

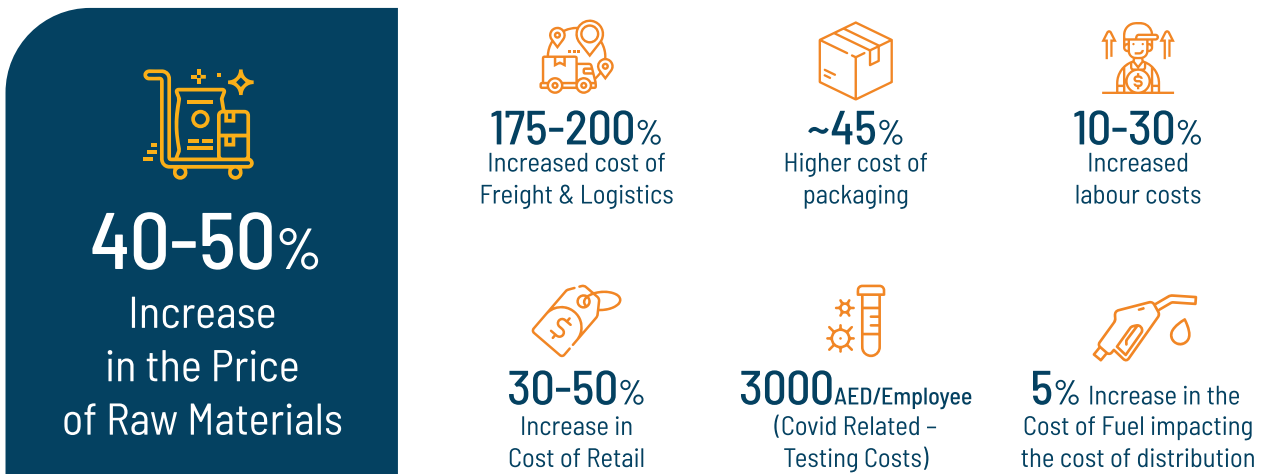


THE NEED TO REVISIT PRICE CONTROL FOR COST RESILIENCE OF UAE FOOD COMPANIES

Cost of Manufacturing Inputs are the highest ever on record

There has been an unprecedented increase over the past year in the input cost of food manufacturing and food distribution that makes it highly unrealistic to maintain a price cap or price control mechanism for the products manufactured in the UAE. Their costs keep fluctuating due to factors that are global, and significantly impact more than 50% of the input costs.

At the aggregate level input cost increase have been due the following factors:



The expectation is that these prices are not going to reduce in the foreseeable future and we are now entering a global commodity super-cycle that will last another 7-8 years at least.

Together with these there has been a reduction in business or difficulties in doing business in an unfavorable environment which has resulted in a reduction in the overall market share of local manufacturers. This is due to the following factors:

- **Tourism has reduced** (67% drop from 2019)
- **Exports have dropped** (23% drop from 2019)
- **Increased Dumping**
- **Reduced Disposable Income and Consumption**

Companies have been subjected to the VAT and Excise Tax implementation that are not scientific and penalties have been imposed for late payment, aggravating the existing cash flow crunch.

- Consumption volumes reduced by 26% in Q1 following implementation, followed by another 34% in Q2
- Leads to company downsizing, job losses and net decline in government earnings

Banks have also not been favorable to organize the working capital at an acceptable rate or support by reducing the limit due to their austerity measures creating pressure on the companies.

- Cost of capital has gone up
- Facilities have been cut down

In the value chain the Manufacturers have been least supported or the other value chain players have been transferring the cost to the manufacturers in a way that is unacceptable and unviable.

- Price increase is not allowed for manufacturers; however, retailers regularly increase prices without any need for approval
- Retailers are continuously increasing their shelf rentals, Rebates and Marketing Costs without any restrictions and pass on these costs to the Manufacturers
- High level of regulation on local production versus no regulation on imports allowing for cheap and low-quality goods to enter the country.

Examples of Cost Increases

Increases of the 2020-21 Timeframe

Food Manufacturing Companies – Compared to Q4 2019

INPUT	COST INCREASE
Aluminum Cans	40%
Resin	56%
Sugar	26%
Juice Concentrates	28%
Chicken Breast	70%
Packaging Materials	45%
Beef four quarters	25%

Cost Factors vary based on product category and has lots of individual factors such as export barriers, regulation etc. However, almost all categories face heavily increased cost pressures resulting in a once mature food sector which catered to local production and consumption to depend on lower quality imported food products.

Bottled Water

ITEM	USED FOR	COST PRICE
PET - Resin	Bottles	+ 45%
HDPE - resin	Caps	+47%
LDPE - resin	Shrink-wrap	+46%
Paper-Pulp	Boxes	+48%
Transport	Import RM	+193%
Fuel / Diesel	Distribution	+5%

Bottled Water companies are becoming unprofitable:

- Approximately 50% of the Cost Base has increased by at least 40% on each.
- The bottom-line profits have dropped by 20%
- Price of Bottled water in UAE is one of the cheapest of developed nations

The largest cost component for bottles is PET resin and the delivered purchase price has gone from the \$800/ton to \$1200/ton range (effectively a 50% increase) – heavily impacted by transport issues.

Under these conditions the market is moving to a point where doing business for food manufacturing companies is not going to be viable with costs increasing at this rate and the prices not flexible to be adjusted in keeping with the market dynamics. In addition to this, **the monopolistic behavior or retailers are increasing.**

Such a situation with a number of companies going out of business is **likely to create a food security risk to the country.**

Pricing is a crucial aspect that determines the ability of businesses to recover these costs and earn reasonable profits. Hence, **there is a need to revisit the current Price Change mechanism in UAE** which is complex and inefficient.

During the pandemic, the **food manufacturing companies gave full support to the government** to ensure that there has been no shortage of food stock and this proactive support needs to be reciprocated by supporting policies from the government.

Recommended guidelines for price control in UAE

To ensure a level playing field in the UAE F&B market, government intervention is essential to curb the unhealthy profiteering of the big retailers:

Price control should be a level playing field	<ul style="list-style-type: none"> 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 prices/ rebates
Cap on retailer costs	<ul style="list-style-type: none"> Retailer costs 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
Mandate promotion of "Made in UAE" products	<ul style="list-style-type: none"> Offer free listings (5-10 per category) to UAE manufactured products to encourage local innovation Allocate reasonable shelf space for UAE manufactured products
Streamline price change mechanism	<ul style="list-style-type: none"> Process of increasing prices needs to be simplified and streamlined in order to allow justifiable increases for manufacturers' prices
Regulatory level playing field	<ul style="list-style-type: none"> All private labels and imported products must adhere to the same nutritional, food safety, quality and labelling requirements that UAE manufacturers have to comply by Heavy fines and penalties to be imposed in case rules are flouted
Private label caps	<ul style="list-style-type: none"> A cap on the sale of private labels, per category x store x overall needs to be established
Floating Market Prices	<ul style="list-style-type: none"> Since there is huge fluctuation in the input costs of business, the prices needs to be allowed to float based on the Raw Material prices. e.g. Fuel prices in the UAE.