DD HELP DESK
Due Diligence on EU Sanctions

for EU SMEs dealing with IRAN

Food Industry In Iran

September 2020

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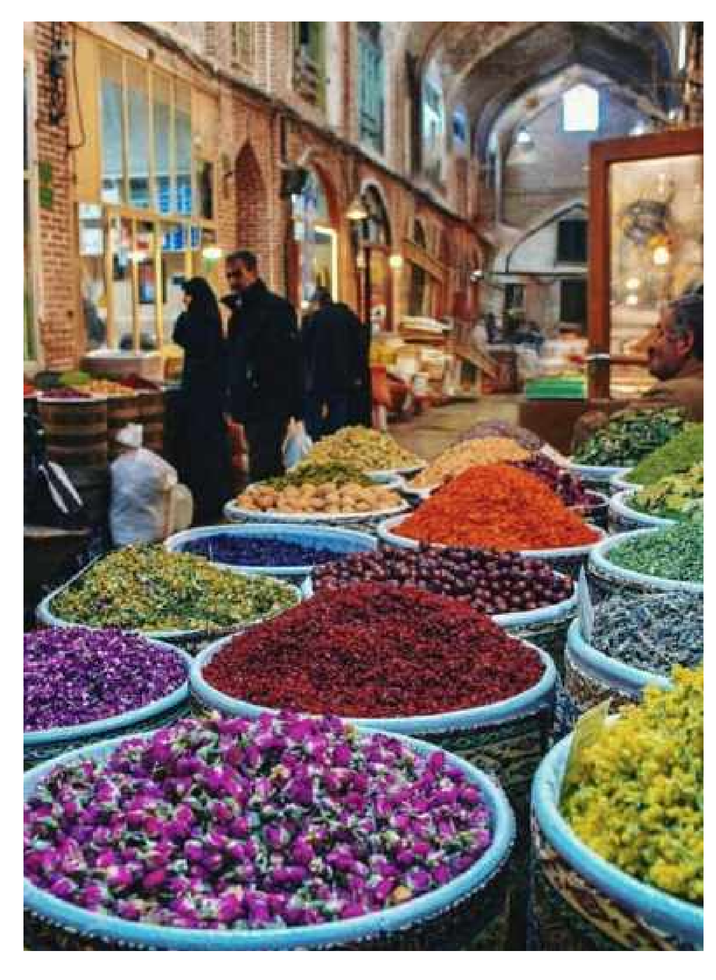

EUROPEAN PRESENCE

European companies have been present in the Iranian food business for a long time. FMCG (Fast Moving Consumer Goods), fast food companies, machinery & packaging and production line companies have always traded with Iran. Grains & live animals, seeds are other popular exports from EU.

Different EU member states have bilateral agreements with Iran in agro-food industry.

Caviar in exchange for Danish Salmon Roe

EUROPEAN PRESENCE

Examples of European presence in the food industry include: investment in Iranian food startups, new Dutch automated fast food ordering system minimizing human interaction and a Spanish pizza chain throughout Tehran. Young Iranians love European foods and new food concepts.

Cereals, livestock and dairy products are the lifeline of the European exports to Iran.

Europeans need to be fast thinking to capture market share similar to the Italian coffee producer who started roasting its beans in Iran after imports of roasted coffee beans into Iran were banned.

>> Robots delivering food are being developed by startups in Iran.

CONSUMER SPENDING HABITS

More modern supermarkets & hypermarkets increase market share:

1. Price Competitiveness
2. Promotional Activities

Preferences for traditional channels:

1. Bread, Meat & Fruit
2. Perceived Freshness & Quality

Internet retailing on the rise:

1. Emerging in urban areas
2. COVID-19 has improved the volume of sales

KEY PLAYERS IN THE FOOD INDUSTRY

Trading History in EU Agri-food trade with Iran

Opportunities in Exporting from Europe to Iran are numerous as demonstrated by the size of trade despite the US sanctions and payment problems.

Top EU Agri-food exports to Iran in 2019

FACTS ABOUT THE IRANIAN FOOD MARKET

A growing population leads to an increased food demand especially due to economic development, high urbanization and population dynamics.

The food industry is the largest non-oil industry in Iran and the biggest employer accounting for 16.8% of the total industrial jobs. Sustainable food production and supply are indispensable for a nation's survival and security. Therefore, to increase productivity and efficiency, there is a huge requirement for new technology, modernisation, innovation and investment in the food cycle sector.

Currently there are 11,200 active production units in food and processing industries across the country, of which 56% are considered small.

€42.5 billion market is striving towards self-sufficiency; however, the reality is that Iran still relies on food imports to feed its population due to underinvestment, outdated production facilities, overconsumption of water, the climate and lack of arable lands. Soil salinity and water scarcity further prevent increases in productivity in the agricultural sector. Despite these obstacles, the industry has improved from importing 60% of its food to producing around 80% of its food domestically.

Government loans and incentives have been made available to companies in an effort to stimulate production and provide capacity building. These financial resources enable Iranian companies active in the food sector to procure the necessary high-tech solutions from European companies including SMEs to upgrade and expand their operations.

IRANIAN FOOD BASKET

Iranians love bread. An average Iranian consumes 160 kilograms of bread on an annual basis which is six times more than the global average. Although the bread is produced locally, most of the flour or the grain necessary for the flour is imported.

Iranians also consume high quantities of sugar, which for the most part is imported either in raw and processed forms, including in different types of syrups.

Carbonated beverages are also very popular in Iran. Iranians drink an annual average of 42 liters of carbonated beverages while the global average is 10 liters. This is shifting as more people are opting for more water and traditional drinks.

Olive oil, milk, rice, meat and eggs are among food items with lower consumption rates in Iran compared with the global average.

Iran is in the middle of a nutrition transition. Although the number of people affected by hunger is lower than ever before, changing dietary patterns are leading to increased incidences of obesity and diabetes. High unemployment together with devaluation of local currency and sanctions has changed the makeup of the average food basket. Iranians in the lower and middle income brackets have to choose cheaper, less nutritious food exchanging a diet of fruit, vegetables, meat and rice for that of oil, sugar and fat. Malnutrition is another consequence from dietary changes. Micronutrient deficiencies are prevalent in Iran, especially iodine and iron deficiencies; related diseases, such as iron-deficiency anaemia, are widespread. The Government is constantly looking to improve the diets of its citizens by considering alternatives to help alleviate malnutrition. The use of dietary supplements, currently imported, is on the rise.

ROLE OF INTERNATIONAL ORGANIZATIONS IN THE FOOD INDUSTRY

FAO has been working on four priority areas to help promote the agro-food industry in Iran including:

1. Sustainable and Climate-smart Agriculture,
2. Food and Nutrition Security, and Food Safety,
3. Inclusive and Resilient Rural Development, and
4. Knowledge-based Economy and Society.

Each of these priorities can be an opportunity for European SMEs active in that particular field. Knowledge-based economy and society is of particular interest since it refers to start-ups and companies involved in agricultural technology. This is another venue where companies can cooperate, especially since Iran has become a regional hub for food production, as many of its products are exported to its neighbouring countries. Due to sanctions, high inflation pressure and other issues, investment has been low, but the move is towards globalization, and as such Iran needs the expertise of foreign especially European companies.

OPPORTUNITIES

A push for industrial localization may offer opportunities for larger foreign SMEs. There have been a few examples of European companies active in the FMCG sector opting for this strategy to ensure a foothold in the market.

Another approach would be to import food in bulk and package locally. This option is available for companies offering Fast Moving Consumer Goods (FMCG). This strategy helps to edge out other foreign competitors and redirect the additional savings into a local advertising campaign. This strategy can also be beneficial for penetrating regional markets from Iran.

The Iranian food industry is constantly evolving since the internet allows younger consumers to be in touch with international food trends and demand new and diverse products. This new generation of consumers is willing to pay more for quality products especially as witnessed in the higher socio-economic classes. The Iranian consumer has always been fascinated with foreign especially European and US products.

However, this may not be the case for the coming year or two as the economy shrinks due to COVID-19, high inflation, international sanctions, devaluation of the local currency, and economic uncertainty. Although many may opt for cheaper local goods rather than more expensive imported goods, the younger generation still has a penchant for imported goods so the top 10% of the population will still continue to pay a premium for imported goods.

Customer demand for diversity in products and the presence of online food delivery in Iran with specialized food start-ups signals yet another wave of opportunities for the market. High level of internet and mobile penetration ensures that the mainly young urban population is fully aware of international trends and is seeking those trends locally. Therefore, this is the best opportunity for up and coming food delivery, fast food, nutrition bars, low carb, and other new food concepts to consider the Iranian market.

IRAN'S MAJOR FOOD PRODUCTS

Major products include: wheat, rice, tea, dates, nuts (pistachios, walnuts, and almonds), sturgeon (used to make caviar), tomatoes, meat and dairy products. Iran is the world's leading exporter of pistachios, pomegranates, dates, saffron and caviar. Other important exports are spices, fruits and vegetables. Famous Iranian products with GI status are Pomegranate of Saveh and Mazafati date of Bam, which are also protected under the Lisbon Agreement.

Since alcohol is banned, Iranians consume lots of non-alcoholic drinks. Over 2019, non-alcoholic drinks sales grew by 35% (y-o-y) to IRR156.7trn. By the end of this period, total spending in this sector will rise to IRR339.1trn.

EXPORT FROM EU TO IRAN

- Cereals,
- Seeds & hop cones,
- Food preparations,
- Pet food,
- Live animals,
- Infant food,
- Flour, starch,
- Milk preparations, Casein,
- Modified starches,
- Oil seeds, other soya beans,
- Milk powders and whey,
- Wheat,
- Cocoa paste and powder,
- Gum, resin and plant extract,
- Sugar other than beet & cane,
- Sheep and goat meet, fresh, chilled and frozen,
- Prepared vegetables, fruit or nuts,
- Bulbs, roots and live plants,
- Vegetable oil other than palm and olive oil,
- Vegetables, fresh, chilled and dried.

IDENTIFYING GROWTH SEGMENTS

- Packaged Foods.
- Innovative soft drinks and non-alcoholic beer
- Staple Items
- Untapped Ecommerce market worth more than US$1 billion.
- Fast Food Chains growth with average monthly spending of 265.5 USD (241.3 EUR) per family.
- Lack of diversification among the domestic products, leaves the market open for foreign premium products to the educated and experimental consumers.
- Growth of modern grocery retailers presents an opportunity for EU products like premium juices and organic foods, to penetrate the local market.
- Higher duties on packaged food products as opposed to bulk products will promote packaging and labelling to be done locally by importers.
- Growing awareness about the importance of a healthy lifestyle, is altering consumers' preference for European products.
- Higher presence of hypermarkets, chain supermarkets provides an easier countrywide distribution channel.

«How can one make friends without exquisite dishes? It is mainly through the table that one governs!»

Jean-Jacques Regis de Cambaceres

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