The Economist INTELLIGENCE UNIT

Breaking Barriers:
Agricultural trade between GCC and Latin America

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Contents

About this research

Breaking Barriers: Agricultural trade between GCC and Latin America **is an Economist Intelligence Unit report, sponsored by Dubai Chamber of Commerce and Industry. The report explores the agricultural trade dynamics between the Gulf Co-operation Council (GCC)[1] countries and Latin America and the Caribbean (LAC), focusing on key challenges and innovative solutions.**

This report is based on extensive desk research and in-depth interviews with exporters in LAC, importers in the GCC and regional experts. The interviews were conducted in December 2017 and January 2018.

Our sincerest thanks go to the following participants (listed alphabetically) for their time and insights:

- Diego Coatz, executive director and chief economist, Union Industrial Argentina
- Bashar Kilani, region executive, IBM Middle East
- Marcus Krauspenhar, strategic planning and business development director, OneFoods, a subsidiary of BRF
- Laudemir Muller, agribusiness supervisor, Apex-Brasil
- Fadi Saboune, founder and director of Best Ground International
- Mahmoud Suleiman, area marketing manager, Al Khaleej Sugar

Emma Campos-Redman is the author of the report and Melanie Noronha is the editor.

Executive summary

The GCC-LAC agricultural trading relationship has thus far been dominated by the GCC's reliance on food imports, specifically meat, sugar and cereals. Over the past two years, however, there has been a notable decline in the share of sugar imported from LAC, and 2017 saw the biggest importers in the GCC—Saudi Arabia and the UAE—impose a ban on Brazilian meat.

Market players on both sides of the aisle are keen to grow the relationship further, but there are hurdles to overcome. In this report, we explore in greater depth the challenges that agricultural exporters and importers in LAC and the GCC face. We consider both tariff and non-tariff barriers and assess key facets of the trading relationship including transport links, customs and certification, market information, and trade finance.

Key findings of the report:

GCC will need to continue to build partnerships to ensure a secure supply of food. Concerns over food security have meant that the GCC countries are exploring ways to produce more food locally. However, given the region's climate and geology, food imports will remain an important component of the food supply. Strengthening partnerships with key partners such as those in LAC, from which it sourced 9% of its total agricultural imports in 2016, will be vital to food security in the region.

There is a wider range of products that the LAC countries can offer the GCC beyond meat, sugar and cereals. Providing more direct air links and driving efficiencies in shipping can reduce the time and cost of transporting food products. This will, in turn, create opportunities for LAC exporters to supply agricultural goods with a shorter shelf life or those that are currently too expensive to transport. Exporters cite examples such as berries and avocados.

The GCC can engage small and medium-sized producers that dominate the LAC agricultural sector by offering better trade financing options and connectivity. More direct air and sea links can reduce the cost of transporting food products, making it viable for smaller players to participate in agricultural trade. The existing trade financing options make it prohibitive for small and medium-sized players too. Exporters in LAC suggest that local governments and private companies in the GCC can offer distribution services with immediate payments to smaller suppliers at a discount.

Blockchain technology is poised to address key challenges market players face in agricultural trade. Through a combination of smart contracts and data captured through devices, blockchain technology can help to reduce paperwork, processing times and human error in import and export processes. It can improve transparency, as stakeholders can receive information on the state of goods and status of shipments in real time. Finally, it can help with food safety and quality management—monitoring humidity and temperature, for instance, along the supply chain can help to pinpoint batches that may be contaminated, minimising the need for a blanket ban on a product.

Chapter 1: The state of agricultural trade between GCC and Latin America

LAC is an important source of food products for the GCC countries. Goods from LAC constituted 9% of the GCC's total agricultural imports in 2016, which amounted to US$4.3bn (see table one). Roughly 40% of the total imports from LAC into the GCC comprised agricultural products. Latin America accounts for almost half of all GCC meat imports, close to 30% of its imports of animal fodder and around a tenth of its cereals, fruit and nuts, oleaginous seeds and sugar imports.

The top trade destinations in the GCC are the UAE and Saudi Arabia, which together account for at least 80% of the six main agricultural exports from Latin America (although a portion of this is re-exported to markets in Africa and Asia). The supply side is dominated by Brazil and Argentina. Brazil has essentially been the sole exporter of meat products to the GCC, with a 98% share of the market in 2016. In the same year, 91% of the sugar and 83% of the oil seeds exported from LAC to the GCC were from Brazil. Argentina has been the primary supplier of cereals and animal fodder. Ecuador and Chile dominated exports of fruit and nuts to the GCC in 2016, with 38% and 34% of the total from LAC, respectively (see figure one).

But put these numbers into context, and a declining trend is evident. Between 2012 and 2016 not only did the total value of agricultural imports decline, but also the share of agricultural imports from LAC was reduced from 13% to 9%.[2] This can be explained by the reduction in imports of cereals (48%) and sugar (50%) by GCC countries between 2014 and 2016, among the top products imported from LAC. Once 2017 data are reported, the total for the year may show a dip on account of the ban on Brazilian meat imports by the UAE and Saudi Arabia. At the time of writing, the ban applied only to a limited number of meat plants[3] in Brazil and was not a blanket ban on all meat products from the country, according to the Dubai Municipality.

Yet, on both sides, there is a desire to grow the relationship further, with the GCC eager to diversify its sources of food and LAC countries keen to diversify into new markets. In Brazil and Argentina specifically, experts we interviewed have explained how governments are setting up policies to facilitate exports to the Middle East, among other markets. Diego Coatz, chief economist of the Argentinian Industrial Union, explains: "under the new Macri government [in Argentina], they have set up a new investment agency to promote trade links with the Middle East and China." Population and income growth in the GCC, combined with the cost competitiveness of South American agricultural products over those of Europe and North America, also make these markets a good fit for enhanced agricultural trade, experts say.

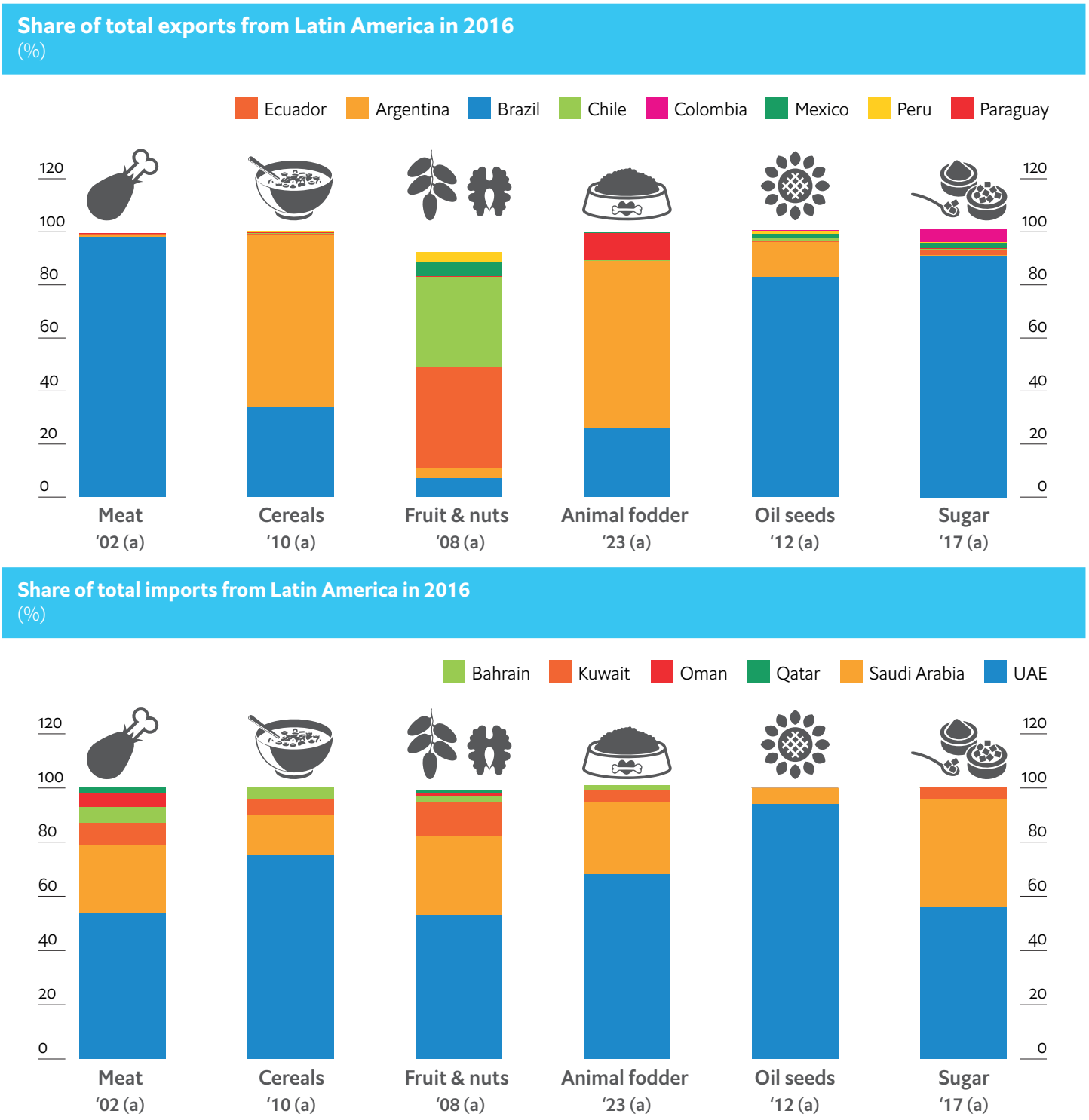
But despite the promise of a fruitful relationship, agricultural trade activity hasn't reached its full potential. Many attribute the recent decline in imports from LAC to challenges in trading between the two regions. Exporters of agricultural goods from LAC to the GCC face tariff and non-tariff barriers. In the absence of a trade agreement between the two regions, the most-favoured nation (MFN) rates apply on imports, which vary between countries in the GCC. The limited number of direct air links push up costs to transport perishable food products and restrict the range of products that can be traded. Furthermore, insufficient market information means that LAC exporters are unable to identify opportunities in the GCC and financial companies are reluctant to provide trade finance with acceptable credit terms (particularly for small and medium-sized exporters). We explore these challenges, and potential solutions, in greater depth in the chapters that follow.

Figure 1: GCC's top ten agricultural imports from Latin America and the Caribbean in 2016

Product Code (a)	Description	Value (US$m)	% of imports from the world
'02	Meat and edible meat offal	2,429	46.9%
'10	Cereals	505	10.9%
'08	Edible fruit and nuts; peel of citrus fruit or melons	406	8.9%
'23	Residues and waste from the food industries; prepared animal fodder	233	28.7%
'12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	184	10.5%
'17	Sugars and sugar confectionery	119	9.5%
'09	Coffee, tea, maté and spices	79	4.1%
'04	Dairy produce; birds' eggs; natural honey; edible products of animal origin	77	1.5%
'21	Miscellaneous edible preparations	71	2.4%
'24	Tobacco and manufactured tobacco substitutes	59	2.2%
'01 to '24	**Total agricultural products**	**4,379**	8.9%

(a) Product codes from the Harmonised System (HS) developed by the World Customs Organisation. Agricultural products comprise the values for chapters 1 to 24 of the HS.
Source: Source: International Trade Statistics.

Figure 2: Top agricultural products imported from Latin America to the GCC - top suppliers and top importers



(a) Product codes from the HS developed by the World Customs Organisation.
Source: International Trade Statistics. Accessed on Dec 13th 2017.

Chapter 2: Key challenges

The increase in global trade recorded during the past two decades was largely enabled by lowering trade tariffs and dismantling quota systems. However, given its sensitivity in most countries, agricultural trade continues to face greater barriers than other sectors. According to the *International Trade Outlook for Latin America and the Caribbean*, published in 2017 by the Economic Commission for Latin America and the Caribbean (ECLAC)[4], not only are customs tariffs around the world higher for agricultural products, but they are also subject to instruments of protection that are forbidden for other products, such as tariff quotas and seasonal tariffs. Even among partners that have signed bilateral or multilateral free-trade agreements, some agricultural products may still be subject to duties.

Crucially, there are no such agreements between Latin America and the GCC bloc. In 2005 members of Mercosur, the Southern Cone customs union[5], and the GCC initiated negotiations on a framework agreement on economic co-operation, seeking to form a free trade area between the parties. However, these negotiations have not reached a conclusion and seem to have largely stalled. However, in our conversation with Apex-Brasil, the export-promotion body for Brazil, there was still some optimism. "These negotiations are still under way and their conclusion could bring benefits for both regions," says Laudemir Muller, agribusiness supervisor, Apex-Brasil.

In the absence of any trade agreements, Latin American agricultural exports to the GCC are subject to MFN tariffs. Data from the World Bank's World Integrated Trade Solutions (WITS) database show that tariffs on vegetable, animal and food products from Latin America into the Middle East and Africa (MEA) increased between 2015 and 2016, although they remain significantly below the tariffs recorded in 2000. MFN weighted tariffs for food imports in the wider MEA region averaged 12.14% in 2016, considerably lower than the 17.33% seen in 2000, but above 7.34% in 2015. "In general, the reduction of tariffs in bilateral trade between [Latin American] and the Gulf countries would be very beneficial for the increase in interregional trade in the agribusiness sector," says Mr Muller. "In the case of fruits, for example, the tariff reduction in some products exported from Brazil could be even more beneficial, given the high costs to transport fruits by air." These would be most relevant for grapes, melons and apples imported from LAC.

Table 1:
GCC countries' 2015 import tariffs for animal, vegetable and food products from Latin America

Importer	MFN weighted average %		
	Animal	Vegetable	Food products
UAE	4.59	0.83	12.61
Saudi Arabia	4.97	0.08	1.91
Kuwait	4.99	0.70	4.62
Bahrain	4.93	0.91	0.88
Oman	4.96	0.69	10.29
Qatar	4.92	0.98	4.97

Source: Data taken from World Integrated Trade Solution (WITS) accessed on 20 December 2017.

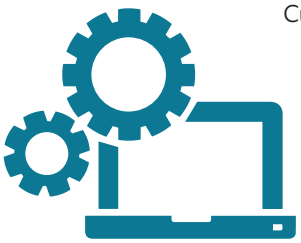
Beyond formal barriers in the form of tariffs or duties, there are hurdles to agricultural trade between the GCC and LAC on various fronts, which have financial implications. According to ECLAC estimates, in MEA, non-tariff measures are equivalent to a tariff of 17.9%. Costs associated with customs processes, for instance, which are reflected in export and import times, are equal to an additional average tariff of 20%. In the rest of

this chapter, we explore critical facets of agricultural trade and challenges experienced on each front. We take a closer look at transport links, customs and certification, market information, and trade finance.

Connectivity: road, air and sea

Trouble for Latin American exporters of agricultural products begins at home. "In poultry and meat production, we are very competitive. But when we take the goods from farms to the port and then the port to the final destination, we lose our competitiveness," explains Marcus Krauspenhar, strategic planning and business development director at OneFoods, a subsidiary of BRF. Although some market players acknowledge that there have been improvements over the past decade, poor road infrastructure and insufficient railway options within LAC continue to push logistics costs higher for exporters.

Beyond ports, limited direct air links between the GCC and LAC also pose a problem, especially for agricultural trade where products have a short shelf-life. "Cornflour has a shelf-life of eight months and by the time we send it to the port, get all the paperwork ready (and there's a lot of paperwork!), and transport it by sea, it gets [to the Gulf] with five or four months of shelf-life on it," says Fadi Saboune, founder and director of Best Ground International, a food exporter in Mexico. "So we have to send it by air, and without a direct air link, and that's expensive."



At present, Gulf airlines fly directly only to Sao Paulo, Rio de Janeiro and Buenos Aires (a service to Santiago, Chile, from Dubai is set to launch in July 2018). Having such limited routes not only increases cost but also limits the range of products that can be imported from LAC. "Mexico is famous for the quality of fresh products, but it takes 72 hours by air and the shelf-life of my products is about a week. I'm not going to take the risk," says Mr Saboune. More direct links with more LAC countries would facilitate daily supply of avocados, berries, apples, grapes and lemons from the region.

Another option, although only for non-perishable items, is shipping, which is less expensive. However, even this is far from ideal: "There is no direct shipping," says Mr Saboune. "It has to stop by two or three ports before it arrives at the final destination. So this adds to the total time and cost. The best shipping plan we can get is about 45 days, but it can go up to 60 or 90 days." It also means that only high-volume traders can secure direct links and, at present, volumes being shipped to the Gulf from LAC are not very high, according to exporters. Market players indicated that an expansion of maritime routes between the two regions would help to expand trade.

In exporting agricultural goods to GCC markets, inventory management is crucial, given the large distances for shipping and expense associated with air freight. To ensure that shelves are not empty, exporters explain that it is vital to understand seasonal demand in the GCC, specifically around national holidays and the holy month of Ramadan.

Customs and certification

Customs clearance and storage were not cited as top challenges in our conversations with market players. According to them, once processes and channels are established, these are not complicated—although processes in some GCC countries are more complex than in others. According to the World Bank's Doing Business 2018 report, documentary compliance for imports in the GCC took 65 hours on average, ranging from only seven hours in Oman to 122 hours in Saudi Arabia.

But securing permits and other approvals beforehand was more problematic. In the *Global Enabling Trade Report 2016*, published by the World Economic Forum[6], domestic technical requirements and standards, including cumbersome procedures to obtain health and phytosanitary permits, were identified among the top challenges for importers in the GCC countries. Although some non-tariff measures may have clear public health, consumer and environmental protection aims—such as sanitary and phytosanitary standards—some have a clearly restrictive effect on trade. These include quotas, non-automatic import licences and several types of informal restrictions. In the GCC, the Gulf Standardisation Organisation's Food Standards Committee is responsible for issuing new food regulations and updating existing ones. However, regulatory requirements in the GCC are not yet fully

unified, so country-specific requirements may apply.

According to the GCC Guide for Control on Imported Foods 2016[7], all imported food is subjected to checks at the point of entry to ensure that it complies with the bloc's requirements. These include food safety requirements and religious considerations, such as Halal certification and food labelling specifications. Although importers of food products are responsible for complying with standards and regulations, exporting countries also provide assurances with documentation and certification. Food certification processes are therefore essential for Latin American food exporters.

This has been problematic, particularly with regard to Halal certification, according to exporters we interviewed. Given the dominant role of Brazil and Argentina as meat exporters within Latin America, they have well-established Halal certification schemes, although these are not government run. In Brazil, certificates are issued by the Federation of Muslim Associations of Brazil, while in Argentina, they are issued by the Islamic Centre of the Argentinian Republic. Market players cite the example of Australia, a major meat exporter to Muslim countries, where Halal certificates for meat are provided by the government, which has more credibility than voluntary schemes.[8] Mr Saboune recommends that "halal certification should be done in co-ordination with governments in the Gulf. Governments [in LAC] do not fully understand what halal is and which products it applies to. It can be a single international body too, but it has to be an entity recognised by governments in the GCC."

Market information

Part of the reason that certifications and standards are not completely aligned is poor accessibility to market information. The eight-hour time difference means that business hours do not overlap, slowing down information exchange. In addition, legislation and relevant documentation is often in Arabic. "It delays the understanding of regulations and other requirements that need to be met in order to optimise trade," says Mr Muller of Apex-Brasil.

Another impediment to securing buyers in the Gulf is the fact that lower-level salespeople are often more focused on price than the quality of the product, says Mr Saboune. "There is more awareness of concepts such as organic foods with senior management and owners of the company, so it is better to approach them."

Beyond specific information concerns, there is insufficient information on export opportunities to the GCC countries in general. "Commercial promotion, therefore, is an essential instrument for governments to foster agricultural trade," says Mr Muller. "In the past, entrepreneurs and authorities from the Gulf countries have also come to Brazil to get to know the infrastructure, processing plants and other facilities. Deepening co-operation, especially on phytosanitary rules and import licences, could also serve to enhance trade."

Trade finance

Weak market information has a bearing on access to finance. On both sides of the aisle, there is insufficient information on producers and distributors, which makes it difficult for financial companies to assess creditworthiness and offer better payment terms. "We have to be able to get credit for 90 days after the shipment arrives," says Mr Saboune. He explains: "Once a product leaves from [LAC], it takes about 60 to 90 days, after which you issue an invoice. It takes another 60 to 90 days to receive your payment. That's a total of five to six months." As a result, he says, exporters are able to recover their money only twice a year. This makes it harder for smaller suppliers to be active in this market.

To improve cash flow and thus encourage participation from smaller exporters, market players have suggested that either GCC governments or large private players should offer a warehousing and distribution service. "They can take the product, perhaps at a discount, but the smaller exporter is paid immediately," suggests Mr Saboune.

Chapter 3: Innovative solutions: blockchain for agricultural trade

The past 20 years have seen increasing use of technology in agriculture, such as drones for dusting crops, fully automated dairy farms, and robots capable of picking fruit, for example. However, these technologies are affordable only to large-scale producers, which remain a minority in Latin America, where the sector is dominated by smaller, family-owned firms.

But, perhaps more importantly, automation can drive efficiencies along the supply chain. Paperless environments, internet-based systems, and sanitary and phytosanitary electronic certification are some of the improvements adopted in LAC and the GCC that are facilitating trade. In this chapter, we focus on one emerging technology—blockchain—and its potential to transform agricultural trade.

In the GCC, business-processing technology firm IBM has launched a blockchain initiative with Dubai Customs, the emirate's customs office, to deliver a trade finance and logistics solution.[9] The distributed ledger technology promises to bring a host of benefits to agricultural trade in general, and addresses some of the key challenges experienced by players in LAC and the GCC.

Through this system, stakeholders have access to real-time information on the goods being transported, mainly through devices automatically capturing data and updating systems, leveraging the Internet of Things. Based on these data, smart contracts trigger payments and penalties. "In this way, it generates trust and transparency in the system," says Bashar Kilani, region executive at IBM Middle East. "There is one version of the data that everybody agrees with."

The most fundamental advantage is a reduction in paperwork. "For every shipment and trade finance transaction, there are between 16 to 30 entities involved and each has its own set of documentation," explains Mr Kilani. "Even today, it's done manually and is very time consuming." By using blockchain, all the information is in a single electronic ledger providing visibility to all stakeholders. "The process can become completely streamlined, paperless and much more transparent." In another project with Barclays and IBM, blockchain technology helped to process a shipment guarantee within four hours, a process that usually takes seven to ten days.[10]

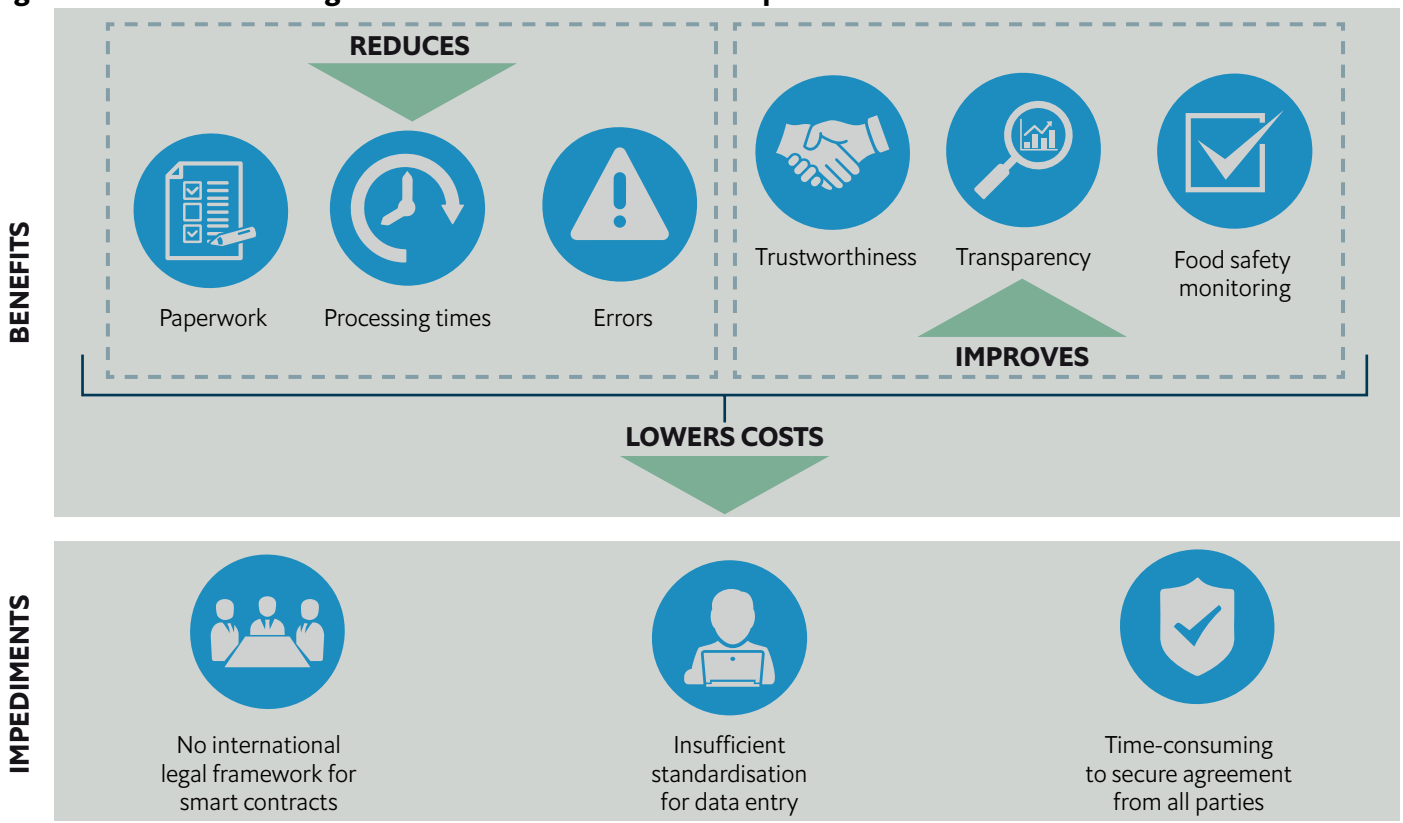
This, in turn, reduces costs associated with the process and cash locked in each transaction. Mr Kilani explains: "If you can shorten the processing time from a month to a week, then you can actually use the cash released for other purposes. If you consider this collectively across multiple transactions, it has the potential to release huge amounts of value, lower the trade barrier between different regions, and make it accessible to small and medium-sized businesses."

Blockchain also has the potential to improve food safety, a point of concern for the GCC. Last August it was reported that IBM was collaborating with large multinational food distributors to improve food safety by tracking produce along the global food chain, monitoring factors such as temperature and humidity.[11] Although blockchain technology would not prevent the contamination of foods, it would enable the swift identification of any problem arising with a particular shipment rather than imposing a blanket ban on a product. It could also ensure that products exported by Latin America comply with Halal requirements along the supply chain.

Importantly, however, experts have pointed out that there are still significant challenges for the widespread use of blockchain in trade. For instance, there is no international legal framework to regulate the use of smart contracts,

particularly regarding jurisdiction, and much more is needed in terms of standardisation. In addition, Mr Kilani told us that in order to fully realise the technology's potential a large number of entities have to agree on new processes and protocols, which will be time consuming. "Whoever wants to participate in this network needs to agree to that business process," says Mr Kilani. Nevertheless, blockchain technology is maturing and it is expected to enable the exchange of value in the same way that the internet enabled the exchange of information.

Figure 3: Blockchain for agricultural trade: benefits and impediments



Source: The Economist Intelligence Unit.

Conclusion

The GCC governments continue to be concerned with food security and are exploring options for local production of agricultural products. Yet the environmental conditions in the region are such that the GCC cannot be self-sufficient, so strengthening trade partnerships and diversifying sources of food is equally important. Part of this strategy has also been to acquire food producers in Latin America, to guarantee a steady supply of key products: Saudi Agriculture and Livestock Company acquired a 20% stake in Brazil's Minerva Foods and UAE-based DP World and Mubadala Investment Company have invested in ports in Colombia and Brazil.

Our research has identified the most pressing challenges faced by market players in agricultural trade between the two regions. Addressing these will be vital to boost trade—not just to increase volumes of meat and sugar that dominate existing trade, but also to expand the range of agricultural products that can be supplied, to food products such as berries and avocados. Establishing direct air links can facilitate this. Emerging technologies such as blockchain, as well as other automation technologies, are poised to transform agricultural trade, primarily by allowing for shorter processing times and improved monitoring of the state of goods. These strategies can help to lower costs along the supply chain, making it easier for small and medium-sized players to participate.

Building commercial and cultural ties will additionally improve the flow of information between the two regions, helping exporters to identify opportunities in the GCC. Market players are increasingly optimistic about the potential for new business in Saudi Arabia and the UAE, in particular. "But endurance and patience is key," advises Mr Saboune of Mexico-based Best Ground International. "We are too reliant on the US and European markets. Diversification is important in terms of products and markets and the GCC presents a great option."

Notes

1 The Gulf-Co-operation Council countries comprise Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.

2 International Trade Statistics.

3 http://www2.anba.com.br/noticia/21877461/global-trade/imports-from-middle-east-north-africa-up-23/

4 http://repositorio.cepal.org/bitstream/handle/11362/42316/4/S1701117_en.pdf

5 Mercosur full members include Argentina, Brazil, Paraguay and Uruguay. Venezuela is a full member but has been suspended since December 1st 2016

6 https://www.weforum.org/reports/the-global-enabling-trade-report-2016

7 https://members.wto.org/crnattachments/2017/sps/bhr/17_0268_00_e.pdf

8 http://www.aph.gov.au/DocumentStore.ashx?id=5dbcbf88-844c-45f7-80be-6113d82be537&subId=400241

9 https://www.ibm.com/news/ae/en/2017/02/07/blockchain_initiative.html

10 https://www.ft.com/content/7dc8738c-a922-11e7-93c5-648314d2c72c

11 http://uk.businessinsider.com/ibm-and-walmart-are-using-blockchain-in-the-food-supply-chain-2017-8?r=US&IR=T

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