

# SESSION REPORT

Meeting Date   Time	<b>21st September 2020   10 a.m.</b>
Meeting Location	<b>Online (Microsoft Teams Video Call)</b>
Meeting conducted between	<b>Ministry of Economy Ministry of Food Security UAE Food &amp; Beverage Manufacturers Group</b>

## ATTENDEES

Name	Designation/ Organisation
<b>H E Abdulla Bin Touq Al Marri</b>	Minister of Economy, UAE
<b>H E Mariam Almheiri</b>	Minister of State for Food Security, UAE
<b>Saleh Lootah</b>	MD - Al Islami Foods   Chairman - FBMG
<b>H E Essa Al Ghurair</b>	Chairman - EGI Investments
<b>Tarek El Sakka</b>	CEO - Dubai Refreshment Company   Vice Chairman - FBMG
<b>Ahmad Belyouha</b>	Chairman - Emirates Macaroni Factory   Board Member - FBMG
<b>Issa Khoory</b>	Managing Director - Mirak Group   Vice Chairman - Fruit & Vegetable Group
<b>Abdul Vaheed</b>	Secretary General - FBMG

## INTRODUCTION

The Food & Beverage industry of UAE is a vibrant sector of the economy that comprises of manufacturers (both national and multinational), traders, distributors, HORECA and Agriculture. This is an ambitious sector that is a net positive contributor and aims to play a more significant role in the growth story of UAE.

The industry has a clear vision and objective to ensure a healthy industry that contributes to the economy at an optimal level and be internationally competitive. This includes meeting the stated objectives of the nation's Food Security Strategy.

The sector is represented by the UAE Food & Beverage Manufacturers Group (FBMG), a business association formed in 2012 under the auspices of the Dubai Chamber of Commerce. The FBMG provides a platform for firms to cooperate and resolve some of the key challenges faced by the industry in UAE and the region.

Within this mandate, the FBMG liaises with the government and regulatory authorities to present and address the various challenges and opportunities that affect the food industry in UAE. Being a voice of the industry, the FBMG and its representative members have compiled a series of concerns for the kind perusal by the respected ministries. These concerns are accompanied by solutions that the industry feels are feasible and reasonable for due consideration.

Within their mandate, the FBMG have also devised several initiatives that enable excellence in the food industry and improve local capabilities. These initiatives are also offered in submission for guidance and potential avenues for collaboration with the government.

## MEETING AGENDA

Meeting between the FBMG and Ministry of Economy and Ministry of Food Security was conducted with the following agenda topics:

- An introduction to the FBMG and its methodology
- The potential and future of the food and beverage sector, the challenges we face, and the support we need to meet those challenges
- Challenges facing food traders and manufacturers in the Emirates with the relevant authorities in the Kingdom of Saudi Arabia
- Price control, as well as laws and regulations governing retail trade and its impact
- The impact of taxes on the food and beverage sector
- Promote Emirati products
- Create positive working arrangements for the food industry
- Coordination with the Ministry's team - and developing dialogue with food processors
- Difficulties facing the food industry due to the application of the excise tax to the detriment of the local industry.

## IMMEDIATE CHALLENGES FACED BY THE F&B INDUSTRY IN UAE

1. Taxation
2. Regulation
3. Retailers
4. Export barriers
5. Other challenges

### 1. Taxation

*Presented by Tarek el Sakka*

#### Impact of Excise Tax on the industry

1. Decrease in **Market Size**
2. **Capital** Shrinkage
3. Influx of **Cheap Imports** (non-taxed)

#### Key concerns

1. Tax is **calculated on estimated selling price**, which does not reflect revenue earned
2. Tax **payment cycle is 15 days**, vs. collection period of 120 days
3. Taxes are **charged on bad debts** (unpaid sales).

### Solutions suggested by FBMG:

1. Tax to be calculated on **actual sales revenue**, rather than on estimate retailer selling price
  - a. Accounting for retailers increasing or decreasing price, returned products, bad debts
2. Tax **payment cycle to be quarterly**, rather than monthly
  - a. Allowing for collection cycles and supporting cash flow of businesses
3. Taxation to be **calculated on the basis of volume**, rather than units
  - a. Cheaper products in market, including cheap imports from neighbouring countries are operating under the radar of regulatory authorities by selling to small outlets and caterers
  - b. The prices at which they sell are not audited and thus an unfair competitive environment is developing with compliant companies are being penalised
4. Taxation to be **calculated on the quantity of sugar** in the product
  - a. This means that products with high sugar content would be more expensive
  - b. This would encourage manufacturers to innovate and reformulate healthier products, as well as encourage households to purchase healthier products
5. Introduction of Excise Tax has resulted in **increase in smuggled goods** to take advantage of the price gap
  - a. Additional **resources to combat smuggling** would help protect the local industry

### Additional reading:

Position paper on Excise Tax

## 2. Regulation

*Presented by* **Ahmad Belyouha**

*Supported by* **Saleh Lootah, H E Essa al Ghurair**

The key concern that the industry has vis-à-vis regulation is that the **industry is highly over-regulated**. Our is a mature industry that has a **high degree of self-regulation**, considering that the food companies in UAE have been around for several decades and competing with global, multinational firms.

Despite this, the industry is deeply affected by the spate of regulations in the country.

### Concerns and their impact

1. **Too many regulatory authorities**, with often contradictory requirements
  - a. Compliance is expensive and difficult
  - b. Increased probability of errors and penalties
2. **Lack of coordination and communication** between regulatory authorities
  - a. Between federal and local authorities
  - b. Increased expenses and effectively restricting market access

3. Local and federal requirements **not in alignment with GCC & International standards**
  - a. Severely impacting foreign trade
4. Certain **requirements are mandatory**, e.g., Quality Mark
  - a. This is not as per global best practices
  - b. Usually a competitive advantage for producers
5. **Product registration** is expensive and tedious
  - a. Each product must be registered, preventing market innovation and testing
  - b. Local and federal requirements differ
  - c. Export products also require expenses
6. Different **emirates impose product movement fees**, that are continuously rising
  - a. Heavy expenses
  - b. Restricting market access
7. New regulatory requirements are imposed with **insufficient time for adoption**
  - a. Resulting in unintended non-compliance and avoidable penalties
  - b. Business plans are severely impacted



هيئة الإمارات للمواصفات والمقاييس  
Emirates Authority For Standardization & Metrology

**AED 18-20k for ESMA Label Approval (Once)**  
**AED 19k for Halal Certificate (3 Yrs.)**

- All the Products must use Valid Halal logo & must be listed in SOC
- All the products label should follow UAE Std.
- Label claiming (No added hormone, antibiotic free) should be approved by ADQCC lab



هيئة أبوظبي للزراعة والسلامة الغذائية  
ABU DHABI AGRICULTURE AND FOOD SAFETY AUTHORITY

**AED 100-120k pa**

- Monthly visit by ADAFSA & follow-ups
- NOC Updates
- Lab Expenses for meeting ADFSA requirements

### Solutions suggested by FBMG

1. **Streamline regulatory requirements** for the entire industry
2. Make certain **regulatory requirements optional**, e.g., Quality Mark
3. Allow **sufficient grace period for adopting and adapting** to new regulatory requirements. Suggested time period is of 3 years (as per global best practices)
4. Establish a **public private partnership task force** comprising of members of the two ministries and representatives from the industry to identify and address issues

### 3. Retailers

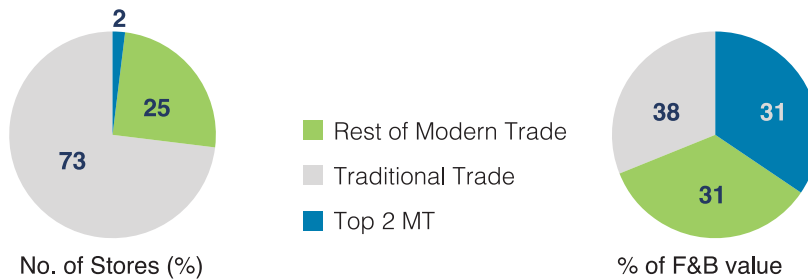
Presented by **Issa Khoory**

Supported by **Ahmad Belyouha, Tarek el Sakka**

Additional inputs from **H E Mariam Almheiri**

#### Current retail environment

1. Few retailers are controlling the entire market

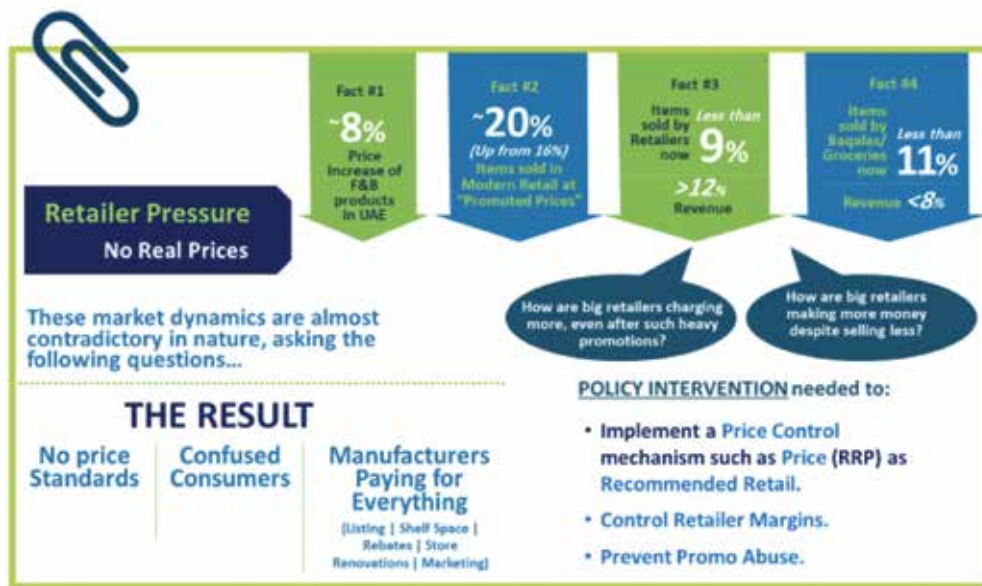


2. Emboldened to **dictate fees and charges** to suppliers – keeps increasing

- Covering Rebates, Loyalty Fees, Multi-condition Fee, Settlement Discount, Damage Allowance, Range Management, Marketing Budget, Digital Support
- Overall **costs reach 30-48% of the price** of the food product
- Example: rebates have increased from 0.5-1% to 12-16% in a period of 5-6 years

3. **Promotions only benefit retailers** – end-consumers do not benefit from discounts or added value provided by manufacturers

- An illustration from market data (2018):
  - ~8% price increase of F&B products in retail
  - ~20% of items sold are classified as “promotion”
  - ~9% less number of items sold
  - ~12% more revenue earned
  - Retailer margins range from 20-70%.**



b. Above illustration implies that retailers are **earning more** despite **selling less** and at “lower rates”

4. **High listing fees**, and demands from retailers to manufacturers to deliver premium products
  - a. **Entry barrier for SMEs** and even large manufacturers
  - b. **AED 500,000 – AED 800,000 listing fees** now for some products by top retailers
  - c. **Inhibits innovation and investment** from manufacturers to develop value products for consumers.
5. Retail **payment cycles are continuously extending** – from 30 days earlier to now up to 145 days
  - a. Predatory practices even during time of COVID-19
  - b. **No room for negotiation** – a “take it or leave it” policy employed by monopoly of retail
  - c. Cash flow of manufacturers severely impacted
6. **Limited shelf space provided for local producers**, despite high fees paid
  - a. Retailers are **encouraging cheap imported products** (without complying with quality certifications) owing to higher margins
  - b. Producing own **private labels** with pride of shelf space
  - c. Importing products themselves by **contracting foreign suppliers directly**
  - d. Retail environment is **not a level playing field for UAE manufacturers**, including agriculture
  - e. **Severely impacting UAE’s ability and endeavours on Food Security.**

#### Inputs from **H E Mariam Almheiri**

Her excellency additionally brought to light points that have been brought to notice in previous meetings, such as:

1. There are **over 11 charges or fees that retailers charge**
2. Overall **cost of business accounts for 30-48% of the price** of the food product
3. **Payment cycles have extended** from 30 days to now 90 days – causing a hindrance to cash flow
4. Acknowledged that **this is a critical issue that needs to be looked at** as it is having a debilitating effect on manufacturers and food producers and farmers.

## 4. Export Barriers

Presented by [H E Essa al Ghurair](#)

Supported by [Ahmad Belyouha](#)

### Concern areas

1. Regulatory policies are not conducive for exporters to be competitive in the regional and global markets
2. Lack of flexibility in implementing regulation prevented importers & exporters from adapting to the fluid global environment during COVID-19
3. VAT on exported products is a challenge as it is not reimbursed in a timely fashion
4. Handling and port fees are higher than most other countries
5. Manufacturers from neighbouring countries have government support to flood UAE market with cheap imports
  - a. Situation being taken advantage of by retailers
  - b. Local producers are facing unfair competition in their home markets without protection
6. Regulatory requirements, e.g., nutritional data, varies by UAE and rest of GCC
  - a. This is an added burden for producers as local requirements are not being recognised in regional and international markets.

### Additional comments

1. UAE was previously known as the “supermarket” for the neighbouring countries, but is now become less and less competitive
2. Our neighbours have increased their infrastructure investment and are now able to compete with us, while we have remained relatively stagnant
3. The UAE manufacturers, who are stressed at home with cheap imports, are also struggling in the export markets – resulting in diminishing avenues for conducting business and earning profits.

## ADDITIONAL POINTS

Presented by [Abdul Vaheed](#)

Supported by [H E Essa al Ghurair](#)

### Lack of current data and statistics

- Limited availability of market related statistics and numbers
- Government data also comes out in a delayed manner (2019 data not yet released)
- Preventing businesses from data driven decision making and planning and achieving food security goals

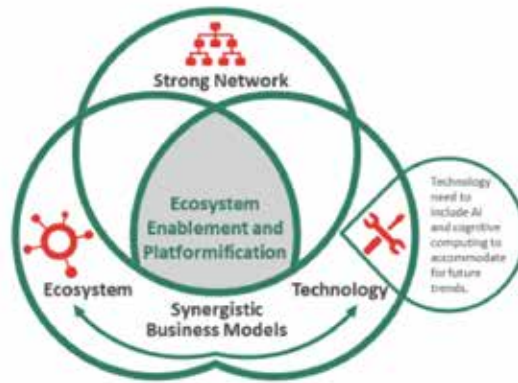
### Inputs from [H E Abdulla Bin Touq Al Marri](#)

- This is an issue that is being addressed internally within the Ministry of Economy
- Expressed the need to be more data centric in order to attract additional investments
- Objective to deliver live data

## Initiatives taken by FBMG



Key factor affecting Platformification and Ecosystem enablement



UAE Food platform helps improve its competitiveness and strengthen the sector.

It wanted to build a cohesive network between members and value chain players.

The platform was conceived as a support tool to the food sector as a whole to enable it to become the food manufacturing hub of the area.

## Lack of Emirati and local population participation in Food Economy

- Current regulations are not encouraging for Emiratisation of the food sector
- Companies not encouraged to hire local employees

## Initiatives taken by FBMG



Food & Beverage Lab will encourage and foster new product development by UAE Nationals that can be nurtured and developed to achieve its growth potential.

Program drives the following objective of the F&B group and sector

- Encourage innovation and product development in the food ecosystem.
- Develop talent for the ecosystem.
- Revitalize the New product lunch sector with a UAE flavors.
- Engage and involve the food startup with the F&B Manufacturing sector.



## INTERNSHIP PROGRAM

Working together with student interns

to prepare them for the new normal in the food industry



## CONCLUSION AND NEXT STEPS

**H E Abdulla Bin Touq Al Marri**, Minister of Economy - UAE, concluded the meeting with an agreement to develop a joint task force comprising of members of the ministries (Ministry of Economy, and Ministry of Food Security), and members of the food industry to address the issues raised during the meeting. **H E Mariam Almheiri** suggested that the task force could also have members from other ministries; Ministry of Industries, which includes ESMA, and Ministry of Climate Change & Environment, who are also linked to food safety.

These include the concerns over regulation and taxation, in order to ensure a healthy business environment for businesses to thrive and support the economy.

He expressed solidarity and agreement with **Salah Lootah** in that the view must be to improve and support the entire value chain to ensure that the entire system improves for everyone's benefit.

The next meeting will be scheduled for next month to review the solutions in further detail.

