

Country Market Profile: United Arab Emirates

Euromonitor reports that the pandemic and the oil price crash resulted in a considerable slowdown in economic output growth for the United Arab Emirates (UAE) in 2020. The Gross Domestic Product (GDP) shrank by 5%. As a result, unemployment increased, heightening uncertainty and dampening consumption. The government has taken measures to soften the economic slowdown, and support businesses and households through a fiscal stimulus plan. The UAE's economy is expected to recover by 2021, fueled by the government's efforts to diversifying the economy away from oil.

- Due to plummeting oil prices, the UAE experienced deflation in 2020.
- The trade deficit increased in 2020, as the country's exports fell due to supply chain disruptions, lower demand, as well as decreasing oil prices.
- Investment flows into the UAE reduced in 2020, due to economic uncertainty, while the country put in place efforts to remain competitive by diversifying its economy and easing regulations.
- The UAE's public debt increased in 2020, because of the high fiscal support for businesses and households.
- In 2021, the economy is expected to recover somewhat. Real GDP is expected to grow by 2%.

The standard of living in the United Arab Emirates is one of the highest in the world. A liberal, business friendly and market-oriented growth strategy has reshaped the economy. The non-oil sector steadily expanded as diversification of the economy proceeded. However, greater diversification meant that the UAE was hit more severely by the global financial crisis than its neighbors.

Abu Dhabi and Dubai together account for about 80% of the UAE's income. Abu Dhabi's diversification program has made impressive progress. Its non-oil industries now account for close to 50% of GDP. Dubai's diversification efforts were slowed by problems in the financial industry and the real estate market. However, both sectors now appear to be on the way to recovery. The UAE is the second largest foreign direct investment (FDI) recipient among Arab countries after Saudi Arabia. As the UAE's economy has developed into a major services hub in the Middle East, its dependency on oil exports has declined.

The UAE's population has risen at a shocking pace. In 2021, the total number was 9.8 million, up from just 3 million in 2000. Median age is rising and in 2021 was estimated to be 38.4 years – significantly higher than the regional average. Median age will rise to 35.7 years by 2030. Foreign citizens make up around 80% of total population and are mainly responsible for the rapid gains in population. However, almost all immigrants are young or middle-aged adults and their presence ensures a relatively high median age. In addition, immigration has led to an imbalance between the male and female populations – there are two men for every woman in the UAE.

USDA's Office of Agricultural Affairs (OAA) reports that in 2019, the UAE's total imports of agricultural products reached US\$14.7 billion, a 0.7% increase from 2018. The UAE is the major regional trade hub for the Middle East and North Africa due to a favorable geographic location and modern infrastructure. The UAE is also a member of the Pan-Arab Free Trade Agreement (PAFTA), which has eliminated nearly all tariffs among its signatories, and a founding member of the GCC.

The UAE imported \$5.4 billion in consumer-oriented products in 2019, accounting for 39% of total Agricultural imports. Primary suppliers are the European Union, India, United States, Brazil, and Saudi Arabia. The market is highly competitive but there is great potential for U.S. export growth in this segment, including in dairy products, prepared food, fresh fruit, poultry, tree nuts, and beef products.

Economic friendly regulations, low duties, and extensive free trade zones throughout the country have enabled the UAE to become one of the world's leading re-export hubs. Looking ahead, the UAE is hosting World Expo 2020, the first Expo in the Middle East. Now postponed until October 2021, the event is expected to generate US\$33.4 billion in economic activity, of which US\$3.1 billion is forecasted for restaurants and hotels alone.

Advantages and Challenges in the UAE Food Market

Advantages

- A wealthy consumer market with high per capital incomes.
- UAE is a modern transit hub for the broader region.
- Import regulations are transparent and non-complex.
- Excellent infrastructure, facilities, and state of the art ports.
- USA brand recognition is prevalent among consumers.
- Product visibility through market promotion is widely available.
- American products are considered high quality by UAE consumers.
- The UAE dirham is stable, secure, and pegged to the US dollar.
- UAE importers are frequently searching for new to market products to update portfolio.
- Well established trade relationship with major UAE retailers.

Challenges

- Expats have access and preference to their homecountry products.
- Specialized labeling and restrictive shelf-life requirements.
- Developing rules, subject to change without prior notice.
- Other international and local food brands are available at competitive prices.
- Competitors dedicate significant resources for product branding and marketing.
- Suppliers often required bearing the cost of market promotions.
- Long shipping time and high freight cost.
- Saturated market and highly competitive.

- Unwillingness of U.S. supplier to provide small product quantities due to limited size of the UAE market.

U.S. exports of consumer ready food products totaled US\$734.3 million in 2020, a decrease of 23% from 2019. The UAE is the largest U.S. consumer food export market in the Middle East and the 16th largest overall. The UAE also imported US\$338.6 million of U.S. processed foods in 2020, a drop of 19%. The UAE is the 2nd largest U.S. export market for processed foods in the Middle East after Saudi Arabia. Top U.S. exports of processed food products to the UAE in 2020 included:

- Food Preparations & Ingredients
- Snack Foods
- Processed/Prepared Dairy Products
- Condiments, Sauces Jams & Jellies
- Chocolate & Confectionery
- Alcoholic Beverages
- Processed Vegetables & Pulses
- Non-Alcoholic Beverages

Food Retail Sector Highlights:

Euromonitor has estimated 2020 retail sales in the UAE packaged food market to be US\$5.9 billion. That represents an increase of 20.9% and just over US\$1 billion from 2016. They also forecast sales of packaged food in the UAE market to reach nearly US\$7.5 billion by 2025, an increase of US\$1.3 billion and 21.6%. High growth products in the forecast include:

- Pet Food
- Processed Meat & Seafood
- Soup
- Processed Fruit & Vegetables
- Sauces, Dressings & Condiments
- Baked Goods
- Rice, Pasta & Noodles
- Breakfast Cereals
- Ready Meals

In the past ten years there has been massive expansion in food retail driven by hypermarkets, supermarkets, grocers, online retail, home delivery services, and related customers loyalty programs. Hypermarkets are the most popular retail sector among consumers because of discount and promotional programs. Yet, online retail is showing major growth especially after COVID-19, as consumers shied away from in-store retail.

After the 2018 UAE economic crisis, the market became dominated by a few major retailers with the biggest market share and these powerful players forced change across

the retail chain to survive. Large retailers had to rethink sourcing, transportation, and storage solutions to minimize costs and protect market share.

During COVID-19, the UAE has prioritized securing strategic food reserves. To protect against scarcity, manufacturers and retailers began stockpiling at the beginning of the pandemic as consumers started buying essential staples in bulk. In the past, major wholesalers and distributors were interested in seeking new brands and introducing as many products as possible to the market. With recent market saturation, wholesalers and distributors have switched from purchasing new brands to acting as brand building partners for established products already available in the UAE.

During the early days of the pandemic, the international news outlets were rife with images of toilet paper wars as consumers stockpiled groceries for fear of shortage. In contrast, the UAE did not experience anything like that. The UAE, a country which imports most of its groceries, did not have that same level of panic buying, although people did stockpile to prevent unnecessary trips to the grocery store. Local media reports in the UAE were replete with assurances by grocery CEOs and government officials that supplies would not run out and that prices would stay stable.

Euromonitor reports that consumer confidence and worries about limited disposable income are driving some consumers to downgrade to private label. Brands are responding by offering discounts on discretionary products and lots of promotions including 2-for-1 offers to attract frugal shoppers. Furthermore, shelf space dedicated to local produce increased in the UAE during 2020. Also propelling the purchasing of private label was the fact that they were the products that were the least likely to be out of stock during Covid 19. Private label is likely to gain over the forecast period due to its favorable price points and good quality. The range currently of private label is still limited in the UAE and is expected to be expanded.

At the other end of the spectrum, affluent consumers traded up to indulge during the COVID-19 pandemic, with premium products doing well (such as high-end water and premium cuts of meat), as well as premium chocolate or snacks.

Euromonitor adds that a trend that was reversed by the pandemic was consumers' preference to shop smaller basket sizes, even at higher-priced outlets. The pandemic has made people opt for larger weekly or monthly shopping trips in order to save time and stay away from busy grocery stores, which will fuel hypermarkets' growth over the forecast period (2025). Another benefit of a bigger size is the potential for efficacy, as well as absorption of any fixed costs associated with heightened cleaning and distancing in the post-pandemic world.

Majid Al Futtaim (MAF) distinguished itself early in the pandemic for its quick responsiveness to make sure that shelves were fully stocked and to prevent stockpiling. Pre-pandemic, Carrefour hypermarkets would only store 30 days' worth of goods, but in March, they increased that to 90 days. Another innovation of Majid Al Futtaim was that it managed to increase online fulfilment by more than 50% thanks to all-night packing

and picking at stores. MAF's acquisition of its largest distribution warehouse in Dubai's Jebel Ali also helped solidify its leading role in the channel. At 1.5million sq ft. (140,000 sq m), the storage warehouse is the largest FCMG warehouse ever built in the region (four times larger than any of the previous Carrefour distribution centers).

Convenience stores had issues with supply chain disruptions during early months of the COVID-19 pandemic, more so than grocery or supermarket chains due to their smaller size and storage centers. Going forward, many major convenience stores have been implementing a greater diversification of their supply chain and bringing on board newer partners to be prepared to weather any future similar disruptions. For example, a major grocery player in the UAE was able to switch its supply of rice from India to Pakistan and Vietnam in a matter of weeks, helped by the UAE government cutting the red tape usually associated with food imports.

The UAE is a land of malls and corporations so a great number of convenience stores in the UAE are found within malls and corporate offices rather than tucked away in residential neighborhoods. Due to this unfortunate positioning, convenience stores in the country saw dramatic declines as footfall fell off a cliff during lockdown due to COVID-19 in 2020. In response, many convenience stores like ADNOC's C-store took the opportunity to implement renovations to shops to modernize and upgrade them. ADNOC Distribution is one of the largest players in the UAE in the fuel and convenience store space and it is expected to increase its footprint in the UAE with upgraded stores. ADNOC Distribution's C-suite personnel are entirely made up of Emiratis, a rarity for the private sector.

Improvements included installing contactless payment solutions, providing space for more food options, as well as developing a stronger delivery network. Consumers may be visiting convenience stores less frequently, but their basket size has increased and they are looking to pick up hygiene products (like hand sanitizer, masks) as well as household items when they shop at convenience stores.

Best Product Prospects:

Post reports that the UAE imported US\$5.4 billion in consumer-oriented products in 2019, accounting for 39% of total agricultural imports. Primary suppliers are the European Union (EU), India, United States, Brazil, and Saudi Arabia. The market is highly competitive but there is great potential for U.S. export growth in this segment, including in dairy products, prepared food, fresh fruit, poultry, tree nuts, and beef products.

Foodservice Sector Highlights:

Post reports that according to the World Economic Forum, in 2019 travel and tourism accounted for 11.9% of the UAE's gross domestic product (GDP) and employed roughly 10% of the UAE labor force or 745,000 workers. There are 1,136 registered hotel establishments operating in the UAE, welcoming 27 million guests annually.

The hotel, restaurant, and institutional (HRI) sector in the UAE has been significantly affected by the COVID-19 pandemic. Post-lockdown venues have been allowed to re-open, but at only 30% capacity. Many restrictions and preventative measures have been placed on the food service industry. Restaurants were advised to increase takeaway and home delivery orders with adequate safety precautions. Hotels are required to keep rooms vacant for at least 24 hours after check-out, followed by a thorough disinfection. According to the United Nations Conference on Trade and Development (UNCTD) the pandemic is forecast to reduce tourism to the UAE by roughly 2% to 7% of GDP and lower wages by 3% to 10% annually.

COVID-19 came at a bad time for the HRI sector. According to industry contacts, the UAE was already suffering from a moderate oversupply of hotels and restaurants and revenue had started to decline for most venues around two years ago in 2018. This downturn was partially caused by value added tax (VAT) implementation, which increased operational costs and had an impact on consumer prices. The foodservice sector struggled to maintain targets and profit margins, options like food trucks, cloud kitchens, and online sales replaced more traditional and expensive physical outlets. While consumers have not given up valuing premium quality, discount offers and value meals have increased.

Food Processing Sector Highlights:

In 2019, the UAE had 568 food and beverage processors. These factories produce 5.96 million metric tons (MT) of food and beverage products annually, with 2.3 MT in essential food items. This sector relies heavily on imported commodities and ingredients and plays a major role in the government's efforts to enhance food security and self-sufficiency in basic commodities. Food processors create 15 of what the UAE authorities define as essential food items, including: dairy products, legumes, nuts, cooking oil, dates, poultry & eggs, fish, sugar, tea, baby food, wheat, rice, coffee, fresh meat, fruits and vegetables.

While food processors often started small, the UAE's strategic location, excellent ports, and strong infrastructure have helped many to expand. Some locally produced foods are of very high quality with competitive prices compared to imported products. As the number of food processing companies in UAE continues to increase, locally produced products are likely to compete directly with imports of consumer-ready foods, while boosting demand for ingredients and other raw materials.

There is a wide range of needs for varied international ingredients due to significant differences in income between the lowest and highest earners in the UAE, as well as the large diversity of ethnic groups that call the UAE home. In 2019, imports of bulk and intermediate agricultural products totaled US\$2.5 billion, 11% (\$273 million) of these imports came from the United States. They included dextrins, peptones, & proteins, vegetable oils, sugars, sweeteners and beverage bases, soybean oil, essential oils and milled grains and products.