# FOOD AND BEVERAGE INDUSTRY IN THE MENA REGION

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# Executive Summary

The global food and beverages industry landscape has transformed over the years from small-scale farming to a multi-trillion dollar business powered by giant multinationals and advanced technologies. Global food production has grown by 2.1-2.3% annually over the past four decades. In 2008, food product revenues touched USD 3.2 trillion and are poised to reach USD 4 trillion by 2013, showcasing one of the fastest growth rates among major industries. On the other hand, the beverages segment, valued at USD 1.4 trillion as of 2008, is projected to grow to USD 1.6 trillion over the same period.

Increasing demand and changing consumer preferences, in addition to the expansion of multinational retail and foodservice outlets, are reshaping markets throughout the world. Even though the increased organization and industrialization of the food and beverage business has created larger and more efficient markets, costs have spiraled as well, bringing margins under pressure. Rapid urbanization, globalization, and economic development have transformed the industry's dynamics, as markets in developing countries have emerged as the key growth engines in recent years. The increase in domestic food demand in emerging economies has outpaced that in developed countries. Currently, about 58% of the food produced globally is consumed in developing countries – a share that is likely to reach 72% by 2050.

Besides being critical to the macroeconomic balance, the industry also plays a more social role given the indispensability and core nature of food for mankind. As a result, governments in countries with underdeveloped agriculture or disproportionate demand are striving hard to ensure food security as a key policy item. Steadily rising income levels and rapid urbanization have brought about a shift in dietary preference toward more value-added and protein-rich foods. Consequently, the average per capita meat consumption has gone up, as has the demand for processed products.

In recent years—until mid-2008—the steady run-up in oil prices had a spillover effect on agriculture, given the rising costs of food transportation and agricultural inputs, as well as the push for biofuels. The economic incentive to produce biofuels—perhaps even more than the environmental rationale—prompted many farmers to shift toward cultivating crops suitable for producing ethanol and biodiesel. The use of certain crops as feedstock for alternative energy sources has led to multiple discussions and divided opinions among economists debating the food and fuel equation.

It is little surprise then that prices of agricultural commodities have risen steeply in recent times. Global food inflation—sometimes termed 'agflation'—is among the key macroeconomic events witnessed during the past decade. While a host of factors are responsible for agflation, structural supply-demand mismatch is the root cause, as growth in production has not kept pace with increased consumption.

**The new world order**

Following the price hikes and supply uncertainties during the 2007-08 global food crisis, food companies found themselves coming increasingly under policymakers' scanners. Grain prices peaked to record highs in 2008, with corn reaching above USD 7 a bushel. Apart from speculative and secondary reasons, the consistently rising population is another key factor behind the price rise. Over the next four decades, the UN forecasts an increase in global population by over 2.3 bn, mainly from the developing world. By 2050, the population of the Asia-Pacific region is expected to increase by a whopping 1.5 bn. In tandem, the demand for food is likely to increase by as much as 70%. Nonetheless, the global economic crisis has eased food demand, helping bring prices down, even as long-term pressure prevails given the supply-demand disparity.

The Food & Agriculture Organization (FAO) opines that global wheat production could fall by over 7 mn tons this year as low returns keep farmers disinterested. The global wheat harvest is expected at 675 mn tons during 2010, below that in the past year and the record 683.8 mn tons in 2008. Food prices in the Asia-Pacific region have started to strengthen again, increasing 25% during the 12 months starting January 2009. Given that future population growth will be centered in developing countries, crowded conditions and limited arable land will likely exert further pressure on local resources.

According to current trends in yields, the FAO projects that Asia-Pacific's supply of grains will fall considerably short of matching the increase in demand by 2050. Therefore, investing in agriculture with the objective of increasing yields is among the top priorities for all countries. Agriculture, which is one of the most weather-dependent of human activities, is also reeling under the impact of global climate change. According to some market reports, if the current global warming trends continue, yields of major food crops in tropical countries could decrease by 20-30%. On the other hand, new land additions to the agricultural land bank have been minimal and have to come from clearing tropical rainforests which, in turn, will carry heavy environmental costs. In many countries, prime agricultural land is being lost to industrial and residential construction. Furthermore, scarce water resources and under-developed irrigation systems weigh heavy on the sector's development as well. Most food markets in the world face tough challenges of rising demand, changing weather conditions, increasing commodities and production costs, and poor harvests amid dwindling food and agricultural land reserves.

**Middle East food market offers ample opportunities**

The food and beverages industry in the Middle East has seen one of the fastest growth rates globally. The increasing number of hypermarkets in the Gulf and rising population continue to drive the food processing sector's growth and development. The Middle East's foodservice industry—along with the confectionery segment—was valued at over USD 32 bn in 2009. The member countries of the Cooperation Council for the Arab States of the Gulf (GCC) form one of the world's largest food importing groups with an annual import bill of over USD 12 bn. With over 90% of its food needs met through imports, the GCC region has ample opportunities for global producers and local distributors.

**Religion-driven preferences shape food demand**

With a global Muslim population estimated at 1.8-2.0 bn, the halal food market is poised for rapid growth. The halal food market currently accounts for as much as 12% of the global agri-food trade with an estimated market size of USD 640 bn. Given higher disposable incomes, the GCC region is the world's largest importer of halal products, especially meat. The six-member countries of the GCC import close to 1 metric tons (mt) of halal poultry meat and more than 200,000 mt of halal beef. Valued at USD 38.4 bn in 2004, the GCC halal market grew to USD 43.8 bn in 2009. Saudi Arabia and the UAE are among the biggest import markets within the region. Currently, Brazil, EU, and the US are the top three exporters to the two countries. Accounting for 63% of the region's overall imports, Saudi Arabia continues to be the largest food & beverages market in the region. On the other hand, in North Africa, Egypt's prominence is steadily increasing as a key market.

**Food & Beverages— growth for the entire value chain**

The industry's supply dynamics are rather skewed, as agricultural production is clustered in a few countries in the world. The rising population and higher demand growth from emerging economies such as the BRIC countries (Brazil, Russia, India, and China) further accentuate the situation. The growth is only going to go up as the world's population surges towards 7 bn, in addition to rapid urbanization and new lifestyles. Yet another area of focus will be climate change concerns, and better management of production systems in order to increase productivity and reduce the environmental impact.

However, softening prices, the need to push yields, and the gradual economic recovery could disrupt production levels as farmers plant lesser in order to trigger price increases in the short-term. The availability of arable land will be another critical factor for the industry. In 2008, the world had about 1.4 bn hectares of arable land and about 3.4 bn hectares of pasture. In order to meet the food demand projected for 2050, about 3 bn hectares of agricultural land is required, which is mostly expected to come from the developing countries.

Over the next decade, the OECD and the FAO forecast agricultural prices to rise by 20-50%. However, the MENA region, which is home to a large population and is heavily dependent on food imports, is a substantially large market with strong promise of future growth. The expected growth is likely to be broad-based across multiple segments, including retail, foodservice, dairy, soft drinks, halal foods, and the promising hospitality industry. According to FAO statistics, the cumulative agricultural trade gap for the six GCC countries stood at over USD 13 bn as of 2006, reflecting their high dependence on food imports. Since the possibilities of producing food locally are limited, countries in the MENA region face a number of hurdles, before the governments are able to achieve their objective of ensuring sufficient food for their large populations.

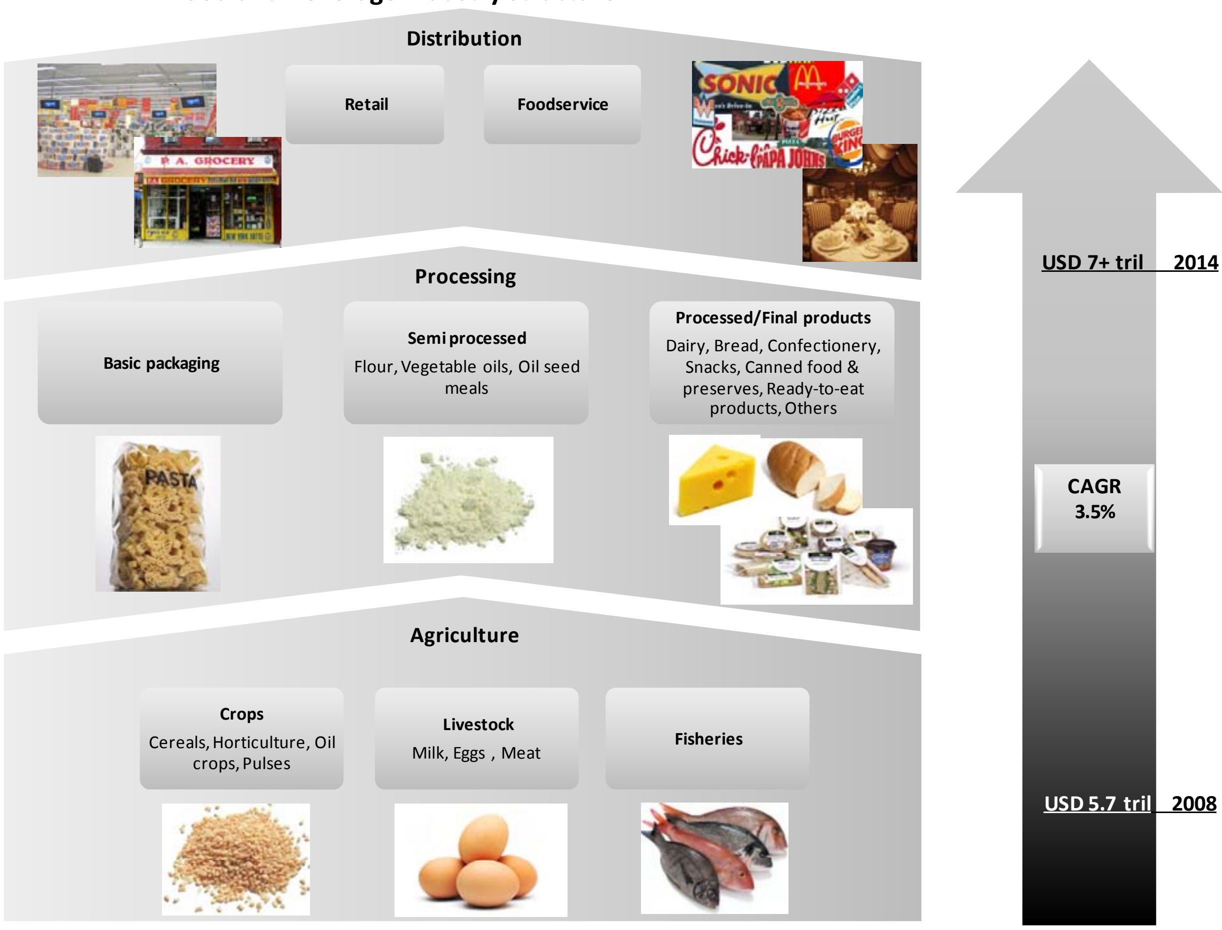
# 1 Global overview and developments in the sector

## 1.1 Global industry structure

While purchasing groceries from a retail outlet or dining out in a restaurant, one hardly thinks about the steps in the supply chain and the complicated series of steps that make it possible. The Food and Beverages (F&B) industry touches the lives of every human being on a daily basis and represents one of the most vital sectors of the modern socio-economic framework. As such, it attracts a lot of attention from multiple stakeholders and is subject to numerous regulations and measures attempting to ensure enough food for everyone in the world. Simple as it was in the beginning, food production and trading have evolved dynamically over the centuries to become part of today's multi-dimensional value chain. The constant innovation in products and delivery methods further augments the complexity and interplay among the various industry participants. The British Food Standards Agency defines the industry's value chain as ranging from "farming, food production, and distribution to retail and catering."

Base food production—in the form of farming—constitutes the major part of the agriculture industry. A relatively small set of agricultural activities include production of non-food commodities such as cotton, tobacco, and natural gum, among others. However, most available agricultural data include such activities, which we have left out of scope for this study, which is focused on the F&B industry. The farming segment comprises three main categories: crops (plant-derived agricultural products such as cereals,

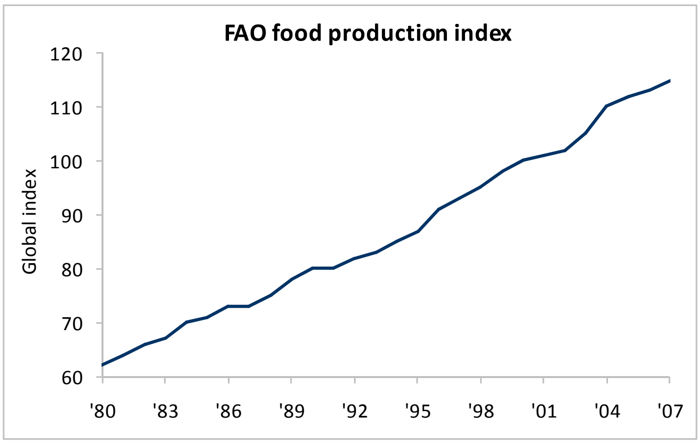
**Food and Beverage industry structure**




***Source***: IMAP, Food and Agricultural Organization (FAO), Various news agencies, Blominvest fruits, and vegetables), oil crops (to produce vegetable oil), and pulses. Livestock products comprise all animal-related products such as dairy, poultry, and meat. Finally, fisheries encompass all products related to the fish and seafood categories.

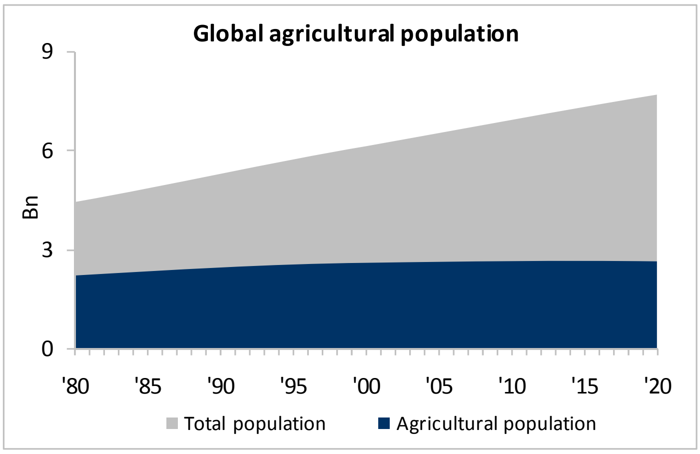
Raw agricultural products can be either sold directly to consumers or undergo different levels of commercial-scale processing. Food preparation and processing, as defined by United States Department of Agriculture (USDA) is "any change that is made to a food to alter its eating quality or shelf life," has two major purposes – preservation in order to increase product life; and secondary processing to improve taste and/or appearance. The most basic process is portioning and packaging that plays a key role in ensuring the effectiveness of distribution in today's world. There is a wide range of modern processing techniques, such as pasteurization, baking, freezing, smoking, and adding ingredients to enhance flavor, or a combination of one or more of these, depending on the desired final product. The next category comprises semi-processed foods that are most often used as food ingredients and are not edible directly. According to the most popular industry classifications, this category comprises flour, vegetable oils, and oilseed meals. Final—or processed—products fall into multiple sub-categories such as dairy, confectionery, snacks, pastas, breads, dips and sauces, and others. Ready-to-eat foods that usually require only a simple final step, like heating or adding water, before consumption as ready dishes fall within this category as well.

The final element in the F&B value chain is distribution, which takes place through two main channels – retail and foodservice. Retail encompasses various outlets like traditional mom-and-pop stores, bigger superstores, supermarkets, and hypermarkets. These outlets typically provide access to almost all food categories for 'self' preparation and consumption. Alternatively, consumers may choose to eat food away from home at outlets that fall under the foodservice segment. According to Datamonitor, foodservice is the "sale of food and drinks for immediate consumption either on the same premises or in designated eating areas shared with other foodservice operators, or in the case of takeaway transactions, freshly prepared food for immediate consumption." The segment itself can be further subdivided broadly into fine-dining restaurants, hotels, and fast food chains.




***Source:*** FAO, Blominvest

The global F&B industry was estimated at USD 5.7 trillion in 2008, and Datamonitor forecasts it to grow at a CAGR of 3.5% to more than USD 7 trillion by 2014. Global agricultural production, providing raw material and intermediates for the entire value chain, has been growing at annual rates of 2.1-2.3% over the past four decades. Most of the growth witnessed during the past 50 years was because of intensive increase in output, 75% of which was due to improving yields alone. Going forward, however, these improvements are likely to slow down, as yield enhancing techniques gradually lose their edge following extensive use and soil depletion. Therefore, if current production levels are to be maintained or enhanced, increase in cropping frequency or expansion of arable land will be the only options feasible, barring unexpected improvement in yields.

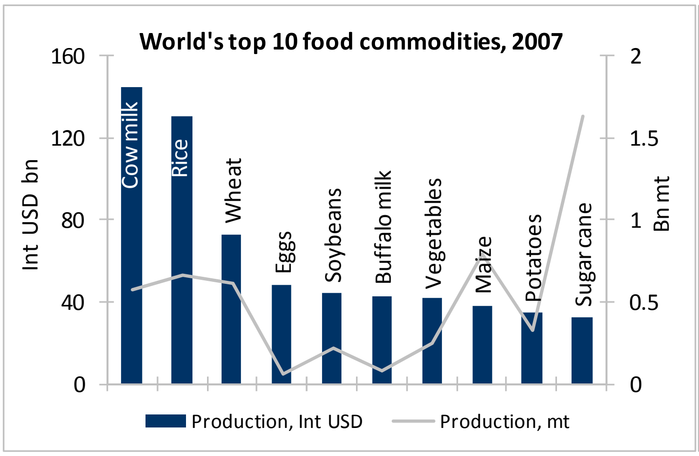



***Source:*** FAO, Blominvest

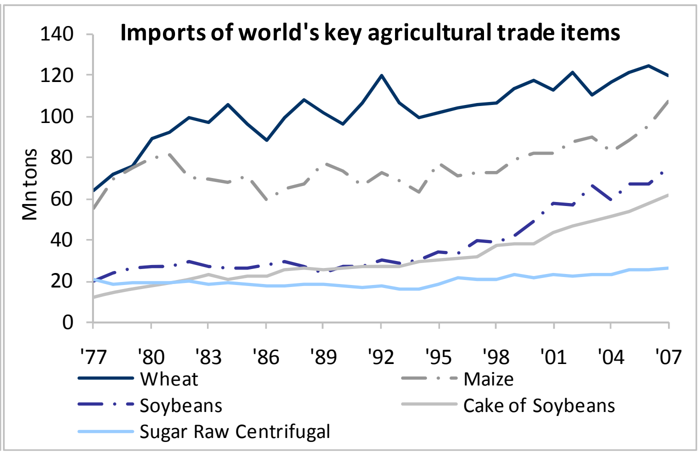
Globally, agriculture has undergone a shift from being labor-intensive to a capital-intensive industry characterized by high levels of mechanization and process optimization. According to FAO, over the past three decades, while global population grew by over 50%, the net inflow of human capital into the agriculture sector was less than 20%. This is further set to decline because of manpower moving to non-farm sectors. Consequently, output value per agricultural worker grew from 436 international dollars* in 1980 to 648 in 2007. As expected, the more developed economies are behind this shift, as the agriculture sector in developing countries continues to provide more employment relative to output. However, the percentage of agricultural workers in terms of total workforce in Africa and Asia is likely to have dipped from 70% in the 1980s to approximately 50% recently. In the case of Europe and North America, agriculture represents only about 5% of the workforce.

**Global food production patterns**

In order to cater to the food requirements of the global population, production of major food categories reaches billions of tons and billions of dollars each year. Cow milk is the most important commodity in terms of production value. According to FAO, global production of the commodity was worth almost 145 bn international dollars during 2007. Rice, wheat, eggs, and soybeans were the others among the top five food commodities. However, from a volume perspective, sugarcane was the largest agricultural output with a production of over 1.6 bn tons in 2007, followed by maize, rice, wheat, and cow milk. Understandably, this was driven by the relatively low unit prices for some of the commodities that ranked higher by volume. While the average price for sugarcane was USD 77 per ton in 2007, milk sold for almost USD 490 per ton. Globally, depending on the region, sugarcane is one of the lowest priced commodities across the world after vegetables such as cabbage, lettuce, and potatoes. In general, meat is the most expensive category among the major food groups, although certain specialized commodities such as hops, tobacco, mushrooms, and truffles tend to be the most expensive in general.



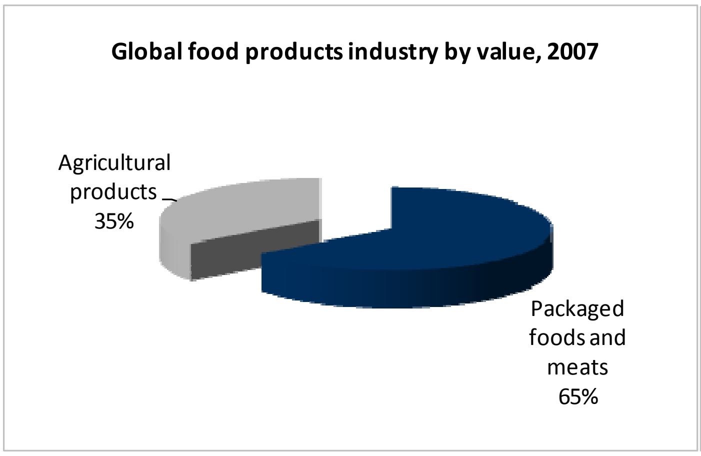

***Source:*** FAO, Blominvest



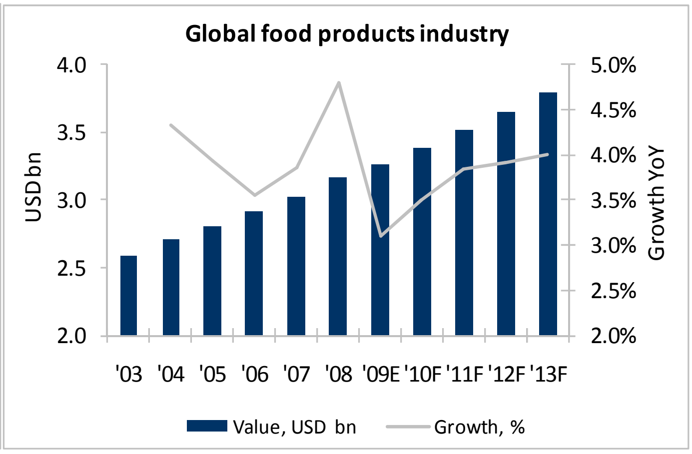

***Source:*** FAO, Blominvest

Interestingly, food trade patterns do not directly reflect agricultural production patterns. While rice and cow milk are among the highest produced food commodities, rice ranks only tenth in terms of trade volume, while milk does not even feature in the first twenty. Such trends further indicate that these commodities are, in large part, consumed in the countries where they are produced. Among raw agricultural commodities, wheat is the most widely traded in both volume and value terms. Global wheat imports during 2007 were close to 120 mn tons valued at an estimated USD 32 bn. Soybeans, cake of soybeans (obtained as a by-product of soybean-based biofuel production and used as animal feedstock), maize, and sugar were the other top commodities by import volumes during the past three decades. Therefore, the most widely traded agricultural products typically include bulk commodities that are generally lower in value vis-à-vis volumes. Compared to higher value categories such as horticultural products (fresh fruits and vegetables), semi-processed, and processed products, they are less perishable and, therefore, easily transportable. On the contrary, production of the more perishable and readily consumable categories often happens closer to the end markets, although modern supply chain methodologies and storage techniques are bringing about a radical shift.

* According to FAO "…'international prices', expressed in so-called 'international dollars', are derived using a Geary-Khamis formula for the agricultural sector. This method assigns a single 'price' to each commodity. For example, one metric ton of wheat has the same price regardless of the country where it was produced. The currency unit in which the prices are expressed has no influence on the indices published." (http://faostat.fao.org/site/362/DesktopDefault.aspx?PageID=362)




Source: Datamonitor, Blominvest

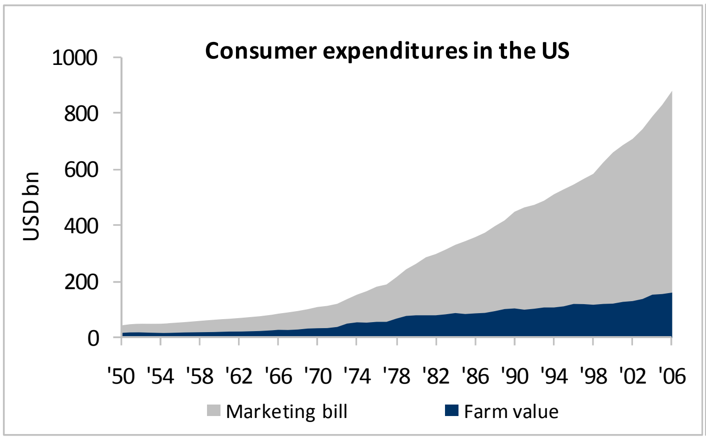



Source: UNWTO, Blominvest

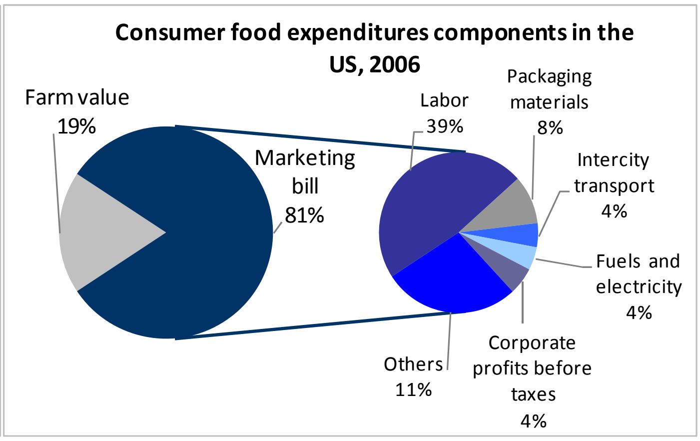
Basic agriculture, as a whole, is losing its value share in the global food products industry to processed foods. Out of the USD 3.2 trillion in revenues as of 2008, agriculture contributed 35% and packaged foods and meats accounted for the remaining 65%. Such a

high share of packaged products is on account of a shift in consumer demand toward more value-added and processed products, brought about primarily by rising per capita incomes in both developing and developed countries. As a whole, the food products industry is forecast to grow at a CAGR of 4.6% to USD 4 trillion by 2013, according to Datamonitor.

Data from USDA confirms the aforementioned decline in the relative share of agricultural produce. It is reflected in the concept of the 'marketing bill', which the USDA defines as the value added to agricultural commodities by the food marketing system, including activities such as transportation, processing, packaging, and distribution. This marketing bill in the US has gone up from USD 26 bn in 1950 to USD 718 bn in 2006, with its share in total consumer food expenditures rising from 59% to 81%. As of 2006, labor had the greatest contribution to the value-added amounting to 38% of the total, followed by miscellaneous expenditure (such as promotion and advertising, insurance, taxes, and others). Consequently, the value of raw agricultural products (or farm value) fell to just about 19% of the total food costs borne by consumers in the US. The picture is somewhat different in developing countries, where food expenditures follow a different pattern as more people still rely on unprocessed raw agricultural products for their basic supplies.

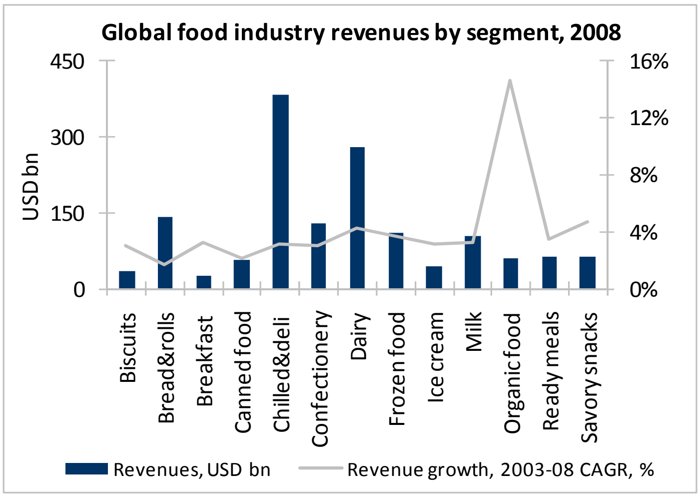



Source: USDA, Blominvest

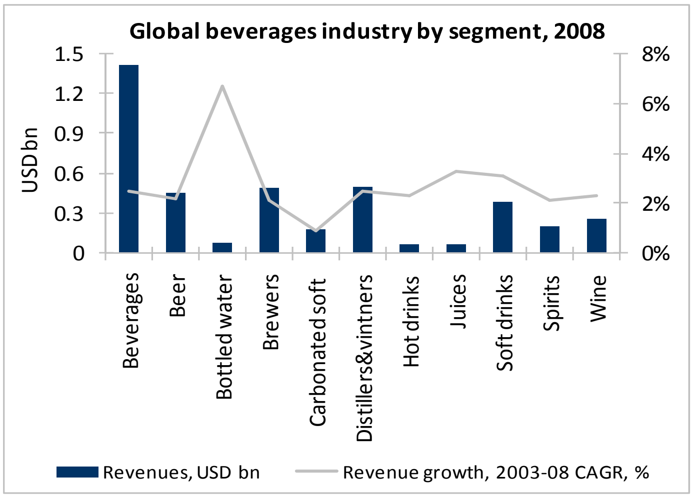



Source: USDA, Blominvest

Among the various processed food groups, chilled and deli foods' revenues were the highest in 2008 at USD 385 bn, according to Datamonitor, followed by dairy with USD 280 bn. The fastest growth by far was recorded by the organic food segment, which grew



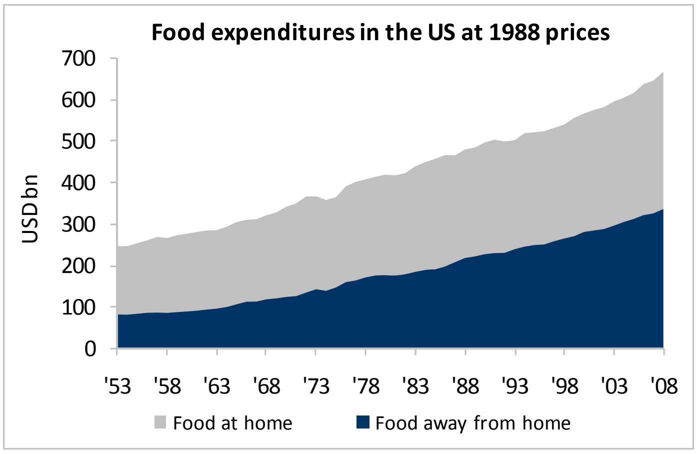

***Source:*** Datamonitor, Blominvest




***Source:*** Datamonitor, Blominvest

at a CAGR of 14.6% between 2003 and 2008. Savory snacks and dairy were the other two categories, which recorded a CAGR of above 6%.

Almost all beverages involve some kind of processing given their easily consumable nature. The various beverage categories include soft drinks, beers, ciders, spirits, and wines. The sector was valued at USD 1.4 trillion in 2008 and is projected to grow at a CAGR of 2.6% to USD 1.6 trillion by 2013, according to Datamonitor. Within beverages, distillers and vintners accounted for the largest sales of USD 507 bn in 2008, followed by brewers at USD 494 bn. With sales of USD 387 bn, soft drinks represented the most valuable non-alcoholic beverage category. Bottled water was the fastest growing




***Source:*** USDA, Blominvest

## Retail outlet types and top five global players* in their respective categories

### Supermarkets

- Kroger Co (USA)
- Safeway Inc (USA)
- Royal Ahold (Netherlands)
- Edeka Zentrale AG & Co KG (Germany)
- Rewe Group (Germany)

### Hypermarkets

- Carrefour (France)
- Tesco Plc (UK)
- Auchan Group SA (France)
- E Leclerc (France)
- J Sainsbury Plc (UK)

### Discounters

- Aldi Group (Germany)
- Schwarz Beteiligungs GmbH (Germany)
- Supervalu Inc(US)
- Wal-Mart Inc (USA)
- The Tengelmann Group (Germany)

### Convenience stores

| Petrol/Gas/ Service stations | Standard convenience stores |
|---|---|

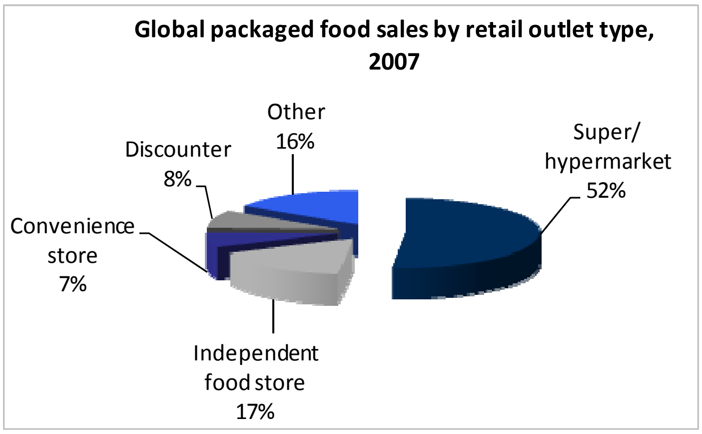
- Seven & I Holdings Co, Ltd (USA)
- Itochu Group (Japan)
- Lawson Inc (Japan)
- Internationale Spar Centrale BV (Netherlands)
- Uny Co ltd (Japan)

****As per Global Food market sales***

***Source***: USDA, Blominvest

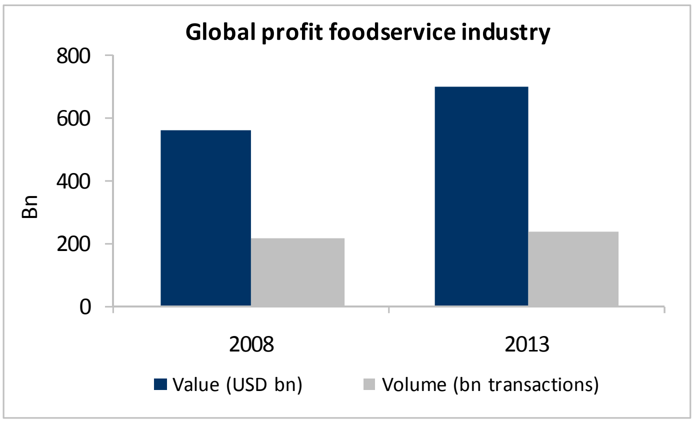
segment with a CAGR of 6.7% between 2003 and 2008, driven by the rising consciousness among consumers for clean and hygienic drinking water in a convenient form, in addition to being an alternative for other not-so-healthy drinks. Increasing health consciousness and convenience has contributed to the growth in the juices segment as well, which stood at a CAGR of 3.3% during the same period. In volume terms, the overall beverage market consumption grew at a CAGR of 6.9% between 2004 and 2008 to 9.9 bn liters.

Food processing was not the only segment to experience such a dynamic evolution over the past several decades. Food distribution too underwent significant changes over the past 50 years, a period that saw a sea change in lifestyles and dietary habits. With increasing number of women entering the workforce and prevalence of nuclear families, eating out has become a popular and convenient option as opposed to preparing food at home. In the US, in 1953 food away from home accounted for 33% of total food expenditure (USD 80.5 mn in 1988 prices), while in 2008 over 50% of consumer food spending was on food away from home. Thus, foodservice companies have been gaining ground in food distribution at the expense of food retailers who are under pressure to protect their share.

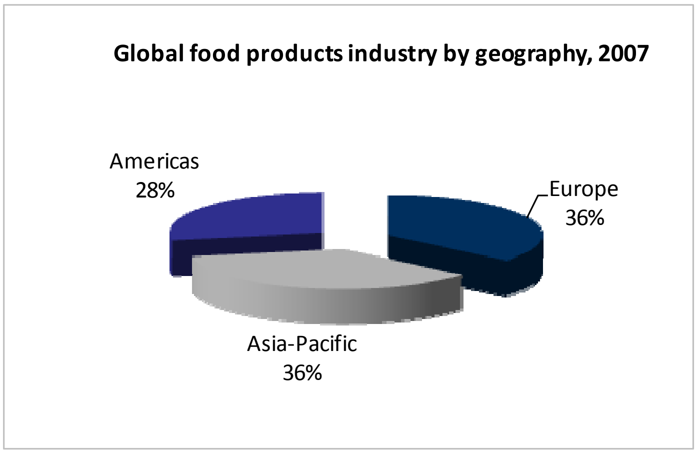



***Source:*** USDA, Blominvest

According to the USDA, the current annual global food retail sales stand at about USD 4 trillion. The primary retail outlet formats include supermarkets, hypermarkets, discounters, and convenience stores. According to a study by the Food Marketing Institute and the Smithsonian Institute, supermarkets first appeared in the US with the opening of the first King Kullen store. What differentiated the store from other grocery stores was a host of factors such as self-service, separate product departments, discount pricing and greater sales volumes. Hypermarkets, which are even bigger in size and product range than supermarkets, arrived in the US and Europe during the 1960s. Discounters—a retail format particularly focused on the lower end of the market—are back in the limelight in the US due to the recent economic crisis. Wal-Mart is one of the most well-known discounters, although the USDA classifies it as a supermarket. On the other side of the price spectrum are convenience stores, small-size outlets that sell a limited range of products at higher prices. Their bargaining power with suppliers is lower than that of supermarkets, forcing them to raise prices to maintain their margins. However, their strength lies in the convenience they offer for everyday shopping for customers looking to spend lesser time and effort. Among the retail formats, supermarkets and hypermarkets account for the biggest share of the market at 52% as of 2007. US and European companies operate the largest chains and are constantly looking for opportunities to expand further in other regions. As a result, supermarkets—as a business segment—are rather concentrated globally. According to the USDA, the top 15 global supermarket companies account for more than 30% of global supermarket sales.




***Source:*** Datamonitor, Blominvest

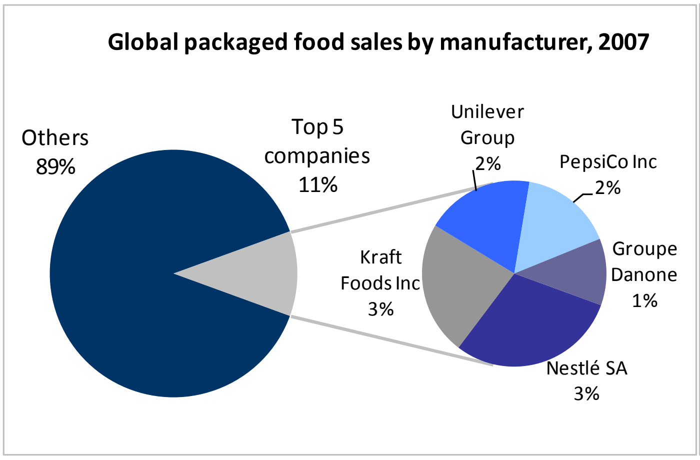



***Source:*** UNWTO, Blominvest

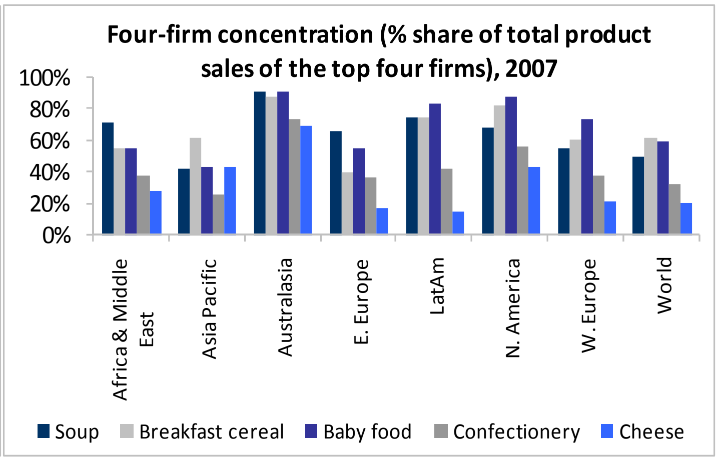
As mentioned earlier, the foodservice industry has been increasing its share in the food distribution segment. In value terms, the profit foodservice segment—excluding subsidies—was valued at USD 561 bn, growing at 5.8% in 2008, a faster pace than the 4.8% growth in 2007. The increase, which was faster than the transaction volume growth rates of 1.9% and 1.7% in 2008 and 2007, respectively, was because of a rise in both prices and transaction volumes. The number of transactions will likely reach 236.7 bn by 2013, remaining slower than the value growth. By that period, Datamonitor projects the 5-year CAGR for value and volume growth at 4.6% and 1.8%, respectively. Restaurants are the leading foodservice channels, with almost 60% of the sector's value as of 2008. In geographical terms, the Americas constitute the largest market and account for approximately 38% of the foodservice industry's global revenues.

**US and Europe are still major industry players but emerging countries are advancing**

For the overall F&B industry, Europe is the leader with revenues of USD 1.4 trillion as of 2007. The US ranked second with USD 1 trillion. However, the dominance of developed countries is on the decline with the emergence of Asian markets, especially India and China, where the industry is valued at around USD 180 bn each. While this may not be as large as Europe or the US in absolute terms, the growth rates in recent years have been on the rise. In China, the industry has exceeded a 15% growth rate almost every year since 1991, while RNCOS Industry Research Solutions predicts a CAGR of 7.5% between 2009 and 2013 for the Indian food and drinks market. The significance of developing countries with respect to raw material production is even more pronounced. China, the world's largest agricultural economy, produces over 50% of the world's pork and almost 40% of fruits and vegetables, as per USDA's 2009 estimates. India's F&B market in 2007-2008 was estimated at USD 182 bn, of which the food processing segment contributed USD 72 bn with an annualized growth rate of 20%. Other Asian countries are gradually becoming major exporters of agricultural commodities as well. Thailand and Vietnam have been two of the top three milled rice exporters worldwide—next to India—for some time now. Indonesia has been encouraging investors as well to lease its fertile countryside and help the country become a major agriculture player.




Source: USDA, Blominvest



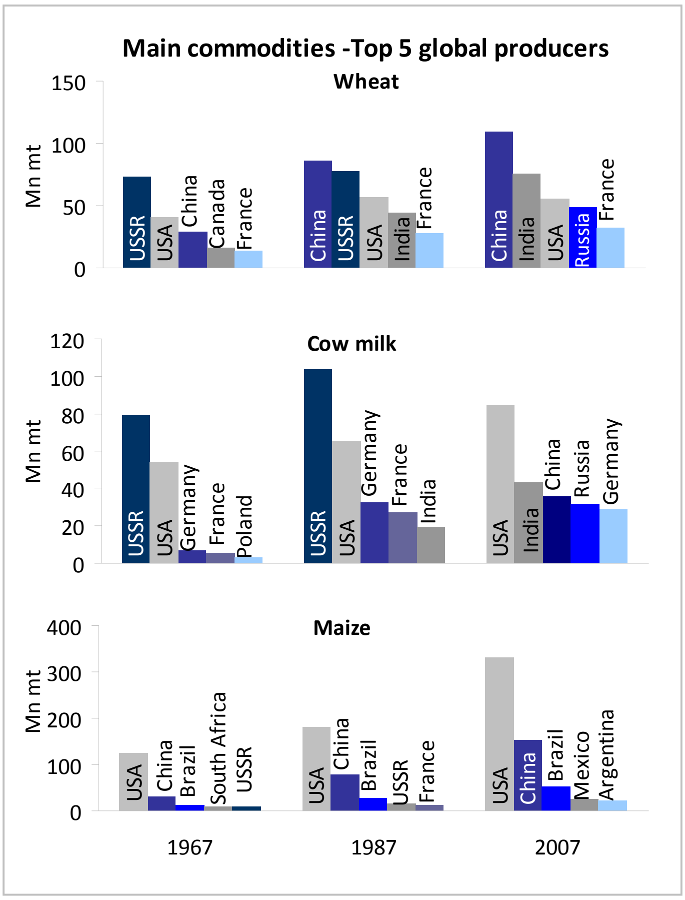

Source: USDA, Blominvest

The packaged foods industry is highly fragmented, with the top five companies generating only 11% of total sales and the top 50 companies a mere 27% as of 2007. However, the concentration is much higher in specific market segments such as breakfast cereals, baby foods, soups, confectionery, and cheese, where the top four brands sell between 20% and 100% of the total in terms of value. This is due to the evolving strategies of food manufacturers, who are facing stiffer competition from private labels and in-house brands launched by retailers. Therefore, manufacturers tend to focus on specific product lines and category management, instead of a broad product portfolio, in order to establish their presence in defined segments.

The relatively small market shares are, by no means, representative of the size of F&B companies, a number of which figure on the Fortune 500 list and the S&P 500 Index. Nestlé SA is a global leader in the packaged food industry, followed by names such as Unilever and Kraft Foods, with revenues of USD 93 bn, USD 56 bn, and USD 40 bn, respectively, during 2009. PepsiCo topped the beverages segment with sales of USD 43 bn, followed by Coca Cola in terms of both revenues and market capitalization. Archer-Daniels and Bunge, with respective sales figures of USD 69 bn and USD 42 bn for 2009, are the biggest agricultural product companies. Monsanto is a leader in the genetically modified (GM) seed and farming category with sales of USD 12 bn for the financial year ended August 2009.

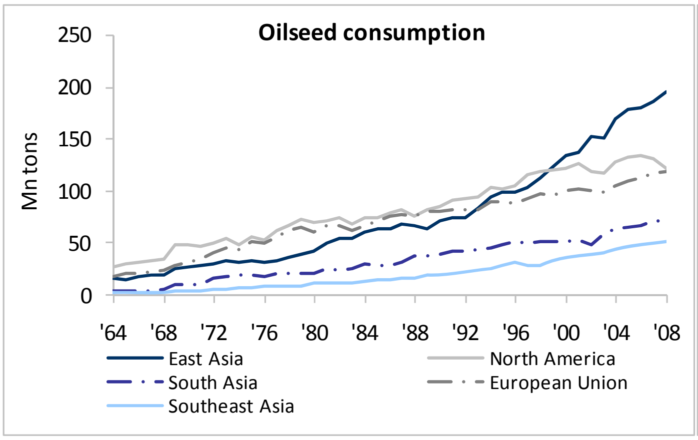
## 1.2 Increasing globalization of the food industry

The F&B industry has evolved over the decades in line with the economic trends that underscored the transformation in most industries across the world. Historically, the more developed countries were the major producers of food and agricultural commodities, led by the US and USSR. On the other hand, developing countries led the production only in cases where the climate in North America or Europe was too cold for crops like sugarcane (India and Brazil) or rice (China and India). The picture, however, has changed significantly over the last 40 years, as developing countries have gained prominence on the global stage. For some important agricultural crops that can be cultivated under a broad range of climatic conditions, emerging economies such as China and India are at the forefront. Since 1967, China has increased its wheat production by 283% and is now by far the largest producer in the world, while India's production moved up by 565% taking it to the second position in 2007. While the production capacity for cow milk in the US grew by 56%, it grew by 421% in India, which now stands second globally. China saw an incredible production increase from a little over 630,000 tons in 1967 to 35.6 mn tons in 2007, at a stunning growth rate of 5,546% to become the third-largest producer. The trend has strengthened in the recent past. Between 2003 and 2005, half of the US' top ten agricultural products by volume saw a decline in production vis-à-vis two in the case of China and one for India. Moreover, these included some conventional strongholds like wheat, chicken, and cattle meat.

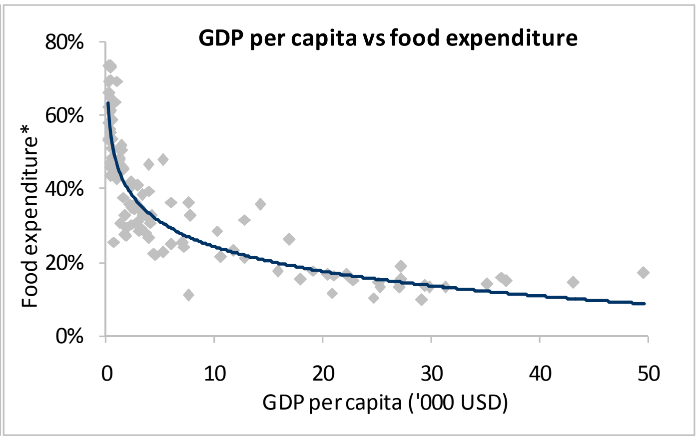



***Source***: FAO, Blominvest

The rapidly growing food demand on the back of rising populations and improving lifestyles in developing countries has been the key driver for the production jump in these countries. Due to these demographic and socio-economic factors, the growth in domestic demand within emerging economies has far outpaced that in developed economies. Developed countries—being much more mature markets—have seen relatively nominal demand increase on account of factors like health consciousness and the increasing preference for convenience foods. Based on volume consumption for some major food commodities, the developing regions have recorded the fastest growth since the 1960s among the top five regions. Grain consumption increased the




***Source:*** USDA, Blominvest



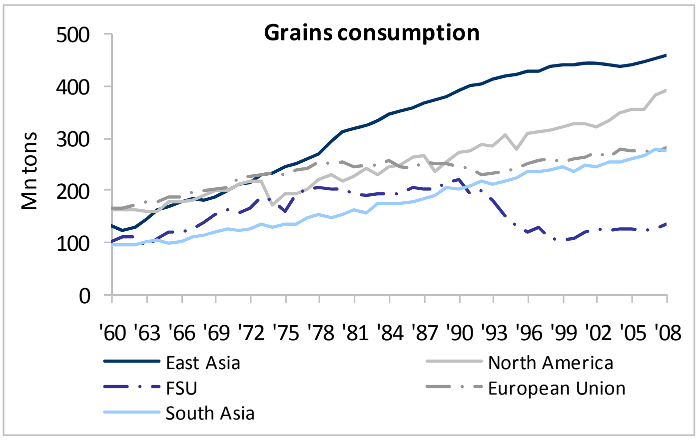

* Percent of total expenditure
Note: Data as of 1996

***Source:*** USDA, IMF, Blominvest

most in East Asia and is now the world's largest consumer. Oilseed consumption recorded an increase of over 1000% in East, South, and Southeast Asia. Sugar consumption has gone up exceptionally in South Asia since 1960 with a CAGR of over 12%, more than four times the global growth rate, making it the world's largest sugar consumer. Livestock, the most expensive of the analyzed food commodities, saw demand move up by over 10,000% over the past five decades in East Asia, with China accounting for almost 90% of the consumption.

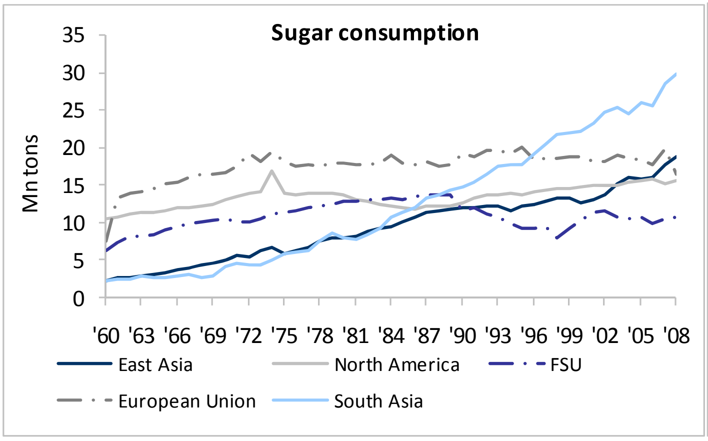
In line with the increase in household income levels, food expenditure patterns have also undergone changes. Generally, in lower-income countries, food takes a much bigger share in total household expenditures than in the higher-income ones. Across a group of 112 countries analyzed in 1996, a GDP per capita of less than USD 5,000 usually implied at least 30% of consumer expenses went toward food. For a number of countries with the lowest GDP per capita levels, more than 50% of consumer budget was allocated to food. Thus, the share of food in total expenditures tends to decline as a country's per capita income moves up. In a sample of high-income countries analyzed by USDA in 2008, food had an average share of 10.9%. Similar trends of rising per capita GDP over time can be clearly seen in the case of individual countries as well. In the US, food has the lowest share in total expenditures—5.9% as of 2008—declining from 9.7% in 1996. In Vietnam, which is at the other end of the spectrum, food accounted for 64.8% of consumer expenses in 1996. However, the percentage has decreased remarkably since then to about 35.7% as of 2008. Nonetheless, while the share of food in total expenses may be on the decline, the absolute spending has more than doubled when one compares developed countries with their lesser developed counterparts. The absolute annual spending was below USD 200 per capita in low-income countries, and stood at USD 440 and USD 914 in lower-middle and higher-middle income countries, respectively. The same in high-income countries which was as high as USD 2,133.

Similarly, the composition of the food basket has also changed in tandem with the income increase. A larger share of food expenditure is allocated to higher-value products like meat or sugar and confectionery, leaving lesser for staples like bread and rice. However, the analysis of expenditure may not always




FSU – Former Soviet Union

***Source:*** USDA, Blominvest

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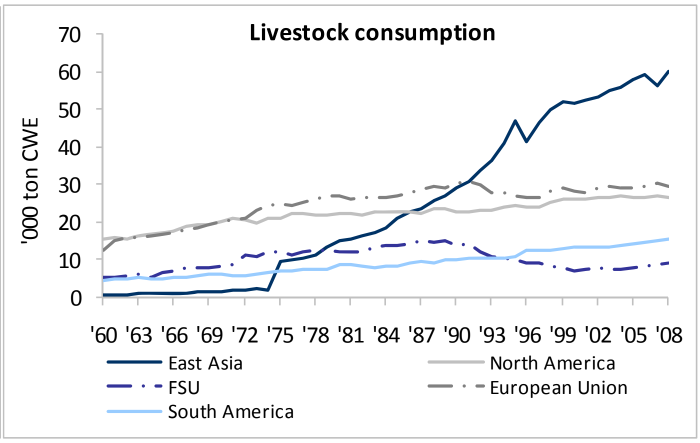
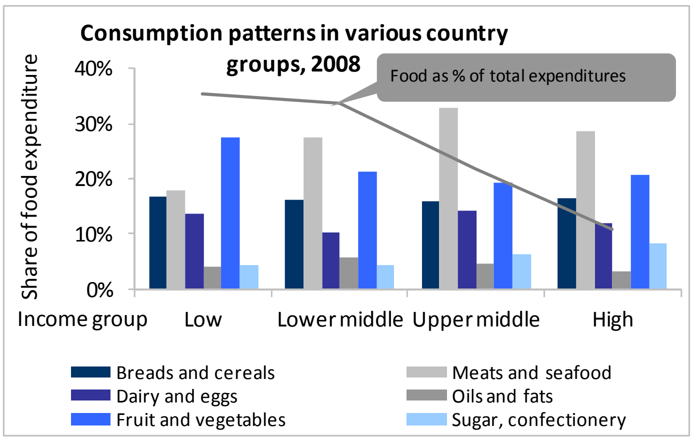
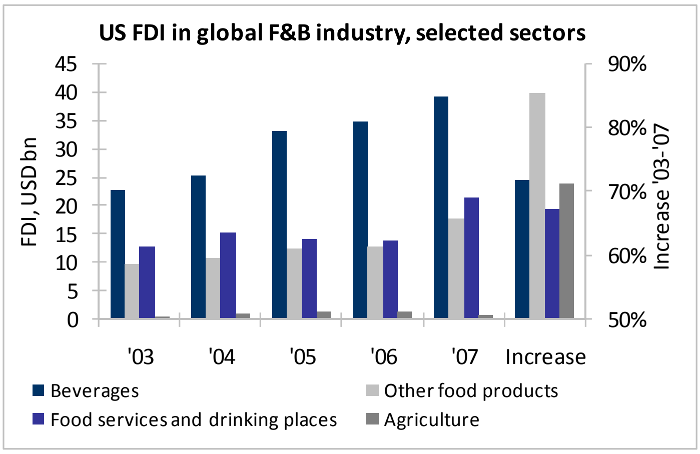



***Source:*** USDA, Blominvest



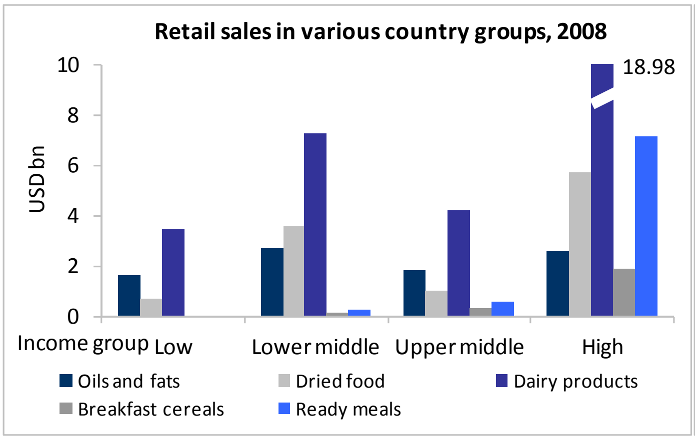

***Source:*** USDA, Blominvest

be accurate. For instance, the breads and cereals category has a similar contribution to food budgets across all the country groups. However, calories derived from this category account for 57% of total calories in low-income countries and 36% in high-income countries. This indicates that low-income countries consume larger amounts of simple breads and cereals (cornmeal, rice) as against other food categories. On the other hand, higher-income countries buy smaller amounts of more expensive items (packaged and processed cereals like breakfast cereals), which explains their relatively high share in total food expenditure. Therefore, in order to get a reasonably clear picture of the basket's composition across countries, one needs to cross-reference and collate data related to the share of individual food groups and the calories/nutritional value derived from them. Furthermore, product prices need to be considered, since some more expensive products in lower-income countries can have similar contribution to household expenditures despite much lower consumption volume. The resultant analysis after considering the aforementioned bias indicates that with rising incomes, incremental food expenditure broadly align along three dimensions: a) quality in terms of appearance, flavor, nutritional value etc., b) variety, and c) convenience. As a result, customers tend to buy more of expensive foods like meats and organic products and more value-added forms that offer variety and convenience. Ready meals, in particular, are a very important retail category in high-income countries.

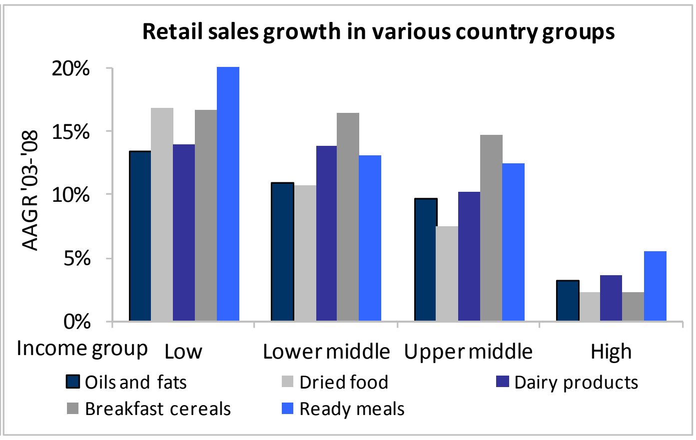



*Source:* BEA, USDA, Blominvest

The overall convergence in food consumption patterns across countries in terms of tastes and dietary preferences is, to a great extent, correlated with the standardization of food delivery mechanisms. Evolving consumer demand and the expanding presence of global players across the developed and developing countries are inducing changes in retail and foodservice. The arrival of multinational food service chains, western-style retail outlets, and globalization are influencing consumer preferences the world over. In most large cities of the world, including developed and developing countries, it is no more a difficult task to find the cuisine of one's choice, regardless of whichever place one belongs to.

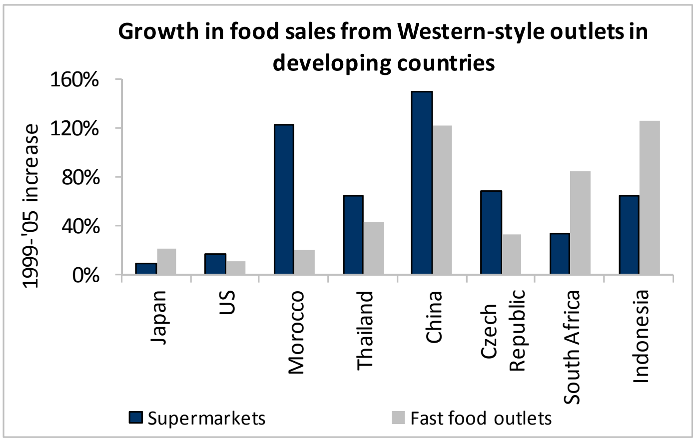



*Source:* USDA, Blominvest




*Source:* USDA, Blominvest

Developing countries represent an increasingly attractive market for global food industry players. Currently, about 58% of the total food is consumed by this group, and the share is expected to reach 72% by 2050. Retail sales across all major food categories are growing much faster in the lower-income country groups. Over the 2003-08 period, sales of ready meals grew between 11.8% and 26.9% in China, Brazil, Russia, and India, in that order. In contrast, the growth in the US and UK was just about 2% and 2.8%, respectively. By 2014, China is expected to become the largest grocery market in the world. From a retail and foodservice standpoint, the increase in sales from supermarkets and fast food chains in developing countries was several times that in developed markets such as the US and Japan over 1999-2005.



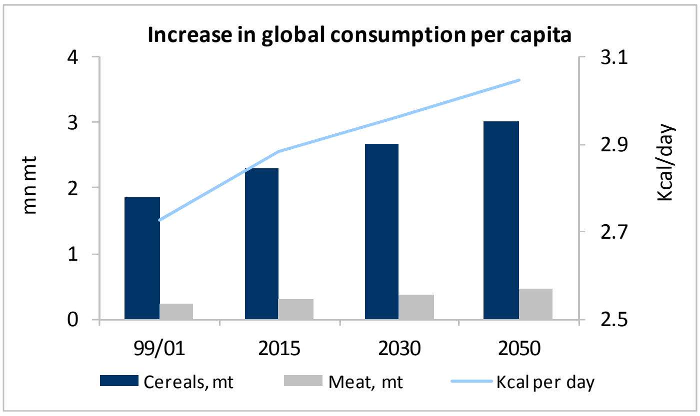

***Source:*** USDA, Blominvest

Food retail is a relatively mature industry in the western world and is, therefore, characterized by flat sales growth and multiple large retail chains (Wal-Mart, Carrefour, etc.). Companies have to rely on product differentiation, innovation, and introduction of new retail formats such as discount stores, all of which have a negative impact on profitability. As a result, companies are forced to scout for opportunities in emerging countries, where the industry is still developing and offers tremendous scope for growth. The world's major international food retailers are reportedly particularly interested in Brazil, Russia, India, China, and Mexico. Wal-Mart recently tied up with Indian corporate major Bharti to enter the retail business in India, which has relatively the lowest penetration of modern retail formats among the five countries. Carrefour has taken the lead in China, but other biggies like Tesco, Wal-Mart, METRO Group, and Auchan are expanding their presence as well. Brazil and Mexico have a comparatively more developed food retail sector than others, while both China and Russia are characterized by a relatively strong presence of local players. Characteristic to Indian food retail is the lowest penetration of modern formats among the five countries and a rapidly growing middle class of 300 mn and counting.

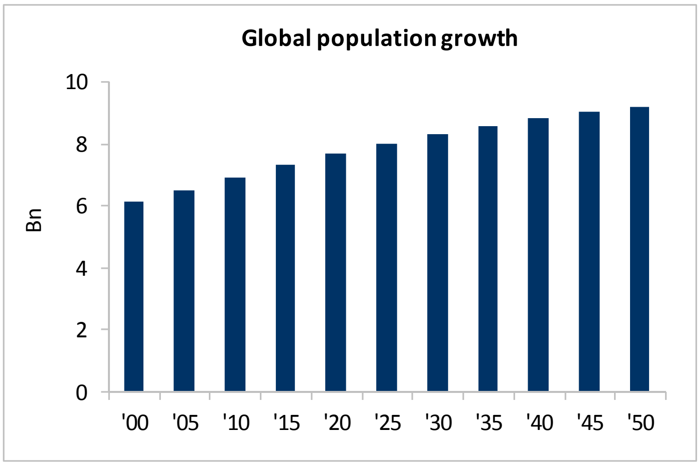
## 1.3 An imminent food shortage?

In November 2009, the United Nations (UN) held its first food summit since 2002. In July 2009, the G8 countries promised to increase spending on agricultural development by USD 20 bn over the next three years, calling agriculture and food security "the core of the international agenda." The World Bank raised its agriculture spending by 50% to USD 6 bn, and the Jeddah-based Islamic Development Bank is creating an agriculture department for the first time. Individually, almost every developing country has been supporting its farmers, implementing measures such as building rural roads; offering subsidies on seeds and fertilizers; helping smallholders; and intervening in the market if needed. This renewed interest is comparable to that preceding the Green Revolution of the 1960s, when the foundations of modern agriculture were laid, leading to increases in staple crop yields of 3-6% a year. However, industrial activity hogged the interest during the following decades, because of which investments in agriculture declined, research budgets slashed, resulting in yield growth coming down to 1-2% a year.

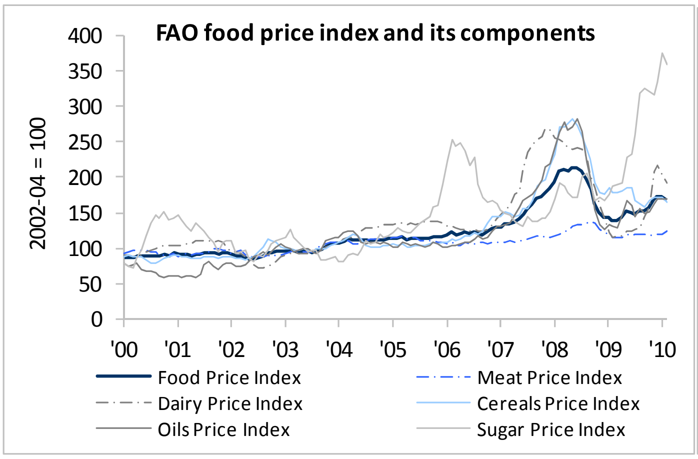
There is a valid reason for the concern. It will get increasingly difficult to ensure food security, i.e. to make available the necessary quantities of food at affordable prices to everyone, unless certain measures are adopted. According to the UN, the global population is set to increase by another 2.3 bn or one-third of the current levels by 2050. However, the expected food demand is likely to be higher by 70%. The disproportionate increase in demand will be driven by increased per capita consumption, in addition to the



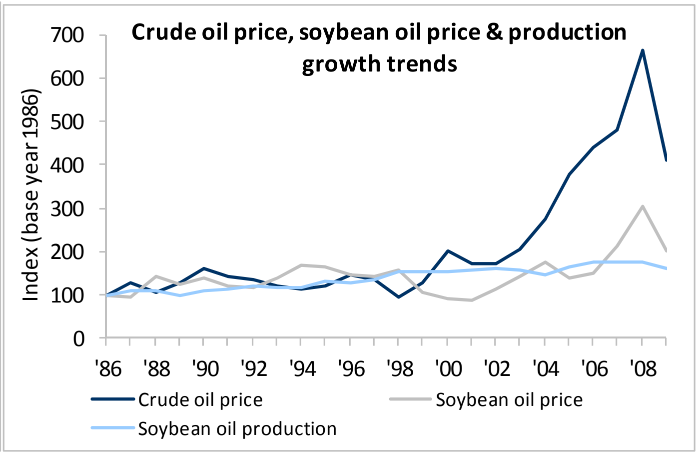

***Source:*** FAO, Blominvest




***Source:*** UN, Blominvest




***Source:*** FAO, Blominvest




***Source:*** EIA, Bloomberg, Blominvest

higher number of people. The fastest demand growth will likely be recorded for higher-value and specialized foods like meat, dairy, and oilseeds.

According to FAO, per capita consumption of cheese, poultry meat, and vegetable oils will increase by 12%, 29%, and 49%, respectively by 2018 compared to the levels in 2004. The largest contribution to this demand growth will come from emerging economies like China, India, Brazil, Argentina, and CIS countries. Similarly, the number of calories consumed will be higher, with an expected 3,047 calories daily per head versus 2,771 in 2003-05. While this indicates better nutrition levels, especially in the least developed regions like sub-Saharan Africa and South Asia, it also implies increasing pressure to ensure effective food production and distribution.

The recent spike in food prices during 2007-08 has already caused a lot of concern and drawn attention to the volatility of the food market. This time around, the food price increase was somewhat reversed by the economic crisis, which pushed down prices closer to the long-term historical average. However, the fact remains that the fundamental issues that led to the recent spike and are intrinsic to the global food markets have not really disappeared. Therefore, as economic conditions improve, the earlier upward trend in food prices is likely to stage a comeback. Prices have already begun to look up amidst the ongoing economic recovery, even though the sustainability still remains uncertain.

The food supply system is even more reliant on fossil fuels today. Vast amounts of oil and natural gas are required in the manufacture of fertilizers and pesticides, and as inputs at all stages of food production from planting, irrigation, harvesting, through processing, packaging, and distribution. Higher oil and natural gas prices increase input costs, transportation expenses escalate, further accelerating food prices. Once oil prices top USD 60-80 a barrel, biofuels become more competitive, and grains may be diverted for biofuel production. Besides, subsidies for biofuels production are driven by ecological and sustainability concerns. In fact, the emergence of biofuels—which on one hand are substitutes for fossil fuels and on the other hand compete for land use with food commodities—has provided a link between oil and agricultural markets, bringing new levels of volatility to the latter. For over a decade, the price of soybean oil used as biofuel has followed that of crude oil—though with some lag—which can be attributed to adjustment of facilities from one type of fuel to another. Since 2006, prices of the two have been moving in unison. At the same time, production of soybean oil grew steadily over 1986-2009, validating the conclusion that soybean oil prices have tracked crude oil prices more closely than what is implied by the market's supply and demand fundamentals.

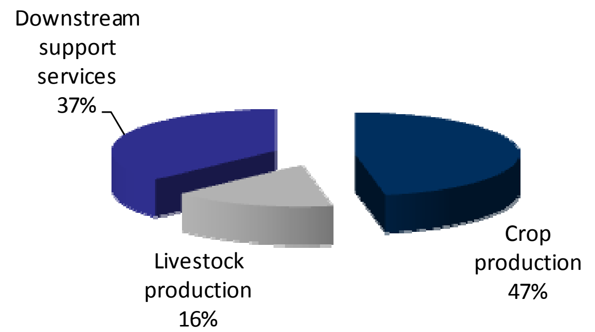
Changes in climatic conditions and factors like global warming exert further pressure on food prices. While it is still uncertain to what extent and how exactly factors like increased carbon dioxide emissions will eventually change the global climate, one observed development is the increased unpredictability and volatility of weather conditions. In 2008, Cyclone Nargis destroyed 7% of Burma's rice crop, and floods in Midwestern US caused major damage to corn and soybean crops. In 2009, a below-average monsoon in India forced the country to sign futures contracts for sugar imports. By September 2009, the otherwise net exporter of sugar had imported over 2.5 mn tons of the commodity, adding over 2 mn tons by end-December. A monsoon failure reduced the outlook for India's crop, and amid lower global stockpiles, sugar surged to "stratospheric" levels in New York and London. According to a recent study by FAO, such volatilities will add to global warming, which although may not have a huge impact over the next four decades, but will affect agricultural production remarkably by 2080.

> "The single best recession hedge of the next 10 or 15 years is an investment in farmland"
>
> **- Reza Vishkai**
>
> (Head of alternatives, Insight Investment)

The upward trajectory of food prices has attracted investors and hedge funds into the commodity markets as a means of portfolio diversification. Around 2006, commodity investment funds started increasing their focus on the agricultural sector, and individual investors became more aware of the potential profitability. The speculation has added to the existing volatility in food prices. Apart from commodity markets, the increased participation of the private sector is visible in food production and processing. In fact, bigger investors have turned to acquisitions of agricultural assets as a secure hedge against economic debacles. Reportedly, Goldman Sachs had spent up to USD 300 mn to acquire over ten professional live pig breeding plants in China by August 2008, while Deutsche Bank had bought a 30% stake in a Shanghai live pig breeding factory for USD 60 mn. US-based Blackrock Inc. set up a USD 200 mn agricultural hedge fund, of which USD 30 mn was allocated to farmland purchases around the world. Land seems to be the most sought asset in the private investor's quest for profits. Other players have entered the scene as well, including Morgan Stanley with its acquisition of 40,000 ha and Russia-based Renaissance Capital, which acquired rights to 300,000 ha, both in Ukraine. Britain's Landkom joined the two after buying 100,000 ha in Ukraine, while Swedish investment groups Black Earth Farming and Alpcot-Agro have been focusing on Russia, capturing 331,000 and 128,000 ha, respectively.

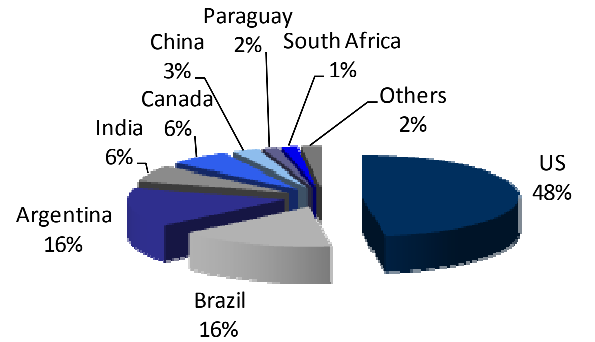
Other challenges for the industry surfaced following food scarcity, and many countries around the world outlining food security as a prime policy objective. After food shortages caused public uproar in many countries—the most notable being Madagascar and Haiti—states embarked on a quest to ensure sufficient resources for at least the staple foods for their populations. This led to an increase in protectionist and interventionist measures, not seen over the past few decades. Even though most of the export bans on crops imposed by a number of crop exporters in mid-2008 have been lifted, the market distrust prevails. In November 2009, Philippines contracted a purchase of 1.5 mn tons of rice, or 5% of the grain's total annual trade, to avoid exposure to the spot market. The same commodity was rumored to be a subject of bilateral negotiations between India, Vietnam, and Thailand, which could further reduce the exportable surplus. In Africa, Burkina Faso and Sierra Leone started negotiations with food wholesalers in order to indirectly control prices. In Europe, which has always been relatively stringent in food trade, France is resisting pressure from the World Trade Organization to lift agricultural subsidies in the face of the food crisis. At the same time, informal campaigns commenced among food producing organizations supporting protectionism.

**Investment required in agricultural sector to 2050**



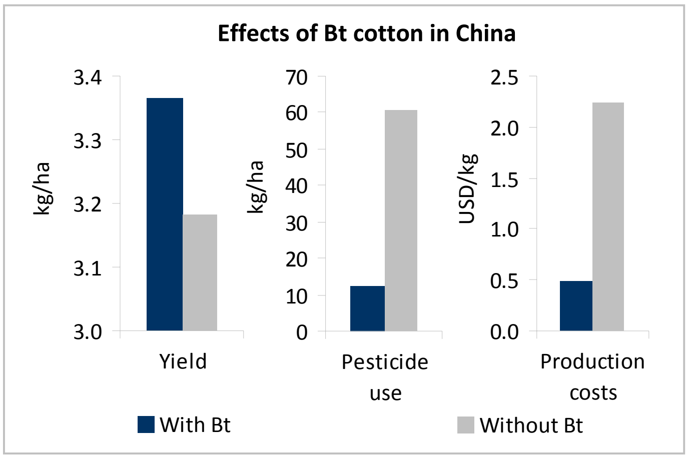

***Source:*** FAO, Blominvest

**Biotech crops area country-wise, 2009**




***Source:*** ISAA, Blominvest

Increased investment in agriculture will be absolutely necessary if the world is to meet its future food needs. Over the past 50 years, according to a study by FAO, 75% of the increase in agricultural output was on account of higher yields. However, as global food production reaches even higher levels, the incremental effect is gradually on the decline. Since the potential for further land expansion is limited, higher yields seem to be the only way to meet growing demand. Thus, FAO estimates that USD 9.7 trillion will have to be invested in food production by 2050, of which almost half needs to be in the area of primary agriculture, 16% in livestock production and 37% in downstream support services like processing, transportation, and storage. All of this investment will be required to focus on developing regions, with East and South Asia receiving an estimated 57% of the total investment, followed by Latin America, the MENA region and Sub-Saharan Africa. The term 'investment' in this context is rather broad and includes a wide array of developmental activities that can ensure sustainability of agricultural production increase. It encompasses even simple ideas like building rural roads and grain stores, especially in the least-developed countries in Sub-Saharan Africa. Technological progress to facilitate drip irrigation, no-till farming, and more efficient use of fertilizers and pesticides is another critical focus area. Research and Development (R&D) in agriculture, which failed to attract due attention after the Green Revolution era, is back under the spotlight. One of the especially prominent areas currently is genetically modified (GM) foods, which can play a big role in raising the efficiency of food production. Development of GM crops on a large-scale began in 2006. In 2002, a study conducted in China showcased some of the gains resulting from the use of Bt (Bacillus thuringiensis) cotton. Bt crops carry the gene of a bacterium that helps them fight certain pests, are one of the more popular examples of the use of biotechnology in agriculture. Bt cotton achieved considerably higher yields in China with much lower need for pesticides, resulting in production cost coming down to less than a quarter compared to that for non-Bt varieties. Cotton is the third largest GM crop at present, next only to soybean and maize. Almost half of the GM crops are grown in the US, followed by Brazil and Argentina, with the total of almost 107 mn ha of such crops shared between them. Another 12 countries joined the group of "biotech mega-countries" with at least 50,000 ha of biotech crops, according to International Service for the Acquisition of Afri-biotech Applications (ISAAA). In contrast, Europe's role has been limited so far, due to a number of controversies surrounding GM food and an overall lack of public support, resulting in unfavorable regulations. Recently, a proposal to introduce Bt brinjal in India sparked another wave of controversies. However, major global organizations seem to be in favor of GM crops and see them as an inevitable option to address the need for increasing food demand despite limited resources.




***Source:*** FAO, Blominvest

# 2 MENA overview

## 2.1 Geographical profile of the region

Data about agricultural development In the Middle East region is relatively difficult to obtain, particularly in the context of the exact area under cultivation. The total area under discussion—Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Qatar, KSA, and UAE—is 366.7 mn ha or about 2.82% of the world's total land area. However, the greater part of the area is a desert, of which only a very small portion is suitable for agriculture.

| Country | Land Area (1,000 Ha) | Agri Land as % of Total Land |
|---|---|---|
| **Bahrain** | 71 | 14.08 |
| **Egypt** | 99,545 | 3.55 |
| **Jordan** | 8,824 | 10.93 |
| **Kuwait** | 1,782 | 8.64 |
| **Lebanon** | 1,023 | 67.17 |
| **Oman** | 30,950 | 5.81 |
| **Qatar** | 1,159 | 6.13 |
| **KSA** | 214,969 | 80.77 |
| **UAE** | 8,360 | 7.12 |

***Source:*** World Bank, Blominvest

A marginal-sized area between the desert and the sown land is not cultivated regularly owing to harsh climate. This stretch of land is termed as the desert steppe land and is cultivated at irregular intervals mostly by semi-nomadic tribes. The rainfall patterns in most part of the geography are difficult to predict, while the rain that does fall is often insufficient to produce good harvests.

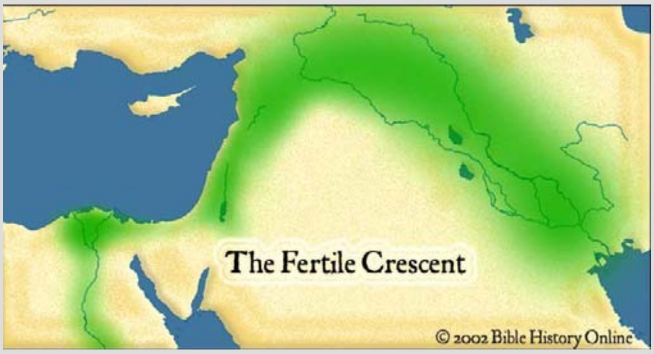
In geographical terms, agricultural land or area is that land that is suitable for agricultural production, including both crops and livestock. The FAO classifies agricultural land into the following:

- Arable land —land that can be used for growing crops; also includes land left temporarily fallow.
- Orchards and vineyards — land under permanent crops (e.g., fruit plantations).
- Meadows and pastures — land used for natural grasses and grazing of livestock.

The regularly cultivated area of the Fertile Crescent exhibits significant diversity. Along the coastline and under the mountains, heavy rainfall allows for intensive cultivation and higher input per unit area, resulting in higher yields and lower unit production costs. As the rainfall recedes from the coast, extensive cultivation of grains begins at a short distance inland, even as yields decrease.

**'Fertile Crescent'**

The "Fertile Crescent" refers to an area of cultivable land stretching as an arc around the deserts of Syria and Saudi Arabia, where rainfall is high enough to permit arable cultivation, mainly due to proximity to either the seacoast, or the mountains. The 20 cm (or 8 inch) rainfall line marks its limits, since with less rainfall wheat cultivation is impossible, although crops such as barley are grown in the desert border zone with only a 4-inch rainfall, but are uncertain or poor. The 8-inch rainfall delineates the limit of regular cultivation. The 4-inch rainfall line defines the limit of the semi-desert area.




The MENA region accounts for nearly 3.68% of the world's total agricultural land area. However, adequate water is available in only three of the nine countries included in this study. As of 2007, Egypt had 6,000 sq. km of water, while Jordan and Lebanon had some as well, albeit in much lesser quantities. The Middle East region receives an estimated 1.56 trillion cu. m. of annual precipitation, which translates into an annual regional average of 238 mm. However, there are significant disparities between countries.

The physical geography of the Middle East region is quite varied. Vast arid deserts such as the Sahara run across North Africa, essentially restricting settlement along the Mediterranean coastline and along the river Nile and the Red Sea in Egypt, which is the most populated country. The desert in the Arabian Peninsula is called “The Empty Quarter” for its severely inhospitable conditions. Therefore, agricultural activity is relatively prominent in areas that receive rainfall and are served by rivers such as the Tigris-Euphrates river system, the Jordan River, and along the Mediterranean coast.

**Middle East Climate**

Broadly, the climate in the Middle East region is hot and dry, with mild winters and some rainfall. The exception is in the mountainous areas, where the desert turns to steppes in northern Iraq, northern Iran, and eastern Turkey. Winters can be quite severe in some of these areas. The Middle East region is in a transitional zone between the equatorial and mid-latitude climates. A characteristic feature of all subtropical latitudes, of which the Middle East forms a substantial part, is aridity and a markedly minimal precipitation.

The hot desert conditions are highly unfavorable for cultivation of permanent crops. Across the region, summer temperatures usually hover around 85$^{o}$F and can soar above 100$^{o}$F. In the Saudi desert, temperatures of over 120$^{o}$F are common. Most storms crossing the Middle East turn into dust or sandstorms due to strong winds and the dry surface. At last count, as many as 38 such storms can occur annually, making the overall climatic conditions even more hostile.

**Water in the region**

The MENA region is possibly the most water scarce region in the world with very limited renewable water resources. Rapid population growth and urbanization have exacerbated the scarce conditions in the region. While the region is home to about 5% of the world population, it has only 1% of the world’s renewable water resources. The region has the highest per capita rates of fresh water extraction (804 m3/year) and exploits over 75% of its renewable water resources, more because of the lower absolute amount of water present. Driven by diminishing fresh water resources, local governments have been adopting new strategies for balancing their scarce sources and growing demand for fresh water. MENA countries are turning to other options such as desalination to address the current and future water supply requirements. Some of them have developed sophisticated water storage facilities. In Saudi Arabia, desalination plants provide as much as 70% of the total drinking water. Due to the increasing population, as well as robust economic growth, water demand—both per capita and in absolute terms—will continue to increase across the region, heavily competing with the agricultural sector, which is by far the most demanding in terms of water withdrawal. The Gulf States dominated by oil industries still use a considerable amount of water for agricultural purposes despite the sector’s small contribution to GDP.

**Contribution of Agriculture to GDP**

In most of the countries under study, the contribution of agriculture to GDP is less than 2-3%. A substantially larger figure characterizes Egypt, where irrigated farming has attained a significant level of development. The region’s low agricultural productivity—as various indices reveal—is directly on account of the adverse physical conditions across most of the region, in addition to the relative neglect of agriculture by the region’s governments over a long period.

| Contribution of agriculture to GDP, 2009 | |
|---|---|
| **Bahrain** | 0.4%* |
| **Egypt** | 13.7% |
| **Jordan** | 2.9% |
| **Kuwait** | 0.2% |
| **Lebanon** | 5.6% |
| **Oman** | 1.2%** |
| **Qatar** | 0.1% |
| **KSA** | 2.9% |
| **UAE** | 1.0% |

Note: *2Q10, **1Q10 ***Source:*** Bloomberg, Blominvest

## 2.2 Food production

Cropping and irrigated agriculture has been practiced in the Middle East since at least the 5th century BC. Regionally, the agricultural sector consumes more than 85% of extracted fresh water, although this varies from country to country. The region's annual food imports are valued at approximately USD 12 bn, accounting for between 10% and 35% of the total imports. Grains lead imports, although individual countries export higher value crops such as fruits and vegetables. While wheat production meets 25% of the total consumption, rice is about 52%. Although per capita sea food consumption is high, fresh and processed seafood products are widely available throughout the region. Lebanon has the highest proportion of cultivable land in the Arab world, with almost one-fourth of the land available for cultivation.

**Land Usage, 2010**

| | Water (km$^2$) | Arable land (%) | Irrigated land (km$^2$)* | Permanent Crops (%) | Other (%) ** | Produce |
|---|---|---|---|---|---|---|
| **Bahrain** | 0 | 2.82 | 40 | 5.63 | 91.55 | Fruit, vegetables; poultry, dairy products; shrimp, fish |
| **Egypt** | 6,000 | 2.92 | 34,220 | 0.5 | 96.58 | Cotton, rice, corn, wheat, beans, fruits, vegetables; cattle, water buffalo, sheep, goats |
| **Jordan** | 540 | 3.32 | 750 | 1.18 | 95.5 | Citrus, tomatoes, cucumbers, olives; sheep, poultry, stone fruits, strawberries, dairy |
| **Kuwait** | 0 | 0.84 | 130 | 0.17 | 98.99 | Practically no crops; fish |
| **Lebanon** | 170 | 16.35 | 1,040 | 13.75 | 69.9 | Citrus, grapes, tomatoes, apples, vegetables, potatoes, olives, tobacco; sheep, goats |
| **Oman** | 0 | 0.12 | 720 | 0.14 | 99.74 | Dates, limes, bananas, alfalfa, vegetables; camels, cattle; fish |
| **Qatar** | 0 | 1.64 | 130 | 0.27 | 98.09 | Fruits, vegetables; poultry, dairy products, beef; fish |
| **KSA** | 0 | 1.67 | 16,200 | 0.09 | 98.24 | Wheat, barley, tomatoes, melons, dates, citrus; mutton, chickens, eggs, milk |
| **UAE** | 0 | 0.77 | 760 | 2.27 | 96.96 | Dates, vegetables, watermelons; poultry, eggs, dairy products; fish |

* As of 2003 **As of 2005

***Source:*** CIA World Factbook, Blominvest

About 16% of the available land in Lebanon is arable, with nearly 14 permanent crops. Agriculture in Lebanon is the third most important sector after the tertiary and industrial sectors and contributes nearly 7% to GDP. The sector also employs around 15% of the active population. Main crops include cereals like wheat and barley, fruits and vegetables, olives, grapes, and tobacco, along with sheep and goat herding. In the UAE, about 760 sq. km of land is irrigated of which an estimated 24% of cultivated land is used to grow vegetables, 30% fruits, 10% animal-feed crops, and 36% for other uses. The nation's main crops are tomatoes, melons, and dates, with Ras al-Khaimah being the most productive region. The emirate receives underground water supplies from the nearby mountains of Oman and enjoys the most plentiful rainfall. Off late, advanced technologies and new green crops have helped revolutionize the Middle East agricultural scene. A new project underway in Abu Dhabi, for example, could see a salt-tolerant salad plant provide food, fodder and fuel without using a single drop of freshwater.

Saudi Arabia has the second highest irrigated land area of 16,200 sq km in the MENA region, after Egypt. Despite contributing a nominal 3% to the country's GDP, the Saudi agricultural sector uses more than 85% of the total water available in the Kingdom. It is the world's third-largest consumer of water with daily per capita consumption of 248.7 liters. As per a UN study, water concerns are prompting Saudi, the world's largest barley importer, to cut down on the production of water-intensive crops such as wheat, for which the country is self-sufficient. For 2010, imports of barley and corn, used mainly as livestock feed, are estimated at 7 mt and 2 mt, respectively. Jordan, where almost 3.3% of the total available land is arable, is primarily involved in the production of fruits and vegetables including tomatoes, cucumbers, citrus fruit, and bananas.

With the second highest arable land (2.92% of total available land) and the highest irrigated land (34,220 sq km) in the MENA region, the Egyptian agriculture sector contributes a significant 13% to total GDP. Cotton, rice, wheat, corn, sugarcane, sugar beets, onions, and beans are the major crops produced in the fertile Nile valley and delta. In fact, after the services sector, majority of the Egyptian population is employed in the agricultural sector.

| Gross agricultural production (constant prices, mn international dollars) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Country** | **Item** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** |
| **Bahrain** | Crops | 8.8 | 7.8 | 8.0 | 7.7 | 7.0 | 9.8 | 9.0 | 9.0 | 9.0 |
| | Livestock | 14.2 | 18.3 | 15.4 | 14.4 | 15.7 | 16.0 | 16.7 | 15.0 | 15.0 |
| | Total food | 23.0 | 26.1 | 23.5 | 22.1 | 22.7 | 25.8 | 25.7 | 24.0 | 24.0 |
| **Egypt** | Crops | 10,007.6 | 10,456.7 | 10,570.1 | 11,162.1 | 11,409.7 | 12,187.8 | 12,525.7 | 12,894.4 | 13,546.2 |
| | Livestock | 3,544.9 | 3,678.1 | 4,253.9 | 4,133.0 | 4,121.0 | 4,200.5 | 4,831.3 | 4,748.8 | 4,737.0 |
| | Total food | 13,038.2 | 13,683.2 | 14,506.4 | 14,835.6 | 15,205.2 | 16,055.9 | 17,006.0 | 17,384.4 | 17,936.3 |
| **Jordan** | Crops | 294.3 | 446.1 | 392.5 | 451.1 | 441.2 | 474.0 | 439.6 | 431.5 | 476.4 |
| | Livestock | 256.3 | 255.6 | 281.1 | 296.6 | 299.0 | 298.5 | 337.2 | 387.4 | 355.8 |
| | Total food | 545.3 | 690.7 | 666.2 | 740.7 | 732.4 | 764.6 | 768.4 | 810.5 | 823.8 |
| **Kuwait** | Crops | 48.0 | 45.8 | 53.0 | 53.8 | 55.1 | 53.0 | 53.8 | 53.8 | 53.8 |
| | Livestock | 89.5 | 80.7 | 88.6 | 91.5 | 85.5 | 81.3 | 82.4 | 82.4 | 82.4 |
| | Total food | 136.8 | 125.9 | 141.0 | 144.6 | 139.8 | 133.6 | 135.5 | 135.5 | 135.5 |
| **Lebanon** | Crops | 608.8 | 650.3 | 619.3 | 683.0 | 627.2 | 631.8 | 636.3 | 640.2 | 642.2 |
| | Livestock | 248.2 | 274.4 | 285.1 | 292.5 | 287.4 | 279.2 | 299.8 | 360.5 | 360.5 |
| | Total food | 830.6 | 903.9 | 883.3 | 952.0 | 894.7 | 891.9 | 915.6 | 980.2 | 982.2 |
| **Oman** | Crops | 145.0 | 125.3 | 118.6 | 136.1 | 130.1 | 131.0 | 135.0 | 135.0 | 135.1 |
| | Livestock | 69.1 | 68.9 | 66.6 | 88.9 | 133.0 | 94.9 | 91.6 | 88.4 | 88.8 |
| | Total food | 211.8 | 191.9 | 182.9 | 222.7 | 260.8 | 223.5 | 224.3 | 221.1 | 221.6 |
| **Qatar** | Crops | 12.7 | 13.3 | 9.9 | 11.2 | 12.0 | 15.2 | 18.9 | 18.9 | 18.9 |
| | Livestock | 17.8 | 23.4 | 20.9 | 21.3 | 9.6 | 7.8 | 8.9 | 8.9 | 8.9 |
| | Total food | 30.5 | 36.7 | 30.8 | 32.5 | 21.6 | 23.0 | 27.9 | 27.9 | 27.9 |
| **KSA** | Crops | 1,142.8 | 1,202.4 | 1,257.8 | 1,383.3 | 1,402.9 | 1,408.1 | 1,400.9 | 1,337.0 | 1,337.0 |
| | Livestock | 1,207.8 | 1,171.3 | 1,172.8 | 1,226.6 | 1,258.8 | 1,373.6 | 1,485.0 | 1,521.1 | 1,521.1 |
| | Total food | 2,333.0 | 2,355.8 | 2,412.5 | 2,590.0 | 2,640.7 | 2,763.5 | 2,867.7 | 2,840.0 | 2,840.0 |
| **UAE** | Crops | 374.3 | 348.4 | 307.9 | 349.3 | 347.1 | 341.9 | 350.3 | 350.3 | 350.3 |
| | Livestock | 124.3 | 130.1 | 143.5 | 144.5 | 150.2 | 149.2 | 137.5 | 148.7 | 148.7 |
| | Total food | 497.4 | 476.3 | 450.2 | 492.7 | 496.2 | 489.7 | 486.3 | 497.5 | 497.5 |

***Source:*** FAO, Blominvest

| Per capita agricultural production index (1999-2001=100) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Country** | **1994-96** | **1999-01** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** |
| **Bahrain** | 101 | 100 | 115 | 114 | 107 | 107 | 122 | 119 | 109 | 107 |
| **Egypt** | 89 | 100 | 100 | 105 | 105 | 105 | 111 | 115 | 116 | 118 |
| **Jordan** | 120 | 100 | 126 | 113 | 122 | 118 | 119 | 114 | 121 | 120 |
| **Kuwait** | 74 | 100 | 93 | 109 | 115 | 92 | 87 | 89 | 87 | 85 |
| **Lebanon** | 123 | 100 | 98 | 94 | 101 | 93 | 94 | 94 | 100 | 99 |
| **Oman** | 77 | 100 | 90 | 81 | 97 | 109 | 94 | 91 | 88 | 86 |
| **Qatar** | 115 | 100 | 99 | 75 | 77 | 47 | 38 | 42 | 37 | 33 |
| **KSA** | 101 | 100 | 107 | 108 | 121 | 102 | 106 | 106 | 102 | 100 |
| **UAE** | 51 | 100 | 50 | 42 | 46 | 44 | 44 | 39 | 34 | 31 |

***Source:*** FAO, Blominvest

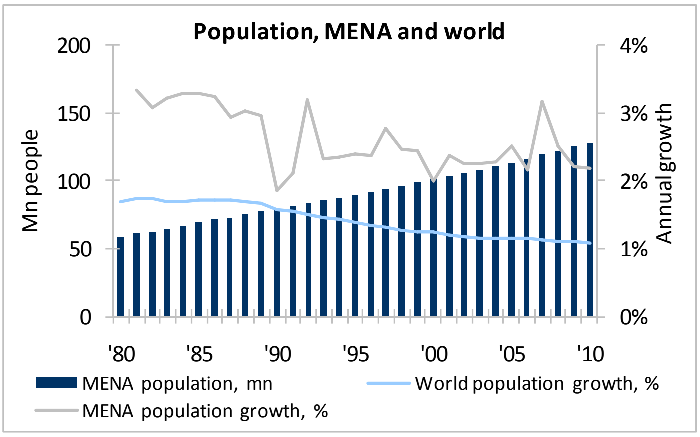
Over the past decade, the amount of food produced measured in international dollars (constant prices) has increased in most of the countries under study. However, there have been certain variations to the general overall trend. Jordan (+51%) and Egypt (+38%) have seen the largest increase in total food production. In Kuwait and Qatar, on the other hand, the amount of food produced actually declined. In Bahrain, Lebanon, Oman, Saudi Arabia, and the UAE, livestock recorded higher growth than crops, while the opposite was true for Egypt, Jordan, Kuwait, and Qatar.

The situation appears different when analyzing agricultural production per capita. The index provided by FAO clearly shows that net production (excluding deductions for feed and seed) per person increased for only three countries over the past decade, leaving the rest more dependent on food imports. Interestingly, in almost all cases there has been an increase in food production per capita over the 2003-2005 period, reflecting efforts by states in the region to achieve food sovereignty. Since then, however, many of those initiatives have been scrapped, and food production per capita has dipped—in some cases—below what it was a decade ago. In particular, Qatar and the UAE have seen the most drastic fall in food production per capita to around one-third of the 1999-2001 level. This, however, has resulted not only from lower-than-expected food production in general, but in a large part from a rapid increase in populations of these countries.

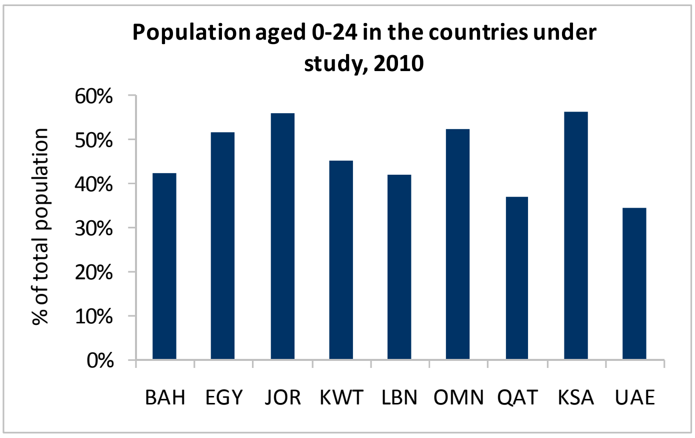
# 3 Regional trends

## 3.1 Rising incomes

The main drivers for the F&B sector in the MENA region, similar to other developing countries, are the favorable demographics and personal income trends. Over the past 30 years, the region's population of the countries under study has more than doubled, from 59 mn in 1980 to an estimated 128 mn in 2010. Annual growth rates during the period ranged from around 2% to 3.3%, with an average that was almost twice the global average, which has been on the decline anyway. A key factor characterizing the region is the low average age. The proportion of population with an average age of 24 or less in the countries under study is estimated in the range of 30% to 55%. This clearly indicates tremendous growth potential in the future for a multitude of sectors. Larger populations inevitably imply increased food consumption and, in turn, further development of the regional F&B market.

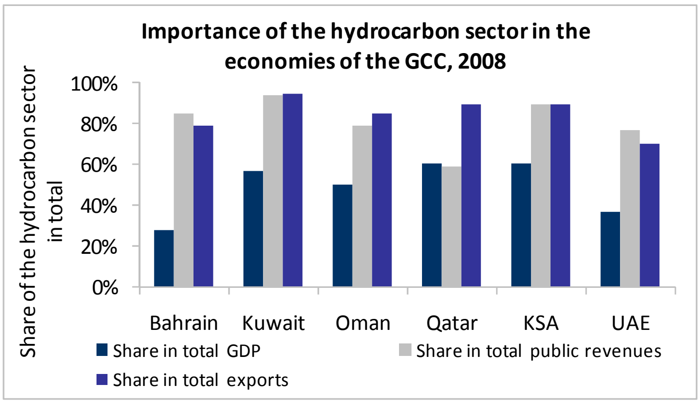



***Source:*** US Census Bureau, IMF, Blominvest




***Source:*** US Census Bureau, Blominvest

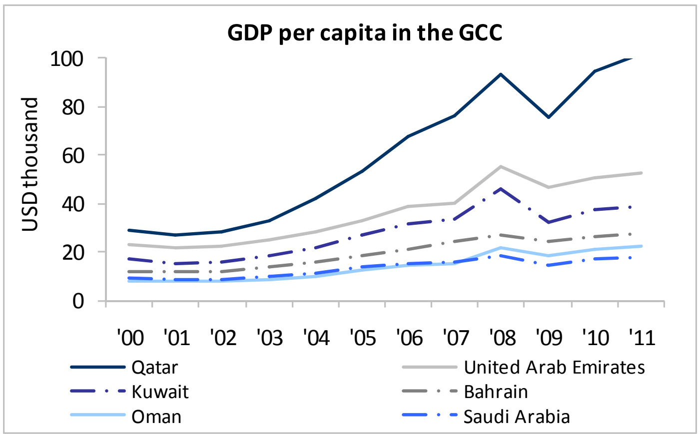
A growing population, however, is not the only characteristic of the MENA region that points toward an attractive future for the F&B industry. The successful economic run over the years—the past decade in particular—indicates further potential for growth vis-à-vis other countries/regions. During the past three decades, GCC countries have benefited enormously from their oil and gas resources. The unprecedented economic growth witnessed in these economies was primarily fueled by the run-up in oil prices. Fossil fuels are the main source of export incomes in the GCC and account for a huge share of public revenues and overall GDP. However, the prominent exceptions are Bahrain and Dubai where other sectors such as financial services have gained significance in recent years. In a bid to strengthen and sustain economic growth, governments in these countries are implementing policy reforms to eventually reduce dependence on oil and gas revenues. Accordingly, Bahrain was the first Gulf state to decouple its economy from oil. The country is making concerted efforts to develop its banking, finance, and tourism sectors. Dubai's stellar growth is an outcome of its strategy to diversify its economy away from oil to real estate and construction, trade, financial services, tourism, and hospitality. During 2009, however, the global economic crisis had its effect when the unfettered expansion came to a screeching halt with the exodus of capital from the property sector. With Abu Dhabi coming to the rescue, the UAE managed to emerge from the crisis and is expected to maintain a robust economic growth of almost 4% in the near-term, according to the IMF. Other GCC countries, which still rely on their hydrocarbon reserves, have so far seen a more benign impact of the global economic crisis, notwithstanding reports of negative or no growth in Kuwait and Saudi Arabia during 2009. However, the recovery is likely to be quicker, especially when compared to European or North American countries, which are likely to traverse a longer path



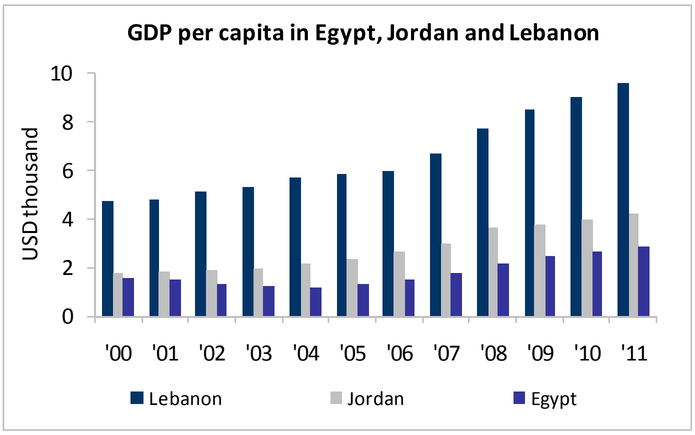

***Source:*** IMF, Blominvest

to return to their pre-crisis days. Qatar continues to be an exceptionally successful story, with annual GDP growth rates in recent years far exceeding 10%.

On the other hand, even though the non-oil exporting MENA countries—Egypt, Jordan, and Lebanon—may not have witnessed such stellar growth rates as the GCC states, they did remain strongly resilient in the recent past. Owing to their balanced and diversified economies, the estimated GDP growth of an average 4-5% through 2009-2010 in these countries was superior to some of their Gulf peers. In this group, Lebanon's performance has remained positive since 2007 because of expansion in real estate, tourism, and financial sector, which spurred economic growth. The overall economic performance reflects in the personal income levels as well.




***Source:*** IMF, Blominvest




***Source:*** UNWTO, Blominvest

In Qatar, GDP per capita is expected to exceed USD 100,000 by 2011, with the UAE and other Gulf countries likely to follow suit. Egypt, Jordan and Lebanon are catching up with their richer peers. Lebanon is the clear leader within the group in the present scenario, with its per capita GDP likely to reach USD 9,600 by 2011 - more than half that of Saudi Arabia.

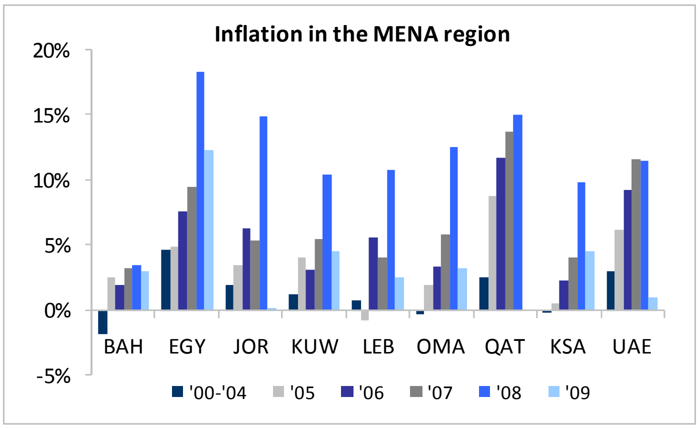
**Economic and social trends create a huge potential for F&B**

The high purchasing power of increasing numbers of people is the reason behind the exciting growth in the different segments of the industry. In fact, owing to the strong economic reasons, the Middle East region has emerged as a strong market for high-end F&B products and brands, many of which have been exploring expansion opportunities. A luxury British chocolatier opened its first store in Dubai, one of the company's few international shops (including one in Bahrain). In February 2010, a famous US dessert house opened its first international store in the Dubai Mall. Pointing further to the future potential of the region's confectionery market, the world's biggest candy shop opened doors in Dubai in October 2009. The Middle East region is among the top ten confectionery markets in the world and its penchant for sweets and chocolates is hardly surprising. According to TNS Media Intelligence, the regional confectionery market is valued at USD 113 bn. Over 2006-09, the market grew by as much as 15% annually, with Saudi Arabia and Qatar outpacing the other countries with growth rates of around 24%. In the GCC countries alone, confectionery imports stand at about USD 12 bn a year. According to a 2007 TNS survey, 99% of the respondents from Saudi Arabia confirmed eating chocolate during the past seven days, up from 95% in 2004, while in the UAE the percentage remained unchanged at 98%. In the words of Yves Manghardt, Chairman and CEO of Nestle Middle East, the region has "tremendous growth potential."

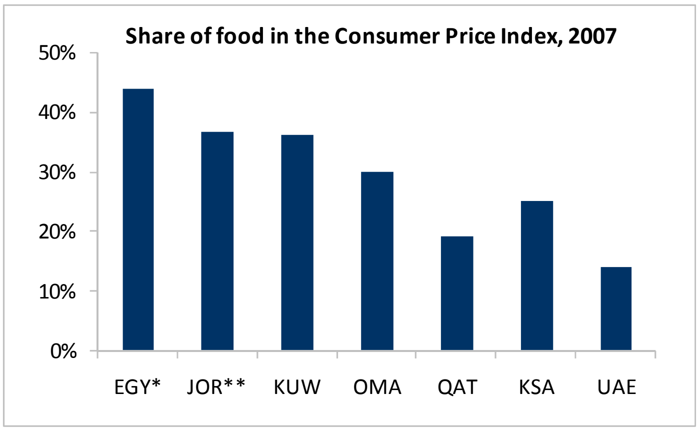
Confectionery is not the only premium segment experiencing rapid growth in the MENA region. The broader foodservice segment, which along with confectionery is valued at an estimated USD 32 bn in the Middle East, represents another gold mine. The existence of a large market for gourmet foods underpins the launch of uber-trendy restaurants in the region. Celebrity chefs—mostly from the UK—are eyeing the region's restaurant business. A number of celebrity chefs have set up shop or are planning to do so in Dubai and the region. Western-style food outlets are burgeoning as well, pointing to the changes in tastes and adoption of international trends in the region. Kuwait's Americana Group was quick to spot the trend, with its region-wide franchise network of famous restaurants and fast food outlets such as KFC, Pizza Hut, Hardees, and Chicken Tikka, among others, in addition to ambitious expansion plans. Pernod-Ricard, the international beverage giant and world's second-largest producer of alcoholic drinks, reported outstanding performance during 2009 in the Gulf vis-à-vis its more established markets.

Going forward, the foodservice sector is in for significant growth and diversification, mainly due to changing lifestyles and the region's demography. Currently, almost 52% of the Middle East region's population is 24 or younger, making it one of the youngest regions in the world. The large youth population is driving most of the trends in the F&B industry. Eating out is becoming an increasingly popular entertainment option and is playing a key part in driving the segment's growth. Moreover, the adaptation to western-style food outlets and products is driving both foodservice and retail. Further, a young population connotes an increasing number of working-age people and low dependency ratio in the future, one of the basic drivers of the F&B industry. According to the US Census Bureau, between 2010 and 2030, the Middle East population is set to increase by almost one-third, equally split between the two decades. With such forecasts, the region not only constitutes an attractive F&B market today, but also signifies high growth potential in the future.

## 3.2 Food prices and inflation



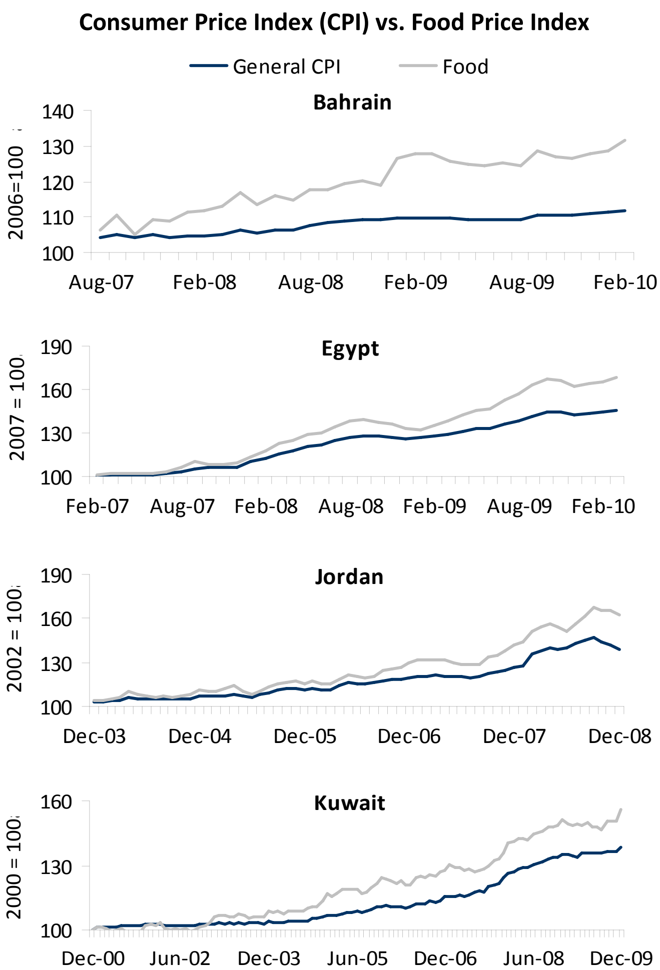

***Source:*** IMF, Blominvest

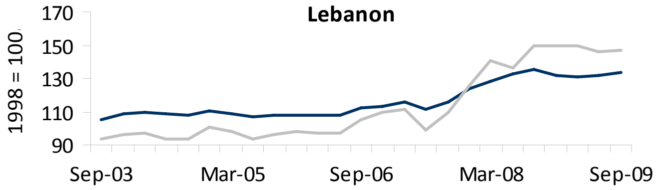


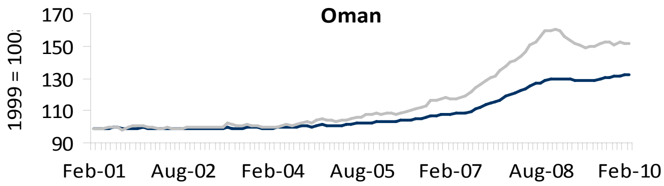

* 2008/09 ** 2008 ***Source:*** NCB Capital, Central Banks, Blominvest

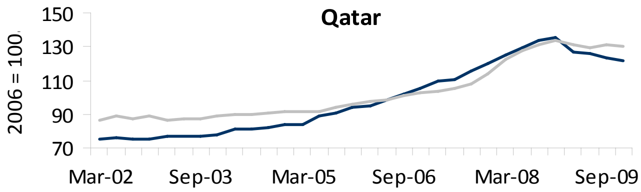
Within the largely buoyant economic medium-term scenario, inflation is one issue placing an increasing burden on states in the MENA region. After a period of relative price stability during the first half of the decade when inflation rates were even negative in some countries, consumer prices have been on the rise since 2006. Prices increased by more than 10% in a number of countries during 2008, particularly in Egypt where inflation was above 18%. In the middle of the year, monthly YoY inflation rates were actually closer to a range of 15-20%. Such price hikes made inflation the most serious threat to the region's macroeconomic health in addition to the prevailing worries due to the global crisis. However, the crisis, which started unwinding during the second half of 2008—to some extent—was a blessing in disguise as it managed to bring down the inflation rates. The current economic recovery could however push inflation up and expose the economies to another round of price increases, particularly toward the end of 2010.

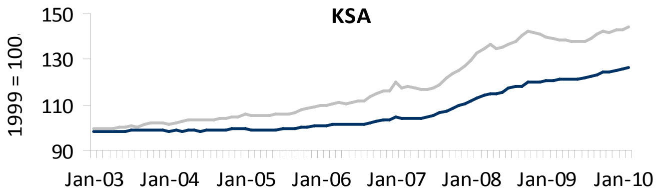
Food is a major component of the region's Consumer Price Index (CPI) and underscores the price rise in the past. Over the past few years, prices of food commodities have been rising more sharply than the overall CPI across all the countries in the region, with the UAE and Qatar being the only exceptions for a while. This reflects higher levels of income per capita in these countries. In an affluent society, less weight is attached to food in the total consumer goods basket. In the UAE, the differentiating factor was property costs and rents, which played a dominant role, outweighing food. However, comparison of price indices shows a very close correlation between food price hikes and the overall inflation in the region.

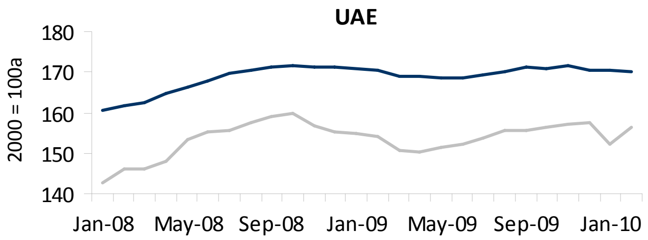





Rising food prices are not limited to the MENA region alone and can be seen in developing countries such as China and India due to rising income levels. However, MENA countries are particularly vulnerable to global price shocks due to their huge dependence on food imports, especially in the GCC states, where currency pegs exacerbate the problem. With the dollar weakening in 2008, purchasing power was down and food imports turned expensive. For instance, by 2008, the Saudi Arabian riyal depreciated by 18.2% in real effective terms since 2000, the impact of which could be felt in the overall price rise, especially for food that was mostly imported. Even Kuwait experienced similar problems, despite its peg to a basket of currencies and not to the US dollar alone, as was the case with other GCC countries.

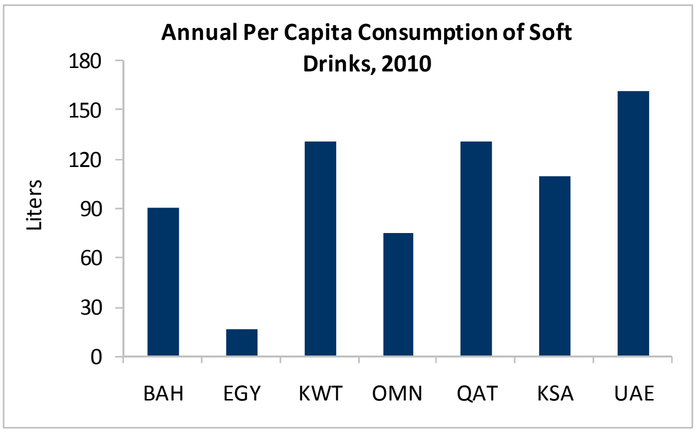
Food price stability ranks high on the priorities of the regional governments. A high standard of living is generally a guarantor of political stability, which is especially the case in the Gulf. However, inflation and the resultant decline in real wages reduced the purchasing power and triggered a number of protests across the region. Among the countries under study, Egypt is the most vulnerable since an estimated one-fifth of the population lives below the poverty line of USD 2 per day. In 2007, a number of protests demanding basic pay hike and higher food subsidies were staged in the country. Providing the lowest income groups with at least staple foods at affordable prices is crucial to the policy, based on which the Egyptian government has been subsidizing bread, sugar, and tea since the 1940s. However, with soaring expenses—bread subsidies alone cost the exchequer around USD 2.74 bn annually—the burden on public finance is on the rise and is not likely to recede anytime soon.

The more affluent countries in the region are also under pressure to provide affordable staple foods to their people. In a bid to defuse the food crisis and step up food subsidies, the UAE has been considering a scheme wherein its citizens would be able to buy staples such as rice, bread, sugar, tea, dairy, and other basic food items at discounted prices after presenting an identification card. In the midst of the crisis, to appease the citizens, the government hiked public sector wages by almost 70%, which only contributed to further price rises. Such moves, however, are not a long-term solution since they put an additional financial burden on public finances. They also have wider social effects, triggering discontent among the unskilled immigrant workers - the most vulnerable income group, and discouraging the sought-after high-skilled expatriates from taking up jobs in the country. The UAE decided to cap prices of 16 basic commodities as well, imposing fines of about USD 3,000 for retailers who charged higher. Saudi Arabia, where rice prices rose 30% between 2004 and 2008, introduced subsidies for rice and baby food. Other countries such as Kuwait have followed suit with similar schemes and subsidies.

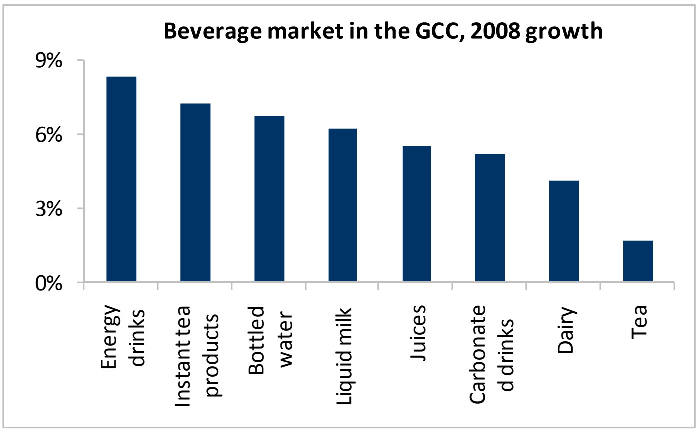
Although such measures bring temporary relief to consumers, they may not be the best long-term solution to the problem. In fact, they prevent the interplay of market forces that balance fundamental demand and supply. In economies with such food trade deficits and that rely on food imports—like the countries under study—such policies may not be sustainable in the longer run. Therefore, the longer-term sustainable solution entails steps to ensure comprehensive food security and broad-based economic development.

## 3.3 Traditional and religious influences

While analyzing the F&B industry in the MENA region, it is important to note that the market dynamics differ significantly from that in western markets, due to the strong influence of traditional and religious factors. In most other regions, non-alcoholic beverages encounter intense competition from their alcoholic counterparts. However, since the Shariah prohibits alcohol, demand is marginal in most MENA countries and limited to tourists and expatriates. This opens up opportunities for non-alcoholic beverages, both hot and cold. Of the two major hot drinks, tea is more popular and is part of daily consumption. Ubiquitous tea shops account for a large chunk of the tea demand - almost 50% in the UAE. In North African countries such as Egypt, tea forms a pivotal element of the popular social activity of smoking shishas, or water pipes. Asia leads in terms of per capita tea consumption (as of 2004), even as some countries from the wider MENA region rank higher. Turkey tops the list with an annual per capita consumption of 2.5 kg. Morocco is fourth globally, followed by Iran and Egypt. None of the GCC countries figure in the top 25. Within the GCC group, Oman has the highest per capita tea consumption. The market for tea, however, is rather mature in the region and its growth is comparable to the population growth rate. In 2006, the UAE's tea market grew by an estimated 7%, which compared well with the recorded population growth. Since the tea market is close to saturation, sales growth is likely to come from the shift towards more convenient options such as tea bags and not from an absolute increase in demand.




***Source:*** BMI, EIU, Blominvest

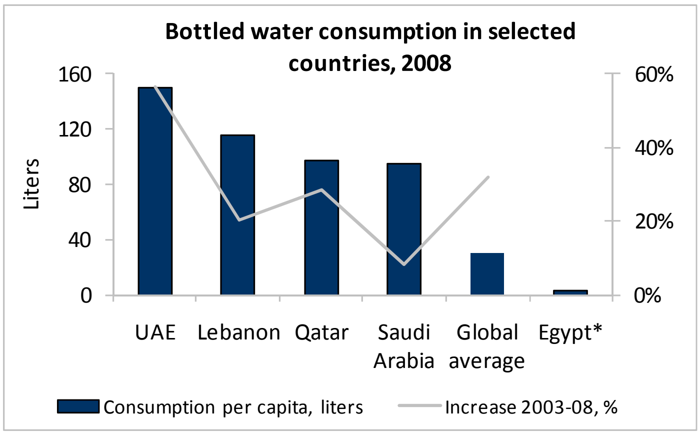



***Source:*** BMC, Blominvest

The market for soft drinks, on the other hand, is well-developed and continues to thrive, driven by factors such as the year-round hot climate and the ban on alcoholic drinks. Soft drinks are particularly popular among youth, who constitute a large share of the MENA region's population. According to Business Monitor International, the annual per capita consumption of soft drinks is poised to exceed 100 liters in Kuwait, Qatar, Saudi Arabia, and the UAE during 2010. The UAE is the most mature market and is expected to register an annual sales value growth of 1.5% during 2010 to USD 760 mn. This is markedly below the 5% growth for soft drink sales value over 2006-08, factoring in the economic downturn. After 2010, BMI forecasts an annual average growth of 3.78%. Strong growth will be seen in Qatar as well, which registered a YoY increase of 7.6% during 2009 to USD 226.2 mn, reflecting its economy's relative insulation to the global crisis. Owing to the highest GDP per capita in the region, the average soft drinks sales value in Qatar is forecast to increase by another 8% per year until 2014. In Saudi Arabia, soft drink sales growth is expected to reach 4.2% in 2010 and increase by an average 5.6% between 2011 and 2014. This may seem less exciting than Qatar's story, but the combination of a relatively high GDP per capita and a large population will imply perhaps the highest potential in the long term, beyond 2014. In comparison, the growth of Saudi Arabia's soft drink market, currently at USD 3.47 bn, will likely outperform that of the UAE by 2014 with a three-fold jump. Egypt is expected to become the second-largest soft drink market in volume terms over the next few years. According to Economist Intelligence Unit, the volume of soft drinks sold in the country will reach 1.5 bn liters by 2012. Although sales per capita will be only about 16.3 liters, a population nearly three times that of Saudi Arabia will be the key driver for such volumes.

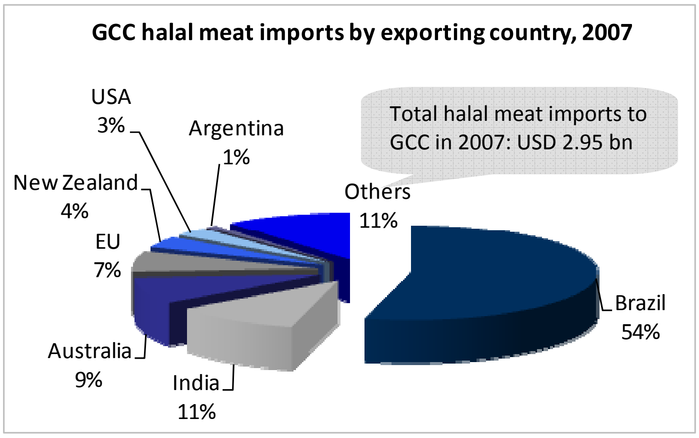
Within the GCC, higher value drinks such as fruit juices and energy drinks are currently the main growth drivers and are likely to remain so at the expense of carbonated drinks. In Saudi Arabia, for example, the increase in sales value for carbonated drinks is forecast at 6.1% between 2009 and 2014 compared to 46.9% for fruit juices and 25% for the overall soft drinks segment. However, Egypt has a huge potential for carbonated drinks with sales volumes projected to increase 20.1% by 2014 to 987 mn liters. In contrast, the increase in fruit juice sales during the same period will only be 15.8% to 84 mn liters. Accordingly, PepsiCo announced an investment of USD 100 mn in the country during 2010. The company is the dominant player in the regional soft drinks market, although it lags global rival Coca Cola in promotional coverage across popular media and the internet, as per Pan Arab Research Centre. PepsiCo had a 70% market share in the carbonates category in Saudi Arabia and 83% in Lebanon as of 2005, according to BMI.

Bottled water is another beverage category of significance in the region, both due to climatic and demographic factors. The category has witnessed spectacular growth, riding on the wave of increasing health consciousness and concerns over the safety of tap water which, in some cases like Egypt, was validated by health statistics. In the GCC, bottled water was the third fastest growing category in 2008 at a rate of 6.7% after energy drinks and instant tea products. The UAE tops the list of per capita consumption of bottled water in the region at over 150 liters per year and was ranked third globally. Lebanon, Qatar, and Saudi Arabia are present among the world's top 20 as well. In Egypt, on the other hand, per capita bottled water sales were only about 3.5 liters in 2008, reflecting the huge 70% share of carbonated drinks in the soft drinks market. This is, in large part, due to the price structure: Often, bottled water in the country is more expensive than carbonated drinks. Across the region, local players, such as the UAE-based Masafi and Al Ain Water, dominate the bottled water segment. This is similar to the fruit juices segment, but in contrast to the carbonated drinks story.




* Increase data n/a; based on sales volume *Source:* BMC, Blominvest

Other characteristics of the regional F&B market are the restrictions on certain forms of entertainment otherwise allowed in other markets, such as pubs or, in some cases, live music and cinemas. Indirectly, this implies further boost to the foodservice sector, as going to restaurants or fast-food outlets remains the most popular option for socializing. Food and drink expenditure clearly shows an uptrend during the holy month of Ramadan. Although this is a period of fasting during the day, consumption levels increase at night, surpassing the regular levels during the rest of the year. In Saudi Arabia, it is a common practice to invite family and friends for dining together, which raises the household F&B expenditure. As a result, food prices usually rise during Ramadan, with traditional Arab foods and beverages being the most popular products.

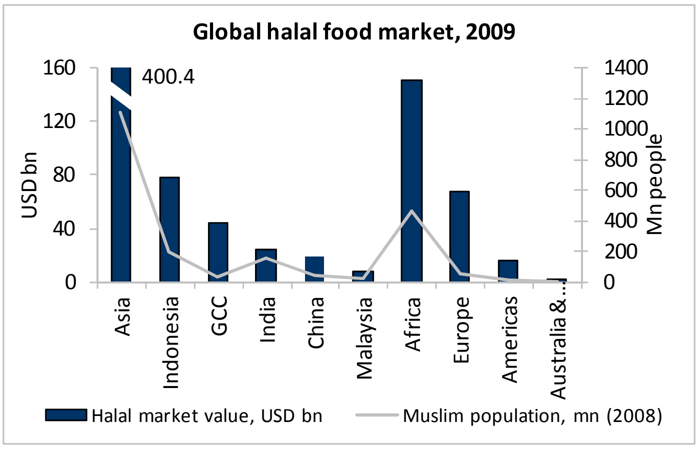



*Source:* World Bank, Blominvest

The most distinct feature of the MENA F&B industry, however, is the *halal* food market. Broadly, halal means "lawful" or "allowed," according to the Islamic law OR Shariah, which has laid down certain conditions. First of all, the food itself must not be prohibited, such as pork or alcohol. Furthermore, it must be obtained through halal (or legitimately), implying that it must not be stolen and has to be processed properly. In the case of meat, animals are slaughtered using special techniques and conform to a certain code both prior to and during the process. Finally, as a general rule, any food or drink that is harmful to health is not considered halal.

Middle East is the premier market for halal food, currently valued at USD 111 bn, or 19% of the world's total. The GCC market itself was estimated at USD 43.8 bn in 2009, despite its Muslim population being considerably smaller than some other regions/countries. In fact, the idea of halal is widespread in the MENA region to the extent that all foods and beverages are expected to be Shariah-compliant, in general. The GCC market relies overwhelmingly on imports of halal commodities, especially halal meat. According to Halal Industry Development Corporation, a Malaysian halal standards body, the six GCC states import close to 1 mn tons of halal poultry and over 200,000 tons of halal beef annually, most of which is accounted for by Saudi Arabia. Non-Muslim countries such as

Brazil, India, Australia, and those in the EU are major exporters of halal meat. In order to comply with halal standards—necessary for tapping the huge markets in the Middle East and other Arab countries—companies in the exporting countries are increasingly undertaking efforts to obtain the necessary halal certification. In Brazil, over 300 F&B producers have already obtained such certification from the Centre for Promotion of Islam to Latin America, while Australia has its own national body called Halal Certification Authority to issue such certificates.

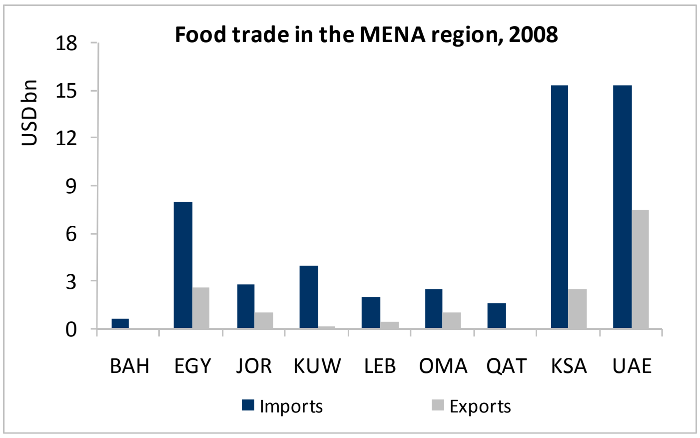



***Source:*** World Halal Forum, islamicpopulation.com, Blominvest

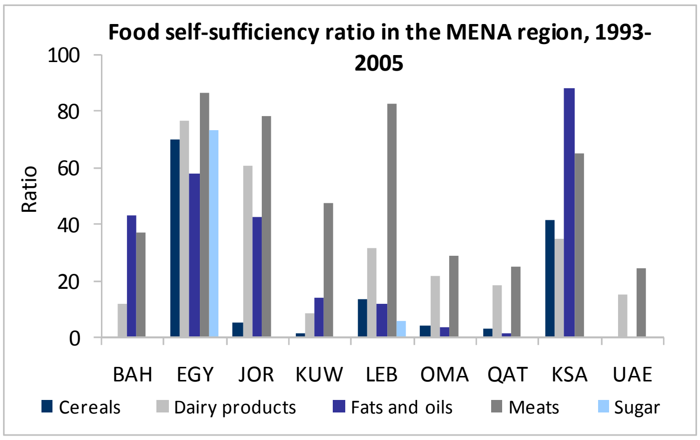
Halal food has become a global trend and offers tremendous growth opportunities for halal food producers from the MENA region to serve such demand in other regions. The large potential for halal F&B industry in Asia (South-East, South, and Central), Africa, and even Europe will benefit MENA players going forward. The US holds potential for a strong customer base as well with a market estimated currently at USD 16 bn. Still, there is only one halal product for every 86 kosher products, as a result of which Muslims buy more of the latter as a substitute. So far, Malaysia has been the epicenter for halal food innovation and certification. However, Dubai is already making inroads, in its efforts to position itself as the gateway to the entire MENA region. A number of UAE companies such as Al Islami, Al Kabeer, and Al Areesh are engaged in re-exports; but some of them export up to 70-80% of their total production. In November 2009, the UAE-based halal food producer Khazan Meat Factory announced sales growth of 75% and 200% in the UAE and Middle East, respectively, for the past year. The company plans to increase capacity by 30% and affirms the intent to enter the US halal food market. A key challenge for the segment is the absence of globally accepted halal food standards. For instance, Malaysia has 45 approved halal certification bodies, while Indonesia has 40, and the GCC countries have 52 such agencies. Nonetheless, organizations such as the International Halal Integrity Alliance are trying to develop such standards in order to boost and popularize halal food production and trade. Once achieved, it will eliminate a major hurdle to the development of the global halal food industry and make the international marketplace probably as accessible as that for conventional foods.

## 3.4 Food security concerns

According to FAO, food security means: "all people, at all times, have physical, social, and economic access to sufficient, safe, and nutritious food that meets their dietary needs and food preferences for an active and healthy life." The idea of food security became prominent in the face of the food crisis, when public concerns over the upward spiral in basic food prices sparked off demonstrations and riots, causing a social and economic crisis of global dimensions. The most notable events were witnessed in Egypt, Ivory Coast, Senegal, Yemen, Indonesia, and Mexico in 2008, with some turning violent. During the first quarter of 2008, a series of demonstrations were held in Middle East countries, including Bahrain, Jordan, Lebanon, Morocco, and Saudi Arabia.




***Source:*** WTO, Blominvest



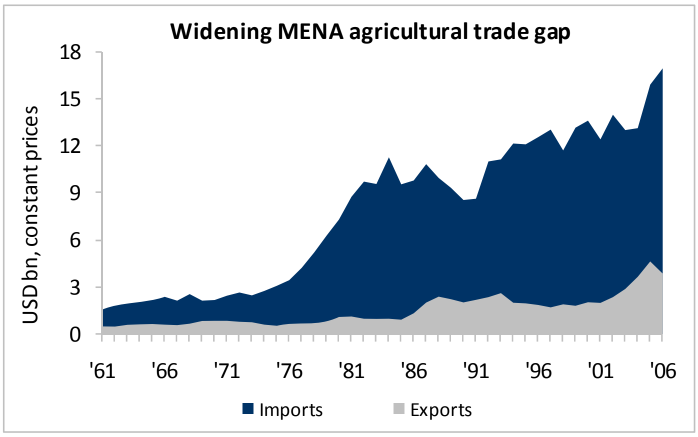

***Source:*** UNDP, Blominvest

In the MENA region, which is one of the most water-stressed regions in the world, food security is of particular importance. These countries rely on imports to meet at least 50% of their food requirements. In most of the countries under study, arable land constitutes less than 3.5% of the total land area. Lebanon is the only country that has a larger share of arable land at around 16%. Therefore, domestic food production is limited, while the demand continues to increase rapidly, fuelled by demographic factors and growth in income levels. Across all the major food groups, the countries under study are not capable of producing enough, as indicated by the self-sufficiency ratio, which is the percentage of domestic consumption satisfied by domestic supply. The number stands below the balanced level of 100 in all the nine countries. Egypt and, to a certain extent, Saudi Arabia are two countries that are relatively self-sufficient, while the others—especially in the GCC—are not even able to meet half their requirement. The UAE is probably the most extreme case, since its self-sufficiency ratio for cereals, fats, oils, and sugar is almost zero. All the other countries import huge amounts of food commodities to meet their domestic demand, as well.

Naturally, such a situation makes the region vulnerable to international food prices. This became painfully evident during 2008, when an unprecedented global food inflation propelled the prices of important food staples such as wheat, rice, and corn. A number of countries introduced measures such as subsidies or price controls to provide the less affluent consumer groups access to at least a few staples. Egypt subsidised wheat, flour, and bread at a huge incremental cost of USD 2.74 bn even toward the beginning of 2008 when prices had not yet peaked. As a sign of the crucial role of these subsidies, bread queues in the country were so crowded by citizens desperate to get access to the subsidized staple that they claimed some fatalities, referred to as "bread martyrs" by the local media. On the other hand, a number of Gulf states introduced various caps and ceilings on select food items. Such measures, necessary in the face of potential social unrest are, however, very costly for the public sector and usually not efficient enough to completely eliminate the impact of rising international food prices. As a result, governments in MENA countries have decided to pursue not just food security as a key policy item, but to go a step further to food sovereignty, which means meeting demand as much as possible from domestic sources.

This is not new to the region. In the 1980s, most GCC countries introduced policies to increase domestic food production, focusing mostly on cereals – the most important staple in the region. In order to make the cultivation economically viable, governments offered incentives and subsidies including farmlands and financial assistance for digging irrigation wells and purchasing seeds and fertilizers. As a result, between 1980 and 1990, acreage under cereal crops expanded in almost all the GCC countries by 15% per year and cereal production by 31%. Accounting for 99% of the total GCC cereal production, Saudi Arabia launched a program in the 1970s for wheat cultivation, aimed at achieving self-sufficiency in wheat production. As a result, by the beginning of 1990s, it was the sixth biggest wheat exporter worldwide. However, it quickly realized that it did not have the necessary water resources for cultivating such a water-intensive cereal crop and decided to phase out the program in 2008 and to withdraw it completely by 2016.

This strategy, aimed at conserving water in the region, further widened the gap in agricultural trade – the difference between import and export of agricultural products. According to FAO, the cumulative gap for the region's six countries soared to USD 13 bn in 2006 from an average of USD 1-2 bn in the 1960s to mid-1970s. This undesired dependence on foreign sources forced governments in the region to look for alternative solutions in order to secure food supply at stable prices.



Note: Countries included: Egypt, Jordan, Kuwait, Lebanon, KSA, UAE

***Source:*** FAO, Blominvest

Food security concerns are compelling the resource-constrained countries of the MENA region to embark on a new strategy of getting into long-term leases for arable land overseas. On a global scale, private companies looking to profit from lower rents and higher yields in developing countries introduced this concept. The public sector has now started to play a dominant role, which is especially true in the case of MENA buyers. Many of them are either public sector companies or are supported by the state through public-private partnerships such as the King Abdullah Initiative for Saudi Agricultural Investment Abroad. Among the regional players are entities such as the Kuwait Investment Authority, Qatar Investment Authority, AgriCapital (an investment vehicle launched by Gulf Finance House), Ithmaar, and Abu Dhabi Investment House, Saudi Arabia's Binladin Group, Hail Agricultural Development Company, UAE's Abu Dhabi Fund for Development, and Dubai Natural Resources World owned by Dubai World.

The countries targeted for land acquisitions are mostly developing countries with underdeveloped farming sectors, resulting from the lack of adequate financial resources within the country. They usually benefit from a combination of low production costs and vast land and water resources. Since proximity is an important factor, MENA countries have been investing primarily in North-East Africa and South Asia. Sudan and Pakistan have been major targets, since their low levels of agricultural development imply room for yield improvements, while the relatively short distance from the investing countries reduces transportation costs. On the acquiring side, Saudi Arabia and the UAE have emerged as regional leaders, with combined investments in countries such as Sudan, Pakistan, Turkey, and Indonesia of reportedly 2.8 mn ha. Apart from direct investments, these countries are also supporting the private sector for the development of such ventures. International institutions, such as the Arab Organization of Agricultural Development (AOAD) and the Arab Authority for Agricultural Investment and Development (AAAID) are playing an increasingly important role. They aim to ensure food self-sufficiency within the wider Arab region, fostering agricultural investments and trade between countries which share similar cultural patterns. Reportedly, some Arab officials have voiced concerns about security risks related to dependence on food imports from Western countries, especially the US. Toward a similar end, a Joint Afro-Arab Ministerial Meeting On Agricultural Development and Food Security was held during February 2010 to draw up an agricultural investment strategy between the African and Arab countries.

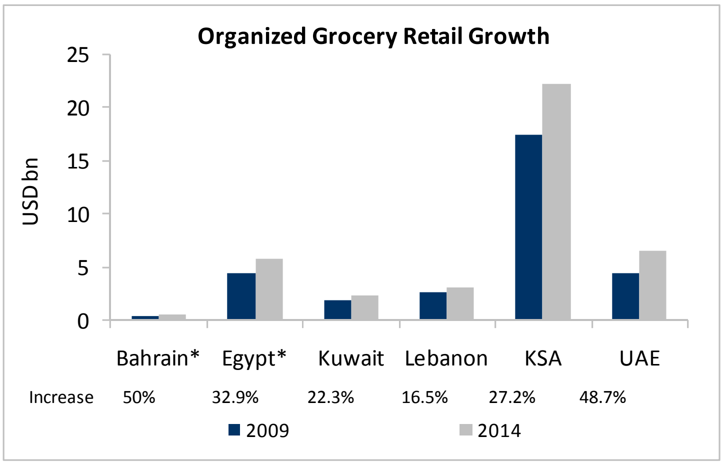
More often than not, the host countries are welcoming such land acquisitions that provide access to capital and the required knowhow for improving agricultural productivity, besides generating employment for locals. Among the partner countries, Sudan held promotional roadshows for potential investors. Morocco, where the Abu Dhabi-based Tiris Euro Arab (TEA) signed a long-term lease worth USD 44.6 mn, is agreeable to investors exporting the total produce and assures further flexibility. Pakistan recently offered land to Saudi Arabia in exchange for a steady supply of oil. However, on the flip side, from the investor's perspective, there is the problem of supplies restricted to a few sources, which implies related geopolitical and weather risks. They have to compete against other players as well, most notably China, which is trying to secure agricultural plots around the world, as well as private corporations with a profit motive. On the other hand, land acquisitions in host countries are sometimes contested by both the local population and NGOs. Often, they argue that some of these countries are net importers of food, and further reducing their productivity is not seen as a strategy that benefits all, although this argument is debatable since local farmers' productivity is usually low. For instance, in April 2009, Qatar's plans to lease 40,000 ha in Kenya in return for building a USD 3.5 bn port close to the tourist island of Lamu were stalled after strong opposition from the Eastern Africa Farmers' Federation Union and pastoralists. Pakistan had intially refused to grant exemption to the UAE from export ban restrictions during potential agro-projects negotiations, although that was finally relaxed on Basmati rice.

In order to benefit from such investments, MENA investors need to ensure that the deals are structured in a mutually beneficial manner for both countries and win public acclaim. Although agricultural investment abroad seems to be the present strategy, MENA governments are exploring other initiatives in pursuit of food security. One such approach involves building strategic reserves, reducing the exposure to market volatility. Oman's storage system has a 3-4 month capacity, while Saudi Arabia recently started building such a system in 2009. In December 2009, the UAE's Minister of Economy announced plans to join the league with a three-month commodity stockpile. Another step taken by the Gulf States to counter the price increase was the decision to create a USD 2 bn agricultural fund, announced toward the end of 2009 to acquire stocks of food companies in Middle East and Africa.

## 3.5 Food retailing

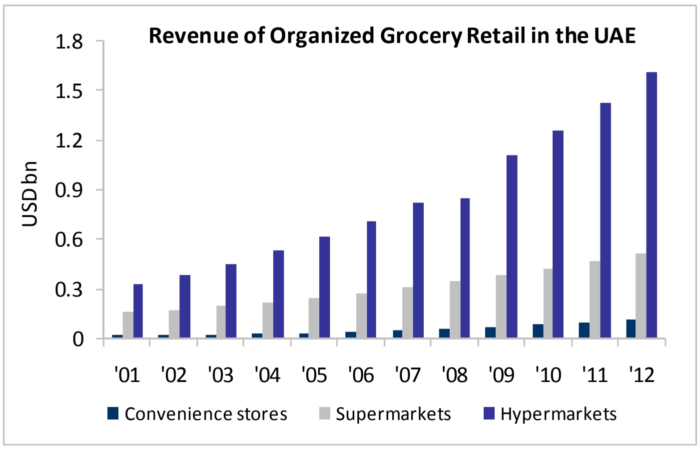
The Middle East region is currently in the midst of a possible food retail revolution of sorts. The segment, so far fully dominated by wholesale markets and small groceries, is seeing the emergence of western-style hypermarkets and convenience stores. The change is visible in major cities, although a gradual diffusion into smaller towns is evident as well. This reshaping of the industry is the outcome of intense competition, modernization, expansion, and the arrival of new retail formats in a globalized world where big multinationals are looking for growth opportunities beyond developed countries. Moreover, such a trend is fuelled by the embracement of certain elements of western culture, spread through satellite television, the internet, and increased availability of global brands and products.

However, the food retail market in the region still remains highly fragmented. Even in the UAE, which has the most developed organized retail sector among the regional peers, independent retailers had a market share of 34.5% in 2008 in value terms, according to Business Monitor International (BMI). This was in spite of grocery/convenience stores—a majority of which belong to the independent segment—far outnumbering larger formats, reflecting the much higher sales values in supermarkets and hypermarkets. In the other countries under study, however, the share of traditional outlets in total food sales stands above 50%. In Egypt, which is at the other end of the spectrum, small vendors account for an estimated 70% of total grocery sales, while owing 90-95% of the food outlets. Changing consumer demographics, the presence of a large expatriate population, and increasing purchasing power have attracted supermarkets and hypermarkets region-wide. Retail dynamics and consumer behavior differs significantly across the countries under study. In the GCC states, especially Saudi Arabia, customers tend to be discerning and look for a good deal. However, products perceived as discounted or low-end are not easily accepted. As a result, the discount store format, which is very popular with value-seeking European customers, has not yet taken off in the Gulf on a similar scale. Bahrain was the only GCC country that showed some potential for value purchasing and private labels.

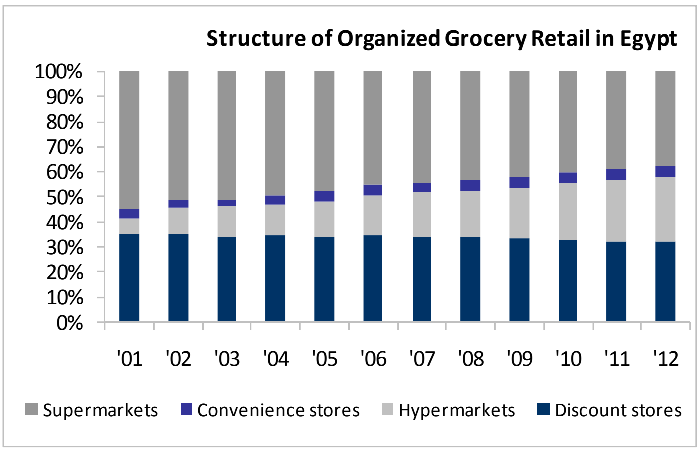



* Forecasts 2009-2013

***Source:*** BMI, Blominvest

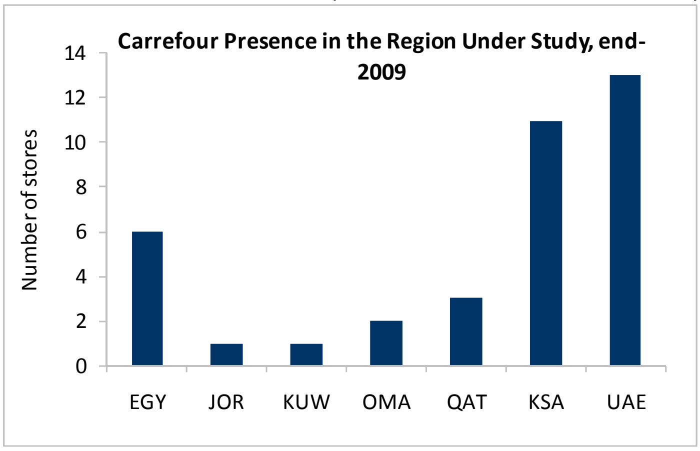



***Source:*** BMI, Blominvest




***Source:*** BMI, Blominvest

However, the scenario has changed since the crisis hit the region, and consumers are reportedly looking more favorably toward discount shopping. For example, retailers in the UAE have been reporting increasing sales of private label products. Most of the food sold in the Gulf countries is imported - imported products contribute 80% of food retail in Saudi Arabia and about 90% in the UAE. A large part of the domestic production is processed using imported ingredients. Major retailers, however, are sourcing products directly instead of depending on local importers or distributors. Combined with other scale benefits, this makes supermarkets a highly competitive shopping option to traditional markets and corner stores, especially from the purview of pricing. Another characteristic of hypermarkets/supermarkets in the Gulf is their presence in shopping malls. One can notice the increase in mobile shopping carts and other value-added services in malls, which lure a customer by giving a feel of what lies inside the supermarket. Such activities add to the popularity of supermarkets in the region, which benefit from being perceived as a leisure option in the absence of other entertainment alternatives. In Saudi Arabia, consumers go to supermarkets as a pastime and spend much more on grocery shopping than they would if they were to make the purchase from a corner store. Region wide, hypermarkets are becoming a form of leisure activity, as they offer a number of facilities such as children's play areas to encourage customers to spend more time and money. The UAE, Qatar, and Kuwait are premium markets both in terms of retail formats as well as products. In Kuwait, however, supermarkets face competition from cooperative food retail stores, which are a prominent feature in the country's organized retail landscape with a total sales share of around 60%. Moreover, BMI expects sales at such cooperative stores to grow at a robust rate of over 17% by 2014. Similar stores are present in the UAE as well and have an estimated share of 30% in total retail sales. Saudi Arabia, with its relatively lower GDP per capita and wider income disparities than its GCC peers as well as the continuing popularity of shopping in traditional wholesale markets, is a more volume-driven market. Nonetheless, along with the UAE, the kingdom leads the organized grocery retail industry in the region. Saudi Arabia currently has about 250 Class A supermarkets (at least 1,000 sq. m in size) and another 200 Class B supermarkets (500-1,000 sq. m), while the UAE boasts of 70 hypermarkets and 650 superstores and supermarkets. Retail sectors in other countries are developing as well, generally starting with supermarket chains in major urban hubs, followed by smaller cities, and gradually expanding into rural areas where traditional corner shops are still dominant. Carrefour, the second largest food retailer worldwide, is a leader in the Middle East region's organized food retail. In affiliation with the Majid Al Futtaim Group (MAF), it has opened 37 hypermarkets in the region—14 within the past three years—and is looking at another 10 during 2010.




Note: There are no Carrefour stores in Bahrain and Lebanon **Source:** Carrefour, Blominvest

A more recent trend in food retail is the rise of the modern convenience store format. The development of residential areas has led to an evolving demand for retail formats that cater to more spontaneous, everyday needs, even if at a premium. Traditional convenience stores have been the dominant type of outlet in the region, albeit unlike the present wave of ultra- modern, western-style formats and imported value-added products. The UAE is home to a high-income expatriate community that is willing to pay for such products and time-sensitive consumers looking for the convenience of quick shopping. As a result, the country is the regional leader in the development of this format. According to a survey conducted by convenience retailer SouqExtra, 40% of consumers in the UAE prefer to buy supplies from convenience outlets than from hypermarkets. BMI estimates the segment to grow at a CAGR of 11.8% between 2009 and 2014. Supermarket chains such as Carrefour and LuLu, which have already tested this format in other regions, are entering the market with a network of convenience and express stores.

In countries with lower levels of personal income, modern retail formats are still perceived to be expensive than traditional shops. In Egypt, which produces a considerable amount of food domestically, supermarkets and hypermarkets failed to attract the price-conscious customer with their range of imported products, as a result of which even these chains are now trying to source products locally and offer lower prices. However, the scenario changed to some extent following a reduction in food import tariffs in February 2007. Since then, the development of supermarkets and hypermarkets has accelerated, and customers are increasingly turning toward them for reasons of cleanliness, quality, and a wider range of products compared to traditional outlets. Beginning 2009, there were an estimated 550 independent supermarkets in Egypt, concentrated in Cairo and Alexandria. Foreign chains, such as Carrefour, Makro Cash, Carry Egypt, and Metro are competing with local chains such as Alfa, Hyper One, and leading discounters such as Ragab Sons, El-Mahmal, and Abou Zekry. The sheer size of Egypt's population makes it an immensely attractive opportunity for players looking to tap the MENA market. Even though only 13 mn of the estimated 75 mn people can afford imported food products, the number is still bigger than the entire population of the other countries under study, except for Saudi Arabia. However, the market has its own set of complexities, as indicated by the exits of UK's Sainsbury in 2001 (after only two years of operations) and South Africa's Shoprite in 2006.

The Lebanese retail sector is highly fragmented, with independent local players controlling the majority of the supermarkets. The country's political instability has discouraged international retailers from entering the otherwise attractive market. The 2006 military conflict took its toll on the country's infrastructure, destroying a large part of the transportation network and resulting in prolonged power cuts. Such factors, combined with import shortages, forced the country's leading retailer Spinneys to close its store in Tyre. However, the scenario is changing as foreign chains are starting to see the potential, despite the possible risks. In August 2008, Kuwaiti retailer The Sultan Center (TSC) announced the acquisition of food retailers Monoprix and Géant Casino from local company Admic. BMI forecasts the Lebanese organized retail segment to grow to almost USD 3 bn by 2013, a 76.4% increase over 2008. Supermarkets will continue to dominate the sector. Elsewhere, Jordan's organized food retail may not see huge growth in the immediate future. Even though the market is relatively underdeveloped, BMI believes the growth in the neighboring countries would dissuade large market players from entering Jordan, at least for the time being.

**Product groups with the biggest potential for regional F&B sales**

Dairy production in the MENA region is on the rise and holds further growth potential because of the possible product innovation and launches. The six most relevant dairy categories are fresh milk, long-life milk, milk powder, fresh laban (a traditional Arabic drink similar to buttermilk), recombined laban, and zabadi (yoghurt). Additionally, cheese and butter are poised to grow as customers consume more of western-style products such as pizzas. Saudi Arabia is a major dairy market, accounting for nearly 61% of the total GCC dairy market. Egypt has potential as well, albeit mostly for lower-value dairy products. Currently, an average Egyptian consumer spends more on staples compared to the GCC states, as opposed to the more expensive food categories including dairy. Almarai of Saudi Arabia dominates the Middle East region and is gearing up to become a market leader in Egypt with plans to capture a 50% share of the country's dairy market by expanding production in Beyti that it recently acquired. So far, France's Danone is a more important dairy producer on the domestic market; it also plays a significant part in the entire MENA market, mostly through its subsidiary Alsafi-Danone. In fact, it is one of the top five players in the regional dairy market, which is led by Almarai followed by Nestle, Nadec, and Sadafco. Within the cheese and butter segment, Saudi Arabia's Almarai is again a market leader with a 30% share. Other major players include international giants such as Krafts, Puck, Lurpak, and the local Nadec.

Currently, the emergence of other fast-growing segments is limited to the GCC markets, because of lower affordability in Egypt, Jordan, and Lebanon. For instance, the juice segment, which is quite fragmented and relatively immature, is gaining ground against the traditionally popular soft drinks because of increased health consciousness. In the GCC markets, major companies have a combined share of around 40%, while smaller players account for the rest. The largest players are Almarai, Nadec, and Halwani, all publicly listed, in addition to private names such as Rani, Rabie, and Alsafi-Danone with its milk-juice products (Danao). Another dynamic food segment is that of bakery products, including products such as pastries, cakes, breads, and biscuits, among others. This segment too is highly fragmented, with major players such as Lusine, Alrashed, Americana, and Herfy competing against a number of small and local stores. While Lusine offers a wide product range, others are focused on select categories. The high fragmentation in segments such as dairy, juices, and bakery products implies huge potential for larger and more organized producers to enter the market. Similarly, retailers can look to tap into the opportunity by establishing their presence through private brands or in-store specialized outlets riding on the increasing popularity of shopping malls, supermarkets, hypermarkets, and convenience stores.

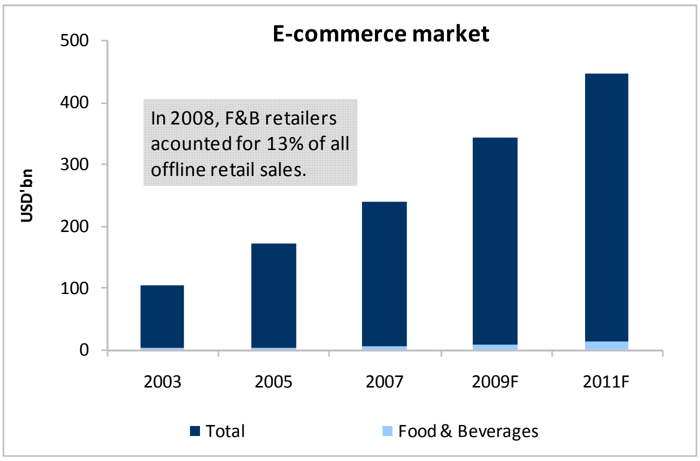
# 4 Opportunities and challenges

## 4.1 E-commerce

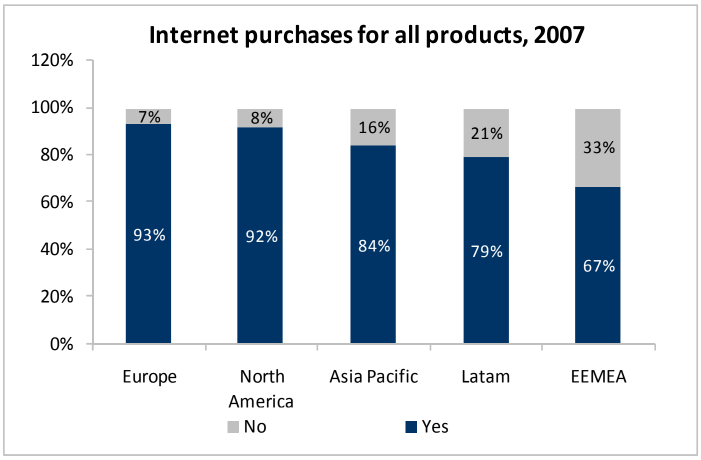
With time, people have not only changed the kinds of goods and services they exchange, but also their method of trading. A major part of modern distribution and trading practices rely on technological advancements that provide more comfort, reliability, and speed. The advent of the internet has led to the rapid emergence of e-commerce as a preferred mode of trade, which has been growing at a rate of 25% in the Middle East region since a decade. In addition to facilitating trade and distribution, e-commerce supports the development of niche producers to reach out to global consumers and new markets.

The major factors that will drive the food and beverage industry to ride the global e-commerce bandwagon are greater efficiency in internal processes, integration with external organizations—in order to make logistics a comparative advantage by achieving faster speeds—and reduced costs. In addition, it would help consolidate supply chains and enhance relationships with partners in the retail and distribution network. However, from a larger perspective, e-business activities in the food and beverages industry remain fairly low, except for large multinational companies and mature markets in general. Even though most grocery shopping remains offline, global online purchases accounted for 1% of all food and beverage sales during 2008. As per a global Nielsen study, on an average, shoppers tend to spend almost twice on online shopping for food and beverage products like packaged foods and groceries, when compared to offline purchases.

As per Nielsen, although the F&B market is a small market in the online world, it has the potential to expand rapidly in the near future. From approximately a 3.3% share of total e-commerce market, it is forecast to reach 13.3% in 2011.




***Source:*** Nielsen, Blominvest




***Source:*** BMI, Blominvest

Statistically, the Middle East region registered the world's highest internet usage growth of 1,648.2% during the period 2000-2009 to more than 60 mn internet and 80 mn mobile phone users. This indicates the definite potential for online and mobile commercial transactions, which are likely to grow over 15% during 2010, benefiting from infrastructure development and increasing government focus on online services. Saudi Arabia and the UAE offer a huge opportunity being the major free market economies in the region. OneCard, a Saudi-based company, which introduced the first secure online payment system in the Arab countries, has been pivotal in the development of internet services not only in the kingdom, but also in the region by large. As per the 2009 IMRG Capgemini e-Retail Sales Index, total online sales in the Middle East exhibited a substantial increase and indicate potential for further growth in the upcoming years.

Data reveals that 67% of the total population in the Middle East region has made internet purchases, which is among the lowest compared to other regions of the world such as Europe, where the percentage stands as high as 93%. Egypt has been the slowest adapter with almost 67% of the population not making any online purchases as of 2008.

The region's characteristic religious profile is also likely to play a key role in boosting the adoption of the online medium. Women typically do not move out of their homes after a certain time in the day, which implies an opportunity for e-commerce. A survey reveals that the majority of Saudi women prefer online shopping for varied reasons such as security and convenience.

Despite the overall positive outlook, e-commerce development does face certain challenges that include lack of region-wide laws for the sector and security threats due to the expanding internet population. OneCard believes that in order to attract the young middle-class population to transact online, it is necessary to redefine services and focus on providing efficient solutions.

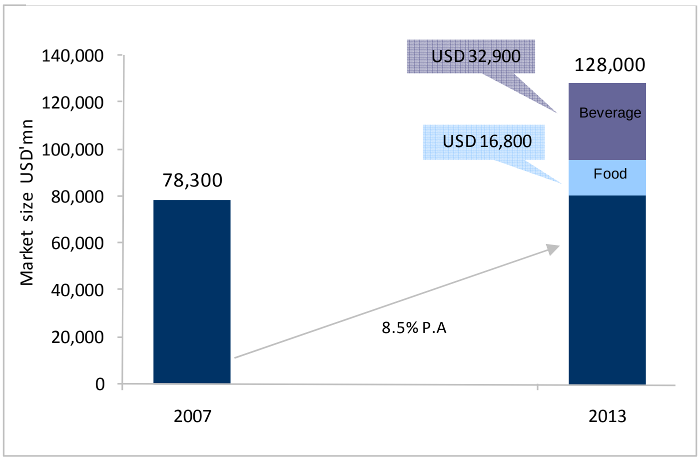
## 4.2 Demand for Functional foods

A new category of foods called functional foods has recently found favor in the food and beverages industry. The popularity of the segment is on the rise because of the specific physiological benefits that go beyond basic nutrition and promote wellness, longevity, and prevent chronic diseases. The largest market for functional foods is the US, followed by Asia-Pacific, together accounting for approximately 75% of the total market for such foods. Globally, non-alcoholic beverages account for a larger share of the growth, the variants of which are used for specialized nutritional benefits.

The diet F&B market in the US and Europe is projected to reach USD 128.5 bn by 2014 with meal replacement shakes and protein bars contributing the maximum. In order to exploit this market, major food companies such as Nestle and Unilever are revamping their product offerings to concentrate on nutritional items. For example, in 2008, Nestle made changes to more than 6,000 of its products for nutrition and health considerations.

The growing demand for health and diet foods clearly reflects the growth opportunity for the functional foods market in the Middle East. Moreover, as younger consumers are the prime target market for such foods and beverages, we foresee robust growth prospects for this category of foods given the region's demographic profile.

**Global Functional Foods market growth**




***Source:*** PriceWaterHouse, Blominvest

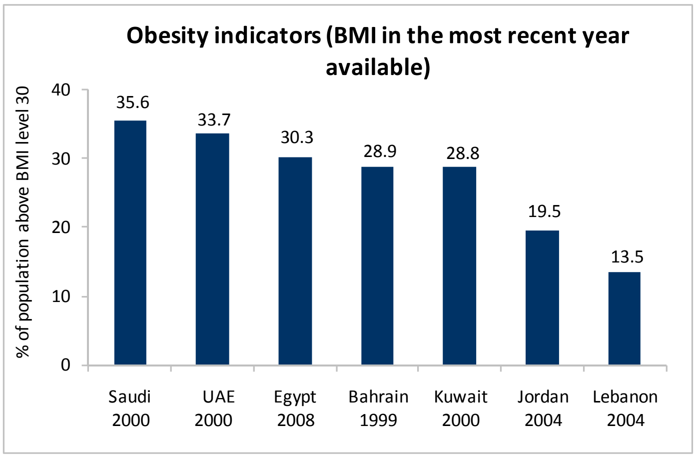
Foods with high energy and nutrition levels are gaining ground. Consumers are more inclined towards dairy products and cereals with inherent health benefits, ranging from anti-oxidants to probiotics. This has led companies like Fortitech Inc., the world leader in the development of custom nutrient premixes, to foray into the Middle East region. Cheese being a popular food in the region, has seen increasing demand not only due to its durability in hot weather, but also due to its high nutritional value.

Meanwhile, the market for energy drinks such as Power Horse, X35, Arabev, Arrow Juice, and Döhler is growing as well. Datamonitor's report on Product Launch Analytics indicated that globally products containing energy "shots" had doubled since 2006. Meanwhile, the Middle East markets provide robust growth opportunities for the beverage industry as reflected in increasing per capita liquid consumption.

Looking ahead toward 2015, developing economies including the Middle East are expected to register superior growth rates compared to the developed and matured markets, buoyed by factors including a high proportion of median-age population and rising income levels.

With rising income levels and higher consumption of F&B, obesity rates have increased three-fold in the Middle East region since 1980. As a result, people are now becoming health conscious and are turning toward healthy and diet foods. According to the World Health Organization (WHO), adult obesity rates in Saudi Arabia and the UAE as measured by Body Mass Index (BMI) stood at 35.6% and 33.7% of the total population, respectively. From a global standpoint, Saudi Arabia stood at the 7$^{th}$ place and the UAE at 10$^{th}$. Egypt (30.3%), Bahrain (28.9%), and Kuwait (28.8%) followed at the 11$^{th}$, 12$^{th}$, and 13$^{th}$ positions, respectively. In fact, the 2009 human development report warned that obesity is the greatest health challenge for Kuwait.

Both Saudi Arabia and the UAE have diet-conscious consumers who are keen to buy low-fat products. The study infers that 38% of UAE consumers and 35% of Saudi consumers admit to dieting on a regular basis, while another 62% and 55% reported actively seeking out products with “added health benefits,” respectively. Since more than 60% of UAE shoppers and 56% of Saudi shoppers consciously rely on food labeling for clarity about health benefits, food manufacturers need to ensure that the nutritional information is clearly displayed on the packaging.




***Source:*** WHO, Blominvest

Besides obesity, diabetes is another concern that has led people in the MENA region toward diet and health foods. As per the International Diabetes Federation, approximately 13% of the UAE’s population and 13.5% of Saudi Arabia’s population suffers from the condition. Globally, the UAE and Saudi Arabia rank among the top five countries for diabetes prevalence.

Frozen food sales have increased during the recession recently, as people preferred to eat at home in order to reduce expenditure on dining outside. In addition, with manufacturers promising premium frozen produce, the consumer perception around frozen foods is changing from just being cheap and convenient to additional benefits like nutrition and taste. This segment also holds a huge potential as almost 90% of the food in the Middle East is imported. For instance, brands like Brazil Foods and Sadia will be actively promoting their latest products in the chilled and frozen foods segment during 2010 in order to exploit the opportunity in the ready meal market.

## 4.3 Introduction of VAT

In 2007, the non-GCC countries in the region moved toward the VAT regime following declines in government revenues from customs duties, after dismantling trade barriers and entering into Free Trade Agreements (FTAs) with major trade partners. The introduction of VAT would act as an obvious revenue substitute and reduce the exposure to volatility in oil and gas prices. While restructuring its tax administration, Lebanon introduced a 10% VAT during 2002. Meanwhile, in 1991, Egypt introduced GST on goods at the import and manufacturing levels and moved to VAT for a broader range of goods (5%) and services (10%). Jordan joined the league in 1994 by imposing GST on goods at the manufacturing and import levels and on select services. In early 2000s, the country further implemented VAT on goods at the retail level and widened the coverage of services under the regime.

Even though VAT is now a generally accepted, the Middle East is the last region in the world to introduce VAT or GST. A number of other countries have had some form of consumption tax since the past 30 years. Within the GCC, if the discussed average 5% VAT rate is introduced it would make it one of the lowest VAT rates in the world.

In 2008, the UAE Federal Customs Authority announced a year’s postponement of the proposed 3% VAT that was earlier applicable from 2009. If and when the law comes into effect, the government will need to study the procedures in detail as it would affect not only the customs union, but also the entire customs work in the UAE. However, unless all the six GCC countries adopt the system together, it will be difficult to replace import tariffs with VAT in the region in a uniform and standard manner.

Experts believe that VAT implementation would benefit the economy as the regime would translate into higher transparency and accuracy. Besides, it would encourage investments from foreign investors who prefer to operate under a clear and defined framework as opposed to a non-standard ambiguous system.

## 4.4 Difficult conditions for agriculture

The worsening environmental conditions due to global warming will exert further pressure on agriculture, as is being seen recently. Human activities are causing irreversible damage to the genetic diversity of agricultural crops and several animal species are under the threat of extinction. According to the FAO, of the entire food available globally, a total of 15 crops and 8 animal species provide

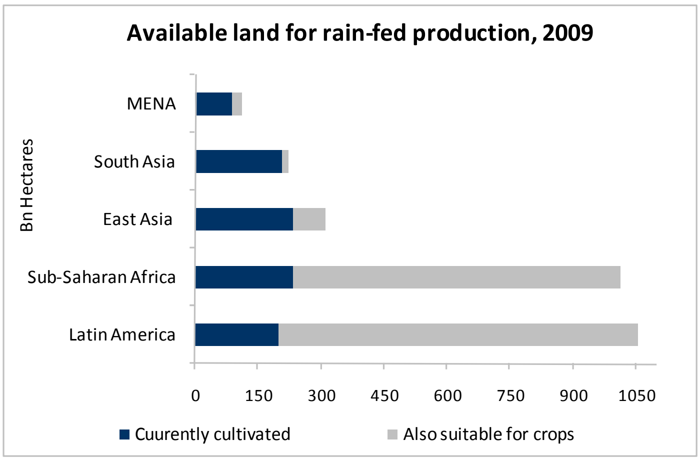
90% of the food. Of the total land surface, one-third is agricultural land. Statistics clearly show that a food crisis is imminent in due course in the event of an ecological imbalance and depletion of the rich bio diversity.

The global availability of arable land is fairly limited vis-à-vis the total available land area and has so far been concentrated in the US, Europe, India, Southeast Asia, and Australia. However, as the world population continues to increase, the per capita arable land availability and, in turn, agricultural productivity have declined, accelerated by factors such as soil degradation, deforestation, climate change, greenhouse emissions, and extensive urbanization.

In the MENA region, arable land area increased less than 6% between 1961 and 2007 - far lesser than the global average of 10% and much below the 45% increase in Africa. The percentage of arable land in the MENA region stands at just about 1.87% of the total 366.7 mn ha land area, while it stands at 27.66% of the total from a global standpoint. Bahrain leads the GCC pack with 2.82% arable land, followed by Saudi with 1.67%. Among the non-GCC MENA economies, Lebanon leads with 16.35% arable land, 14 permanent crops and a significant 7% contribution to GDP. The country is considered as the most successful in the region in terms of agriculture, which is the third most important sector after the tertiary and industrial sectors. Jordan comes a distant second with an arable land percentage of 3.32%, followed by Egypt with 2.92%.

The Middle East region is the least self-sufficient among the world's major populated regions due to lack of ground water reserves and arable land. People in the region spend a significant fraction of their disposable income on food, especially on value-added and the so-called luxury foods, such as meats and fresh produce.

Over the decades, the increasing food dependency has led the region's policymakers to try and accelerate agricultural growth, but they have had to deal with significant natural constraints and social issues. The hot and arid climate of the region does not support farming. Besides, the region has to use more water for irrigation compared to other areas of the world. In such a scenario, given the scarcity of fresh water resources in the region, it appears logical to prefer imports instead of producing at far higher costs.




***Source:*** WHO, Blominvest

As per USDA, Saudi Arabia, the only wheat producer in the region, is also phasing out wheat cultivation and will rely on wheat imports by 2016, as it terminates a 30-year policy of self-sufficiency to put an end to the pressure on its limited freshwater resources. In the UAE, economic migration, especially from South Asia, further tips the scale in favor of imports for food products such as edible oils, palm oil, and rice.

## 4.5 Religious beliefs and traditions

The MENA F&B market strongly depends on the region's religious profile, which plays a key role in defining the social and economic environment. This also makes the market markedly different from the rest of the global markets. The region has strict norms against the consumption of pork and alcohol in line with the principles of Islam. Food has to be certified as halal, implying it is not stolen and has been processed properly. Moreover, the region has very little pubs or bars that constitute a popular entertainment option in the non-Islamic world.

While on one hand, the above indicates certain constraints for the F&B industry in the region, on the other, it translates into certain clear niche opportunities. Fast-food joints and restaurants thrive as the most popular venues for socializing. The non-alcoholic beverages and soft drinks market offers immense scope for growth. Moreover, halal foods are being accepted globally on perceptions of safety and hygiene, in addition to their success in the Islamic countries.

## 4.6 The drive toward organized retail

Food retail in the Middle East is fast catching up with its European and Western counterparts. It is believed that total retail sales in the region are already equal to those in Eastern Europe and higher than those in India or China. Additionally, the changing lifestyles, increasing awareness, and new social trends in the region are driving a shift toward the western style of shopping in malls, large supermarket-like outlets, and on the internet.

However, the still fragmented market characterized by a number of small players would pose challenges for the industry to mature in the near future. The industry will need to overcome infrastructure and consumer behavior-related issues in underpenetrated areas that are still served mostly by unorganized retail.

# 5 Future outlook

The MENA region is placed rather unfavorably when it comes to agricultural potential because of the harsh climate and scarce water resources. Since the likelihood of producing food locally is severely limited, governments in these countries face specific issues and challenges in providing food to their rapidly growing populations.

The global food crisis of 2006-2008 impacted the region rather severely. Relying heavily on food imports, the region faced the brunt as food subsidies imposed a heavy fiscal burden on the respective governments. In addition, growing food demand, under-investment in agriculture, inflation, rising income levels fuelling the shift to higher-value foods such as meat, dairy and confectionery, higher oil prices, droughts in grain-producing countries, and diversion of corn toward the biofuel industry, all aggravated the crisis. The agricultural trade gap—the difference between food imports and exports—reached over USD 13 bn in 2006, reflecting the region's unavoidable dependence on food imports. Despite counter measures, including import subsidies, direct price caps, and government interventions in the sector, food prices across the region moved up starting 2007, only to decline with the onset of the global economic crisis. This, in turn, spurred inflation to the range of 15-20% in the middle of 2008 in many countries and was a key concern for the region's governments.

Driven by such considerations, governments have long been searching for solutions to the food situation. From heavy investment in cereal-production schemes (that were later abolished due to water-stress), to contracting food imports in advance, and setting up agricultural investment funds, they have tried various measures to achieve food security, and ideally food sovereignty. A recent trend involves the acquisition of farming land by MENA governments and private companies—often with the former's support—through outright purchase or long-term lease in other countries, mainly for sourcing products back to their home country. Oil-rich GCC states, such as the UAE and Saudi Arabia, have been actively pursuing this strategy. Jordan has concluded some deals as well, while Egypt has been a source as well as a destination for such investments.

Currently, partner countries (mainly developing nations) are open to such acquisitions, as they see it as a means of receiving the much-needed capital and providing employment for locals. However, protests from the local population and NGOs have prompted a few countries to reject such offers. Coupled with the risk of exposure to limited acreage, and/ or geopolitical concerns, this calls for a more balanced approach to agricultural development. Currently, the focus is on an array of subsidies and financial support to local farmers. However, such a strategy may not be sustainable in the long-term, and may lead to abuse. Greater attention should be paid to farming technology, be it increased use of desalinated water in agriculture or greenhouse farming. In order to bring more efficiency into domestic agriculture, private sector participation should be encouraged. Some countries, like Saudi Arabia and Qatar, have already undertaken steps to facilitate the entry of private capital into the sector. This trend is likely to imply a plethora of opportunities for private equity, especially with a focus on modern agricultural technology.

The boom in the regional food retail sector is in stark contrast to the challenging situation in core agriculture. Fuelled by growing per capita GDP levels, which in some GCC countries are reaching those in advanced economies, new retail outlets and foodservice outlets are mushrooming everywhere. Sales of the more premium products are holding on well, even against the backdrop of the economic downturn. The recent months have seen the entry of high-end restaurants, new hypermarkets, and extremes such as the largest candy shop in Dubai—the regional food retail hub—Abu Dhabi, and Qatar. Going forward, sales by the organized retail sector—as opposed to the more traditional, small, independent retailers—are likely to account for a larger share of overall food retailing. The fragmented nature of the independent segment translates into the untapped market potential for organized retail chains as consumers get used to, and start expecting, cleanliness, wider product range, and product quality. On the flip side, in the more affluent countries such as Qatar and the UAE, shoppers tend to get impatient waiting in hypermarkets queues and prefer to shop in the higher-priced convenience stores. These markets have to be seen mainly from the perspective of the *premiumization* potential. At the same time, for lower-income countries, hypermarkets are more expensive than traditional wholesale markets, but still need to cater to the less wealthy population for sustaining growth through volumes. In Egypt, aggressive price reductions are key due to the price sensitivity of the consumers, because of which discount buying is popular.

In spite of the prevalence of imported food products in the region, which have a share of 90% and 80% of the total market in the UAE and Saudi Arabia, respectively, certain local F&B companies have made a mark. However, they still face feedstock scarcity and source most of their ingredients from foreign markets. Regional giants Almarai and Savola (both from Saudi Arabia) are making efforts to manage their exposure to international price fluctuations. Savola uses hedging and forward selling, passing some of the food inflation on to consumers, while Almarai is actively pursuing diversification plans to other countries in Africa and Asia.

Going forward, the concerns over food price increases continue. Although the economic crisis helped curb price inflation, structural imbalances continue to exist. MENA countries should counter these volatilities through sustainable and balanced agricultural investment, focusing on technological advances in domestic farming. On the retail front, the growth of organized retail chains will likely continue in the near future, though contingent upon the affluence of the society and religious beliefs. Regional companies in the F&B sector will benefit from increased consumer spending, following the ongoing economic revival, as well as government support for the sector in the form of subsidies and tax breaks. The markets, however, continue to mature in general, progressing toward the more premium segments. Categories such as organic food and energy drinks are already niche but significant markets, and are poised to benefit from consumers looking to make healthier and personalized choices.

# 6 Appendix

## 6.1 Land acquisition deals by MENA countries

| Country/Region | Investor | Investee | Produce | Details |
|---|---|---|---|---|
| Bahrain | Government | Egypt<br>Iraq<br>Sudan | Not Specified (NS) | Long-term plans to invest in farmland in investee countries and contract out food production. |
| | Market Access Promotion Services Group (MAP) | Georgia<br>Egypt<br>Pakistan | NS | MAP, an international investment firm, has joined other Gulf partners to form a Middle East Food Fund that will collectively invest in food production in nearby countries for the Gulf market. |
| | MAP | Pakistan | Dairy | MAP will develop 10 model dairy and livestock farms in Pakistan through private equity, small enterprise development and donor facilitation during 2008– 2010. When completed, the farms shares will be listed for public offer on the Karachi Stock Exchange and the Dubai International Financial Exchange. |
| | Public-private partnerships (PPP) | Philippines | Rice<br>Livestock | In May 2008, Bahrain's Trade Minister, Hassan Fakhro, went to the Philippines to try and secure access to large plots of land to grow basmati rice for Bahrain's consumption. |
| | Government | Philippines | Fish production | In March 2009, the Philippines government completed a USD 300 mn investment package with the Bahraini government to establish agro-fishery businesses in the country. Apart from fisheries, the Bahraini government also committed investments into vegetable and fruit preservation, biotechnology, post-harvest technology and livestock. |
| | PPP | Thailand | Rice | In May 2008, Bahrain's Trade Minister went to Thailand to negotiate a deal under which Bahrain could set up a plantation in Thailand to grow jasmine rice for direct export to Bahrain. A joint public or private company is being contemplated to run the operations. A memorandum of understanding was also signed with a Thai exporter to secure jasmine rice supplies, as an alternative to basmati, over the next two years. |
| Gulf countries | Government | Arab states, Brazil, South-east Asia | Basic food items | In March 2008, the ministries of trade, economy and finance of the Gulf Cooperation Council issued a joint recommendation that the GCC members consider setting up a joint corporation or a common fund to produce food in South-East Asia, Brazil and other Arab nations to supply the GCC market. They also proposed setting up a work team to monitor the projects, a common food procurement strategy and policy as well as common food purchasing mechanisms. |
| | AgriCapital | North Africa, sub-Saharan Africa | NS | In August 2008, three Gulf firms -- Abu Dhabi Investment House, Ithmaar Bank and Gulf Finance House – announced the creation of AgriCapital, a new Islamic investment fund. The USD 1 bn investment vehicle will engage in land purchases overseas to produce food for the region, through a separate investment bank specially created for this purpose, and to fund biotechnology research. |
| | | Somalia | NS | There are reports that some Gulf states have talked with the government of Somalia about allocating land for Gulf food production. |

***Source:*** NCB, GRAIN, Blominvest

| Country/Region | Investor | Investee | Produce | Details |
|---|---|---|---|---|
| Kuwait | Government | Burma | Rice<br>Palm oil | In September 2008, Kuwaiti government representatives were in Burma to finalize the terms and conditions on an agreement drawn up earlier in the year to produce food in Burma for export to Kuwait on a contract farming basis. Kuwait will provide fertilizers and financial support while Burmese companies, employing local farmers, will provide land, labor and other inputs. Kuwait will buy the output at international market prices and the Burmese firms will pay back the fertilizer costs at 4–5% interest per month. The main targeted crops are rice and palm oil. |
| | Government | Cambodia | Rice | In August 2008, Kuwait's Agriculture Minister, on a visit to Phnom Penh, inked a bilateral deal with the Cambodian government for outsourced food production. Kuwait will have access, under these lease arrangements, to Khmer rice lands to produce rice for export back to Kuwait, with surplus going to the international market. Cambodia, in return, will get agricultural technologies and a USD 546 mn loan (of which some USD 486 mn is to develop irrigation and USD 60 mn to build roads in Battambang, Cambodia's North-Western rice growing province – hence suspicions that the rice for Kuwait will be grown in Battambang). |
| | Government | Egypt, Morocco, Yemen | Poultry | In 2008, it was reported that the Kuwait Investment Authority, the country's USD 265 bn sovereign wealth fund, may invest in food production, particularly poultry, in Morocco, Yemen and Egypt for export to Kuwait. The country's trade ministry was also seeking to change the statutes of the Union of Cooperative Societies, the government-run group which dominates food retail in Kuwait, in order to enable the union to invest in overseas farmland, possibly in cooperation with other Arab cooperative unions. The move is apparently on hold for now. |
| | Government | Laos | Rice<br>Palm oil | In August 2008, Kuwaiti officials were in Vientiane to discuss access to land for food production. |
| | Government | Sudan | Crops<br>Cattle | On September 07, 2008, Kuwait's Minister of Finance signed what his Sudanese counterpart called a "giant" strategic partnership deal with the government in Khartoum. Under the agreement, the two countries will invest jointly in food production, including cattle. The deal was to come into force the following week, with the food security projects to be developed rapidly. |
| | Government | Thailand | Rice | Details of Kuwait's investments in rice production in Thailand are still unavailable or under discussion. But when an official delegation visited the country in mid-2008, one Kuwaiti minister openly suggested that Thailand offer to rent farmland to foreigners for up to 90 years as an investment opportunity. |
| | Government | Uganda, others | NS | In April 2008, during the World Islamic Economic Forum, the government of Kuwait launched a new USD 100 mn fund called "Dignity Living". The funds will be invested in food production and agribusiness development in Uganda, among other (unreported) countries, to supply the Middle East market. The focus of the fund is on building food export infrastructure and capacities. |
| Qatar | Government | Cambodia | Rice | Qatar's Prime Minister visited Cambodia in March 2008, reportedly to seal a deal for access to Khmer farmlands for production and export of rice to Doha. In exchange, Cambodia would receive technical assistance as well as an invitation for Hun Sen to visit Qatar in January 2009 to boost Cambodia's standing in the Gulf's rice market. The Cambodian government is hoping to become one of the world's top rice exporters by 2015, at 10 mn tons per year. |
| | Government | Indonesia | NS | In August 2008, Qatar Investment Authority, the country's sovereign wealth fund, set up a USD 1 bn fund to invest in energy, infrastructure and possibly agriculture in Indonesia. QIA is putting up 85% of the capital and Indonesia the remainder. |
| | Private Sector | Pakistan | NS | A Qatari firm is reportedly eyeing the acquisition of Pakistan government's Kollurkar farm in Punjab to produce food for export to Qatar. |

***Source:*** NCB, GRAIN, Blominvest

| Country/Region | Investor | Investee | Produce | Details |
|---|---|---|---|---|
| | Qatar Livestock Mawashi | Australia, Pakistan, Tajikistan, Sudan | Livestock | The Qatar Company for Meat and Livestock Trading (Mawashi) is in advanced high-level talks with Australian officials to establish livestock farms in Australia. It has established a sheep farm in western Sudan and has signed a memorandum of understanding with the country for further expansion of livestock farming. It also has bilateral agreements with two Tajik livestock companies. Qatar Livestock Mawashi has committed USD 1 bn to develop industrial livestock farms in Pakistan. |
| | PPP | Sudan | Wheat<br>Maize<br>Oilseeds | In July 2008, Qatar and Sudan announced the formation of a joint holding company which will invest in food production for export to the Arab markets. Zad Holding Company (previously Qatar Flour Mills), a state-owned firm, and QIA, the emirate's sovereign wealth fund, are both involved. |
| | Government | Turkey | NS | Qatar is reportedly considering land acquisitions in Turkey. |
| | Government | Vietnam | Cereals<br>Fruits<br>Vegetables<br>Cattle<br>Lamb | In September 2008 the governments of Qatar and Vietnam announced that they had signed an agreement to jointly set up a USD 1 bn investment fund, with USD 900 mn of the equity coming from the QIA, Qatar's sovereign wealth fund. The counterpart is Vietnam's State Capital Investment Corp. Part of the fund will be invested in food production in Vietnam for export to Qatar. |
| Saudi Arabia | PPP | Brazil | NS | In August 2008, it was reported that the new Saudi ambassador to Brazil is actively trying to develop opportunities in Brazil's agribusiness sector for Saudi investors. This may involve the launch of a joint food production venture, presumably to supply the Saudi market, in which Brazil provides the land and know-how, Saudi Arabia the capital and Singapore the logistics. |
| | Private Sector | Egypt, Philippines, Senegal, Turkey, Uganda, Ukraine | Wheat<br>Barley<br>Rice<br>Soybean<br>Fodder | Saudi investors are understood to be exploring possibilities for land acquisition for food production purposes in Egypt, the Philippines, Senegal, Turkey, Uganda and Ukraine. There are also reports that Saudi firms are looking for Thai partners to jointly undertake rice production in Uganda and Sudan. |
| | Private Sector | Ethiopia | NS | In August 2008, Ethiopia's Prime Minister told the Financial Times that he is eager to give Saudi investors access to "hundreds of thousands" of hectares of farmland for investment and development. |
| | BinLaden Group | Indonesia | Rice | In August 2008, the BinLaden Group signed an agreement to invest at least USD 4.3 bn, on behalf of a group of 15 Saudi investors known as the Middle East Foodstuff Consortium, to develop 500,000 ha of rice farmland in Indonesia. The aim is to produce basmati for export to Saudi Arabia, reportedly using Saudi seeds. On 14 August 2008 the BinLaden Group signed a memorandum of understanding with the Sultra provincial government, under which the BinLaden Group will be "provided" with 80,000 ha of land. The Jakarta Post reports that the BinLaden Group will also acquire land in the Merauke Regency of Papua Province. The investment plan runs to USD 43mn per 5,000 ha and implementation was to start after Ramadan in 2008. Local partners include Medco (oil and mining), Sumber Alam Sutera (hybrid rice seeds) and Bangun Cipta Sarana (construction). The Saudi rice venture is part of a larger agricultural development project involving a total of 1.6 mn ha for not only rice but also maize, sorghum, soya beans and sugar cane, much of which will be converted to biofuels. The BinLaden Group owns a 15% stake in the Indonesian oil palm plantation and mining conglomerate Bakrie & Brothers. |
| | Government | Kazakhstan | Cereals<br>Cattle | In September 2008, Saudi government representatives went to Kazakhstan to explore grain production and cattle-raising investment opportunities. |
| | Al Rabie | Pakistan | Pakistan<br>Dairy | The Al Rabie Group, a Saudi food company and the largest juice manufacturer in the Middle East, is interested in buying land in Pakistan to develop the dairy industry there. Al Rabie is also hoping to develop Pakistan's exports of tomato paste, citrus pulp and packed beans for the Saudi market. |

***Source:*** NCB, GRAIN, Blominvest

| Country/Region | Investor | Investee | Produce | Details |
|---|---|---|---|---|
| UAE | Abraaj | Pakistan | Rice<br>Wheat<br>Dairy | Abraaj Capital has, together with the UAE government, reportedly acquired some 800,000 acres (about 324,000 ha) of "barren" farmland in Pakistan last year to produce rice and wheat for export to the UAE. Abraaj will also start investing in dairy farming and dairy food processing from its USD 250 mn Pakistan Fund. Emirates Investment Group and the Abu Dhabi Group are allegedly not far behind in seeking similar deals. Other players include the Al Ghurair Group, Effco and the Majid Al Futtaim Group. Overall investments from Abu Dhabi in Pakistani agriculture are said to be worth USD3bn already. |
| | Abu Dhabi Group | Pakistan | Sugar<br>Dairy<br>Crops | The Abu Dhabi Group is planning to build sugar mills in Pakistan and look further into agricultural and dairy investments. |
| | Emirate Investment Group | Pakistan | Dairy | The Emirate Investment Group is interested in developing Pakistan's dairy sector. |
| | Private Sector | Philippines | Fruit<br>Fish<br>Cereals<br>Seafood | New foreign investments from UAE corporations in Philippine agriculture are growing. These include a USD 50 mn project to develop a 3,000 ha banana plantation in Mindanao, fish and cereal farms in Luzon and a pineapple cannery in Camarines Norte. Other firms are looking into the possibility of producing organic fruits and vegetables, coconuts and seafood. A memorandum of understanding between the two governments was signed in July 2008. |
| | Abu Dhabi Fund for Development | Senegal, Uzbekistan | NS | The Abu Dhabi Fund for Development is seeking land in countries such as Senegal and Uzbekistan to produce food and feed for the UAE market. |
| | Government | Sudan | Wheat<br>Maize<br>Fodder<br>Potatoes | The UAE government is investing in food production in Sudan to meet its own market needs. As of August 2008, it was reported that the UAE had invested in a total of 378,000 ha of farmland in various Sudanese states, including a 16,000-ha plantation for maize and wheat production. |
| | Janan | Egypt | Wheat<br>Corn<br>Feed | In May 2009, the UAE agricultural investment firm Janan reportedly signed a deal with Egypt's Agriculture Ministry to cultivate 42,000 ha of land with wheat, corn and animal feed. The project is expected to generate around 350,000 tons of wheat a year. Janan has already invested USD 320 mn to grow 6,227 acres with green feed in Egypt. |
| | Government | Cambodia | Rice | In October 2009, the UAE Minister for Economy Sultan Bin Saeed Al Mansoori met with Cambodia Prime Minister Hun Sen to discuss the UAE government's plans to invest in Cambodia's agriculture sector. |
| Egypt | Government | Sudan | Wheat, livestock | Egypt, one of the world's largest importers of wheat, signed a contract with President Omar Al Bashir's government to produce 2 mn tons of wheat a year in the north of Sudan for export to Egypt. Egypt is also eager to raise livestock there. |
| | Government | Ukraine | Wheat | Egypt is reportedly seeking a deal with Ukraine whereby it will export gas to Kiev in return for leasing out Ukrainian land for its own food production. |

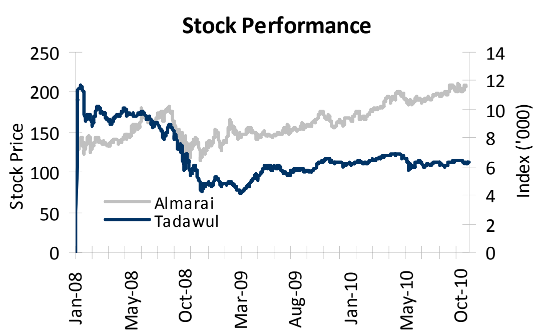
***Source:*** NCB, GRAIN, Blominvest

| Country/Region | Investor | Investee | Produce | Details |
|---|---|---|---|---|
| | Government & private sector | Uganda | Wheat, maize, beef | The Ugandan government has reportedly leased 2m feddans of land (840,127 ha) – a staggering 2.2% of Uganda's total area – in various parts of the country to Egypt, so that Egypt's private sector may come in and produce wheat and maize for export to Cairo. The deal was apparently struck in late August 2008 and would involve seven Egyptian agribusiness firms, according to Reuters' discussions with Egyptian officials. The details have been denied by Ugandan ministers as well as Egypt's ambassador to Uganda, though he did confirm that: a deal of this nature is under preparation; it will focus on wheat and organic beef for export to Egypt; they hope small farmers, not large, will be contracted for production; the Egyptians may build abattoirs in Uganda for the scheme; and it will be financed by the private sector. A delegation of Egyptian businessmen and scientists is expected to go to Kampala in October to work out details with Ugandan counterparts. Initial activities will include setting up trials to determine which varieties will grow well in Uganda. |
| Jordan | Government & private sector | Sudan | | In March 2008, Jordan's prime minister announced that his country would cultivate land allocated to it by the Sudanese government to produce food for Jordanians, and urged the private sector to get involved. Four months later, the agriculture ministry in Amman said that it was appointing a private company to handle the government's overseas agricultural investments in the fight against domestic food insecurity and inflation. |

***Source:*** NCB, GRAIN, Blominvest

## 6.2 Company profiles

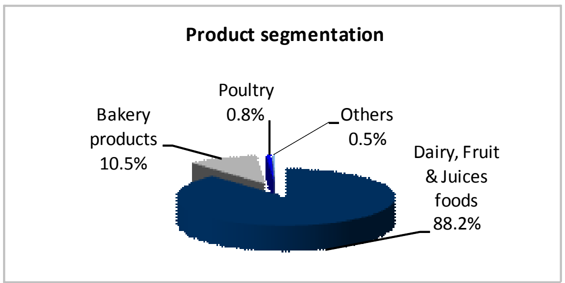
### 6.2.1 Almarai Company Limited




***Source:*** Bloomberg, Blominvest

| Major Shareholders | Holding (%) |
|---|---|
| Corporate | 33.00 |
| Private | 30.71 |
| Public | 36.29 |

***Source:*** Bloomberg, Blominvest




***Source***: Annual Report, Blominvest

| Key Financials (SAR'mn) | 2009 | 2008 |
|---|---|---|
| Total Revenues | 5,868.8 | 5,029.9 |
| EBITDA | 1,784.1 | 1,439.9 |
| Net Earnings | 1,096.7 | 910.3 |
| Free Cash Flow | 467.17 | (639.48) |
| Total assets | 10,987 | 8,181.28 |
| Total Liabilities | 5,587.28 | 4,549.79 |
| Shareholders' Equity | 5,399.72 | 3,631.49 |
| Enterprise Value | 22,861.14 | 18,671.89 |

***Source:*** Annual Report, Blominvest

**Company Overview**

Saudi Arabia-based Almarai is engaged in the production and distribution of consumer food and beverage products throughout the Middle East. Its main business segments include Dairy & Juice, Bakery, Poultry, and Arable & Horticulture. Set up in 1976, the company was a partnership between the Irish agri-foods pioneer Alastair McGuckian and his brother Paddy, and HH Prince Sultan bin Mohammed bin Saud Al Kabeer. Almarai is now the Middle East's largest integrated dairy foods company. It markets a variety of segments and products under different brands through a distribution network that extends throughout the Arabian Peninsula. Its product lines include dairy liquids, cheese, regular and strained yogurt, butter and ghee, fresh and bottled fruit juices, and tomato paste.

| Peer Group Analysis | Almarai | Herfy |
|---|---|---|
| Return on Assets (%) | 11.44 | 29.97 |
| Return on Equity (%) | 24.37 | 39.61 |
| Debt/equity (%) | 81.3 | 5.7 |
| Asset Turnover (%) | 0.61 | 1.35 |
| Current ratio | 1.51 | 2.16 |
| P/E | 16.59 | NA |
| Net margin (%) | 18.7 | 22.1 |
| Market Cap. (SAR mn) | 23,920 | 2,126.3 |

**as of Oct 25, 2010* ***Source:*** Annual Report, Blominvest

**Recent Developments**

- On May 22, Almarai announced that it wishes to enter the Pakistani market and is likely to acquire Lahore-based dairy company Haleeb Foods. Sources familiar with Almarai's pending transaction say that the company is looking to invest as much as USD 500 mn in Pakistan's food and dairy sector.
- In April 2010, Almarai announced plans to invest SAR 2 bn to acquire Hail Agricultural Development Co. (Hadco), to gain entry into poultry production. The proposed offer will be financed by its own resources, and will be clearly reflected in its 2012 financial results.
- In partnership with US-based Mead Johnson Nutrition Co., Almarai is planning to set up a pediatric nutrition joint venture for the production, marketing, and distribution of infant formula in the GCC countries. Almarai is constructing a new manufacturing unit for pediatric nutrition products for launch in 2011, and the joint venture will lease the facility.

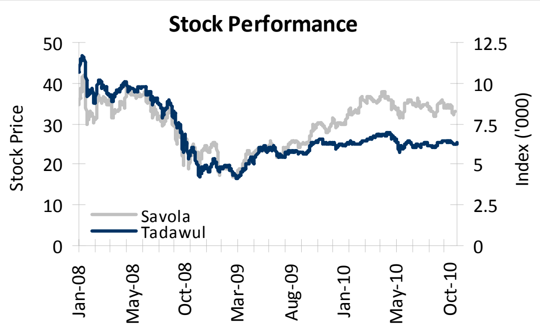
**Financial Analysis**

For 2009, Almarai reported total revenues of SAR 5.87 bn from SAR 5.03 bn in 2008, up 16.7%. During the same period, net earnings surged 20.5% to SAR 1.1 bn, because of increased sales and improved market shares across all the sectors. Meanwhile, the company's total assets stood at SAR 10.99 bn with an asset turnover ratio of 0.61%. The company's free cash flow stood at a positive SAR 467.17 mn, as compared to a negative SAR 639.48 mn in the earlier year, as its operational efficiencies have improved.

**Management Outlook**

Product diversification, potential mergers & acquisitions, market size, attractive demographics, and changing lifestyles offer Almarai excellent growth opportunities. The company believes that the upcoming 12-18 months are pivotal in laying the foundation for its transformation from a local dairy producer to a leading regional food company. With new business units coming online alongside the expansion into core dairy units during 2010, Almarai is well positioned to capitalize on a BMI forecast of 16.07% increase in headline food consumption to SAR 72.72 bn to 2014.

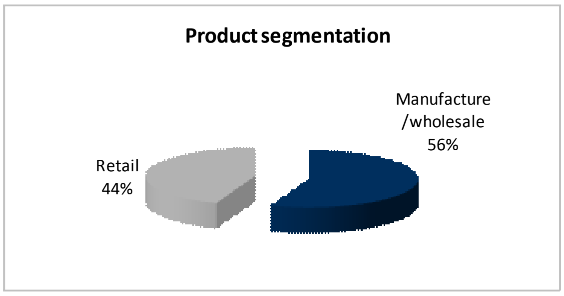
## 6.2.2 Savola Group Company




***Source:*** Bloomberg, Blominvest

| Major Shareholders | Holding (%) |
|---|---|
| Government | 10.90 |
| Corporate | 8.40 |
| Public | 60.1 |
| Private | 20.60 |

***Source:*** Bloomberg, Blominvest




***Source:*** Annual Report, Blominvest

| Key Financials (SAR'mn) | 2009 | 2008 |
|---|---|---|
| Total Revenues | 17,883.9 | 13,821.4 |
| EBITDA | 1,428 | 592.6 |
| Net Earnings | 951.6 | 202.4 |
| Free Cash Flow | 1,251.35 | (538.23) |
| Total assets | 17,172.18 | 14,545.85 |
| Total Liabilities | 8,654.12 | 7,409.17 |
| Shareholders' Equity | 8,518.06 | 7,136.68 |
| Enterprise Value | 20,583.97 | 16,645.12 |

***Source:*** Annual Report, Blominvest

### Company Overview

Savola Group Company, a Saudi-based public shareholding company, is primarily engaged, together with its subsidiaries, in the manufacture and marketing of vegetable oils, food products, retailing, packaging materials, and fast food operations. The Group has four core operating divisions: Savola Foods, which deals in edible oils, general food, sugar processing and has investments in dairy companies; Savola Retail, which operates around 80 retail stores across Saudi Arabia, and a hypermarket in Dubai; Real Estate Sector; and Savola Plastics. Some of the company's 12 subsidiaries include Saudi-based Almarai, where it owns a 27.3% stake. In addition, the Group also has a franchising unit, which has exclusive rights for international brands of fashion-wear from different countries. Savola has a strong presence in the MENA region and Central Asian countries.

| Peer Group Analysis | Savola | Herfy |
|---|---|---|
| Return on Assets (%) | 6.00 | 29.97 |
| Return on Equity (%) | 14.28 | 39.61 |
| Debt/equity (%) | 72.6 | 5.7 |
| Asset Turnover (%) | 1.13 | 1.35 |
| Current ratio | 0.90 | 2.16 |
| P/E | 15.87 | NA |
| Net margin (%) | 5.3 | 22.1 |
| Market Cap. (SAR mn) | 16,450 | 2,126.3 |

**as of Oct 25, 2010* ***Source:*** Annual Report, Blominvest

### Recent Developments

- Savola Group has decided to set aside 1% of its annual profits in order to support social causes. The Group plans to establish a number of training and educational centers not only in Saudi but also in countries where it has business links.
- With the recent IPO of its unit Herfy Food Services Co., Savola netted a profit of about SAR 200 mn from the offering, with its stake declining from 70% to 49% in the company.
- Savola entered into a sale and leaseback deal worth SAR 299 mn with Al Rajhi Capital, in order to cover its supermarket chain's main warehouse in Riyadh. The deal will generate SAR 55 mn in capital gains for Savola, which the company proposes to use toward lease payments.

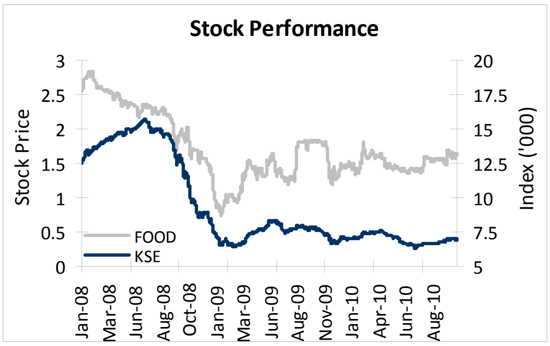
**Financial Analysis**

In 2009, Savola reported total revenues of SAR 17.88 bn from SAR 13.82 bn in 2008, up 29.4%. In addition, net earnings multiplied several times to SAR 951.6 mn from SAR 202.4 mn recorded a year earlier, spurred by capital gains worth SAR 101 mn following Almarai's acquisition of Hadco last year. The company's free cash flow swung to positive SAR 1.25 bn from negative SAR 538.23 mn. At the end of 2009, the total number of stores across the Savola Group stood at 113. Looking ahead, the company plans to add 12 more stores within the kingdom by the end of 2010.

**Management Outlook**

Bolstered by the acquisition of assets, Savola plans to expand its store count to over 120 by 2010, from almost 60 in 2008. The food company had also earlier evinced plans to pursue acquisitions of cooking oil firms in India, Indonesia and Pakistan. Benefits from retail acquisitions carried out in 2009 are expected to be seen in 2010. For 2010, the company estimates to earn an adjusted net income of SAR 920 mn. Laid out across the hypermarket and supermarket segments, Savola's retail unit is well positioned to take advantage of the growing retail sector with Saudi's retail sales projected to hit USD 97 bn by 2013.

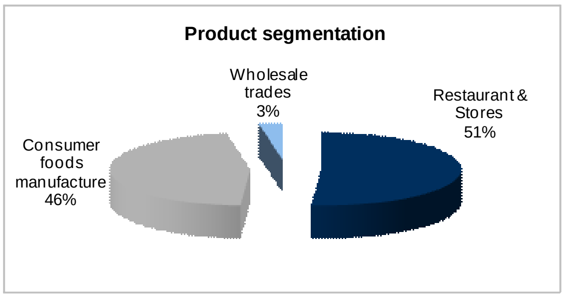
### 6.2.3 Kuwait Food Company (Americana)




***Source:*** Bloomberg, Blominvest

| Major Shareholders | Holding (%) |
|---|---|
| Public | 33.67 |
| Corporate | 66.33 |

***Source:*** Bloomberg, Blominvest




***Source:*** Annual Report, Blominvest

| Key Financials (KWD'mn) | 2009 | 2008 |
|---|---|---|
| Total Revenues | 616.4 | 557.4 |
| EBITDA | 85.5 | 103.6 |
| Net Earnings | 36.3 | 35.2 |
| Free Cash Flow | 75.10 | (26.89) |
| Total assets | 589.75 | 554.61 |
| Total Liabilities | 264.53 | 271.09 |
| Shareholders' Equity | 325.22 | 283.52 |
| Enterprise Value | 709.14 | 665.65 |

***Source:*** Annual Report, Blominvest

**Company Overview**

Kuwait Food Co. (Americana Group) is a Kuwait-based public shareholding company, with principal activities such as the import and manufacture of food and beverages, and sale of the same on a retail and wholesale basis. The Group operates across the Kuwaiti and other Arab markets, and is engaged in the operation of fast food restaurants and international franchises in Kuwait and the Middle East. It operates over 1,000 restaurants across 17 countries with franchises including Hardee's, T.G.I. Friday's, Krispy Kreme, KFC, Pizza Hut, Baskin Robbins, Samadi, and Fish Market. Its food and beverage products are manufactured in five countries, and marketed under different brand names across the entire region. The company's subsidiaries include Egyptian Company for International Touristic Projects; Gulfa for Mineral Water, UAE; and Al Ahlia Restaurants Co., Saudi Arabia.

| Peer Group Analysis | Americana | Savola |
|---|---|---|
| Return on Assets (%) | 6.34 | 6.00 |
| Return on Equity (%) | 13.70 | 14.28 |
| Debt/equity (%) | 47.1 | 72.6 |
| Asset Turnover (%) | 1.08 | 1.13 |
| Current ratio | 1.03 | 0.90 |
| P/E | 15.74 | 15.87 |
| Net margin (%) | 5.9 | 5.3 |
| Market Cap. (KWD'mn) | 659.3 | 16,450 |

**as of Oct 25, 2010* ***Source:*** Annual Report, Blominvest

### Recent Developments

- Americana recently announced its entry into the Guinness Book of Records with three new records in the food products industry: the largest serving of fried chicken meal in the world from KFC, largest doughnuts box from Krispy Krème, and the longest burger line from Hardees.
- Americana entered into an agreement with the San Carlo Group to launch the Italian restaurant 'Signor Sassi' in the Middle East markets. The group is planning to set up 22 such restaurants across the Middle East, with initial locations being Kuwait, Dubai, Riyadh, and Cairo.
- In December 2009, Americana sold its 49% stake in Cairo Food Industries to other shareholders in that company and US food company HJ Heinz.

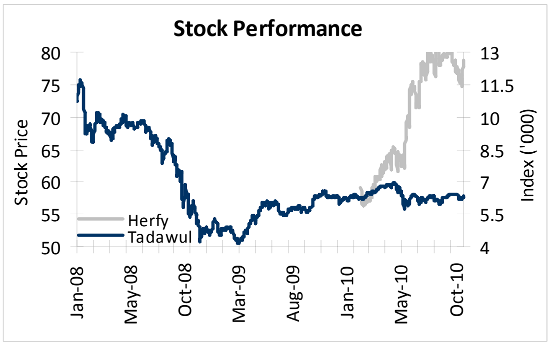
### Financial Analysis

In 2009, Americana's total revenues increased 10.6% to KWD 616.4 mn from KWD 557.4 mn in 2008. Also, net earnings edged up marginally to KWD 36.3 mn from KWD 35.2 mn. In 2009, the company's free cash flow stood at a positive KWD 75.10 mn against a negative KWD 26.89 mn in 2008. The Board of Directors has recommended a 60% cash dividend to shareholders for the year 2009.

### Management Outlook

Looking ahead, the Kuwaiti market is attractive and profitable for F&B franchises, supported by strong demand from a young, rapidly growing, and wealthy population. Furthermore, the BMI estimates highlight that Kuwait's headline food consumption is expected to increase 3.8% in 2010. Americana, which firmly believes that it would continue to maintain its market position and build on it during the upcoming years, is likely to benefit from these trends.

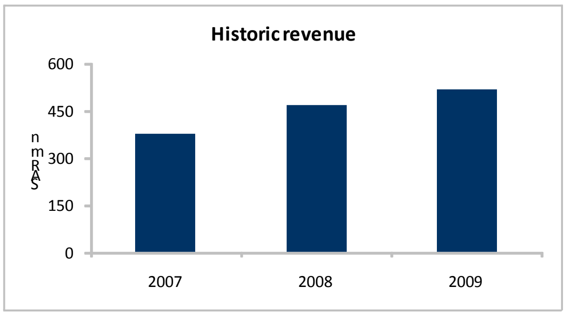
## 6.2.4 Herfy Food Services Company




***Source:*** Bloomberg, Blominvest

| Major Shareholders | Holding (%) |
|---|---|
| Corporate | 49.00 |
| Public | 30.00 |
| Private | 21.00 |

***Source:*** Bloomberg, Blominvest




***Source:*** Annual Report, Blominvest

| Key Financials (SAR'mn) | 2009 | 2008 |
|---|---|---|
| Total Revenues | 517.6 | 466.5 |
| EBITDA | 144.6 | 120.2 |
| Net Earnings | 114.6 | 91.3 |
| Free Cash Flow | 63.55 | 66.06 |
| Total assets | 410.61 | 354.55 |
| Total Liabilities | 93.90 | 92.47 |
| Shareholders' Equity | 316.72 | 262.08 |
| Enterprise Value | N/A | N/A |

***Source:*** Annual Report, Blominvest

### Company Overview

Herfy Food Services Co. (HFS) which consists of a chain of fast food restaurants is based in Saudi Arabia. A unit of Savola, Herfy has grown to become one of the country's first fully-integrated food services companies with its own bakery factory, bakery outlets and a meat processing plant. Its food products include beef and fish combos, chicken combos, kiddie meals, soft drinks and other side orders. HFS offers its products through s network of branches across the Saudi Arabian, Bahraini and the UAE markets.

| Peer Group Analysis | Herfy | Savola |
|---|---|---|
| Return on Assets (%) | 29.97 | 6.00 |
| Return on Equity (%) | 39.61 | 14.28 |
| Debt/equity (%) | 5.7 | 72.6 |
| Asset Turnover (%) | 1.35 | 1.13 |
| Current ratio | 2.16 | 0.90 |
| P/E | NA | 15.87 |
| Net margin (%) | 22.1 | 5.3 |
| Market Cap. (SAR mn) | 2,126.3 | 16,450 |

**as of Oct 25, 2010* ***Source:*** Annual Report, Blominvest

### Recent Developments

- Herfy, which owns 16 bakery production units and a meat processing plant, has a current capital base of USD 70 mn. To fund its expansion plans the company launched an IPO in February 2010 to raise USD 110.2 mn.
- The firm opened three branches in Ras Tanoura, Riyadh and Dammam in February.
- Herfy Food Services plans to open its restaurants all over Kuwait, with one already launched in January 2010.

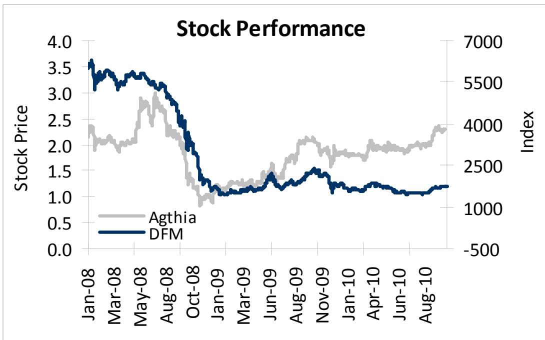
### Financial Analysis

Herfy Food Services announced that its total revenue for 2009 increased 11% to SAR 517.6 mn from SAR 466.5 mn recorded in 2008. Led by higher sales, the company's net profit surged 25.5% to SAR 114.6 mn from SAR 91.3 mn. Free cash flow dropped 3.8% to SAR 63.55 mn from SAR 66.06 mn. For 4Q09, the company declared a cash dividend of SAR 0.75 per share.

### Management Outlook

Looking ahead, the company plans to open 17 new fast food restaurants in 2010, taking the total to 173. It plans to utilize its expertise by expanding across other GCC countries, besides Bahrain and Abu Dhabi where it is already operating outlets. With the help of its modern factories, a growing selection of new Herfy bakery items and processed meat products will continue to roll into the market. The company continues to invest in product development and state-of-the-art technologies in order to emerge as a leading food services brand in the region.

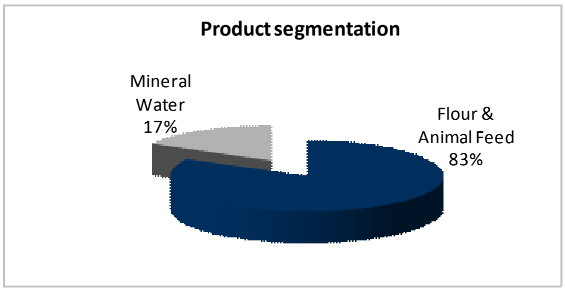
## 6.2.5 Agthia Group




***Source:*** Bloomberg, Blominvest

| Major Shareholders | Holding (%) |
|---|---|
| Government | 56.00 |
| Public | 44.00 |

***Source:*** Bloomberg, Blominvest




***Source:*** Annual Report, Blominvest

| Key Financials (AED'mn) | 2009 | 2008 |
|---|---|---|
| Total Revenues | 921.4 | 853.9 |
| EBITDA | 138.9 | 89.5 |
| Net Earnings | 105.7 | 72.2 |
| Free Cash Flow | 169.37 | (130.53) |
| Total assets | 1,190 | 1,060.3 |
| Total Liabilities | 290.96 | 264.98 |
| Shareholders' Equity | 898.99 | 795.33 |
| Enterprise Value | 1,014.38 | 729.35 |

***Source:*** Annual Report, Blominvest

### Company Overview

Emirates Foodstuff & Mineral Water Co., also known as Agthia Group, is an Abu Dhabi-based public joint stock company, whose principal activities include the establishment, investment, trade and operation of companies involved in the food and beverage processing business in the UAE and abroad. General Holding Corporation PJSC owns 51% of Agthia's shares and the company operates four wholly owned subsidiaries, namely Grand Mills for Flour & Feed Company PJSC, Al Ain Mineral Water Co. PJSC, Al Ain Vegetable Processing & Canning Factory, and Al Ain Food & Beverages.

| Peer Group Analysis | Agthia | Oman Flour |
|---|---|---|
| Return on Assets (%) | 9.40 | 10.28 |
| Return on Equity (%) | 12.48 | 11.72 |
| Debt/equity (%) | 11.2 | 2.3 |
| Asset Turnover (%) | 0.82 | 1.08 |
| Current ratio | 2.43 | 7.94 |
| P/E | 10.44 | 14.04 |
| Net margin (%) | 11.5 | 9.5 |
| Market Cap. (AED'mn) | 1,380 | 102.53 |

**as of Oct 25, 2010* ***Source:*** Annual Report, Blominvest

### Recent Developments

- Agthia Group is planning to ramp up its expansion plans in 2010 and has allocated investments towards that. For 2010, capacity expansion investment planned for the new flour mill is set between AED 60 mn to AED 80 mn and is set to start its operations from the second half of 2011. The company plans to launch new products in the near future.
- In 2009, the company set up a food-processing factory in Egypt in order to meet the growing demand for tomato and fruit concentrate in the UAE, and international markets. The factory is set up with 95% Agthia group ownership and the remainder belongs to its entity Al Ain Vegetable Processing & Canning Factory. It would employ 110 people and process 1,000 tons of fresh tomatoes per day.
- Agthia plans to raise the proportion of foreign equity in the company; currently, foreign investors own a 4% share. In order to expand product lines and increase profits, the company would have to initiate measures to attract foreign investments.

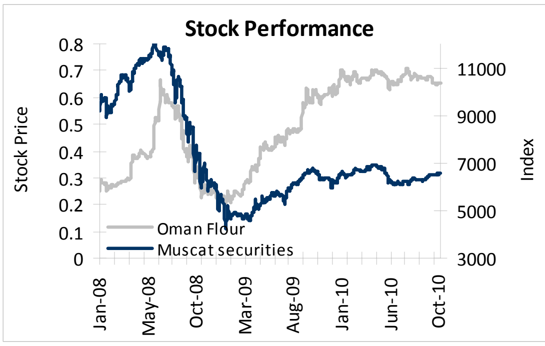
### Financial Analysis

Agthia Group's 2009 total revenues increased 7.9% to AED 921.4 mn, on volume growth across all product lines, particularly in the water and beverages business. The integration of Capri Sun in 1H09 contributed to sales growth. Net profit for the year increased 46.4% to AED 105.7 mn, supported by improving gross margin, higher sales volume, and favorable impact of the ongoing cost-saving initiatives. Subsequently, free cash flow stood at a positive AED 169.37 mn as against a negative AED 130.53 mn in 2008. For 2009, the Board recommended a 5% cash dividend.

### Management Outlook

The company remains optimistic about future revenue and profit growth as it pursues the strategy of introducing new and value-added products, continued geographical expansion, and high operating efficiencies. However, from a macroeconomic perspective, Agthia remains cautious of the uncertainties surrounding the current economic & financial environment in the UAE, regionally, and globally.

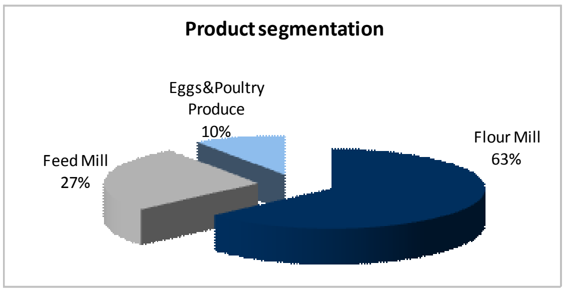
### 6.2.6 Oman Flour Mills




***Source:*** Bloomberg, Blominvest

| Major Shareholders | Holding (%) |
|---|---|
| Government | 51.06 |
| Public | 48.94 |

***Source:*** Bloomberg, Blominvest




***Source:*** Annual Report, Blominvest

| Key Financials (OMR'mn) | 2009 | 2008 |
|---|---|---|
| Total Revenues | 51.3 | 50.7 |
| EBITDA | 10.0 | 7.7 |
| Net Earnings | 4.9 | 8.1 |
| Free Cash Flow | 9.47 | 2.39 |
| Total assets | 48.10 | 46.81 |
| Total Liabilities | 5.71 | 5.41 |
| Shareholders' Equity | 42.39 | 41.40 |
| Enterprise Value | 53.27 | 82.39 |

***Source:*** Annual Report, Blominvest

**Company Overview**

Oman Flour Mills Co. SAOG (OFM), a public joint stock company, is engaged in the milling and food processing business. The principal activities of the company are milling of wheat and other cereals, sale of flour, and the processing and sale of animal feed. Its brands 'Dahabi' for flour products and 'Barakat' for feed products are popular not only in the domestic market but also in the other Arabian Gulf markets. The company exports mainly to Africa, the CIS, and the Far East markets. The company's subsidiaries Modern Poultry Farms Co. is engaged in the production and sale of eggs, while Bread House LLC, is engaged in the sale and distribution of franchise frozen bakery products.

| Peer Group Analysis | Oman Flour | Savola |
|---|---|---|
| Return on Assets (%) | 10.28 | 6.00 |
| Return on Equity (%) | 11.72 | 14.28 |
| Debt/equity (%) | 2.3 | 72.6 |
| Asset Turnover (%) | 1.08 | 1.13 |
| Current ratio | 7.94 | 0.90 |
| P/E | 14.04 | 15.87 |
| Net margin (%) | 9.5 | 5.3 |
| Market Cap. (OMR'mn) | 102.53 | 16,450 |

**as of Oct 25, 2010* ***Source:*** Annual Report, Blominvest

#### Recent Developments

- Oman Flour Mills set up an investment firm—Atyab Investment—with a capital base of OMR 150,000 to manage its growing portfolio of existing investments and new projects. The investment subsidiary would be overseeing the different businesses that the mill plans to diversify into.
- Atyab Investment, in a 50:50 joint venture with UAE-based IFFCO, took over Sohar Poultry Company. The JV plans to invest OMR 25 mn in setting up a poultry farm that would produce 15,000 tons of chicken and 2 mn hatching eggs every year.

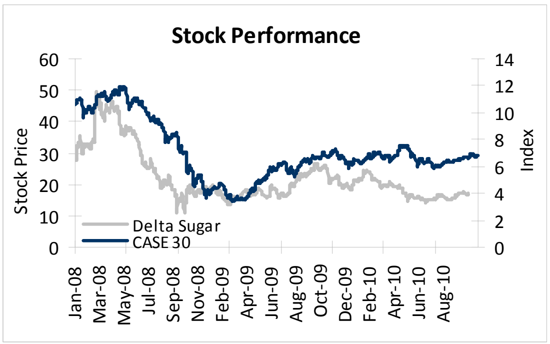
#### Financial Analysis

Oman Flour Mills registered a marginal increase in 2009 total revenues to OMR 51.3 mn from OMR 50.7 mn in 2008, supported by increase in volumes and improving margins. However, net earnings were reduced to OMR 4.9 mn from OMR 8.1 mn. The company's free cash flow increased 296.2% to OMR 9.47 mn from OMR 2.39 mn.

#### Management Outlook

OFM is aggressively implementing an action plan to diversify operations and venture into related businesses and has identified an industrial bakery and a franchisee for frozen bakery products. The company is looking to expand into new export markets as the traditional domestic markets are saturating. Going forward, it plans to modernize its milling equipments and add new product lines to its portfolio.

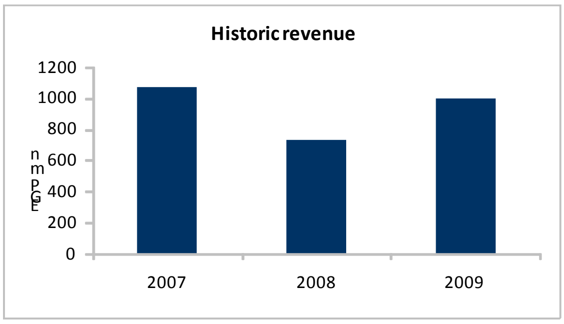
## 6.2.7 Delta Sugar Company




***Source:*** Bloomberg, Blominvest

| **Major Shareholders** | **Holding (%)** |
|---|---|
| Public | 7.67 |
| Government | 29.89 |
| Corporate | 62.44 |

***Source:*** Bloomberg, Blominvest




***Source***: Annual Report, Blominvest

| **Key Financials (EGP'mn)** | **2009** | **2008** |
|---|---|---|
| Total Revenues | 1,000.0 | 733.7 |
| EBITDA | 133.4 | 295.4 |
| Net Earnings | 102.2 | 192.6 |
| Free Cash Flow | 203.98 | 51.19 |
| Total assets | 1,098.87 | 1,217.53 |
| Total Liabilities | 178.36 | 188.21 |
| Shareholders' Equity | 920.51 | 1,029.32 |
| Enterprise Value | 2,110.35 | 2,056.03 |

***Source:*** Annual Report, Blominvest

**Company Overview**

Delta Sugar Company (DSC) is an Egypt-based public shareholding company engaged in the manufacture of white sugar and related products. The company provides more than 25% of Egypt's sugar requirements. Its raw sugar refinery station produces over 270,000 tons of white sugar annually from sugar beet. In addition to white sugar, the company also produces beet pulp and beet molasses, which are basic ingredients for animal feed, and are distributed domestically and exported abroad. DSC offers its white sugar products to a range of food processing industries across Egypt. Sugar & Integrated Industries Co. (SIIC) holds majority shares in Delta Sugar.

| **Peer Group Analysis** | **Delta Sugar** | **Oman Flour** |
|---|---|---|
| Return on Assets (%) | 8.83 | 10.28 |
| Return on Equity (%) | 10.49 | 11.72 |
| Debt/equity (%) | NA | 2.3 |
| Asset Turnover (%) | 0.86 | 1.08 |
| Current ratio | 2.32 | 7.94 |
| P/E | 22.33 | 14.04 |
| Net margin (%) | 10.2 | 9.5 |
| Market Cap. (EGP'mn) | 2,139.1 | 102.53 |

**as of Oct 25, 2010* ***Source:*** Annual Report, Blominvest

### Recent Developments

- DSC Board has approved to increase the issued capital by EGP 300 mn, out of which 50% will be through equity and the remainder through profits. The additional capital is mainly to fund its new production line at a total cost of EGP 1.1 bn and a capacity of 150,000 tons of sugar. The remaining will be added from debt and proceeds of a previous capital increase.
- Delta Sugar is seeking to establish a new sugar beet factory at Kafr Al Sheikh, Egypt with a production capacity of 125,000 tons of sugar beet, 50,000 tons of molasses, and 50,000 tons of fodder. As the company already owns a plant there, a new plant would cut investment costs by EGP 300 mn, as the company would benefit from the existing infrastructure.

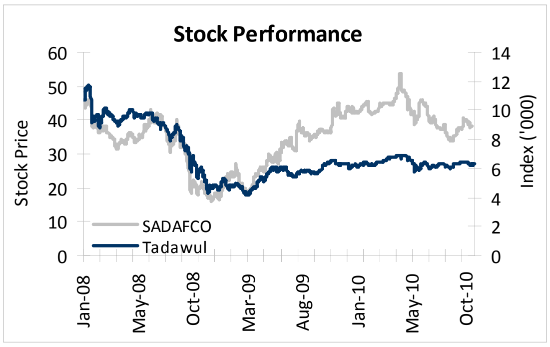
### Financial Analysis

Delta Sugar Company recorded a 36.3% surge in total revenues to EGP 1.00 bn from EGP 733.7 mn, driven by a significant increase in sugar revenues. Other revenue segments jointly contributed more than 50% of total revenues. The 3Q09 sugar volumes were large due to escalating domestic demand for sugar whilst international prices increased significantly. The company's net earnings dropped 47% to EGP 102.2 mn from 192.6 mn, following the release of unused provisions. Meanwhile, the company's EBITDA fell 54.8% to EGP 133.4 mn.

### Management Outlook

Although sugar prices faced a tough year in 2009 due to high beet costs, Delta Sugar is optimistic about 2010. Industry experts say that the world sugar market will return to surplus in 2010-11, helped by improved output in major producing countries. The company would also benefit from the new law that exempts it from paying an incentive fee of EGP 50 per ton on beet being paid to famers.

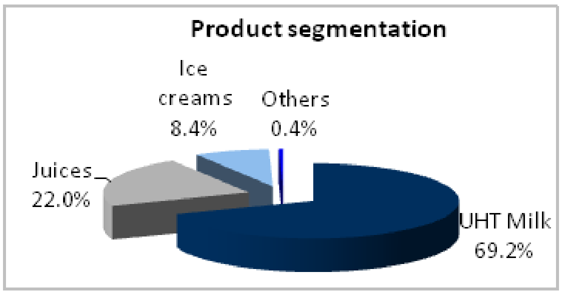
## 6.2.8 Saudi Dairy & Foodstuff Company (SADAFCO)




***Source:*** Bloomberg, Blominvest

| Major Shareholders | Holding (%) |
|---|---|
| Public | 49.40% |
| Corporate | 50.60% |

***Source:*** Bloomberg, Blominvest




***Source:*** Annual Report, Blominvest

| Key Financials (SAR'mn) | 2009 | 2008 |
|---|---|---|
| Total Revenues | 922.3 | 878.2 |
| EBITDA | 101.7 | 94.5 |
| Net Earnings | 28.3 | 58.5 |
| Free Cash Flow | 28.4 | (-3.41) |
| Total assets | 719.33 | 763.93 |
| Total Liabilities | 216.71 | 248.65 |
| Shareholders' Equity | 502.63 | 515.28 |
| Enterprise Value | 734.95 | 969.41 |

***Source:*** Annual Report, Blominvest

### Company Overview

Saudia Dairy & Foodstuff Co. (SADAFCO) is a Saudi Arabian-based company with principal activities such as manufacturing and distribution of long-life dairy products and foodstuffs. The product range includes milk products, ice creams, juices, and a selection of snacks such as Crispy Peanuts, Crispy Super Rings, Crispy Letters & Numbers, Crispy Ripples and Crispy Chips. Its cheese products include feta cheese and cheese spread, while other foodstuffs include tomato paste, mutabal, hummus, and tomato pulp. SADAFCO's subsidiaries include Sadafco Food Stuff Co. UAE; Sadafco Bahrain Co.; Sadafco Qatar Co.; Jordan Sadafco Food Stuff Co.; and Swiss Special Food Co, Egypt.

| Peer Group Analysis | SADAFCO | Savola |
|---|---|---|
| Return on Assets (%) | 3.82 | 6.00 |
| Return on Equity (%) | 5.57 | 14.28 |
| Debt/equity (%) | 0.2 | 72.6 |
| Asset Turnover (%) | 1.24 | 1.13 |
| Current ratio | 2.82 | 0.90 |
| P/E | 25.00 | 15.87 |
| Net margin (%) | 3.1 | 5.3 |
| Market Cap. (SAR mn) | 1,238.3 | 16,450 |

*as of Oct 25, 2010 **Source:** *Annual Report, Blominvest*

### Recent Developments

- In April 2010, SADAFCO sold its 51% stake in Saudi New Zealand Milk Products to its partner firm Fonterra for around SAR 120 mn.
- In 2009, SADAFCO launched a healthier alternative for its consumers by introducing cheese triangles, which are a good source of calcium and proteins. Since the cheese triangles segment is growing and consumers are weary of the foreign products available, the company plans to expand the market and capture a substantial share.

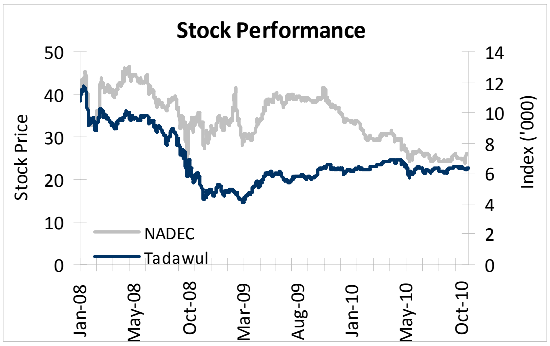
### Financial Analysis

In 2009, SADAFCO posted a 5.0% rise in its total revenues to SAR 922.3 mn from SAR 878.2 mn in 2008. In addition, the company's free cash flow swung to a positive SAR 28.4 mn from a negative SAR 3.41 mn earlier. However, the company's net earnings dropped more than half to SAR 28.4 mn from SAR 58.5 mn. In 4Q09, the company planned to pay a dividend of SAR 1.5 per share to all its shareholders.

### Management Outlook

In light of the divestment of Saudi New Zealand Milk Products and an increase in other income, SADAFCO's net profit in 2010 is likely to increase. Furthermore, the company is launching new products for consumption in households, schools, and picnics. SADAFCO is now planning to invest up to SAR 60 mn in order to boost production and develop its production chain. The company will use the electronic media to further promote and maintain the brand image of Saudia. The Saudia brand is a key growth driver in the near future as it would help to counter the rising competition and strengthen its market share.

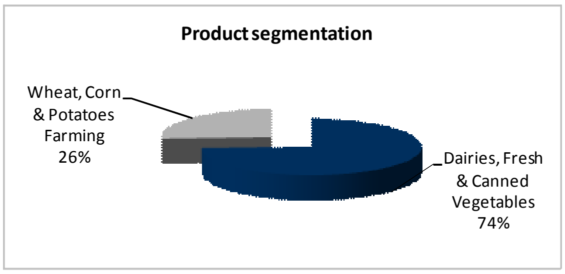
## 6.2.9 National Agriculture Development Company (NADEC)




***Source:*** Bloomberg, Blominvest

| Major Shareholders | Holding (%) |
|---|---|
| Government | 20.00 |
| Public | 40.60 |
| Private | 39.40 |

***Source:*** Bloomberg, Blominvest




***Source:*** Annual Report, Blominvest

| Key Financials (SAR'mn) | 2009 | 2008 |
|---|---|---|
| Total Revenues | 1,334.2 | 1,338.6 |
| EBITDA | 200.2 | 259.8 |
| Net Earnings | (38.4) | 68.8 |
| Free Cash Flow | (124.13) | (469.46) |
| Total assets | 2,513.39 | 2,442.30 |
| Total Liabilities | 1,538.07 | 1,383.27 |
| Shareholders' Equity | 975.31 | 1,059.03 |
| Enterprise Value | 3,017.68 | 2,799.67 |

***Source:*** Annual Report, Blominvest

**Company Overview**

National Agriculture Development Co. (NADEC) is a Saudi Arabia-based joint stock company engaged in cattle farming and agricultural development, as well as food processing and distribution. It operates through three main segments: Agricultural Products, Cow Farms, and the Dairy Sector. The Agricultural Products Sector produces open field vegetables, greenhouse vegetables, cereal crops, fodder crops, and fruits. The Cow Farms segment operates five cattle farms, which are engaged in animal housing, feeding, milking, and health and reproduction activities. The Dairy Sector operates two dairy plants, which produce and distribute dairy products. NADEC also offers fresh and ultra-high temperature (UHT) processed fruit juices in different flavors.

| Peer Group Analysis | NADEC | Savola | SADAFCO |
|---|---|---|---|
| Return on Assets (%) | -1.55 | 6.00 | 3.82 |
| Return on Equity (%) | -3.78 | 14.28 | 5.57 |
| Debt/equity (%) | 105.7 | 72.6 | 0.2 |
| Asset Turnover (%) | 0.54 | 1.13 | 1.24 |
| Current ratio | 0.59 | 0.90 | 2.82 |
| P/E | NA | 15.87 | 25.00 |
| Net margin (%) | -2.9 | 5.3 | 3.1 |
| Market Cap. (SAR mn) | 1,578 | 16,450 | 1,238.3 |

*as of Oct 25, 2010 **Source:** *Annual Report, Blominvest*

### Recent Developments

- NADEC expects to receive a long-term loan worth SAR 104 mn from Saudi Industrial Development Fund. The funds will be used to finance the expansion of NADEC's food processing projects.
- Further to the Saudi government's strategy to investment in farmlands abroad to alleviate food security concerns, in February 2010, NADEC completed the acquisition of a 42,000 ha farmland in Sudan.

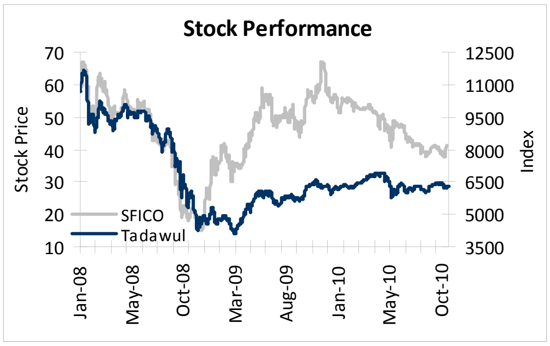
### Financial Analysis

In 2009, NADEC reported a marginal decline in total revenues to SAR 1.33 bn from SAR 1.34 bn recorded in 2008. The net earnings of the company also swung to a negative SAR 38.4 mn, as compared to a positive SAR 68.8 mn recorded earlier. However, the negative balance of free cash flow narrowed down to SAR 124.13 mn from a negative SAR 469.46 mn.

### Management Outlook

NADEC believes that the introduction of greenhouse farming can not only improve the company but also the country's currently increasing vegetable prices. It further added that looking ahead this kind of farming will help to produce at a reasonable cost and reduce prices for end consumers. The factors supporting such positive growth trends in the GCC food sector are favorable demographics including high growth rates and a young population, strong GDP growth levels and per capita income rates; improvements in education, greater health consciousness and preference for foods such as dairy products and new lifestyle choices.

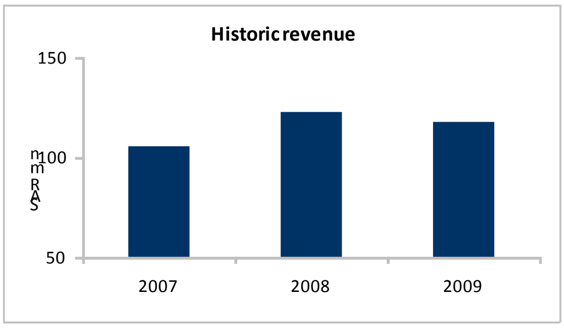
## 6.2.10 Saudi Fisheries Company




***Source:*** Bloomberg, Blominvest

| **Major Shareholders** | **Holding (%)** |
|---|---|
| Government | 40.00 |
| Public | 38.50 |
| Private | 21.50 |

***Source:*** Bloomberg, Blominvest




***Source:*** Annual Report, Blominvest

| **Key Financials (SAR'mn)** | **2009** | **2008** |
|---|---|---|
| Total Revenues | 118.0 | 122.7 |
| EBITDA | (12.7) | (14.0) |
| Net Earnings | (28.7) | (25.8) |
| Free Cash Flow | (13.38) | (48.29) |
| Total assets | 187.04 | 200.36 |
| Total Liabilities | 51.37 | 36.01 |
| Shareholders' Equity | 135.67 | 164.35 |
| Enterprise Value | 1,057.51 | 493.36 |

***Source:*** Annual Report, Blominvest

### Company Overview

Saudi Fisheries Co. is engaged in developing investment prospects in fishing and aquaculture, alongside the manufacture and sale of seafood, locally and worldwide. The company operates through its own fleet of fishing vessels, seafood-processing plants, a chain of retail shops and service counters. The products fall into four segments, namely value-added products (15 fish products under the Alasmak brand), the individually quick frozen (IQF) line that produces retail packs of IQF shrimp, a complete range of fish products, and Alasmak tuna. The company has four processing plants strategically located in Dammam, Jazan, Jeddah, and Riyadh.

| **Peer Group Analysis** | **Saudi Fisheries** | **Savola** | **SADAFCO** |
|---|---|---|---|
| Return on Assets (%) | -14.80 | 6.00 | 3.82 |
| Return on Equity (%) | -19.12 | 14.28 | 5.57 |
| Debt/equity (%) | 6.6 | 72.6 | 0.2 |
| Asset Turnover (%) | 0.61 | 1.13 | 1.24 |
| Current ratio | 1.91 | 0.90 | 2.82 |
| P/E | NA | 15.87 | 25.00 |
| Net margin (%) | -24.3 | 5.3 | 3.1 |
| Market Cap. (SAR mn) | 822 | 16,450 | 1,238.3 |

*as of Oct 25, 2010 **Source:** *Annual Report, Blominvest*

### Financial Analysis

Saudi Fisheries Co. reported a 3.8% drop in its 2009 total revenues to SAR 118.00 mn from SAR 122.7 mn in 2008. Furthermore, the company's net loss widened to SAR 28.7 mn from SAR 25.8 mn. Although free cash flow registered a negative balance it narrowed down to SAR 13.38 mn from negative SAR 48.29 mn recorded in the year-ago period. As liabilities increased 42.7% to SAR 51.37 mn, shareholders equity declined 17.5% to SAR 135.67 mn.

### Management Outlook

The overall outlook for the food sector in the GCC countries seems promising with further growth expected in the near future. The positive growth trends are backed by factors such as favorable demographics including high growth rates and a young population, strong GDP growth and per capita income rates; improved education, greater health consciousness and the preference for diet foods such as fresh dairy products and new lifestyle choices. However, smaller players in the food industry would be under pressure as mergers and acquisitions continue to be the chief mode of growth for top players.

## 6.3 Acronyms

| | | | |
|---|---|---|---|
| F&B | Food and Beverages | CPI | Consumer Price Index |
| CAGR | Compounded Annual Growth Rate | BMI | Business Monitor International |
| USDA | United States Department of Agriculture | MAF | Majid Al Futtaim Group |
| FAO | Food and Agricultural Organization | TSC | The Sultan Center |
| UNWTO | United Nations World Tourism Organization | GM | Genetically Modified |
| mt | Metric Tons | UN | United Nations |
| ISAAA | International Service for the Acquisition of Afri-biotech Applications | R&D | Research and Development |
| MENA | Middle East and North Africa | Ha | Hectare |
| GCC | Gulf Cooperation Council | Bt | Bacillus thuringiensis |
| GDP | Gross Domestic Product | FSU | Former Soviet Union |

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