

UAE FOOD and BEVERAGES SECTOR

Export Challenges

Partner Kingdom of Saudi Arabia

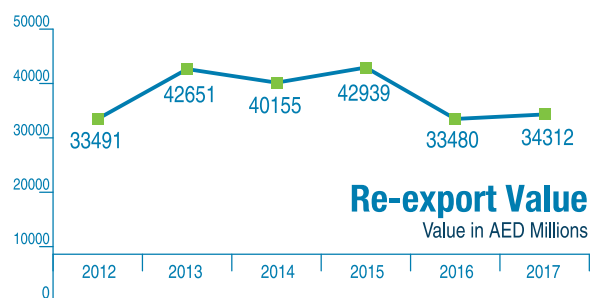
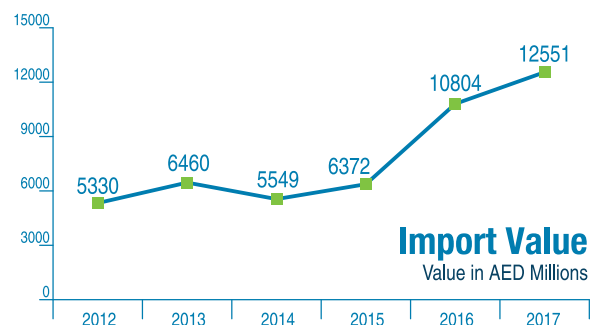
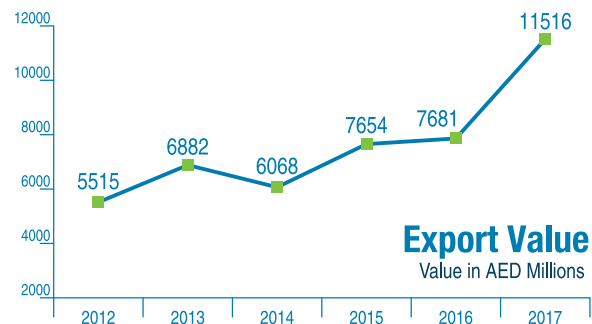
The Kingdom of Saudi Arabia is a strategic partner of the UAE with trade relations that have been buoyant and steadily growing over the years. Total exports reached 11,516 Million AED in 2017 and total imports valued at 12,551 Million AED.

Total Exports

11,516
Million AED

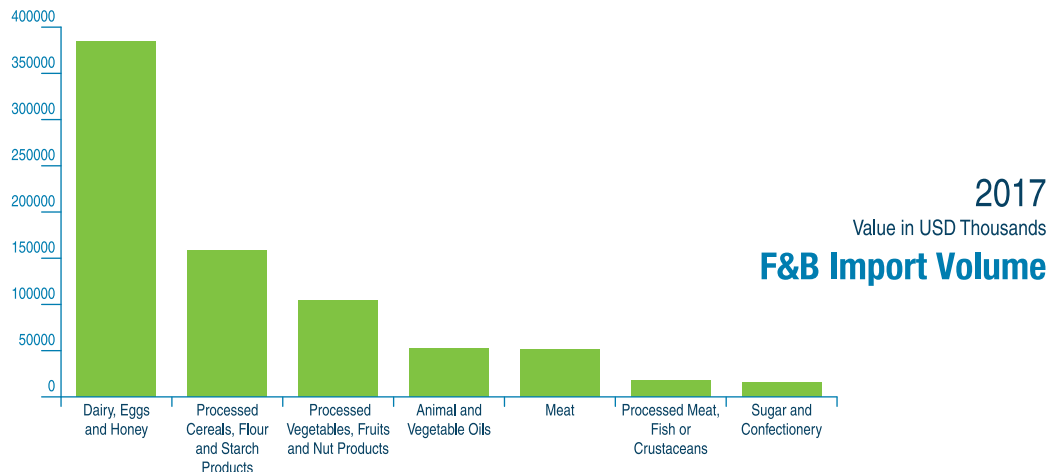
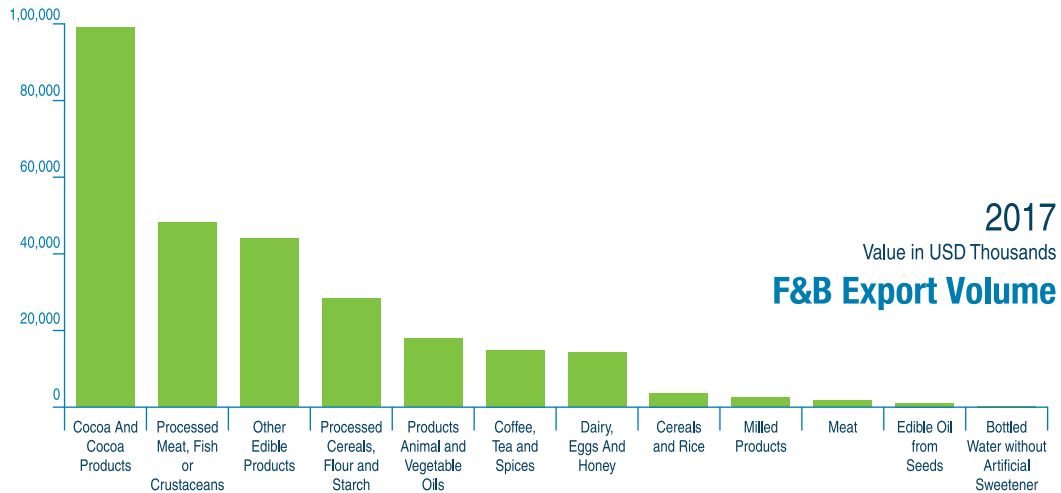
Total Imports

12,551
Million AED



The Kingdom of Saudi Arabia has changed its rules to accept food imports into the country. The first of these major changes is going to be implemented on April 1st. The recent changes in rules

from the Saudi Food & Drug Authority and the lack of clarity and time given to the exporting companies to prepare for the same is going to have a major impact on the UAE Food Sector.



There have been several rounds of discussions on the matter and following these enquiries they have given more clarity on the process. Discussed below is the impact on the food industry due to these changes.

Transportation Business – UAE

UAE to KSA Road Shipments

- Around 10,000 refrigerated trips per month from UAE into KSA
- Estimated around 3,500 trucks and trailers per month
- Asset value of AED 1.10 billion will be rendered idle as a result of SFDA's border restriction
- Estimated loss of revenue in the UAE transportation sector of AED 600 million per year.
- Multiplier effect on ancillary sectors e.g. fuel, tyres, spares and services. Impact will be in billions.
- Loss of job and accommodation for around 4,000 drivers.
- Several Emirati owned/sponsored companies will become defunct.
- Oversupply of idle assets, hence dilution of valuation

Food Exports – UAE to KSA

UAE to KSA : Food & Medical Products

- Around 10,000 refrigerated trips per month = 260,000 pallets of product exports to KSA.
- Cargo valuation will vary – estimated AED 4 billion retail value p.a.
- Cost of shipping (by Sea) will increase exponentially (avg. by at least AED 5,500 per FCL).
- Transit times will increase considerably (by 100% or more).
- Shelf life of product will be dramatically reduced.
- Short shelf life products will not be viable by Sea.
- KSA customers/importers will progressively find UAE food products inconvenient to deal with.
- UAE refrigerated food products could disappear from KSA shelves .
- Major pharma exports from Govt. owned companies such as JULPHAR will be affected dramatically. Staggering revenue loss and regional market share erosion is sure to happen.
- **CONSERVATIVE ESTIMATE OF LOSS IN UAE EXPORT REVENUE: AED 2 billion p.a.**

Transportation Business – UAE

Shipping to KSA

- Commercial trading via sea route will increase transit time considerably.
- Sufficient sea container capacity is not readily available at UAE ports.
- Cost will be considerably higher and will rise exponentially.
- Currently shipping results in cost increase of AED 5-8,000 per shipment.
- Represents additional AED 80million cost per month to UAE exporters.
- KSA importers/customers will expect UAE business to absorb cost increase.
- Surge in sea container demand will spur further increase in costs/rates; UAE exports will become even more uncompetitive
- UAE road transport will collapse with over supply of trucks/trailers and no demand.
- Rates will not be sustainable within residual transportation market.
- Remaining asset value will diminish due to over supply.

Recommendation

- Unrestricted two way traffic at Al Batha road border is essential for UAE-KSA trade in refrigerated food and medical products.
- Also crucial for UAE exports to Kuwait, Bahrain and Jordan
- Work with SFDA to lift proposed restriction:
 - Al Batha is only road border with this restriction. Even ports with relatively minor traffic volume (Al Fahd Causeway/Al Durra) are not affected.
 - SFDA has required capability at Al Batha to review refrigerated cargo traffic from UAE.
- Improved collaboration with SFDA.

List of Companies Affected by Transportation Issue

Poultry Companies

IFFCO
Global Food Industries
Tanmiah Foods
Agthia
Saahtain Foods FZ LLC
BRF
Pinar Arabia (HDF)
Almasa - Diamond Meat Processing
Universal Islamic Meat
Khazan Meat Factory
Al Rawdah
Yes Meat
Al Kabeer
Farm Fresh
The pavilion Food Processing
JM Foods LLC
Al Jazira Poultry

Freshly Foods

Amana Foods

Royal Meat Industry

Dairy Companies

Friesland Campina

Example of an Impact



Potential sales loss for UAE products due to factories delisting & clearance delay (direct & future impact for the next 3 months)	USD 15000000
Cost implication on logistics alternative solutions.	<i>Sea Freight:</i> USD 400000 per year <i>Bonded & Re-Export Zone:</i> USD 200000 per year
Testing cost for UAE products	USD 36000 YTD Attached the lab testing invoice

Challenges and barriers in local companies to comply with SFDA requirements

No.	Process/ Requirements form	Sector	Comments
1	Export System	Operations	<ul style="list-style-type: none"> ■ Export system is slow and does not support huge data inputs. ■ The number of boxes on the export manifest during printing are (4) rows, which increases the number of pages per shipments. ■ The system does not support the integration of products into a one export certificate, which means more than one export certificate in each company. ■ Some countries require specified procedures that are not provided by SFDA, which in turn disrupts export process. ■ High fees for the renewal and issuing new export certificate are challenge for the exporting companies.
2	Registration System	Operations	<ul style="list-style-type: none"> ■ Not clear ratification that required to be signed during the products registration process. ■ The probability of product rejection at the port of entry even if the product is registered in the SFDA system " I also declare that approval of food item request does not mean that this item conforms technical regulations and standards". ■ Unclear and general responses in registration system and different notes are added to the first reply, which will make the registration process longer and delay, which will cause dealing of products in local markets. Additionally, it delays the export process and costs companies unjustified losses.
3	Projects	Operations	<ul style="list-style-type: none"> ■ SFDA has issued some projects that might be a major obstacle for the Saudi market growth, such as: <ul style="list-style-type: none"> • Project of the developing controlling warehouses and transport vehicles for pharmaceuticals, medical devices and food companies. This will be an additional cost for companies by requiring them to provide temperature and humidity data trackers inside the warehouses and transport vehicles and that's data trackers must be linked to the SFDA system which will lead to supply chain costs increment. • Guideline for food and feed Advertisement, where : <ul style="list-style-type: none"> ▶ Companies are required to take the SFDA approval (fees) and this will be an additional cost for advertisement of local and imported food products. These actions include promotional advertisement. ▶ This action is difficult to be applied by the companies to promote their products (since having the SFDA's approval of the advertisements that doesn't mean it's complying to the regulation of the SFDA. In the same time there are fees to get the approval). ▶ Leads to transfer the media departments to outside KSA and marketing the products from abroad and avoid the strict roles and high fees that mentioned in the guideline. ▶ Guideline is approved without conducting any workshops or training for the private sector to know the mechanism of the system (as what is done in the food registration system and in the export certification system, where the private sector was trained on the system before implementation)
4	Inspections	Operations	<ul style="list-style-type: none"> ■ Uncertainty of samples results that been withdrawn by SFDA, which in turn lead to harsh and unfair actions to local factories such as stopping the production line, product recall from the market, fine and other penalties. ■ Some mentioned observations by the inspectors are not based on technical regulations or specifications (by personal opinions). ■ Rejection of the raw materials at the port of entry due to wrong results of the SFDA analysis, these hinder the process of manufacturing and raising the cost of production. ■ There are no notification producers for the local factories in case of any ban on a particular country and shipments are rejected upon arrival at the port without prior notification on the SFDA website. ■ Some of the circulars are not published in the SFDA website. Just notified by the chambers of commerce such as the accreditation of the certification body and force the exporters in some countries to attach a conformity certificates to each shipments. ■ SFDA did a survey to reduce port of entries that receiving refrigerated and frozen products to be 8 borders (note: al-Batha port of entry has not been mentioned in the list)
5	Regulations and Standards	Food	<ul style="list-style-type: none"> ■ SFDA has issued some technical regulations and standards separated from GSO, which is an obstacle in the trade exchange between the GCC countries due to the gap of technical regulations and standards. ■ Issuing a number of technical regulations and specifications, which in turn should be an obstacle to manufacturers and not give sufficient time for implementation such as: <ul style="list-style-type: none"> • SFDA has issued the (SFDA.FD2233 / 2018) "Requirements of Nutritional Labelling". The grace period mentioned in workshops and meetings to apply the new requirements up to 3 years to be the same global practice. However, the standard has been issued and given only one year to change all labels, with the knowledge that the factories are printing huge quantity of the labels. • SFDA has issued the (SFDA.FD 2362 /2018) "Technical Requirements of Bread Production" and reduced of the maximum salt levels from 1.8% to 1% in a short period of time (3 months only) to be applied. • SFDA has issued new draft "Infants Formula, Follow on Formula and Formulas for special medical purposes" The marketing, sale and distribution of infant formula and follow on formula products ready to feed (RTF, RTD) are strictly prohibited and it is only for hospital use. • SFDA has issued the (2333SFDA. FD) "Permitted Health and Nutrition Claim Made on Food and their Conditions of Use" in a short period of time (3 months only) to be applied. • Variation in the periods given to the application, knowing that some of these specifications have a direct impact on the components of the product or nutritional information, which is reflected on the product label and this will require a huge change on the label several times, leading to increase waste in packaging materials and increase the cost to producers and not granting companies sufficient time to apply technical regulations and new standards that have nothing to do with food safety, but only additional information. ■ The companies comments and observations of the draft standards which been published in the SFDA website are not consideration, since most of the observations are technical, even there is no response from them. ■ In case of inquiring about technical regulations and specifications, the response is unclear and not related to our quires. ■ There are some technical requirements that are difficult for local manufacturers to apply because that requirement is linked to several external factors.
6	Feed	Food	<ul style="list-style-type: none"> ■ In the feed law, the use of animal farm waste or slaughterhouse has been banned, It will loss the opportunity of getting the benefit of recycling and export the waste.
7	Pricing	Drug	<ul style="list-style-type: none"> ■ SFDA has issued the "Rules of Pricing Manufactured Breast-Milk Substitutes (Child's Milk)" Local products did not take into consideration and was not referred to any rules, since the mechanism applied only to imported products.