

FOOD SECURITY PREPAREDNESS REVIEW FOR THE UAE FOOD SECTOR

Summary of Discussion and Action Plan from UAE Food Manufacturers

UAE & the entire planet has today been affected by food supply chain disruptions, first due to the impact of Covid 19 that resulted in changes in global supply chain and production capacity, and now recently with the war in Ukraine which imposed several constraints that has resulted in increase in food prices globally.

With global supply chains being disrupted and panic setting in among the populace, there is a significant impact on food security as a domino effect. The constrained availability of food products, the higher prices of sourcing, the limitations that has set in the supply chain and higher cost of doing business have all contributed to the unstable situation in the food security front.

Now, more than ever, the 5 key pillars of the UAE National Food Security Strategy are of utmost importance. The local food & beverage manufacturers of UAE intend to honour their civic and national duty to the people of UAE by ensuring sustained and continuous production to meet their food requirements.

Food Sector – a sector of strategic importance

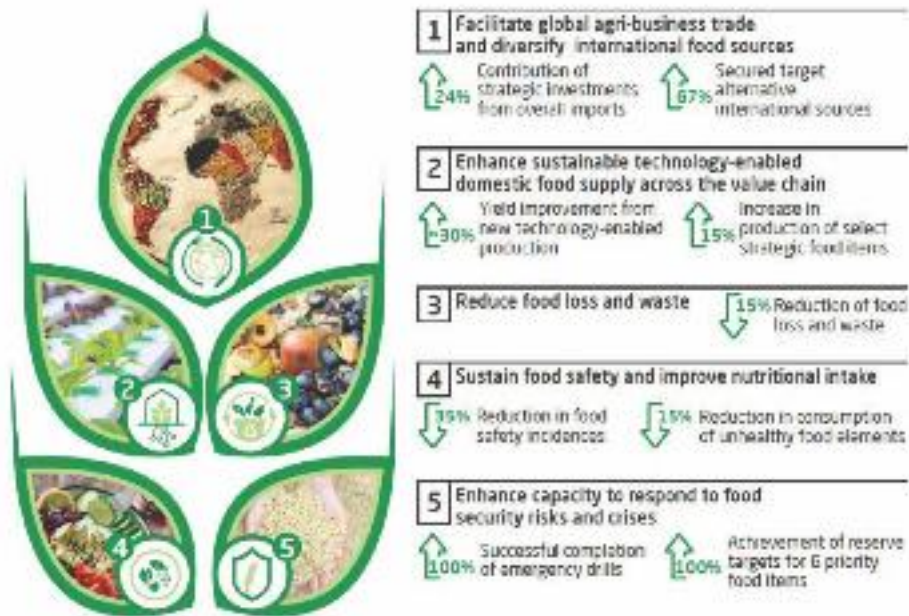
The Food Industry is a large and complicated industry, whose success depends on the cohesive working of each member of the food value chain. This consists of Manufacturers, Traders, Distributors and Logistics companies, who together employ more than 200,000 people and have a combined investment of AED 300 billion in the food value chain.



Food manufacturers in UAE have responsibilities that range from manufacturing the food product to delivering them to warehouses and thereon to retail stores and store shelves. This is done via manufacturer owned warehouses and logistics support.

In fact, more than 50,000 sq. feet of food storage space in Dubai alone is owned and maintained by food manufacturers. A large proportion of the AED 300 billion investment by the sector has been used to build the infrastructure and personnel to ensure food products are delivered on time, hygienically and efficiently to retailers & consumers.

There is clearly a great level of investment and responsibility attributed to the food industry in UAE, and its efficient functioning will be crucial to helping the country and its population address the evolving needs of food security.



Key pillars of UAE National Food Security Strategy

Risk scenarios that affect food security today:

- Global rise in food prices that affect profitability of food companies.
- Logistics availability and high related costs due to high dependence on food imports.
- UAE losing its position as the Food Manufacturing and Trading hub due to lack of industry friendly policies
- Maintaining Resilience of UAE based food companies and enabling their preparedness to address a national food security crisis

Deterrents affecting UAE food companies

- The Food companies are not allowed to pass on rising input costs due to price control measures put in place intervening with the free market dynamics
- The unregulated and monopolistic behaviour of retailers who take advantage of the rising prices. Retailers take approximately 45% of the retail cost and keep increasing their share of margin due the concentration of purchase
- Lack of Access to the market for UAE based companies due the unavailability of shelf space dedicated to locally manufactured products
- The high cost of operations contributing to the input costs - local costs such as very high price of fuel, internal fees and inter emirates charges
- Lack of protection from dumping of substandard goods in the market making UAE products less competitive

The above factors have resulted in the closure of many food companies in the UAE and the scaling down of operations of major food manufacturers exposing UAE to food security risk at a time when the country's import channels are limited or closed which leads to a high dependence on local production.

Present scenario of a typical UAE food Company

Food security during the Ukraine crisis

Since February 25th, the day after Russia launched its full-scale invasion, wheat futures have risen by as much as 40% and corn futures by as much as 16%.

This price rise is coming at a time when, according to the United Nations World Food Program, global food prices were already at a 10-year high.

The impact of the military conflict in Ukraine is wreaking havoc on global food supplies. Ukraine and Russia together account for most of the wheat product sourcing for UAE and a good volume of Sunflower oil comes from Ukraine.

Ukraine produces 16% of the world's corn, and Ukraine and Russia combined produce 29% of the wheat sold on world markets.

Much of what they export goes to Africa, the Middle East and South Asia, and with virtually no cargo moving out of either country's Black Sea ports, prices for the staple foods are spiking. It is still unknown whether an enduring war in Ukraine will damage this year's harvest or prevent the sowing of crops for the next growing season.

Because the war is already disrupting global fuel supplies — a problem that will worsen dramatically if sanctions on Russia are expanded to cover its energy exports — higher transportation costs are contributing to the rise in prices. The following table shows indicative prices of some input raw materials that have changed in a short period of time and are poised to increase at a very alarming rate.

SL.NO	ITEM NAME	PRICE ON		VARIATION
		23 FEB 2022	03 MAR 2022	
1	Vegetable Oil	96.00	116.00	21%
2	Vegetable Ghee	58.00	73.00	26%
3	Chicken	\$2400/Ton	\$3000/Ton	25%
4	Aluminum	-	-	20% Increase
5	Flour (Grand Mills- 50 kg)	102.00	107.00	5%
6	Gas	185.00	230.00	24%

Prices of Packaging, Freight, and other support inputs, that have gone up due to the increase of prices in their respective sectors, have almost doubled in this uncertain period.

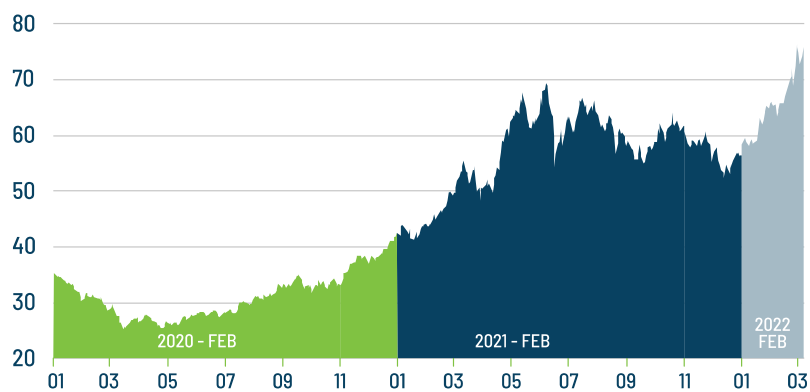
This is over and above the almost 50% increase in food ingredient prices that occurred during the past year due to Covid related issues.

This sudden spike is going to make sustenance impossible for food companies with the current price increase being unsustainable and it remains to be seen how the industry can withstand these cost pressures. Increase in the price of finished goods is not easy, since bringing all manufacturers under one price policy is very difficult, if not impossible.

While the current price increase may be the consequence of issues elsewhere around the world, there needs to be a collective effort to limit the consequences to UAE F&B industry as a whole.

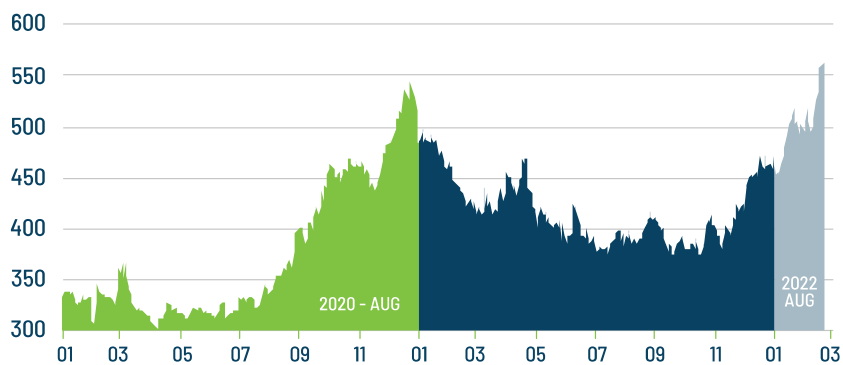
The impact of the military conflict in Ukraine is wreaking havoc on global food supplies causing a steep increase in commodity prices.

The price of Soybean oil (a closely correlated commodity) has gone up by 50% in one year.



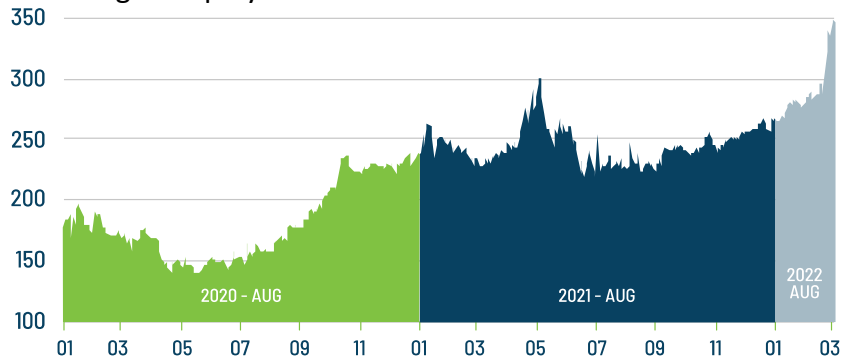
Soyabean oil nearby price, c/lb

The price of Soybean meal has also gone up by 35% in one year.



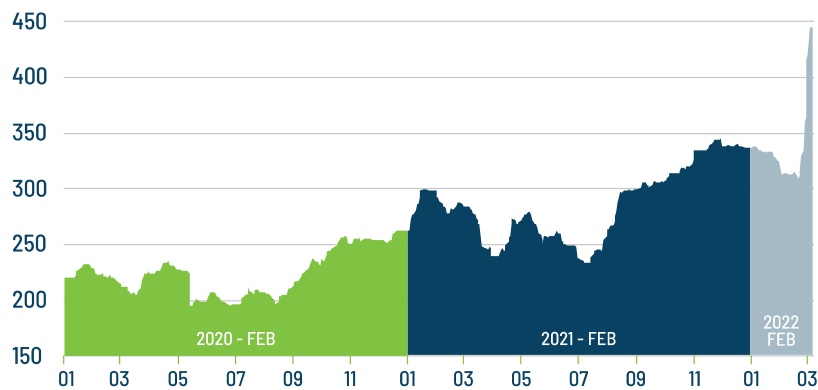
Soybean Meal FOB Upriver, \$/mt

The corn prices have gone up by 55%



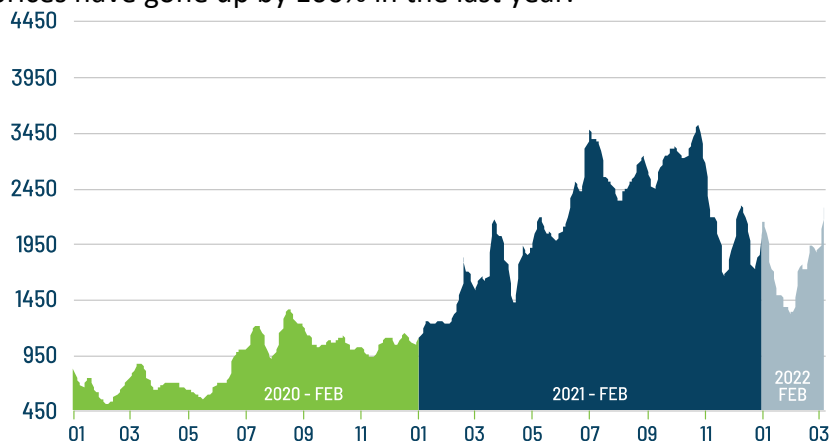
CORN FOB Upriver, \$/mt

The wheat prices have gone up by 85% in one year.



Wheat, FOB Black Sea, nearby, \$/mt

The freight prices have gone up by 100% in the last year.



Freight: Baltic Panamax index

SME manufacturing units are more vulnerable to this price increase as they operate on micro-thin margins, with many of them already running in deficit. The current price rise scenario has severely impacted their profitability and commercial viability.

UAE needs to gear up for this with the following steps to support local manufacturing:

- Ensure that UAE businesses can supply/access food inputs at affordable rates
- Ensure that we develop and secure the food industry through local production and food system management
- Ensure that there is sufficient proactive understanding of the market situation so that policy frameworks can be created to support it.

The following are the recommendation from the Food Manufacturers for Immediate Action failing which there is no remedy to the collapse of the Food sector in the UAE:

- Allow access for UAE manufacturers - 30% shelf space in each category with all the retailer channels
- Immediately allow manufacturers to pass on the increase in input cost as revised prices without delay
- Retailers to reduce barriers for UAE food companies (listing fees etc) and allow for price increases without charging suppliers fees for doing so
- Regulate the retailer for payment terms: currently it is more than 90 to 120 days. In the present situation the suppliers are funding the retail business while being restricted.
- Harmonize contracts between supplier and retailers to restrict monopolistic advantage
- Cap retailer margins at 20% (both back margin and front margin similar to Kuwait).
- Reduction in tax and utility for food companies in UAE
- Suspension of VAT in Food Products
- Restrict dumping of poor quality food products from other markets

<p>Price control should be a level playing field</p>	<p>Retailers should be subject to the same price control laws that apply to manufacturers i.e., they would need to make submissions to relevant authorities when increasing price/rebates</p>
<p>Cap on retailer costs</p>	<p>Retailer cost must be capped and not arbitrarily increased to justify only their business objectives without consideration of the ecosystem Irrespective of cost heads, the overall cost to supplier should not exceed a pre-defined limit in total. E.g. capping rebates at 20 % elimination of store opening fees, no shelf rentals Costs cannot be increased on an annual basis and must be strictly regulated by government and competent authorities</p>
<p>Mandate promotion on "Made in UAE Products"</p>	<p>Offer free listings (5-10 per category) to UAE manufactured products to encourage local innovation Allocate reasonable shelf space for UAE manufactured products</p>

Streamline price change mechanism	Process of increasing prices needs to be simplified and streamlined in order to allow justifiable increases for manufacturers' prices
Regulatory level playing field	All private labels and imported products must adhere to the same nutritional ,food safety, quality and labelling requirements that UAE ,manufactures have to comply by Heavy fines and penalties to be imposed in case rules are flouted
Private label caps	A cap on the sale of private labels, per category x store x overall needs to be established
Establish 3rd party price/availability monitoring	In order to objectively question and represent the price control situation in UAE ,a possible solution is for the committee to assign a third-party agency to transparently monitor the prices and availability of products across stores in UAE. This could potentially become a counter- measure to keep retailers' frequent price changes in check

	Actions	Responsibility
Replace Price Control with end user price monitoring	Removing the need for price approval and avoiding the ministry as a check will relieve the industry from pressure and develop a free floating price system that is needed for a free economy	
	Price Monitoring will be based on checking what is essential and where there is abuse of pricing, that can be investigated and action can be taken	
	Guideline can be issued to ask consumers to raise complaints via consumer protection application of each emirate	
	If it is found to be unfair the product can be fined or banned	
Allow market access for in country value added products	Jointly market to Food Surplus countries to accelerate the growth of UAE as a manufacturing Hub.	
	Retailers should show partnerships with in-country value added products	
Ask retailer to pass on back margins above 20% to the end customer thereby reducing prices	Capping of retailer margin at a reasonable level and allowing manufacturers to make a complaint if there is abuse of retailer power will help create a balance	
	Support small retailers and direct to customer channels to reduce the power of major retailers	
Support via Make it in the Emirates	Launch a campaign to promote Make it in the Emirates Food Products. Increase shelf space for Made in UAE Products	

product Promotion campaign	Create a coalition to make a single window for setting up industry, in collaboration with Ports and Free Zones	
	Ensure that the quality and high standards of compliance of UAE products is marketed effectively	
	Private label should use local manufacturers if they have to be recognized as made in UAE products	

Best Practises

KSA	KSA has no price control
	Local industries are protected with SFDA Rules and duties on Imports
Oman	Application to Ministry of Trade for 5-10% Price Increase
	Retailers are prevented from charging more than 20% in back margin charges
	Has ban on imports from UAE & Saudi Arabia
Qatar	Price Control in Qatar is similar to UAE however traders change the bar code and re-list at higher prices
	Retailer rebate costs are restricted to only 5% for local manufacturers
EU	Under EU Competition Law, buyer power is not objectionable, however abuse of buyer power is unlawful.
UK	UK Competition commission has listed around 26 practices which mostly involve the transfer of retrospective costs and excessive risks to suppliers which impacts the suppliers ability to plan, invest and innovate
	The Competition Commission has stated that deep discounting has an adverse impact on consumers
Spain	Spanish National Competition Commission concluded that the bargaining power of retailers may have negative impact on the competition, consumers and suppliers
Australia	Australia based consumer watchdogs concluded that existing price cut campaigns by leading supermarkets are 'false sales' because these special offer prices had not changed for more than a year

UAE At risk of losing its competitive advantage as a Food Hub of the region

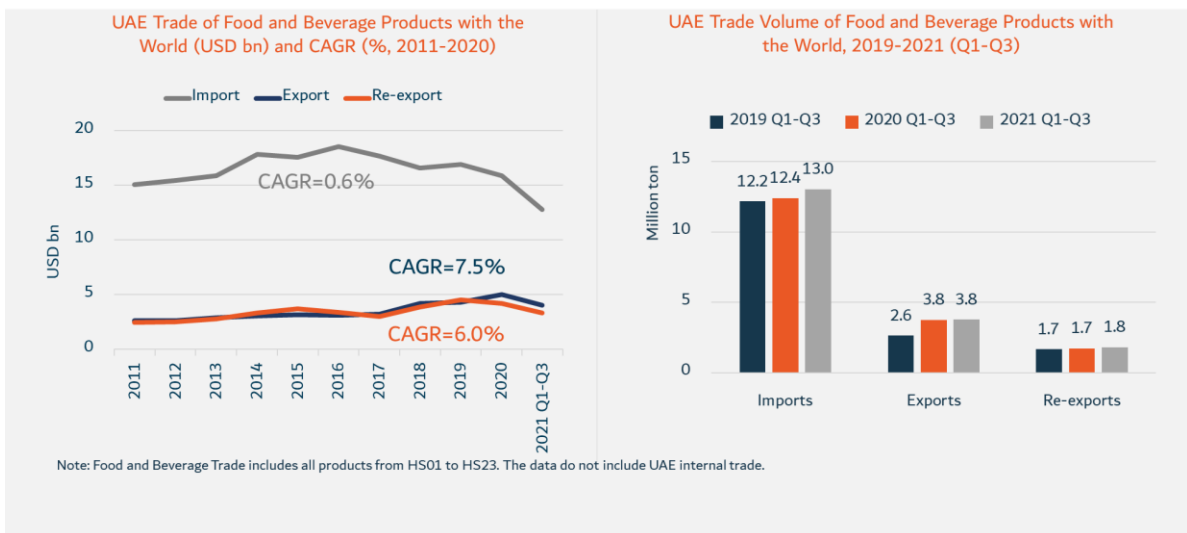
UAE has infrastructure and support system that makes it a Food Manufacturing Hub. However, this position can be maintained and leverage only if we keep the local food companies competitive and supported.

Putting Restrictions to free flowing trade and capping of prices which limits trade will result in UAE based food companies losing confidence in the country as a place for doing business, which impacts UAE's place as a manufacturing hub, thereby impacting the national food security.

UAE as a food Manufacturing and Trading Hub:

UAE Trade of Food and Beverage Products

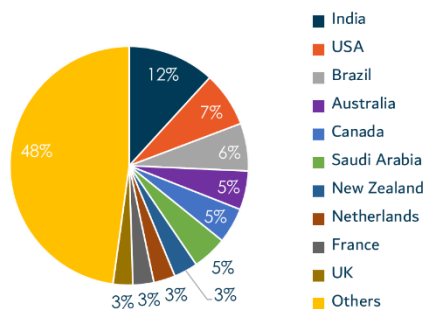
Total trade



UAE Trade of Food and Beverage Products

Trade Partners

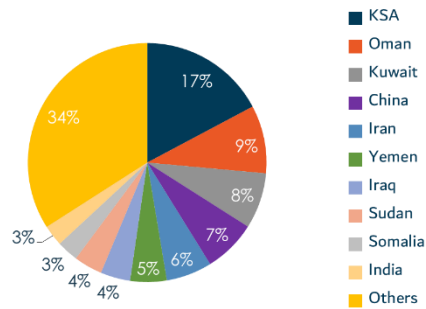
UAE's Major Partners in Imports of Food and Beverage Products from the World, % share, 2021 Q1-Q3



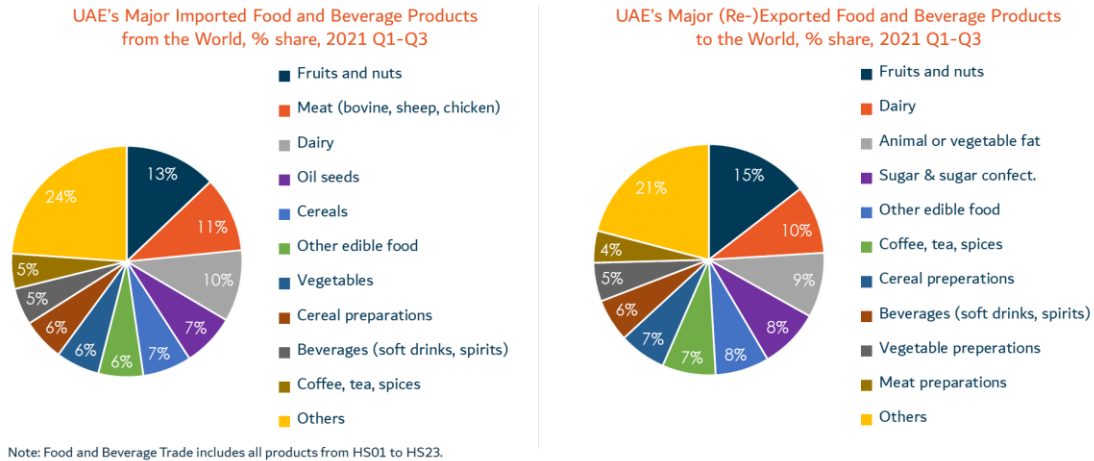
Note: Food and Beverage Trade includes all products from HS01 to HS23.

Source: FCSEA

UAE's Major Partners in Total Exports of Food and Beverage Products to the World, % share, 2021 Q1-Q3



UAE Trade of Food and Beverage Products Major Traded Products



Food security has long preoccupied the Gulf countries, population growth and climate change have exacerbated their concerns. The global population is expected to surge to almost 10 billion by 2050, propelling food demand to increase by more than 50 percent over the next 40 years, according to the World Resources.

Unless food production significantly picks up, the gap between food produced in 2010 and food required by 2050 is expected to equal approximately 7,400 trillion calories. Dwindling natural resources and an increasingly urgent climate crisis have only added to the problem.

Food and beverage trade in the UAE increased steadily to reach over \$20 billion in the first nine months of 2021, supported by growing demand and expanded efforts to enhance food security and diversify food imports.

UAE is a very strong player and it should strengthen its advantage

- Strong infrastructure and support
- Easy of doing business
- Encourage Investment in Food Sector

UAE should not lose its advantage by:

- Reducing the ease of doing business
- Restrictions of export
- Over regulation and restriction
- Encourage Investment in Food Sector

Food Companies of Strategic Importance to Food Security of UAE.

UAE F&B Group is committed to maintain a strong communications channel between the industry and the government to ensure that there is synergy in action between the government and private sector. The close working of the Food sector and industry body

need to be structured in a way that enables communication and exchange of data to be done effectively.

Classification of Food Companies

To cater to the increasing population that maintains the UAE's tourism based economy, supporting the food manufacturing sector by creating a strong ecosystem of various players is necessary. Each of these companies need specific attention and sector specific support to maintain their resilience to dynamic risk factors.

The F&B Manufacturers group has maintained sub – groups for engaging the ecosystem:

- **Locally Manufactured:** Who have manufacturing facility in UAE and creates value added products and supply within the UAE and export from UAE
- **Imported products Commodities:** Commodities imported like wheat, pulses, rice, flour, oil and other key food import items that is needed for food manufacturing sector locally
- **Imported products food sector inputs:** supporting items like packaging , additives and other components of the food value chain
- **Locally Produced / Grown products:** Poultry farms, Dairy
- **Short Shelf-life products:** Vegetables and fresh produce that is imported from near by countries
- **Imported products Packaged:** packaged products that are imported.
- **HORECA Sector:** inputs into the hospitality and restaurant sector that is key to keep up the tourist economy that is a key value added part of the country
- **Food Investment Companies:** companies like Silal that works as investment in to food sector to enable food produce locally and strategic investment to ensure food security in to the area.

Additionally, there needs to be support for initiatives that can improve the competitiveness of food companies in the Medium and Long Term to ensure the sector continues to maintain its position

REDUCE COST OF OPERATIONS

Defer VAT implementation prevent expected upheaval to trade owing to VAT in terms of regulatory requirements as well as costs. VAT can be implemented post-COVID 19 crisis (Federal Level)

Defer Excise Tax

Considering the present cash flow constraints in the market, the government may support the industry by extending payment of Excise Tax by 30 days (present scenario is effectively advance tax payment) (Federal Level)

Review late payments/ penalties for VAT and Excise Tax

The additional review will help identify fraudulent business people who may be fined as per law. As stated, cash flow constraints are to be taken into consideration prior to levying penalties (Federal Level)

Remove or reduce Customs Duty - on essential items, such as milk powder and culinary products (Federal Level)

Ease Price Control Manufacturers in the food industry are willing to maintain prices during these extraordinary circumstances, despite the expectation of a significant increase in costs (such as holding stock, mitigation plans for global supply chain issues, etc.). A reasonable price increase to be considered post-crisis in order for the industry to overcome a proportion of the higher costs suffered during the crisis (Federal Level)

Some essential expenses may be considered for reduction or removal

- for example

- (i) electricity bill discount for food manufacturers,
- (ii) no fluctuation in petrol & diesel prices,
- (iii) reduction of port handling fees for food products,
- (iv) release labour bank guarantees (will help improve cash flow),
- (v) revise trade license fees downwards or at previous year levels".

Ensure retailer regulations are in place

Presently, retailer fees of shelf rental, listing fee, promotions, rebates, etc. constitute approximately 25% of the cost of the product. This is not sustainable in such difficult times

Reduce promotions and promotion costs

Reduce promotional prices & offers altogether to prevent consumer hoarding of essential food items. The burden of promotion costs is not to be borne by manufacturers or suppliers for already reduced/ subsidised prices of food products (during the COVID 19 crisis period).

ENABLING EASE OF DOING BUSINESS

Delay any regulatory changes

- (i) for compliance with new standards by ESMA or other government entities,
- (ii) for new regulation on packaging".

Help create a uniform trade zone across GCC - to benefit from shared resources, expanded markets and simplification of production (i.e., no need to prepare differently for different markets)

Reduce trade barriers at the border

Especially for food items being imported or exported to neighbouring GCC countries

Help create a uniform business environment across all emirates

Different rules across emirates increase the cost of compliance and also consume precious time. Tolls and fees can be unified to ensure smoother functioning of businesses

Reduce/ remove barriers at internal borders

- e.g., tolls and fines are imposed by individual emirates for goods passing through. These can be considered for removal during these special circumstances

Promote local products and supply chain

Global supply chains are less reliable now, so it is important to promote local production and sales. Retailers to be encouraged to have more shelves encouraged to sell local products (dedicated shelves, ideally), and retailers to be discouraged to push imported food products at the cost of local products.

PROVIDING FINANCIAL SUPPORT / SUBSIDIES

Globally, there are various cases of "rescue packages", considerations and incentives that governments are affording local industry, especially food & beverage

UAE government can support the local manufacturers by:

- (i) Waiving of loan interest
- (ii) Subsidise government & regulatory fees
- (iii) Subsidise rental costs for land and manufacturing facilities"

Support small businesses - retail & manufacturing

It is important to prevent small establishments from going out of business by supporting them with financial packages. They are vital cogs in the overall supply chain and are major contributors to the cash flow of all food manufacturers

Banking support

The impact of the COVID 19 is that manufacturers have to ensure full capacity production to make up for import lags and UAE food-deficit while balancing with a reduced cash flow. This will only be sustainable if government support in the form of bank facilities is provided to ensure working capital.

Supporting the FOOD SECTOR

UAE Food & Beverages Manufacturers Business Group

F&B is a leading manufacturing sector in Dubai, contributing 13% of the manufacturing value-added and 17% of the manufacturing output in Dubai, and about 30% of the manufacturing investment in all of UAE. There are a large number of F&B manufacturing units in the UAE totalling around 575 units with a total investment of 39.5 Billion AED.

UAE Food & Beverages Manufacturers Business Group has worked to bring various members of the Government & Food Sector together to work out the best solutions to our problems by:

- idea exchange through conference calls among industry and government leaders.
- sharing risks, concerns and opportunities among fellow companies.
- networking with counterparts in other parts of the world to gain insights.
- engaging market intelligence to ensure decisions are data-driven and sound.