and other lifestyle-related diseases, such as diabetes and cardiac ailments, consumers are moving towards a healthier lifestyle and becoming more cautious about their food habits. This has led to increased health consciousness in the region, driving the consumption of healthy, organic and dietary foods. Moreover, such consumers are driving the growth of organic foods, gluten-free and low-carbohydrate products.

Witnessing the shifting customer preferences, the GCC nations are taking initiatives such as establishing organic farming departments in their respective agriculture ministries, and organic farming associations to develop organic local farms. With these measures, the number of organic farms has increased in the GCC. In UAE, the number of organic farms rose to 39 by 2013, covering a total area of 3,020 hectares, compared to 218 hectares in 2007. In Saudi Arabia, more than 140 farms have been certified as organic, or are in the process of converting to organic status, according to the Saudi Organic Farming Association (SOFA). Similarly at the beginning of 2016, Qatar’s Agriculture Affairs Department at the Ministry of Municipality and Environment (MME) announced its plan to increase the number of organic farms in the country.
EMERGING PRIVATE LABELS AND RISING DEMAND FOR PACKAGED FOODS

Emerging Private Labels

Private labels have witnessed robust growth in recent years, primarily driven by demand for lower prices and the trend towards more sophisticated product lines, which command higher margins for retailers. Over the years, the evolution of the retail industry in the region has led to a change in consumer attitudes towards private labels. Nearly 71 per cent of the respondents in the Middle East and North Africa (MENA) region agreed that their perception towards private label products has improved in recent years, according to a 2014 Nielsen survey. Considering the low penetration of private labels in the GCC region, it has a large potential for growth.

The consolidation of retail in the region has prompted players such as LuLu, Carrefour, Panda and Spinneys to launch private labels, as they can compete better on prices and also help to develop customer loyalty. The companies launched private labels in grocery products towards which customers are increasingly joining the workforce, leaving them less time to prepare traditional foods from raw materials, adding to the shift towards packaged food alternatives.

Rising Demand for Packaged Foods

The demand for packaged foods is increasing in the region. According to Frost & Sullivan, the GCC packaged food industry was valued at US$25 billion in 2013, and is projected to increase at a CAGR of 8.5 per cent until 2018. The rising influence of western food habits among people has increased the demand for packaged food products in the GCC. This is further supported by high urbanisation, presence of a high percentage of expatriates, as well as young consumers, which is driving the demand for ready-to-eat, canned, processed, preserved and frozen foods. In recent years, women are increasingly joining the workforce, leaving them less time to prepare traditional foods from raw materials, adding to the shift towards packaged food alternatives.

A key feature, which makes the packaged food market more attractive, is that accurate information of the food’s source, ingredients and nutrition are printed on the package. This has caught the attention of working and health-conscious consumers.

In the GCC packaged food industry, bakery accounts for the highest consumption, contributing 30% to the total packaged food market, and dairy accounts for 25%.

The key players in the GCC packaged food market are Almarai Co. Ltd., Nestle Saudi Arabia, and Darone Group.

The modern grocery retail format is driving the demand for packaged foods. Saudi Arabia and UAE are the largest packaged food markets in the GCC, with estimated retail sales of US$20 billion and US$4 billion respectively in 2015, according to Euromonitor.

The GCC aims to strengthen food security in the region as it imports 70 per cent of its food requirements. The use of advanced technologies becomes more relevant in the case of the GCC given the dry climate and lack of arable land in the region. Governments are working towards implementing advanced technologies such as organic farming, hydroponics and greenhouse plantations to ensure food security in the region. Hydroponic techniques help mitigate hostile agricultural conditions. In the GCC, it is shifting its focus to organic farming and less water-intensive crops. It is working on a greenhouse project where it will use nine different greenhouse design specifications to assess the sustainability and financial viability of crops grown in greenhouses.
Government initiatives and investments (1/2)

GOVERNMENT INITIATIVES FOCUS ON ENSURING FOOD SECURITY

The GCC governments are taking measures to strengthen food security in the region. Their objective is to attract foreign investments and increase private sector participation in the food sector. The member countries are also taking initiatives to drive production in the region by encouraging the use of modern agricultural techniques such as organic farming, hydroponics and greenhouse plantations.

The governments are also encouraging the private sector to invest in infrastructure for logistics and food distribution. They are also increasing support for local food processing companies by providing them with direct subsidies.

Saudi Arabia

Food and agriculture is one of the most supported sectors in Saudi Arabia, where the government takes measures to facilitate sustainability and ensure food security, in addition to managing challenges. The country has undertaken several initiatives to encourage private investments in the sector. Saudi Arabia also implemented “King Abdullah’s Initiative for Saudi Agricultural Investment”, a programme to maintain and enhance food security and encourage Saudi investors to utilise their resources and invest abroad. In 2015, Saudi Arabia signed two agreements with Oman for infrastructure development at the special economic zone in Duqm (SEZD) and the construction of a fishing port in Duqm. In 2014, Abdulaziz AlAsghir Holding Company (AAHC), a Saudi company specialised in investment, contracting and building materials, announced an investment of about US$266 million in the food sector over the next five years.

The government has undertaken initiatives to develop local farms for organic farming and has also established various institutes.

- In 2007, the Saudi Organic Farming Association (SOFA) was founded
- The Department of Organic Agriculture in the Ministry of Agriculture was established in 2008
- In 2011, Qassim Farming Research Centre was converted into an organic farming centre
- In 2011, the government set up the Saudi Agricultural and Livestock Investment Company (SALIC), with the purpose of allowing the government to partner with private agribusinesses globally

UAE

The UAE is investing in agricultural projects overseas to secure food supplies amid increasing demand. It has investments in agro-food in Namibia, South Africa and several Arab nations, including Tunisia, Morocco, Algeria, Sudan and Egypt. Of these countries, the UAE has an investment worth US$20 billion in Morocco.

The government is also adopting innovative technologies to stimulate its domestic agricultural output. It has adopted a Smart Irrigation System, which monitors weather, soil conditions and automatically adjusts the irrigation schedule. With this system, the country has achieved a 5% increase in vegetable yield and 43% irrigation water savings. Moreover, High-Tech Greenhouses – another water saving technique – have been developed for efficient crop production. The Abu Dhabi farming industry is set to produce over 35,000 tonnes of fruits and vegetables in the winter months in 2016.

The UAE is investing heavily in aquaculture projects to support its growing seafood demand. In 2015, 10 aquaculture facilities produced 790 tonnes of farmed fish, comprising about one per cent of seafood demand by the nine million residents of the UAE. In 2015, the government oversaw the opening of the first phase of Sheikh Khalifa Marine Research Centre in Abu Dhabi. The centre aims to aid fishermen and commercial enterprises and develop the aquaculture sector.

Development of food industries in GCC countries

<table>
<thead>
<tr>
<th>Description</th>
<th>2010</th>
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<tr>
<td><strong>No of Firms</strong></td>
<td>1,606</td>
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<td><strong>Investments in Food Sector</strong></td>
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<td>13.7</td>
<td>16.5</td>
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<tr>
<td><strong>US$ Billion</strong></td>
<td></td>
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</table>

Source: Gulf Organization for Industrial Consulting (GOIC)

GCC nations are investing in modern farming techniques such as hydroponics, organic farming and greenhouse plantations.
Beverage segment received the highest private investments in recent years

**Government initiatives and investments (2/2)**

**OVERSEAS INVESTMENTS ARE MADE TO ENSURE STABLE FOOD SUPPLY**

**Qatar**

Qatar’s government has undertaken several initiatives to improve food supplies. The country has launched the Qatar National Food Security programme to develop best practices in the sector. Qatar currently imports 90 per cent of its food requirements and aims to lower this to 70 per cent by 2023, through the use of advanced farming technology. In 2015, the government commenced operations at an ultra-modern meat processing plant at an investment value of US$55 million. The plant has a production capacity of 10 tonnes per day.

The government is also investing heavily in poultry and aquaculture sectors. To quadruple the country’s poultry production, the government has announced plans to set up a new chicken farm complex with an annual production capacity up to 40,000 tonnes of chicken and 7.5 tonnes of eggs. The project has received financial commitments of US$206 million from institutional investors. The government has also established an aquatic research centre at an investment of US$63 million to replenish its fast-depleting fish stocks.

**Kuwait**

In May 2015, the Kuwaiti government announced plans to achieve food self-sufficiency by 2040. Kuwait is investing in the related supply chain as well as making efforts to boost local farming and commodity processing. To strengthen food security, the country aims to reclaim more land through irrigation. It is increasing domestic production of poultry, eggs, fruits and vegetables. The government is offering incentives and freeing up land to encourage private sector investment in agriculture.

**OMAN – ON A GROWTH PATH**

Oman has successfully built a competitive and low-cost economy, with one of the lowest energy and labour costs in the GCC region. Though Oman has the lowest oil reserves in the GCC, its oil wealth accounts for more than 50 per cent of GDP. Oman posted a larger-than-expected budget deficit in 2015, at almost 16 per cent of GDP due to the drop in oil prices. To reduce budget deficit, Oman has significantly reduced subsidies, by almost 64 per cent.

Oman’s government is actively making efforts to reduce its reliance on the oil sector. The government has launched a national programme called Tanfeedh to diversify its economic activities in the areas of tourism, manufacturing and logistics. The Tanfeedh programme is a part of the ninth Five-Year Development Plan (2016-2020).

Oman’s diversification efforts have also helped it become a global trade partner and, in 2000, Oman was officially included in the World Trade Organisation (WTO). The country has since then entered into various agreements facilitating trade. It signed a free-trade agreement (FTA) with the US in 2006, which came into effect in 2009. The agreement primarily focuses on eliminating most tariff and non-tariff barriers; expediting the movement of goods; strengthening investor protection; and safeguarding intellectual property rights, labour and environmental standards. Driven by these favourable trade agreements, Oman’s total trade increased at a CAGR of 9.2% between 2011 and 2014.

Oman’s food production is market-oriented, characterised by small farm units, water-saving irrigation and farming techniques, including the use of hybrid seeds, commercial fertilisers and pesticides, and mechanisation. Half of the Omani population relies on the agricultural and fishery industries, while one-third of the economically active population is directly employed in agriculture. The GDP contribution of the sector, however, was only 1.3% in 2015. It is dwarfed by the industrial (55.2%) and services (43.5%) sectors. Currently, the country maintains its food security through a combination of domestic production, food imports and significant government support. It has developed the National Water Resource Management Master Plan and the Oman Food Security Strategy to find solutions to the threats of food and water insecurity. However, Oman’s external trade is dominated by oil exports, making up 80% of total exports, mainly to Asian countries such as China. However, as the country’s development plans progress, the ratio of imports to total external trade is increasing. Between 2010 and 2013, total exports in Oman increased by 15 per cent, while imports rose by 20 per cent. In 2014, trade declined, primarily due to the drop in oil prices.

**Opportunity Assessment in Oman (1/4)**

Although recent fall in oil prices has affected the overall Omani economy, Oman is diversifying its economic activities to create a more balanced economy
A well-developed logistics space is essential to execute the on-going and upcoming food projects in the GCC.
PORTS – THE OMAN ADVANTAGE

A well-developed logistics space is essential to execute the on-going and upcoming food projects in the GCC. Accordingly, rail, airport and port infrastructure development has been a key focus area in the GCC.

As the region imports over 70 per cent of its food requirements, ports are the major channels through which the international movement of food products takes place. In recent years, the GCC has developed many ports to promote trade. The development has also been driven by the establishment of various Special Economic Zones (SEZs) in the region. For example, Jebel Ali Port in the UAE has expanded significantly over the last few years, leveraging its free zone. The annual handling capacity of the port is expected to reach 22.1 million twenty-foot equivalent units (TEU) by 2018, up from 13.6 million TEU in 2013.

In Oman, Sohar Port receives considerable traffic from Sohar Freezone. Similarly, Port of Salalah has benefitted significantly from the Salalah Free Zone. The two ports are cornerstones of Oman’s economy and trade with GCC, Asian and potentially parts of the Middle East.

The country’s strategic location, close to the Strait of Hormuz, is one of the key USPs that gives leverage to Oman’s ports. Oman is also a part of the GCC rail network, which has been in the development stage since 2008. Oman’s national rail development strategy aims to enhance the nation’s appeal as a trade gateway to the wider Gulf region, and potentially parts of the Middle East.

The logistics sector is one of the major non-oil economic sectors, which contributed 4.9 per cent to the country’s GDP in 2015. Oman’s logistics industry is likely to expand at a CAGR of 7 per cent between 2015-2020. Key drivers of the growth of Oman’s logistics sector are infrastructure investments associated with national logistics development plans, economic diversification efforts and trade with GCC, Asian and Sub-Saharan African countries.

Major ports such as Sohar and Salalah have contributed positively toward the economic growth of Oman.

Food storage, available packaging materials and world-class logistics, makes Port of Sohar attractive for investors.

PORT OF SOHAR – PROVIDING OPPORTUNITIES

Oman is leveraging its strategic location by focusing on logistics, with Port of Sohar at the centre of its plans. Sohar Port and Freezone is a deep-sea port and freezone located midway between Dubai and Muscat. With current investments of US$25 billion, it is one of the world’s fastest growing port and freezone developments. The Port of Sohar should also reap the benefits of substantial investments focusing on the railway network integrating various ports in the country. The port is well connected to GCC economies such as the UAE and Saudi Arabia. A major dual-carriageway link is being constructed between Oman and Saudi Arabia. This road will reduce the trade distance between the two countries by more than 500 km, further increasing the viability of doing business through the Port of Sohar.

With the objective of becoming a regional food-processing hub, Port of Sohar has established a food-processing cluster anchored by Oman’s first dedicated agro-bulk terminal, built at an investment of US$170 million. The terminal will handle the government’s wheat and grain shipments and will also feature a strategic grain storage facility. The port will also have the country’s first sugar refinery. In essence, the terminal will play a critical role in building strategic food reserves for the country.

Apart from ensuring food security, the terminal will act as ‘food storage and distribution hub’ for regional markets. For international investors, the port will offer long-lease land parcels and pre-built warehouses. Service corridors linking the agro-bulk terminal will ensure the swift transfer of material. The combination of food storage facilities; available packaging materials from a US$6 billion plastics facility for PET, due to open by 2020; and world-class logistics, makes Port of Sohar attractive for investors.

With one of the lowest operating costs, Port of Sohar has emerged as a value-for-money proposition for investors when compared to other ports in the region. The port’s cost-efficiency and a dedicated food processing cluster has attracted several investments in the food and agriculture sector, including Al Ghurair Investment, the UAE-based food and animal feed producer, who announced its plan to open a 93,000 square-metre facility at Sohar Port and Freezone in 2015.
Opportunity Assessment in Oman (4/4)

REGIONAL OUTLOOK

The outlook for the GCC food sector is positive. An expanding consumer base and increasing tourism are expected to not only increase food consumption, but also lead to a change in consumption pattern. Consumers are shifting their preference to dietary and protein-rich food products, thus driving the demand for organic food and seafood. Modern retail formats such as hypermarkets and supermarkets are contributing significantly to the growth of the food sector. Consumers are showing an increasing preference for modern retail formats over traditional ones. However, modern retail formats have low penetration in the region, except in the UAE.

As the region meets its food requirements primarily through imports, consequently making food security a top priority, countries are investing heavily to improve their food security. Given this scenario, the region is leveraging various advanced technologies such as hydroponics and organic farming to ensure adequate food supply. These measures are expected to improve the food supply scenario in the region.

Another factor contributing to the positive outlook of the sector is the rising number of tourists. The high tourist inflows are due to international events such as Dubai Expo 2020, and FIFA World Cup 2022, scheduled to be held in Qatar. This high inflow of international visitors is expected to drive the hotel and restaurant segment.

Finally, the ongoing oil price crisis could impede the GCC economies’ investment plans. However, the member countries’ plans for economic diversification are likely to invigorate the food sector, and it will continue to demonstrate positive growth backed by steady demand.

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About SOHAR

SOHAR Port and Freezone is a deep sea port and free zone in the Middle East, situated in the Sultanate of Oman midway between Dubai and Muscat. With current investments of US$25 billion, it is one of the world’s fastest growing port and free zone developments and lies at the centre of global trade routes between Europe and Asia.

SOHAR provides unequalled access to the fast diversifying economies of the Gulf and Iran, while avoiding the additional costs of passing through the Strait of Hormuz. The existing road network and airport and the future rail system provide direct connectivity to the UAE and Saudi Arabia, as well as to the rest of the world.

Equipped with deep-water jetties capable of handling the world’s largest ships, SOHAR has leading global partners that operate its container, dry bulk, liquid and gas terminals including Hutchison, C. Steinweg, Oiltanking, and Svitzer. SOHAR Port and Freezone is managed by Sohar Industrial Port Company (SIPC), a joint venture between Port of Rotterdam and the Sultanate of Oman.

Find out more at: soharportandfreezone.com

About MEED Insight

MEED Insight is the consulting arm of the MEED business. We provide bespoke market research, business plans, feasibility studies and corporate strategy development studies to help our clients make more informed and profitable business decisions. MEED Insight has access to a wealth of regional information ranging from broad macroeconomic statistics, to specific sector data to help our clients accurately and cost effectively forecast market growth and trends.

MEED Insight has a particular focus on project-related market data thanks to its proprietary database of projects in the region, MEED Projects. Thanks to the respected MEED brand name and MEED Magazine, MEED Insight consultants have considerable access to the market, enabling them to speak directly to clients, consultants, government ministries and other companies.

The Food sector in the GCC region will continue to witness high demand in the near future mainly driven by an expanding consumer base and the planned mega events.

25 million visitors
DUBAI WILL HOST BETWEEN OCTOBER 2020 AND APRIL 2021

3.5 per cent
COMPOUNDED ANNUAL GROWTH RATE (CAGR) IN FOOD CONSUMPTION IN THE GCC BETWEEN 2014-19

US$1.5 billion
GCC ORGANIC FARMING MARKET SIZE BY 2018

US$13.2 billion
UAE F&B SECTOR MARKET SIZE BY 2018

US$155 billion
GCC FOOD RETAIL MARKET SIZE BY 2018

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