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Middle East Packaged Foods Market – The Iraq Opportunity

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Rationale and Objective

Rationale of the Study

1

The Packaged Foods Market in the Middle East is Growing Rapidly

- The Middle East region is one of the fastest growing markets in the global packaged foods industry
- As a result, a number of consumer packaged goods (CPG) companies are turning their focus to this region, e.g., the Danone Group is investing significantly in the region

2

Favorable Investment Opportunities Exist in Some Categories and Countries (e.g. Iraq)

- Experts believe that there is a case for investment in specific segments of the packaged foods industry in Iraq:
 - Products such as biscuits and salted snacks are likely to witness strong growth in demand over the next few years

3

Lack of Quality Research is a Barrier to the Decision Making Process for CPG Companies

- Data/information on the packaged foods market across the region is limited and difficult to access. This presents a challenge for CPG companies that are accustomed to making data-driven investment decisions
- Access to credible data is particularly an issue in less developed markets such as Iraq

Objective

The purpose of this study is to provide baseline market intelligence regarding opportunities for packaged foods companies in Iraq

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Executive Summary



Packaged Foods Market

Middle East – One of the Top Markets for Packaged Foods



- The packaged foods market in Middle East and Africa is estimated to have grown at a rate of 4.8% from 2004 to 2009
 - The **GCC¹ packaged foods market** was estimated at **USD 13.6 Bn, in 2007**
- Europe-based packaged foods companies have started focusing on the Middle East, leading to an increase in the export of these products into the region
- *Higher per capita income and a young population* are the key growth drivers for this market

Iraq – A Promising Investment Opportunity



- The end of political turmoil and reconstruction efforts have led to an improvement in the overall economic situation of the country
- **Children represent a relatively high percentage of the population (40% of the population is below the age of 14)**, making the country a potentially favorable market for products such as biscuits, snacks, and confectionery items
- Most of the demand is currently being met through imports — this provides a strong investment opportunity for players to enter the market and serve locally

Opportunity in Biscuits and Salted Snacks



- Given limited consumer purchasing power in developing markets (including Iraq), products in the low-to-medium price bracket tend to be more successful ('high volume' rather than 'high value')
- The extreme (hot) climate in the region also limits the potential of some categories. For example, pure chocolates require cold storage, which is limited in developing nations
- **The biscuit and salted snack categories align well with these constraints and seem more promising in Iraq** than other categories such as chocolates and confectioneries

Note: ¹Gulf Cooperation Council – includes Saudi Arabia, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE)

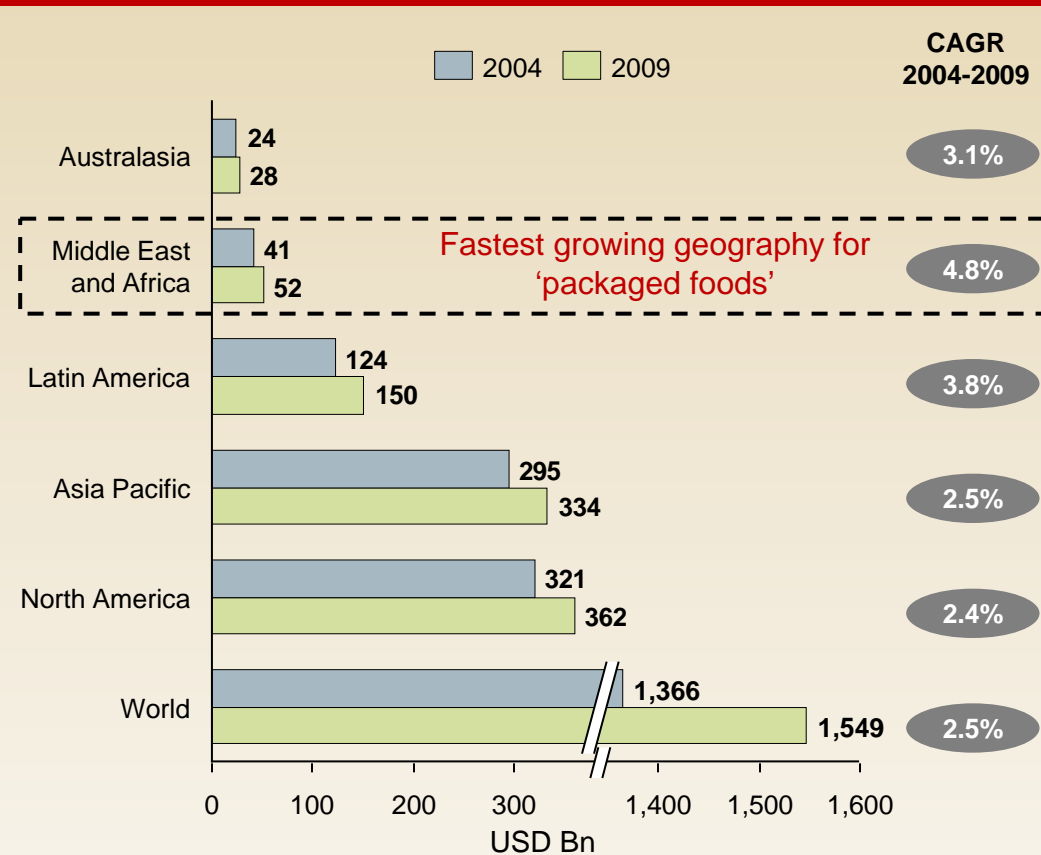
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Middle East Packaged Foods Market



With strong growth and the region's demand met mostly through imports, the opportunity exists for packaged foods companies to set up local operations in the region

Estimated Packaged Foods Sales (USD Bn), 2004 and 2009



Trends in the Middle East Packaged Foods Market

- The packaged foods market in the Middle East and Africa is estimated at USD 52 Bn (2009)
- In 2007, the GCC packaged foods market alone was estimated at USD 13.6 Bn
 - In 2007, ~90% of the region's foods and beverage requirements were being met through imports
- According to a survey¹ conducted in August 2009, the Middle East was identified amongst the top-10 global markets for confectionery products
 - The Middle East confectionery market is expected to grow at 20% per annum over the coming years
- The growth in the Middle East confectionery market is driven by an increase in the per capita disposable income, large percentage of young population, and traditional importance of sweets in the Arabian culture

Note: ¹Survey conducted by TNS Media Intelligence, a US-based advertising strategy company

Source: 'Middle East in top ten confectionery markets in the world, study reveals', Business Intelligence – Middle East, Aug 2009; 'Investor's Guide to UAE', 2007; 'Achieving High Performance in the foods and Non-alcoholic Beverage Industry', Accenture, 2009

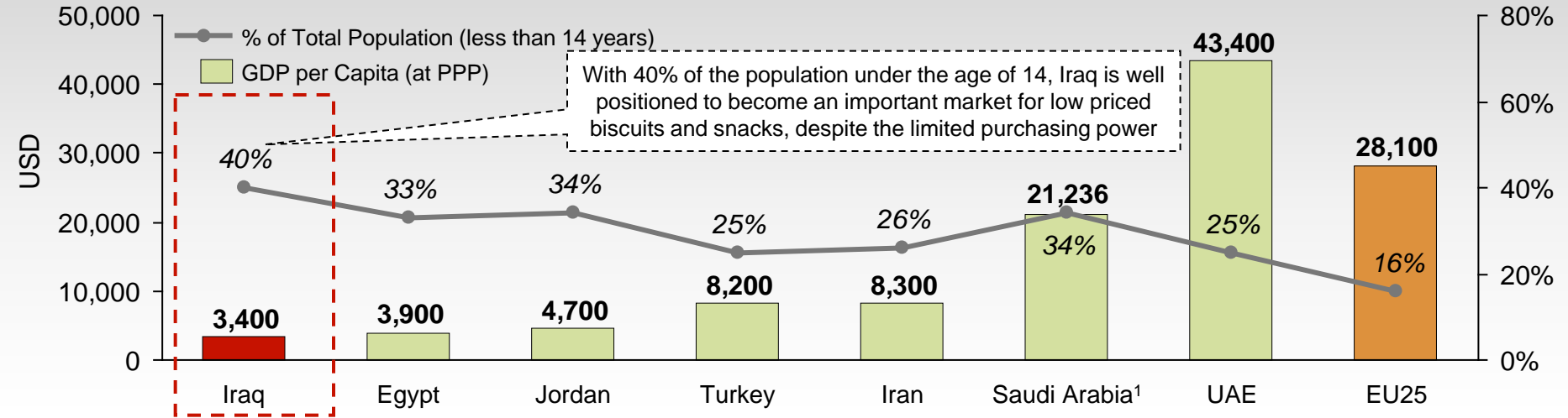
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Iraq – A Promising Investment Opportunity



In the Middle East, Iraq has the potential to develop as an important market for low to medium priced packaged food products, given the demographic composition of the population

Comparison of Young Population and Purchasing Power, 2005



Iraq – Opportunity Rationale

- The size of the young population (age 5–14 years) is a key factor that determines the overall size of packaged foods market in a country, while purchasing power is believed to affect the variety/range of products available in the market
- The consumption of biscuits and salted snacks in a region is closely related to: (a) percentage of children in the population, and (b) the purchasing power of the population
- Iraq, with a high percentage of young population (~40%), making it a potentially favorable market for many product categories
- Globally, children (age 4–8 years) exhibit a preference for sweet products, while teenagers (age 8–14) prefer salted products, so Iraq's demographics seem quite favorable for specific categories such as salted snacks, biscuits, and confectionery
- Since the purchasing power of the Iraqi people is limited, the opportunity is most likely around basic, low-priced products

Note: ¹Population data for Saudi Arabia is from 2004 census

Source: 'Bakery-Confectionery and Snacks for the Iraqi Market', IZDIHAR, July 2006

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Opportunity in Biscuits and Salted Snacks Segments in Iraq

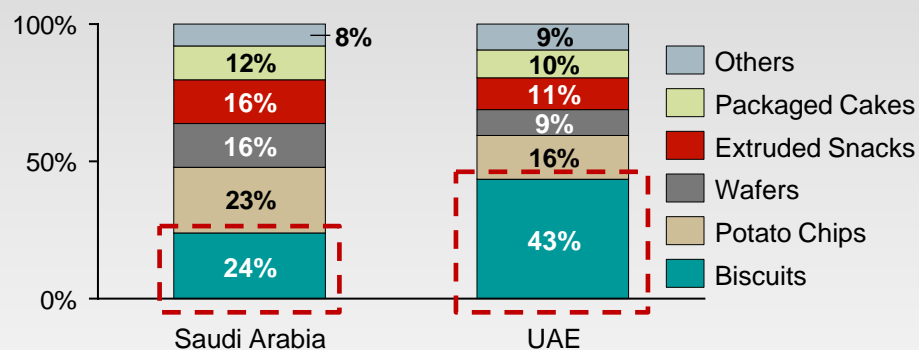


Regional consumer preferences and cultural factors make the biscuit and snack categories promising packaged food opportunities in the Iraq market

Biscuits Category's Strong Performance across Other Middle Eastern Markets

- Globally, countries characterized by hot climate (typically the case of Middle East), witness a high consumption of biscuits and salted snacks compared to chocolate confectionery products
- As the case of Saudi Arabia and UAE suggests, biscuit products form a major portion of the snacks and baked goods market
 - In 2006, Saudi Arabia's biscuit category was worth USD 93.4 MM, while the UAE's biscuit category was worth USD 32.4 MM

Packaged Foods Market¹ (by value), in select Middle Eastern Countries: Saudi Arabia and the UAE, 2006



Biscuits: Culturally a Strong Fit and a Good Point of Entry into the Iraq Packaged Food Market



- Iraq's young population offers an opportunity for quick acceptance of biscuits and other confectionery products
- Iraq has a high tea consumption rate, a factor favorable for the biscuit category
- *“Establishing a biscuits & snacks industry has strategic significance for the foods sector in Iraq because it will probably represent the cornerstone of possible line extensions into chocolates, powdered chocolate, candies, & perhaps powdered soft drinks, all markets with huge potential in any country with a young profile”*
 - Iraq Private Sector Growth And Employment Generation (IZDIHAR), 2006
- Iraq's packaged foods demand is met mostly by imports, and the industry is still in its nascent stage; investors would likely have the early entrant advantage and quickly gain consumer acceptance

Note: ¹includes baked foods and snacks market only

Source: 'Bakery-Confectionery and Snacks for the Iraqi Market', IZDIHAR, July 2006; 'The Potential For foods Processing in Iraq', Izdihar, March 2006; 'Accessing the Gulf States: United Arab Emirates and Saudi Arabia', foods from Britain, June 2007

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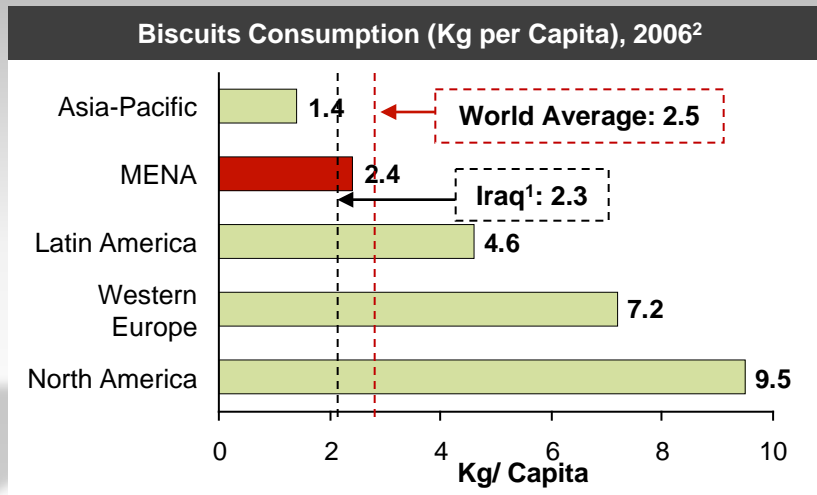
Iraq Biscuits Market – Current State



Biscuits are one of the most popular packaged foods categories in Iraq and ~2/3 of biscuits consumed in the country are imported

Biscuit Category in Iraq

- In 2006, the total market for biscuits in Iraq was estimated at **60,000–65,000 tonnes**
- The per capita biscuit consumption in the MENA region is expected to increase to the level of Latin America — 4.6 kg per capita — in the coming years



Major Countries Exporting Biscuits to Iraq, 2006²

Exporting Country	Tonnes	USD MM
Turkey	18,000	19
Iran	22,000	16
Syria	4,000	3
Total	44,000	38

Danone Group: The Key Player in the Market

- The most active multinational player in the MENA region biscuit and snacks category is the Danone Group
- The Danone Group is strengthening its position in the MENA region through acquisitions. It has also increased its stake in various companies in the MENA region, which include:
 - Rachid Group in Egypt, Sotubi in Tunisia and Algeria, and Boco in Morocco
- In 2005, the Danone Group announced its intent to focus on the biscuit category, in the Middle East region
 - This was primarily due to the high growth rate of the category in the Middle East, at 15%, compared to 10% in Asia

Note: ¹Calculated value by dividing the market size in tonnes, with the population in 2006; ²As reported in 2006

Source: 'Bakery-Confectionery and Snacks for the Iraqi Market', IZDIHAR, July 2006; 'The Potential For foods Processing in Iraq', Izdihar, March 2006; World Economic Outlook Database, April 2009

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Challenges in Iraq's Packaged Foods Market

Of course the packaged food investment opportunity in Iraq is not without its challenges

High Production Cost

- Biscuit manufacturing can be expensive in Iraq due to relatively higher energy costs
- According to a January 2009 report, the energy cost to manufacture 1 tonne of biscuits in Iraq was USD 75. This is significantly higher than the energy cost in other neighboring countries such as Turkey and Syria

Adverse Climate

- One of the major constraints on products such as pure chocolate bars is the lack of sufficient cold storage in the country
- With prevailing temperatures greater than 26 degree Celsius, chocolate bars will melt
- Products having chocolate layers inside (wafer/ biscuits), are more suited to the Iraqi climate

Security and Political Situation

- Though Iraq has shown visible improvement on political, security, and economic dimensions, the situation is still relatively volatile in the country. There is sporadic violence in the country which leads to security concerns for companies and their employees
- The provincial election in Jan 2009 has not led to significant progress in the quality of governance
- However, there are various organizations, such as the Iraq Investment and Reconstruction Task Force (IIRTF), that provide assistance to companies interested in investing in Iraq

Source: 'Bakery-Confectionery and Snacks for the Iraqi Market', IZDIHAR, July 2006; 'The Potential For Food Processing in Iraq', Izdihar, March 2006; Iraqi American Chamber of Commerce and Industry; Iraqi National Investment Commission ; Centre for Strategic and International Studies



For More Information Contact:

- **Grail Research**
(info@grailresearch.com)

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