

THE ISSUE OF INCREASING COMMODITY PRICES

- GLOBAL DYNAMICS
RAPIDLY CHANGING
POST-COVID



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Introduction to the issue

Input costs are a major cost head of any food producing business. Cross industry estimates suggest that this component of **raw material costs comprises of 70-80% of the overall value of a product.**

Raw materials important to the F&B industry of UAE are agricultural commodities such as fruits, grains, vegetables and livestock. Examples are soybean, corn, rice, palm oil, mentha oil, peanuts, cashew, pules, etc.

The cost of these raw materials are now spiralling out of control owing to the current global agricultural commodities super cycle, the container shortage hiking up freight costs and the sharp increase in demand from China.

The current state of affairs are eroding the financial viability of businesses in UAE, as a 40-50% increase in input costs has to be compensated with a commensurate increase in retail and consumer prices.

Impact of increasing commodity prices – example of the poultry industry

One of the most significant costs that are incurred in the poultry industry is the cost of poultry feed. Poultry feed comprises approx. 55-60% of the cost of the final product sold in market (COGS). Poultry feed largely comprises of Corn & Soya Bean.

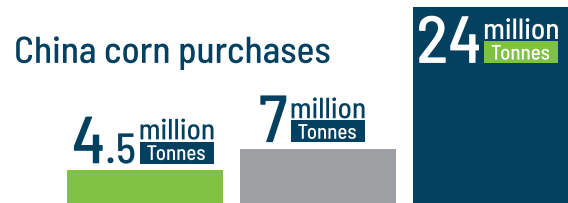
The current commodities super cycle that is in play has resulted in an increase in costs of production by 40-45%.

Corn Price Increase Details



Figure: Corn Prices, Q2 2019-Q2 2021; Source: Dow Jones Commodity Index

Corn comprises 60% of the total cost of Poultry feed formula. Despite the fact that global corn production has increased marginally this year, strong global demand led by China has resulted in a sharp change in the supply-demand balance. Resulting in a sharp increase in prices of corn of 46% versus same time last year.



Freight Costs



Figure: Supramax Freight Prices, Q2 2019-Q2 2021; Source: Dow Jones Commodity Index

With all major global economies investing heavily to revive their local economies, we are now facing a post-pandemic supply chain issue. As buyers line up to buy more, freight availability has reached scarcity and thus adding a sharp premium on freight costs as well.

The price index has increased by 178% since same time last year.



The net effect on UAE’s poultry industry

With such steep increases in input costs, it is impossible for the industry to not feel the impact.

Cost of Production (USD)

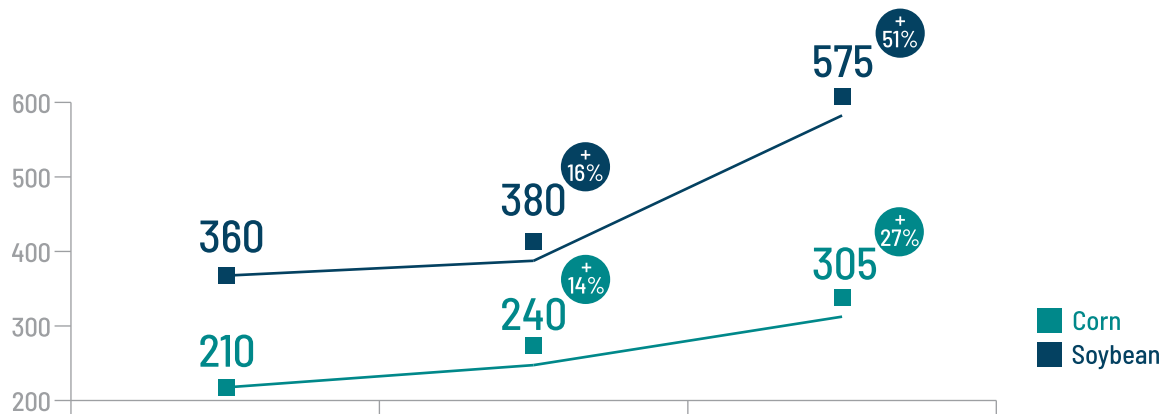


Figure: Increasing cost of production, March 2020-March 2021;
Source: FBMG Research Cell, Industry Leaders

| Feed Type | Price Increase Impact on Cost |
|-----------------------|-------------------------------|
| Broiler Starter Feed | 46% |
| Broiler Finished Feed | 45% |
| Layer Feed | 41% |

Table: Price increase impact on feed cost;
Source: Industry Leaders

Given the current climate of commodity prices is going to maintain an upward trajectory for the foreseeable future, there is an urgent need for manufacturers to increase prices and/ or government support to survive this phase.

This case study shows specifics on the basis of one F&B industry only. However, the impact is being felt across the industry and causing great concern.

Consequences of inaction

The poultry industry of UAE has long been suffering multiple issues:

- High regulatory costs
- Competition from cheap imports & private labels (non-compliant businesses)
- Increasingly difficult export challenges (that include huge wastage and loss)
- Non friendly retail practices

This has made the sector increasingly unattractive and seeing a drying up of investments and interest. This is an unfortunate situation, as the poultry industry is one of the few self-sufficient food sectors in UAE.

With the recent launch of “Operation 300bn” and the mandate to “Make it in the Emirates”, it becomes increasingly important to encourage and protect the industries that are already well placed to grow further. As an industry we are aligned with these objectives and look forward to achieving success for and with our nation. In a year where food security was a genuine scare, we were proud to declare that the Poultry industry is self-sufficient.

Without a feasible solution to our current challenges stated in this submission, we could see a scenario where:

| | | |
|--|--|---|
| Local producers are not incentivised to invest and expand operations | Increased imports will increase dependence and dilute food security objectives | Will result in closure of businesses and make “Operation 300bn” increasingly more difficult |
|--|--|---|

It is therefore imperative that price control mechanisms are relaxed and poultry producers be able to increase prices commensurate with the increase in production costs. Furthermore, government intervention on the export and retailer issues would also aid not just the industry, but consumers as well.