Dubai’s agricultural sector overview

- Agricultural development leading to increased food production is hampered by the emirate’s climate with Dubai’s agricultural sector accounting for a mere 0.1% of GDP since 2010. Dubai’s agricultural output has been decreasing over the years despite the extension of agricultural land and the introduction of improved production methods.

- Dubai’s food and agricultural trade reached AED 43.2bn, up by 12.5% y/y in H1 2014. We expect that Dubai’s growing population along with the positive growth prospects for the tourism and hospitality sector should sustain the increasing trend in food imports in the coming years.

- Exports and re-exports are dominated by processed foodstuffs accounting for 64% of Dubai’s food and agricultural exports and re-exports. Such a high degree of concentration highlights the scope for developing the food manufacturing industry whereby a greater focus on adding value would enhance an already robust transport and logistics hub.

- The UAE ranked as the second most food secure economy in the region after Kuwait, according to the 2014 Global Food Security Index by the Economist Intelligence Unit (EIU). UAE’s overall score was weakened by the high volatility of agricultural production and the low public expenditure on agricultural research and development (R&D).

- UAE’s dependence on imported food and agricultural products comes as no surprise despite the efforts to develop its own agriculture sector. UAE investors have been involved so far in at least 28 agricultural deals covering roughly 1 million hectares of land for agricultural use worldwide, according to Landmatrix.

- Disputes over land ownership, bureaucracy and the risk that sudden droughts or food shortages could lead host governments to impose export bans. This is leading many MENA investors to switch their interest from African to Asian and South American countries instead.

- Lending to the agricultural sector jumped to 33.2% y/y in 2013 from 68.3% y/y in 2012. In order to stimulate agricultural development, the form of financial support extended to UAE farmers has shifted over the years. Although the UAE government traditionally provided financial subsidies for every aspect of farming, new policies have been implemented in an attempt to make farmers self-reliant.

Top 10 UAE’s international agricultural projects by target country, % of total 1mn hectares, as of H1 2014

Source: Landmatrix, Emirates NBD Research
Dubai’s agricultural sector overview

Agricultural development leading to increased food production is hampered by the emirate’s climate with Dubai’s agricultural sector accounting for a mere 0.1% of GDP since 2010. Dubai’s agricultural output has been decreasing over the years despite the extension of agricultural land and the introduction of improved production methods. Such methods include the reclamation and redistribution of agricultural land, various extensive training programs and the provision of necessary technological equipment.

Dubai’s active agricultural land reached 402,500 hectares in 2013, down by 23% y/y, numbering 1,110 farms compared to 1,205 in 2012. Agricultural land usage needs to be improved as 56.2% of the total agricultural land is currently uncultivated. According to the Dubai Statistics Centre (DSC), between 2010 and 2012, the total number of workers in the agricultural sector increased at an average of roughly 9.5% per year to 2,863 workers representing a mere 0.1% of Dubai’s total workforce.

Dubai’s farms by agricultural land usage, % of total, 2013

Dubai’s food and agricultural trade

Dubai’s food and agricultural trade reached AED 43.2bn, up by 12.5% y/y in H1 2014. Imports amounted to AED 28.1bn, up by 8.3% y/y while exports and re-exports amounted to AED 15bn, up by 3.4% y/y for the same period. We expect that Dubai’s growing population along with the positive growth prospects for the tourism and hospitality sector should sustain the increasing trend in food imports in the coming years.

Dubai’s food and agricultural trade, % of total, H1 2014

There is a high degree of concentration of trade activity within the processed foodstuff sub-sector which accounts for roughly 41% of Dubai’s food and agricultural imports, as the table below shows. Dubai’s food and agricultural imports meet the demand of the emirate’s growing population with about 30% of food and agricultural imports channeled to foreign markets in H1 2014. Specifically, the group with the highest domestic consumption was live animals and products with only 14% being re-exported. Similarly, animal and vegetable fats recorded a re-export share of 13% of total imports.

Dubai imports of food and agricultural products, H1 2014, AED bn.

Exports and re-exports are dominated by processed foodstuff accounting for 64% of Dubai’s food and agricultural exports and re-exports as the table below shows. Such a high degree of concentration highlights the scope for developing the food manufacturing industry whereby a greater focus on adding value would enhance an already robust transport and logistics hub. In H1 2014, the groups with the lowest domestic consumption were processed foodstuff and vegetable products with 43% and 26% of imports channeled to foreign markets, respectively.
In terms of imports, India was Dubai’s largest trading partner with imports valued at AED 1.6bn, followed by USA and Brazil with AED 1.2bn and 1.1bn, respectively for 2013. Specifically, the dominating food imports from India were cereals (AED 516mn) while the largest food imports from the USA were edible fruits and nuts (AED 538mn). Top food imports from Brazil consisted of sugars and sugar confectionery (AED 606mn).

On the export side, Dubai’s largest export destination was Iraq, with food exports valued at AED 489mn with sugars and sugar confectionery products being the country’s top exports (AED 348mn) in 2013. Iran topped the list of Dubai’s re-export markets with AED 844mn with edible fruits and nuts being the country’s top re-exports (AED 314mn) for the same period.

UAE’s food security ranking

The UAE ranked as the second most food secure economy in the region after Kuwait, according to the 2014 Global Food Security Index by the Economist Intelligence Unit (EIU), Overall, the UAE ranked 30th out of 109 countries. The index measures food affordability and availability, nutritional quality and food safety. UAE’s overall score was weakened by the high volatility of agricultural production, which occurred alongside low production and low urban absorption capacity while low public expenditure on agricultural research and development (R&D) needs to be addressed.

UAE’s agricultural strategy on track

UAE’s dependence on imported food and agricultural products comes as no surprise despite the efforts to develop its own agriculture sector. This is the reason the UAE has been investing abroad, primarily in African farms but in European, Asian and American farms as well. UAE investors have been involved so far in at least 28 agricultural deals covering roughly 1 million hectares of land for agricultural use worldwide, according to Landmatrix.

Top 10 UAE’s international agricultural projects in thousand hectares, as of H1 2014

Disputes over land ownership, bureaucracy and the risk that sudden droughts or food shortages could lead host governments to impose export bans. This is leading many MENA investors to switch their interest from African to Asian and South American countries instead. In total, cross-border agricultural investments by countries from the MENA region reached 8.9 million hectares of agricultural land. Of this, Africa accounted for 75.8% followed by Asia, South America and Europe with 11.9%, 10.8% and 1.5% of the total area, respectively.

MENA cross-border agricultural investments, % of total land by target region, as of H1 2014

Source: Dubai Customs, Emirates NBD Research

Source: Economist Intelligence Unit (EIU), Emirates NBD Research

Source: Landmatrix, Emirates NBD Research

Source: Landmatrix, MEED, Emirates NBD Research
UAE’s additional drivers for agricultural growth and agricultural related projects

Demand for organic food is on the rise in the UAE with sales of organic packaged food reaching USD 16.3 million in 2013, according to Euromonitor. Sales of organic packaged food are expected to reach USD 21.4 million in 2018, up by 31% y/y. We estimate that the growth in organic food consumption is expected to rise over the coming years despite the fact that the market has yet to capture the lower income segments of the population since organic food has always been associated with higher prices.

Agricultural opportunities in food processing and high tech farming are among the priorities for the UAE government. This can be achieved by investing in science and technology, introducing stress tolerant crops and integrated farming, treating sewage effluent (TSE) as an additional source of water as well as using hydroponics in high tech greenhouses. Other opportunities include investment in food processing and manufacturing, positioning UAE as a main food exporter in the region.

The UAE will fund the construction of 25 wheat silos in Egypt, as part of a USD 4.9bn aid package to Egypt, according to MEED. The total storage capacity of the silos will be 1.5mn tons with the project being initiated in an attempt to store the vast majority of Egyptian wheat that is lost each year worth of USD 500mn. The facilities represent one of the largest industrial projects in Egypt since 2010.

The Abu Dhabi government has recently launched a USD 27mn fund to be allocated in order to support and finance modern farming techniques in the emirate, according to the Abu Dhabi Farmers’ Services Centre (ADFSC). The fund, a partnership between the ADFSC and the Food Security Centre Abu Dhabi will allocate nearly USD 5.4mn per year until 2017. The fund will cover 50% of the total cost of each project, while the beneficiary farmer will cover the rest of the costs.

Lending to the agricultural sector jumped to 33.2% y/y in 2013 from 68.3% y/y in 2012. Loans to this sector accounted for a mere 0.1% of total bank loans in H1 2014. In H1 2014, bank credit to the agricultural sector reached AED 1.4bn compared to AED 2bn for H1 2013, down by 27.7% y/y. Agriculture accounts for approximately 1% of UAE’s non-oil GDP since 2010. In order to stimulate agricultural development, the form of financial support extended to UAE farmers has shifted over the years. Although the UAE government traditionally provided financial subsidies for every aspect of farming, new policies have been implemented in an attempt to make farmers self-reliant.

Bank credit to the agricultural sector, H1 2014

Bank credit by UAE banks to the agricultural sector, % of total, 2013

Source: 2013 Financial Results, Emirates NBD Research
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Emirates NBD Research & Treasury Contact List

Emirates NBD Head Office
12th Floor
Baniyas Road, Deira
PO Box 777
Dubai

Aazar Ali Khwaja
Group Treasurer & EVP Global Markets & Treasury
+971 4 609 3000
aazark@emiratesnbd.com

Tim Fox
Head of Research & Chief Economist
+971 4 230 7800
timothyf@emiratesnbd.com

Research

Khatija Haque
Head of MENA Research
+971 4 230 7803
khatijah@emiratesnbd.com

Jean Paul Pigat
Senior Economist
+971 4 230 7807
jeanp@emiratesnbd.com

Aditya Pugalia
Analyst
+971 4 230 7802
adityap@emiratesnbd.com

Anita Yadav
Head of Fixed Income Research
+971 4 230 7630
anitay@emiratesnbd.com

Athanasios Tsetsonis
Sector Economist
+971 4 230 7629
athanasiost@emiratesnbd.com

Sales & Structuring

Group Head – Treasury Sales
Tariq Chaudhary
+971 4 230 7777
tariqmc@emiratesnbd.com

Saudi Arabia Sales
Numair Attiyah
+966 11 282 5656
numaira@emiratesnbd.com

Singapore Sales
Supriyakumar Sakhalkar
+65 65785 627
supriyakumars@emiratesnbd.com

London Sales
Lee Sims
+44 (0) 20 7838 2240
simsl@emiratesnbd.com

Egypt
Shahinaz Foda
+20 22 726 5050
shahinaz.foda@bnpparibas.com

Corporate Communications

Ibrahim Sowaidan
+971 4 609 4113
ibrahims@emiratesnbd.com

Claire Andrea
+971 4 609 4143
clairea@emiratesnbd.com

Investor Relations

Patrick Clerkin
+971 4 230 7805
patricke@emiratesnbd.com