



Building resilience for the UAE Food Sector

The F&B Manufacturing Industry is one of the predominant manufacturing sectors of the UAE with a contribution of ~8% of the National Manufacturing Value Added.

It is the third-largest sector in terms of the number of national manufacturers, with a total annual production worth 35 Bn AED (2018).

With a combined investment of AED 40 – 50 Bn, The UAE manufacturing Sector has 568 food and beverage factories registered with the Ministry of Energy and Industry. It accounts for 30% of total investments in the industrial sector, and employs 10% of all workers in the industrial sector in the UAE.

These factories produce 5.96 million metric tons (MT) of food and beverage products annually, with 2.3 MT in essential food items.

Registered Factories in UAE

Dubai	315
Sharjah	77
Ajman	72
Abu Dhabi	40
Umm Al Quwain	34
Ras Al Khaimah	23
Fujairah	7
Total	568

Production (million tonnes)

Total Annual Production	5.96
Max Annual Production Capacity	16.3

Production of Essential Items (Thousand Tonnes)

Dairy	633
Legumes	400
Cooking Oil	331
Dates	140
Poultry	108
Fish	63

The sector employs a total workforce of 82,000 people who support the sector and ensure food security, providing employment directly or indirectly to around 150,000 people.

Food companies have continued to work together to support the country come out of the covid pandemic by ensuring the availability of strategic food stock and supply of essential food items that has kept the inflation under control and contributed to ensuring the UAE is one of the most advanced economies in covid response and recovery.

However, under the current market conditions, local food manufacturers in the UAE are facing multiple pressures to existing cost structures. Cost of doing business in the sector has gone up by as much as 30%, owing to rising direct and indirect costs, which has forced ~90 manufacturing facilities to close down in spite of the structured efforts made by the Government to bring the industry on the path of recovery.

Manufacturers are facing the following key Challenges

- Increasing Cost of Doing Business
- Big Retailer Monopoly
- Unregulated Imports stifling Local 'Made in UAE' products

Issue	Impact	Drivers																								
Big Retailer Monopoly	<ul style="list-style-type: none"> • 4 major retailers dominating retail market • less than 2% of retail stores taking 1/3rd of all revenue generated from F&B Retail <ul style="list-style-type: none"> - Skewed Concentration of Revenue - High Retailer Margins: 30-60% • Manufacturers Paying for everything <ul style="list-style-type: none"> - ~50% of manufacturer earning being taken by Retailer - Cost of Doing Business is 40-60% of Revenue for almost all categories • Brand Value Erosion due to promo abuse • Reduced Cash flow to Manufacturer • Erosion of Manufacturer Profit leading to closing down of companies • Barrier to entry for new companies & products • Consumers do not get full benefit of Price control 	<ul style="list-style-type: none"> • Existing Price Control Mechanism has no benefit <ul style="list-style-type: none"> - Only applies to manufacturers • BDA terms and conditions that are constantly changing and tailored for Retailer Benefit only • Retailers allowed to make profit from front margin, but they kill competition and erode local brands by taking profit from Back Margin • ~50% of Products Sold on Promo <ul style="list-style-type: none"> - Rampant promo abuse • Manufacturers have to bear cost of promotions • Long Payment Cycles and Unhealthy Return Policy 																								
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Table: Back Margin calculation observed in UAE; Source: FBMG Research Cell, Industry Leaders

Issue	Impact	Drivers
Increasing Cost of Doing Business	<ul style="list-style-type: none"> • Cost of Doing Business has gone up by 30% • Manufacturers facing issues in cost recovery • Local Manufacturers are not able to be cost resilient 	<ul style="list-style-type: none"> • Loss of Saudi as Export Market • Increased Direct and Indirect Costs <ul style="list-style-type: none"> - 40-50% Increase in Price of Raw Materials <ul style="list-style-type: none"> ... Input Costs make up 70-80% cost of the product - Crop Failures & Ukraine War - Diesel Prices up by more than 80% since 2020 - Container Charges almost Tripled - Cost of Packaging gone up by 45% - High Retail Marketing Costs - 10-30% increase in Labour Costs • Current Price Control Mechanism is complex and inefficient

Unregulated Imports stifling Local 'Made in UAE' products	<ul style="list-style-type: none"> • 80% of Shelf Space taken by Imported Products • Imported products even on shelves allocated for local • Local Players pushed out of market 	<ul style="list-style-type: none"> • Rampant Market dumping of unregulated products (private labels and cheap Imports) • Private Labels not subject to stringent quality standards of UAE products
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Retail Type	Shelves with UAE Products	Total Food Shelves	% of UAE Products
Big 2	661	4,748	14%
Coops	655	4,698	14%
Other chains	727	4,190	17%

Outlet Name	Shelves with UAE Products	Total Food Shelves	% of UAE Products
Carrefour, Mall of Emirates	326	2073	16%
Carrefour, Deira City Centre	207	1651	13%
Union Co-op, Barsha	357	3213	11%
Union Co-op, Aweer	298	1485	20%
Spinneys, Mercato Mall	101	575	18%
Spinneys, Umm Suqeim	101	679	15%
Choithram, Marina	117	470	25%
Choithram, Umm Suqeim	112	465	24%
Al Maya, Marina	46.5	367	13%
West Zone, Barsha	39	129	30%
West Zone, Bur Dubai	31	204	15%
Lulu, Barsha	28	223	13%
Families, Karama	160	1190	13%
Lulu, Alwahda - Sharjah	100	801	12%
Madina, Dubai	19	111	17%

Proposed solutions to address Challenges

Solution	Actions	Impact	Timeline
Regulate Retailer and Prevent them from Behaving Monopolistically	<ul style="list-style-type: none"> put a forum to report bad practices- allowing of promotion and killing the brands Remove all forms of price increase fees and barriers to free pricing Regulation and putting a cap on Back Margin of Products Not allowing to introduce any new fees or charges without Government Approval Prepare a retailer performance report based on feedback from the suppliers 	<ul style="list-style-type: none"> Real Prices to Customers Increased Competitiveness and Cost Resilience of UAE Brands 	Immediate – through Directives
Provide Protection and Support to UAE Food Companies	<ul style="list-style-type: none"> Insure the Receivables of the Food Sector and Factor the invoices as a support system to the manufacturers to ensure that they have protection from bad debts and they are able to explore new markets Sector facilitation to ensure that manufacturers are protected Monitor and manage the payment structures of the market Ensure there is good working capital facilitation from Banks Prevent long payment terms and unhealthy Practises The economic inflation has to be controlled by the central bank thought fiscal policies. 	~2% increase in Manufacturing contribution to GDP	Medium Term – Requires policy and Support
Promote the UAE Products	<p>Programme to promote the homegrown products and companies by giving 30% shelf space to all the UAE Products and to only allow those products approved by DED to be labelled as part of the Programme. They will have blanket approval for promotion across all outlets and will be an initiative of DED to control the costs</p> <ul style="list-style-type: none"> Companies that manufacture and add value in the local market Companies that participate and support the government programmes such as Emiratisation, Circular Economy, Employee Empowerment and so on Companies that contribute to the national food security Strategy Program to export to new markets under the new Free Trade Agreements. 	<ul style="list-style-type: none"> AED ~2.5 Bn MVA increase Made in UAE Products to substitute reliance on High Value Imports <ul style="list-style-type: none"> Dairy – 75% of Local Consumption from Imports Meat (Poultry) – 90% of local consumption from Imports Improved ease of doing business for Local Companies 	

Solution	Actions	Impact	Timeline
Industrial Package to improve the Competitiveness of UAE Companies	<p>With Saudi, Oman and others putting pressure on UAE Companies to move, we have to leverage on the Infrastructure, Banking Facilitation, Assured Markets and promotion platform of UAE companies to show the competitiveness of the Local Manufacturing Sector through:</p> <ol style="list-style-type: none"> 1. Logistics Facilitation and warehousing with improved incentive program 2. Sector Investment Financing 3. Facilities with utilities, ports and government fees that will effectively improve ease of operation 4. Access to human capital and Technology 5. Ease of access to new markets and new market development facilitation 6. Facilitating them to consolidate and form conglomerates that could list in the market. 	<ul style="list-style-type: none"> • AED ~10 Bn MVA Increase • Double the value of domestic production from 35 Bn AED to 70 Bn AED • Increase domestic employment from 80,000 to 150,000 	

CASE STUDY

KSA

Regional Countries Prioritising & Enabling Local Production of Meat (Poultry) – KSA

KSA is the 3rd Largest importer of poultry meat, with a total consumption of 1550 Million Broilers, more than half of which is imported from Brazil, France and USA.

The Government set a strategic goal of local production to meet 60% of local consumption by 2022.

- **Custom duties on poultry entering the country were raised** from 5% to 20%
- Saudi Food and Drug Authority's (SFDA) **banned imports of electrically stunned poultry**
- **Government subsidizes animal feed and extends rebates** for the purchase of poultry equipment
- **Levied a \$533 per MT export tax on poultry**

CASE STUDY

UAE Poultry Sector

- There has been **increasing strain between local fresh poultry producers and retailers** in UAE.
- **Imports from within GCC have an unprecedented and skewed representation on store shelves** —between %50-20 shelf space dedicated for their brands.
 - The biased promotion by retailers is against the principles of Food Security, as stated by the government of UAE. o The earnings made by foreign producers do not contribute to the UAE economy, but instead are repatriated back to the home country.
- **Poultry is one of the few food categories for which UAE can be self-sustainable.**
 - This was put to test during the supply chain constraints that emerged during COVID19- induced lockdowns across the world. o Local producers met the gap in the market where producers like Almarai were not able to deliver.
- There is an evident **need for protection of local industry** without which investments in monetary and human resource terms will be wasted and not continue further.
 - Significant investment into the fresh poultry business has been made by local players. o They employ a large number of people and provide livelihood for many families. o With the market being this challenging, the returns that local producers receive are less than %5 and this is not sustainable.
- **Cost of business** continues to increase as retailers' terms are not sustainable.
 - BDA agreements continue to keep increasing. o Retailers force local players to take returns. o Purchase guarantees are not provided and continue to shrink. o Costs of government mandated promotion, viz. "Made in UAE" are also borne by the local poultry producers.

CASE STUDY

UAE Beverage Sector

The Beverages sub-sector is one of the key proponents of the overall F&B industry in UAE.

The industry contributes more than AED 3.5 billion to the UAE economy. It is also a major direct & indirect contributor of employment and livelihoods, and a major contributor of employment and livelihoods in UAE.

However, the industry is currently under tremendous strain, beyond the regulatory and retail concerns that afflict the rest of the F&B industry.

The excise tax implemented on the beverages sector has resulted in a sharp overall market decline of 25-30% of business. What is not measured easily is the indirect impact that this has had across the supply chain related to the beverages industry.

Further, COVID-19 spared no industry, and the additional impact of the pandemic was another 20-25% of business loss for the beverage industry. This amounts to an unimaginable decline of more than 50% of the beverage business in UAE. The impact of this is proving to be an insurmountable challenge as businesses, big and small, have been resigned to closing operations and/ or reducing staff.

The biggest concern prevailing over the beverages sub-sector is the issue of Excise Tax. As mentioned at the outset, along with the pandemic, it has served to severely impact the industry. It has had a 3 fold impact on the beverages sector:

1. Capital Shrinkage
2. Decrease in Market Size
3. Influx of Cheap, Non-Taxed Import

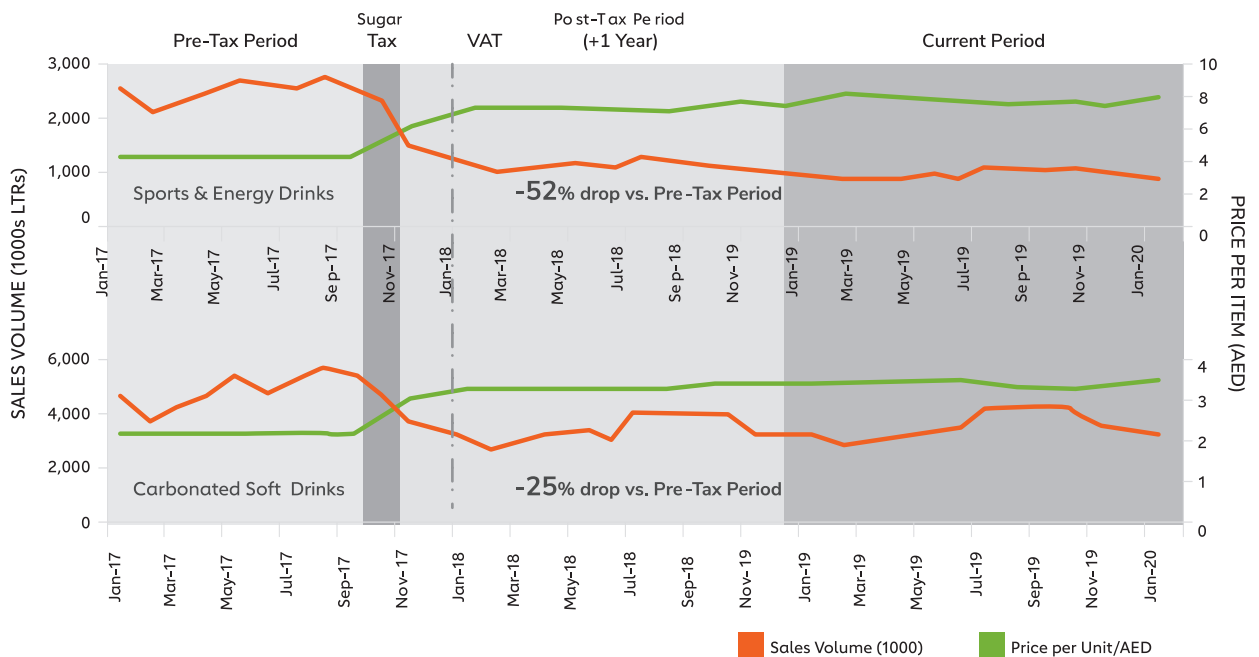


Figure 7.6.7: Impact of excise tax on beverages industry in UAE;
Source: Industry sources, FBMG Research Cell