UAE Food & Beverage Manufacturers

A business group of Dubai Chamber of Commerce and Industry

FOOD INDUSTRY

CHALLENGES & OPPORTUNITIES

2018

Report submitted to

DUBAI ECONOMIC DEPARTMENT

UAE Food & Beverage Manufacturers

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Executive Summary

There is huge potential for sustained growth in the UAE food industry. However, there are several issues and challenges which need immediate action to enable the sector to reach its full potential.

The Cost of doing business in UAE needs to be brought down to create a conducive environment for business growth.

There are a number of manufacturing companies facing closure due to increasing cost of manufacturing. The increased pricing by agencies like DEWA, Product registration in each emirate, Truck Registration fees and promotion registration Fees in some emirates are all adding to the excessive costs for the manufacturer.

The lack of unified policy support and the variability in regulatory policies across departments such as at ESMA, Dubai Municipality etc is creating a market with unique regulations that is not present in other global markets. There is a need for a proper regulatory process that includes input from industry and which gives sufficient time to ensure compliance with the new policy.

In addition to this, the high customs duties and restrictions imposed on UAE products by countries such as Egypt are affecting the competitiveness and closing up export markets. The Re-export market also has been impacted by VAT.

There is a mounting account of receivables and bad debts which further affects the credit rating. This has cascading effects on the economy resulting in reluctance to share information and banks not being able to support the sector adequately.

The sector is not able to cope with the current price control mechanism – with VAT, retailers misusing the mechanism for their advantage, proliferation of private labels, rebates etc. The recommended retail price needs to be introduced as the price control process.

The manufacturers are suffering at the hands of the retailers because of hiked fees and rebates (between 20% to 30% of cost for manufacturer is paid to retailers to access customers). There should be a cutoff price for the retail shelf fees because it is also adding to the price of the product.

There is no preference being given currently to the Made in UAE products. The dumping of brands from Europe, private labels and promotion practices are killing domestic brands. E.g. Turkish Brands

The entry of poor quality products into the market should be prevented by harmonizing the standards and sufficient protection should be provided while ensuring adequate regulatory control to provide a level playing ground to the products produced in UAE.

VAT inspection has to be more efficient to cope with the current business practices. There should be active intervention and consultative process for this.

There is a need for a reassuring business environment to prevent people exiting the market with unpaid debts. This can be achieved by reopening the export market through easy VAT reversal process or zero VAT process.

Local manufactures need support and promotion through direct approval. They need to be given clarity whether brands can market directly to the customers along with facilitation with more coordination among the industry stakeholders to support the ease of regulation.

Introduction

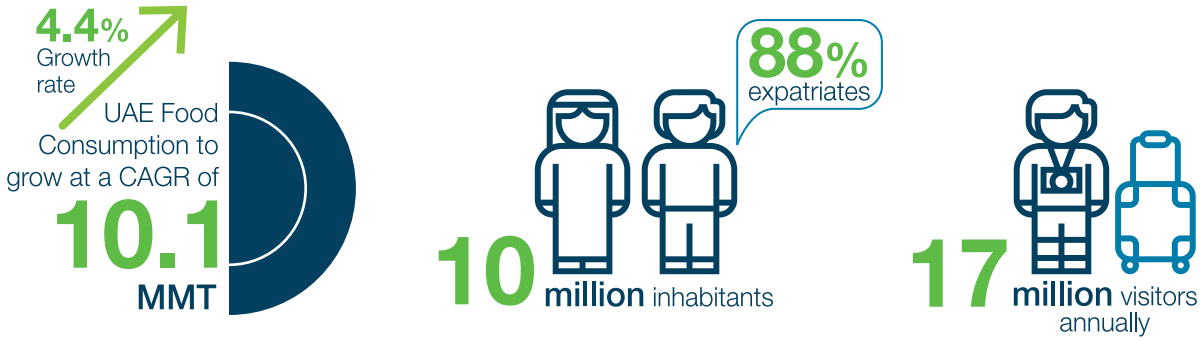
UAE is a major food consumption center in the GCC with a business environment which is one of the most favourable for doing business in the region. The food industry in the UAE is showing signs of sustainable annual growth driven by strong private consumption and limited inflation.

UAE's share in total GCC food consumption is expected to remain unchanged till 2021. Food consumption in the UAE is expected to grow at a CAGR of 4.4% to 10.1 million MT. The retail sector, which has received significant investment in recent years has evolved into a well-developed hypermarket segment.

UAE has been establishing itself as the food processing and re-export hub in the GCC as seen in the increasing number of food processing units. Online Shopping is gathering steam in the UAE, which is evidenced by the growing number of online grocery and food delivery platforms.

The UAE has an active and vibrant food sector supported by a large consumer base comprising approximately 10 million inhabitants and a huge influx of international visitors numbering about 17 million annually. Over 88% of the population are expatriates, the diverse multicultural society of the UAE therefore has significant demand for different types of cuisine. The expatriate population and the stream of international visitors are driving demand in the packaged food sector.

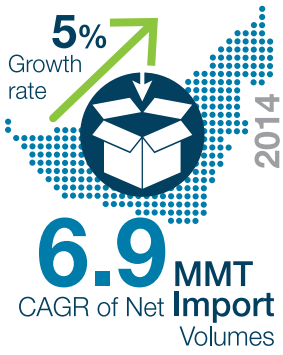
The market has the active presence of many domestic and international food service providers. However new trends are emerging, with changing consumption patterns and preferences of the customers for healthy and functional foods. The high prevalence of chronic diseases such as obesity, diabetes and hypertension is driving this shift towards organic, low-fat and gluten-free food products.



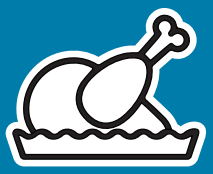
UAE has food security concerns with local production (807,000 MT of food in 2014) meeting only 10.5% of the overall food requirement (7.7 million MT). Production capacity has not changed significantly till 2014 creating a wide trade deficit in food.

Dates, Tomatoes, cucumber and melons are the major food items produced in the country. There are a number of local firms engaged in meat, milk and fish production. The food consumption in the UAE has been growing at a rate of 4.3% during 2009-14. Consumption of cereals and fruits grew by 6%. Cereals, fruits and vegetables remained the top food categories, accounting for nearly 75% of the food consumed.

Net import volume has grown at a CAGR of 5.0% to 6.9 million MT by 2014. UAE is a major re-exporter of food products to other GCC countries, East Africa, India, Pakistan and Russia. The top re-exports are Coffee, Tea, Sugar and rice. There is self-sufficiency in dates production and milk production is able to meet 36% of the dairy demand. However, the overall self sufficiency in the UAE is among the lowest in the GCC region.



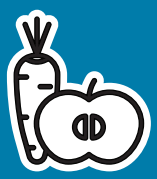
F&B Product Categories



Meat and Poultry Processing

Seafood Processing

Animal Feed Processing



Fruit and Vegetables Processing

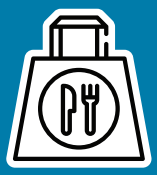
Vegetable Oils and Fats Processing

Processing of Milk

Milk-based Products Processing

Grain Mill Products Processing

Sweets, Chocolate and Confectionary Products



Ready-to-Eat Products Processing

Sugar, Coffee and Tea Processing

Spices Processing

Baby Food Products Processing

Bottled Water

Beverages
(except bottled water & dairy products)

UAE Food Industry Overview

The food sector in the UAE is on the growth trajectory owing to the large consumer base comprising of the domestic population and international visitors. There is an active presence of several domestic and international food service providers who have setup their presence in the market.

The National Industries are those companies which are setup through local investment in Dubai. They have not shown significant growth over the past 10 years, also there has been a slowing down of the pace of formation of new establishments in recent years. Some of the established players in the Industry are **Al Islami, Oasis, Emirates Macaroni, Dubai Refreshments, National Food Industries, UNIKAI, Patchi** etc.

The MNCs have been the major source of growth in the Dubai F&B industry. These companies which are setup in the Free Zones mainly cater to the export and re-export market in GCC, Africa and Europe. Some of the large MNCs are **Nestle, Mars, Lipton, Del Monte** etc.

Oils & Fats
7.6% (YOY)

Dairy
6.4% (YOY)

Fish
6.2% (YOY)

High growth sectors in terms of Sales Volume

Make up more than half of the total sales.

AED 121,184 Million
Total Food Sales
2016

	Food	Non-food
2016	76.90%	23.10%
2017	77.00%	23.00%

The Food industry currently has a heavy reliance on imports while on the other hand there is high level of food wastage and food related lifestyle issues. The consumption of premium products has been affected by the change in population mix. The removal of subisdies on commodities has contributed to increasing commodity costs, which is also having an impact on the food sector.

SWOT Analysis

Strength

- Favorable business environment.
- Expected growth in food sales of 6% over the next 5 years.
- Significant recent investment in the retail sector.
- Dynamic non-alcohol drink sector, forecast growth in mineral & spring waters.
- Inexpensive labour costs.

Weakness

- The majority of food and drink is imported.
- Exposed to spikes in food prices.
- Limited investment appeal to external investors due to relatively small population.
- High rental costs will inhibit growth of smaller retailers.
- Heavily reliant on purchasing power of foreign nationals.
- Unfavourable climate for l.ocally grown produce.

Opportunity

- Scope for premium and niche brands.
- Continued leading development of Halal food industry.
- Opportunities in healthy and organic products.

Threat

- The F&B premium sector is highly reliant on tourist and expats. Any slowdown in their respective economies will affect the spending power of consumers.
- The current political uncertainty, coupled with perceived increase in intolerance and extremism, could have a major negative effect on visitor and expat numbers.
- The increasing cost of manufacturing due to the lack of easy availability of cheap energy and water, together with high levels of waste, may reduce competitivity outside the UAE.
- Addition of VAT may have an adverse effect on tourist numbers.
- Depleting groundwater stocks.
- Health issues affecting the population including diabetes (19%) and obesity (33%).

Key Trends and Opportunities

Customer Trends

The Food & Beverages Business Group, recognises the need to be prepared for the future of the industry in UAE. This means knowing beforehand, the evolving consumer requirements and making provisos for the industry to deliver on the same and beyond.

With this motive in mind, the Food & Beverages Business Group conducted an Online survey conducted among 1,500 respondents that represent the diverse consumer space of UAE. Ensuring representation of different nationalities, Emirates, age groups and gender. It is a survey designed to understand consumers' food consumption habits vis-a-vis diverse topics like dietary requirements, healthy foods, impact of size and promos on purchase habits, wastage consciousness & management and the impact of price on their consumption habits (taking into account the implementation of VAT in UAE). The survey was conducted by leading market research agency, the Nielsen Company. The key findings of the survey are presented here:

Changing buying behaviour

Quality and **Pricing** are the most important deciding factors when purchasing F&B products.

Locally Produced & **Healthy products** are the next most important criteria.

Promotional buying

1/3

Customers admit to buying products on promotion even if they do not need them

Changing Consumer attitude

Consumers are conscious of the labels on the products they buy

7%

don't read the labels

There is high awareness of VAT among the consumers

92%

respondents were aware of the upcoming VAT

Environment concern

94%

population are willing to participate in environmentally friendly waste management practises

Emerging signs of a health conscious population

There is increasing usage and awareness of **'healthier foods'**.

79% respondents consider themselves health conscious

There is high percentage of food wastage

though majority believe that the amount of food wasted is not much

70% throw away excess food owing to wastage

Key Trends and Opportunities

Industrial Trends
An Overview

- **Rise of Health Consiousness**
  - Consumers are becoming increasingly health conscious with an emerging preference for locally produced and healthy organic products. There is an Increased preference for need specific functional foods – lactose free, gluten free etc alongside an upward demand for halal foods
- **Rising Sale of Packaged goods**
  - Sale of packaged foods continues to rise amongst busy working class population. Grocery retailers are introducing more packaged products
- **Increasing number of food processing Units**
  - The number of food processing units are increasing with rising import and re-export potential. This is primarily driven by the Dairy sector with a very high annual per capita consumption of 80-85 kg. Al Ain Dairy is the leader with its own retail banner, they have high distributional synergy
- **Digital Technologies are reshaping the food value chain**
  - From influencing consumer tastes to changing the way food products are manufactured, sold and served, digital technologies are completely changing the food value chain. Smartphones, internet and social media are defining consumer habits and tastes. Digital technologies are also transforming the business models of manufacturers, retailers and service providers.
- **Online shopping is picking up**
  - There is an increasing proliferation of online grocery and food delivery platforms
- **Growing global demand for halal food**
  - Value of Global Halal food Industry – 1.1 Trillion USD in 2013, more than 16% of the global food market. While consumers prefer unpackaged foods, health & hygiene concerns are driving change in consumption habit towards packaged meat
- **Multicultural consumer base**
  - Presence of people from various nationalities has created a large market for international foods

Opportunities
in F&B Sector

Growth opportunity for packaged food owing to youthful population

Upcoming global events in GCC – Expo 2020 and FIFA 2022

Government measures for food security

Hypermarkets and supermarkets gaining popularity

Consumers becoming more tech savy

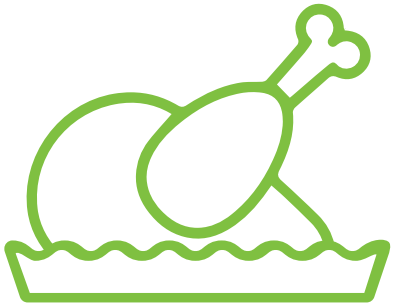
Significant transformation in distribution channels – adoption of online food ordering platforms

Sectoral Trends & Opportunities

Meat & Poultry Processing

Challenges

- Lack of unified regulatory standards within the sector is increasing the cost of operations for the F&B companies across the Emirates.
- There is heavy pressure on manufactures from the retailers in the form of rebates shelfing cost, listing cost and promotions. The manufactures are being squeezed from the retailers and there is lack of protection.
- Due to the increased cost and the prevailing practices the manufacturers are under heavy pressure which is hurting the profitability and the sustainability of the sector in a long run.
- Manufacturers can't export their products to some countries like Morocco, Sudan, and Egypt.
- The real time information on the market trends is getting expensive from the research agencies, so the F&B group has initiated of an open food data platform that will source information from all stakeholders in real time and help the companies in their strategy formation and the regulators in policy making.



Opportunities

- Premium products gaining market, like enriched eggs, egg white powder, egg white only, value added innovative meat products (with different flavourings and batter) for export market.
- Meat processors can also explore the pet food category.

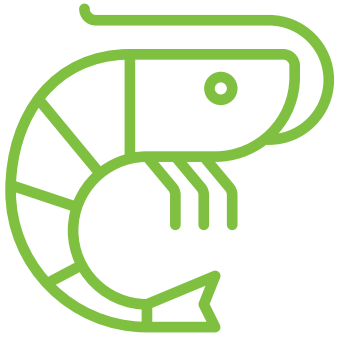
Sectoral Trends & Opportunities

Seafood Processing

Challenges

There are a number of challenges facing the seafood processing sector in UAE. Sourcing sufficient quality of fish in the global scenario of depleting fish reserves and disposal of waste generated are key issues.

The challenges shaping commercial fishing such as regulation, legislations, changes in fish availability due to overfishing and migratory patterns, and vessel fuel patterns are also impacting the sector.



Opportunities

- Fish Farming (High Investment) : No major aquaculture industry in the country (only one aquaculture farm on commercial scale in UAE producing approx. 1400 tons of local and exotic fish).
- Typical Capital Requirement for a large firm involved in chilling, freezing as well as manufacturing value added products is 700-750 mn AED. Capital intensive business, requiring investment in terms of machinery and storage.

Sectoral Trends & Opportunities

Grain Mills Products Processing

Challenges

There is capital requirement in the sector mainly for the machinery – the pasta extrusion machines and the related bakery equipment. The volatile ingredigent prices are also a cause of concern. In addition to this the cost competition from neighbouring countries like KSA (which give subsidies) and Saudi (advanced machinery) is high.

There is a high risk associated with wastage in the sector due to the product's low shelf life.

Opportunities

- Commercial Bakery for pastries, muffins, cakes, Premium biscuits.
- Joint Ventures with international players for knowledge and technology transfer.
- Emerging trend towards organic and functional foods – for example pasta with less carbohydrates and more fibre.
- Scope for extended shelf life techniques

Sugar, Tea and Coffee Processing

Challenges

Sugar manufacturing is confined to refining sugar from raw sugar, for both domestic and export markets. There is significant demand for sugar from various sectors of the manufactured foods industry and from the restaurant and bakery segment. This sector requires large investments typically above AED 350 mn.

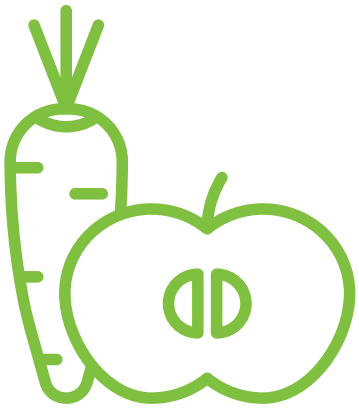
Coffee imports amount to approximately 90 mn AED annually. Coffee demand is met by large international players. The tea bag market is dominated by Unilever's Lipton Tea in UAE.

Sectoral Trends & Opportunities

Fruit & Vegetable Processing

Challenges

Dubai faces competition from foreign players. The availability of quality chipping potatoes in countries like Saudi has allowed the companies there to manufacture at a much lower cost compared to the companies in Dubai. Lays (produced by Saudi Snack Foods Co.) is giving stiff competition to the local brands such as Pofaki, Mr. Krisps etc.



Opportunities

- Potential to look at value added date products, tomato pastes and jams and marmalades to the HRI segment.
- Indigenous products like Dates are readily available. Date festivals are held in the western region of the Emirate. Although Dubai itself doesn't produce significant quantity of Dates, the remainder of UAE is known for its quality produce.
- Potential of creating "Dubai Based Brands" based on indigenous products like Dates.
- Consumer preferences are shifting towards healthier products and also snacks with healthier ingredigents like low sodium.
- Increasing demand for convenience foods
- Green packaging, demand for gourmet items and portion controlled foods.

Sectoral Trends & Opportunities

Processing of Milk & Milk based products

Challenges

This segment is highly capital intensive with requirement of large equipment required for processes like pasteurisation and homogenization. In addition to this there is need for cold storage facilities which adds further to the costs.

Rising Health awareness is leading to a shift towards healthy products. There is a global move towards higher margin products like Gourmet Italian cheese or new products like Low fat products, super premium frozen desserts.

Regional trend is moving towards value added products such as pro biotic and other functional yoghurts, reduced fat and enriched milk products and fermented dairy drinks and organic cheese.

Opportunities

- There are opportunities for setting up UHT plant, milk spray business etc in the this sector
- Opportunities requiring low investment exist in pro biotic, laban (health drinks, milk processing- Goat and Camel Milk, Cheese Plant (Natural Cheese) and yoghurt plant (Fruit and Pro Biotic Yoghurt)

Sectoral Trends & Opportunities

Sweets, Chocolates and Confectionary Products

Challenges

The confectionary sector is dominated by imported products controlled by multinationals like Nestle, Kent, Cadbury's, Kraft foods etc. They do not operate manufacturing operations in the UAE and most of the products are imported.

Chocolate is almost entirely imported into Dubai. The sector is very capital intensive with machinery and raw materials being imported.

The sector is expected to be impacted by the changing health concerns of the consumers. The transportation and storage infrastructure which has to be temperature controlled and constantly monitored to prevent spoilage in extreme weather conditions is adding on to the overall operating costs.

Opportunities

- Premium products and luxury chocolates
- Selling chocolates through boutique retail outlets and reducing their cost of distribution through traditional retail channels
- Joint venture opportunities with international brands to setup manufacturing
- Development of sugar free products
- High cocoa content chocolates due to medical benefits of dark chocolate
- Improvements in the taste and texture of artificial sweeteners.

Sectoral Trends & Opportunities

Spices Processing

Challenges

Demand for spices is driven by a booming expatriate population consisting mainly of Indians and Pakistanis. The infrequence nature of buying from customers as they are buying based on a recipe is a challenge. The threat of adulteration makes it necessary to have high standards of quality control. Additionally, the bad crop in the spice producing countries can adversely impact the sector.

Opportunities

- Opportunity for manufacturing Arabic spices with focus on exports to Arab countries and Africa- Arabic Mix: Zaatar, Sumac, Rosemary, Tahina (prod. In Jordan and Lebanon) and Premix business – Chicken Biryani etc.
- Although saturated with local and foreign players, limited opportunities exist for niche players to manufacture spices based on regional preferences and tastes (regional branding using Zaatar, Sumac, Rosemary and Tahina)
- Packaging to enhance reusability
- Combinations of ready spices, curry mixes
- Manufacturers opting for green sustainable methods to produce and sell spices – biodegradable packaging etc.

Key Challenges Facing the Sector

1 Unified Regulation: The industry is having issues because of the duplication of procedures in each Emirate. Approvals not standard to all the Emirates

- Listing of products to be done in each emirates (By law all UAE products need not be listed)
- Applications for product promotions to be submitted to each emirate separately.
- Ports & Customs of each emirates and free zones have different procedures.
- Conflicting approaches by regulators leading to delays & hindrance of products movement highly impacting the perishable products
- Vehicle movement into each emirates have different policies for each emirates hindering the free movement of products withi

2 Unified standards in labelling, Food inspection, certificate of origin from free zones not considered as UAE product

- As food scarcity is the major concern, there is a vast wastage of food because of labeling. The USFDA or the European standard should be implemented to label food items (instead of expiry date, best before should be mentioned). This will avoid a lot of wastage of food.
- Uniform labeling to be implemented for whole of UAE. The best way forward would be to have uniform labeling for the whole of GCC or regional countries as local manufacturers rely heavily on exports
- An ethical advertisement standard needs to be implemented by the manufacturers. There should be a corporate social responsibility shown by players keeping in view the factors affecting the region.

3 Supporting policies against Retailers Pressure:

The manufacturer's bottom line is hit majorly because of maximum squeezing of profits/share by the retailers. The retailers enforce the manufacturers to pay for listing, shelf space, rebates, renovations of outlets & marketing campaigns there by squeezing the manufacturers and shifting the burden on the consumers. While there is control on the retail prices, there is no monitoring and control on the rebates and other fees charged by retailers to the manufacturer. This affects the supply chain to all retailers specially the small retailers.

4 Relatively High cost of manufacturing in UAE vs other GCC.

- Land cost are very high compared to the region.
- Utility costs are high.
- Manpower costs are high - subsidized accommodation to the shop floor employees near to the manufacturing setup & subsidized visa fees for the shop floor employees.
- All the above could lead to UAE products going out of the shelf.
- Industries like Dairy segment & Poultry are closing down because of the dumping of products from regional giants from neighboring countries which are highly subsidized. In order to protect such industries the government should take proactive steps of safeguarding these sectors as large investments have gone into them over a period of time.

5 Development of National/Local talent in the F&B sector should be prioritized and also investments from the locals into the sector are currently very low and should be encouraged.

Challenges

Mapped against F&B Sector Enablers for IMPACT

Enablers /Challenges	Food excellence	Capacity Building	Improving competitiveness	Promoting Investments in the sector
Unified Regulations	High impact on Standards and Operational cost	Supports Industry growth	High to Mid impact on regional competiveness	Positive reinforcement as regional food leader
Power of Retailers	Local manufactures should be supported	Supports Industry growth	Performance of product in home market will support its growth	**HIGH Impact** Region should be known for food excellence
High manufacturing cost	**MID Impact** funds can be diverted to technology and better equipment	**HIGH Impact** Entry barrier will be reduced enabling more players to come in	**HIGH Impact** Lowering cost will support competiveness	**HIGH Impact** More players and successful players means better efficiently
Unified labelling, inspection and CIO standards	**HIGH Impact** Improve quality and standards of the products	**HIGH Impact** Sector will mature and grow faster	**HIGH Impact** t resources will be better channeled in to value adding activities	**MID Impact** Will promote ease of operations thereby improving attractiveness
National Human Capital Development	**MID Impact** more and more national should take leadership role in F&B	**HIGH Impact** long term this needs to be retain local competencies and knowledge	**MID Impact** Investments in HR Short term it will be most expensive by long term return will be there	**MID Impact** complimentary strategies should be implemented

Challenges

Mapped against the Role of the Key Stakeholder

Stakeholder / Challenges	Ministries (Ministry of Economy, Ministry of Climate Change & Environment)	Regulators (Economic Departments, ESMA, Municipalities, Ports & Customs)	Distributors / Retailers
Unified Regulations	Policy leadership and Directive	Policy Formulation and Implementation	Implementer and supporter
Power of Retailers	Policy focus and Directive	Policy Formulation and Implementation	Implementer
High manufacturing cost	Incentive, Initiatives, Policy leadership	Implementing of initiatives and Get feedback from sector	Preference and support to Local products
Unified labelling, inspection and CIO standards	Policy focus and Directive	Policy Formulation and Implementation	Implementer
National Human Capital Development	Policy focus and Directive	Policy Formulation and Implementation	Complimentary initiatives and support

Conclusion

Today, F&B manufacturers in UAE are faced with a multitude of challenges that can only be overcome by the support of the UAE government via Policy Change in order to enable a healthier manufacturing industry and robust economy.

While consumption levels are increasing, the current manufacturing output is not able to keep pace with this growth and this results in a high dependence on imports.

Manufacturers are suffering at the hands of the retailers in the form of listing fee, shelf space, Rebates and marketing costs. This has created a situation where modern retailers are squeezing the manufacturer margins to inflate prices and giving aggressive promotions.

There is an urgent need for effective price control in the market along with unified quality standards in the form of a Recommended Retail Price mechanism, controlling the retailer margins and ensuring price control to prevent promotion abuse.

Private Labelling growth is outstripping the market resulting in sub standard products being sold, with undue advantage owing to lower expenditure. This is significantly limiting the growth potential of manufacturers. The regulatory policy should ensure that there is a level playing field by giving due share to the quality of production. Unified standards for quality control measures such as labelling and food inspection can ensure this.

Export competitiveness and market access for manufacturers is being impacted by global demand supply vagaries, changing economic and political situation in the export markets, Changing rules and regulations and implementation of VAT in the UAE. Protective measures to prevent dumping of low cost goods from neighbouring countries also needs to be adopted.

The need of the hour is for free trade agreements with UAE's traditional markets, collaborations between the government and manufacturers to strategise the route to the market and an overall enabling unified government policy support to boost market access and export competitiveness.

The variability in regulatory standards and processes across Emirates and Freezones is driving up the cost of manufacturing. Unified regulations are urgently required across each Emirate and Freezone for Business Registration, promotion registration fees, ports & customs processes, truck registration fees etc.

There should be a supporting policy environment which will help manufacturers reduce their cost of doing business. This can be achieved through initiatives like fuel subsidies for made in UAE Products, reducing costs of land and utilities, subsidized accommodation and visa fees for shop floor employees.

Implementation of these measures through a multi-stakeholder consultative approach and by allowing F&B manufacturers sufficient time and support to respond to these policy changes will ensure compliance. This will help create a robust economy and increase the food security of the UAE.