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Retail Assessment Report and Opportunities for U.S. Food Products

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Report Highlights:

During the week of September 23, 2012, a FAS/USDA and private sector Retail Assessment Team (RAT) traveled to Luanda and met with Angolan importers, retailers, port officials, and the Banco Angolano de Investimentos (BAI) to conduct a market assessment. The project, funded in part by USDA’s Emerging Market Program (EMP), also included visits to several stores of various size and target markets to identify opportunities for U.S. agricultural products.

General Information:

During the week of September 23, 2012, a FAS/USDA and private sector Retail Assessment Team (RAT) met with Angolan importers, retailers, port officials, and the Banco Angolano de Investimentos (BAI) to conduct a market assessment of Luanda. The project, funded in part by USDA's Emerging Market Program (EMP), also included visits to several stores of various size and target markets. The stores ranged from small neighborhood markets, standard grocery stores and boutique gourmet stores, all the way to hyper-markets. The RAT also discussed Angola's newly acquired status as GSM-102 eligible country with BAI.

The RAT was able to acquire a broad perspective of the Angolan market for U.S. agricultural products. Below lays out the findings of the RAT in the areas of production conditions, market conditions, retail trade, constraints for U.S. agricultural trade, and the possible use of the GSM-102 program in Angola. This report will conclude with recommendations for next steps in gaining more knowledge of the Angolan market and needed approaches for the marketing of U.S. agricultural products.

Angola Economic Situation:

Angola is a market that offers both high returns and great risks to investors and exporters. Following the end of civil war in 2002, the Angolan oil and diamond industries, as well as the intensive infrastructure rebuilding projects, have created business opportunities for food exporters. For instance, from 2004 to 2008, the Angolan economy had double digit growth rates until the global financial crisis slowed growth to the low single digits from 2009-2011. For 2012, the IMF forecasts an increase to 10.8 percent growth. Despite the gains and clear opportunities, the business environment remains one of the most difficult in the world. The 2012 *Doing Business Report* ranks Angola as 172 (out of 183 countries). As a result, investors and exporters must factor challenges such as lack of transparency, an underdeveloped but improving financial system, poor infrastructure and extremely high on-the-ground costs.

Since the end of the civil war, Angola continued with its main macroeconomic policy of reducing inflation, deepening international reserves, and increasing capital spending on infrastructure to promote economic diversification and poverty reduction. Economic growth and fiscal sustainability are still highly dependent on oil revenues. The unemployment rate is estimated at around 26 percent, and the incidence of poverty remains high. Despite steady progress made in improving social conditions since 2002, the country still faces massive challenges in reducing poverty and unemployment.

Angola enjoys one of the fastest growth rates in Sub-Sahara Africa

In terms of trade environment, Angola's average tariffs are fairly low. The average Most Favored Nation (MFN) applied tariff is 7.3 percent (one of the lowest in Africa). All of Angola's tariff lines are bound under the World Trade Organization (WTO) with an average bound rate of 59.2 percent. The average tariff on agricultural products is 10 percent and 6.9 percent on nonagricultural products. However, one area that adds high costs when exporting to Angola is clearing imports through the ports and customs system. It can be a slow, complicated, and uncertain process. Angola ranks 142 out of 155 countries in the World Bank's Logistics Performance Index, largely due to inefficiencies in customs. Angola is also ranked 139 out of 142 countries on the 2011/12 Global Competitiveness Index.

Production Conditions:

The RAT discovered that there is very little food production and processing in Angola (except for a Coca-Cola plant), and while it did not assess production conditions, the team determined that U.S. exports to Angola would not be challenged at this moment by a domestic industry.

During the assessment, it was concluded that some fresh fruits and vegetables are produced, cleaned and bagged in Angola; however, the team was unable to determine how extensive this activity might be. However, given the low level of food production in Angola, it is estimated that any such processing activity is limited. One major retailer who does purchase local products stated that prices are far higher than imported goods, quality is low, and product segregation is weak.

Angola's agricultural production includes bananas, sugarcane, coffee, fruits and vegetables. However, subsistence agriculture still provides the main livelihood for most people and the country currently imports an extremely high portion of its food needs. In addition, agriculture's contribution to the GDP is less than 10 percent; resulting in opportunities for U.S. agricultural exports in a growing economy.

Market Conditions:

In Angola, the retail food market is comprised of approximately 20 percent formal (e.g. small neighborhood stores, regular grocery stores, hyper-markets), while the remaining 80 percent is informal (e.g. street venders, unregulated wet markets, etc.). It is expected that the formal 20 percent will expand significantly in the next few years, as chains such as ShopRite (plans for 20 new stores in next 3 years) and Kero look to continue opening new locations in Luanda and the city of Lobito.

The Angolan market is relatively open, but the government does exert control over retailers through either licensing, promoting Angolan partnerships with new retail chains, or full ownership of certain stores (e.g. Kero). For exporters to Angola, the RAT did not identify significant market intervention. The RAT could not identify any publically available market information, but were told that customs import data is available when requested from the Angolan Government. However, it is felt that the accuracy of such information is unlikely to shed light on the size of the market or provide useful marketing information to U.S. exporters.

Retail Trade:

Over 90 percent of all food products in retail stores, restaurants, and hotel business are imported, resulting in prices of all foodstuffs (with the exception of wines, some spirits and beer) being very high in comparison to other markets. Luanda is one of the most expensive cities in the world and the cost of food is reflective of this. For example, the team saw raw cabbage heads for US$12; a pack of chewing gum for US$6; frozen chicken leg quarters for US$7 per kg, and ground beef for US$10 per kg.

The RAT confirmed that the retail trade in Angola is dominated by Portuguese and other EU products, with a significant amount of South American meat and poultry also present. The RAT also observed that the there is very little variety of products among the different retail chains. This led the team to conclude that this may be a result of the limited number of major importers, estimated at around 20, being unfamiliar with U.S. food and beverage products, and that the market is dominated by only a handful of retailers: ShopRite, Jumbo, Maxi Cash & Carry, Kero and Cabire.

Table 1: Angola Imports of Agriculture, Fish & Forestry Products (US$ Million)

Country	2007	2008	2009	2010	2011	2012*
Portugal	480	643	598	594	863	718
Brazil	397	559	494	487	663	620
United States	**110**	**172**	**91**	**189**	**234**	**245**
South Africa	142	167	152	157	225	222
Argentina	129	167	145	125	201	156

Source: GTA
*From January 2012 to November 2012

Portugal continues to be the most important trading partner for Angola. Regionally, the largest supplier to Angola is South Africa. Numerous South African processed products are found in the retail stores; including fresh fruits and vegetables, fruit juices, canned goods, condiments, breakfast cereal (Kellogg's); drinks and some meats.

As for U.S. agriculture, currently the United States exports poultry (frozen chicken leg quarters), wheat flour, dry pinto beans and a limited amount of beef and pork to Angola. Some processed products were found in very limited quantities (e.g. Tabasco sauce and Arizona tea). The RAT saw opportunities to expand further sales of poultry, dry beans, beef, pork and processed shelf-ready products, as well as other products such as rice, soy oil, snack foods, canned vegetables, canned meat, tree fruits, and possibly a limited amount of offals. During the store visits, it was evident to the RAT that many of the importers and retailers do not have proper knowledge of the wide range of products produced in the United States.

Constraints for U.S. Agricultural Trade:

The RAT did not identify any SPS constraints to trade. There appear to be no constraints with regard to fresh or frozen meat and poultry products, with the same true for imported fruits, vegetables and grains. Even though SPS does not present a trade constraint, below discusses three significant areas that the RAT indentified as hindering, and could continue to impede U.S. agricultural trade with Angola.

- **Lack of Knowledge of U.S. Products.** There is virtually no understanding of the type and wide variety of commodities and processed products available from the U.S. This is a significant, if not the main problem, in expanding sales of U.S. goods to Angola. The RAT did not meet a single importer or retailer who attended a trade show in the U.S. or attended SIAL, ANUGA or the Dubai Food Show. In short, there is a lack of exposure to U.S. products with the exception of chicken and dry beans. On a positive note, all contacts are open to attend shows in the United States and would consider U.S. products for their shelves, if pricing makes sense. It should be noted that USDA Cooperators work with importers but not necessary with retailers in expanding the market for U.S. products.

- **Labeling.** All products should be labeled in Portuguese and contain metric measurements. While the team did see a few products stickered, and some with English only labels, it was rare. All the importers and retailers we spoke with insisted that product labels to be in Portuguese and be done by the exporter. Proper labeling will be a constraint to many U.S. exporters, especially if sale volumes are low.

- **Transportation Costs and Logistics.** While the majority of products are sent in container loads, some goods are trucked from South Africa. For fresh meat, several retail chains are bringing it in through air freight from South Africa, EU, Brazil, Argentina and Uruguay due to the lack of cold storage or reefer plug-in facilities at the port. Considering these lines of supply, competitors may have an advantages over U.S. exporters in terms of time and cost and need for transshipment. Another constraint tied with transportation costs and logistics is the bureaucracy products face once arriving to Angola.

Renovations at the Port of Luanda are expected to improve handling capacity

  Representatives of retail companies mentioned that five separate documentation and payment stations had to be engaged for clearing a container: port authorities to pay port fees; customs; terminal fees; assure import licenses; and provision of samples and fees. These requirements add both time and cost to the products before they arrive at stores. However, current renovation projects at the port plans to address issues limiting handling capacity.

GSM-102 Program:

In 2012 the country of Angola acquired eligibility for USDA's GSM-102 loan guarantee program.

Recognizing this, the RAT took the opportunity to meet with BAI, which has been identified as a possible GSM-102 qualifying bank. BAI is the largest bank in Angola, and is present throughout all of the provinces of the country, with 110 branches. The RAT was able to meet with BAI leadership and explain the virtues of the program and gauge the bank's interest in gaining eligibility. BAI does recognize the benefits of this program for their own reputation and the service it provides their clients, which a large percentage of those clients importing food. At present, BAI needs to submit to FAS/USDA all the application materials for eligibility.

In the meetings with importers and retailers, the RAT informed them of Angolan banks new eligibility for the GSM-102 program. Many were already familiar with the program, and were enthused to hear that they could possibly soon use an Angolan bank to take advantage of the program. Currently, Angolan importers using the GSM-102 program are doing so through South African banks.

Table 2:

Angola's SWOT Analysis

Strengths	*Weaknesses*
Angola's average tariffs are fairly low	Lack of knowledge of U.S. food products
Infrastructure projects for the rail system, airports, and ports is a government priority	Business environment remains one of the most difficult in the world
Improving relationship with the United States	It takes a long time to get an Angola tourist/business visa
Strong expansion in the mining and oil sectors	Luanda is one of the most expensive cities in the world
A growing formal retail food sector	Limited pool of skilled labor
Opportunities	*Threats*
Highest growth rates in Sub-Sahara Africa	A young democracy
A growing middle class	High unemployment rates
Strong investments by international retail companies	Obscure business environment and lack of regulatory framework (or consistent application of existing regulations)
Importers are already using USDA's GSM-102 program	Underdeveloped financial system
New generation of business and government people looking to build links with western partners	Strong ties with Portuguese companies and/or products

Next Steps and Recommendations:

The RAT found that some opportunities exist to develop capacity building in food safety, food production and processing, cold chain and retail development in Angola. However, the team's main observation and recommendation is the need for informational exchange (e.g. travel to trade shows, reverse trade missions, in-store promotions, etc.) on the wide range of U.S. products. This would be the most appropriate way to enhance partnerships with the private and governmental sectors, and provide the needed exposure and knowledge of U.S. agricultural products.

Even thought the U.S. agricultural industry is very competitive on product pricing, the high transportation costs from the United States to Angola may make some U.S. products' landed prices too expensive to succeed in Luanda. For example, the average rate for a dry 40 foot container leaving the port of New Orleans to Luanda is about $12,300 per container. In contrast, it costs about $5,152 from Las Palmas or $5,425 from Barcelona.

In addition to informational exchange and shipping costs, RAT cites the need for further research to address gaps in market information which U.S. exports would find useful. The expected addition of a FAS Locally Employed Staff in Luanda would prove instrumental in filling market information gaps and maintaining meaningful interaction with importers and retailers. Market information on competitor product pricing, market potential, determining the extent of food processing, determining the market size of the food retail sector, and obtaining current import regulations are examples of information that could be provided for U.S. exporters.