
U.S. TRADE AND DEVELOPMENT AGENCY



EXECUTIVE SUMMARY

Food Can Manufacturing Plant

August 1, 1999

U.S. Firm: Yasmine Enterprises
Main Contact Name: Mr. Jamal Belcaid, President
Current Phone: 303-757-3054
Fax: 303-757-3054 (same as phone)
Email: JMBradbel@aol.com

Project Sponsor: Yabyo International
Main Contact Name: Mr. Souhair Benubdullah, President
Current Phone: 212-4-44-65-77
Fax: 212-4-44-65-81

TDA Activity Number: 1998-10009B
NTIS Number: PB2001100821

Region: Africa/Middle East
Country: Morocco
Sector: Manufacturing

Project Summary

Yasmine Enterprises, Inc., a Denver-based trading company, has proposed the development of a food can manufacturing plant in the Kingdom of Morocco. By far the largest sector of the Moroccan economy is agriculture and fisheries, accounting for over 40% of the jobs and 20% of the national income of Morocco. Growth and prosperity of this sector have suffered from the shortage of high quality, reasonably priced containers.

The Moroccan government has made a bold decision to cancel a fishing agreement with the EU that allowed 600 Spanish trawlers to harvest excessive and unsustainable quantities of fish for processing in Spain. For this environmental initiative to succeed, Morocco will need to improve its domestic fish processing capability; specifically, Moroccan fish processors will need access to higher quality and lower priced containers. This will enable Morocco not only to stop the erosion of its fisheries stocks by restricting Spanish trawlers, but also maximize the value added in Morocco from the sustainable fish harvests planned under the new regime.

The can-making plant will supply a total of 600 million cans per year at peak production. One third to one half of the output will go to the Moroccan food processors who will both sponsor the project and hold an equity stake, with the remaining output sold to other domestic food processors and exported to food processors in other North African countries.

The total estimated cost of the project is \$38 million, to be financed with 60% debt and 40% equity. Half of the equity will come from Moroccan food processors (offtakers) and the remaining half will be offered to international investors.

1. Project Description

One of the greatest factors affecting the competitiveness of Morocco's processed food exports is the lack of high quality, reasonably priced tin cans. Since Morocco's domestically-produced cans are of inferior quality, they are not appropriate for use in the retail food market and cannot be used for processed food exports to the European Union ("EU"). As a result, Moroccan food processors are forced to pay a substantial premium over world market prices to import cans (made from tin plate) from Spain, the sole source of Morocco's imported cans. Currently, Morocco imports approximately 350 million cans from Spain per year, even though the tariffs and import taxes on such imports can amount to 80 percent.

The presence of these imports and the willingness of local food processors to pay premium prices to obtain them reflects the poor quality, limited product range, and unresponsive and monopolistic nature of the existing can producers in Morocco (which were originally French-owned). Moroccan food processors have already expressed a strong interest in the introduction of a new can-making plant that will eliminate the need to import expensive cans from Spain and create a domestic alternative to the obsolete and non-competitive existing facilities.

Several important factors jointly provide this project with excellent technical, economic, and financial prospects: the use of proven technology from established U.S. suppliers of equipment and material, strong customer relationships with leading food processing firms in Morocco, strong host government support, and strong U.S. government support from the U.S. State Department and the Foreign and Commercial Service. A recent increase in the

efforts of the Moroccan government to support U.S. investment in the country, particularly in the agribusiness sector, will enable the project to benefit from strong investment incentives and will facilitate the acquisition of licensing permits and regulatory approvals.

To service the needs of both Moroccan and North African food processors, the new plant will be designed and equipped to produce the food cans in the highest demand, from three piece and rectangular drawn cans to oval and round drawn cans, as well as the appropriate ends for each can, including easy open ends. The highest volume product will be sardine cans to supply the rapidly expanding demand from Moroccan processors of sardines. The plant will be located in Tangier, one of Morocco's major ports on the Atlantic, to facilitate imports of equipment and material from offshore, including the United States. The plant will also have access to an necessary utilities through established power, fuel, and water distribution systems.

Through off take agreements, and the participation of local food processors as equity investors in the project, the plant will have a guaranteed customer base for as much as half of its output. This fact, combined with projections that Morocco's output and exports to Europe of processed food products should grow steadily in coming years, should ensure that the plant will have secure and substantial economies of scale and strong prospects for expansion. Morocco's recent decision to reduce the amount of fish from the rich Moroccan fisheries that EU fishing boats can harvest for packing inside the EU will lead to a major increase in the quantity of sardines and other fish landed in Morocco for processing in country. As the processing of seafood increases in Morocco, demand for cans will also increase. Within five years, the demand in Morocco for sardine cans alone is projected to increase to one billion cans annually.

Service Tool International, Inc. ("Service Tool") will provide the project engineering services, utilizing the expertise it has developed through participation in numerous turnkey can-making projects throughout both the developed and developing world. A local subcontractor, Eagle Engineering, which has extensive direct experience with food processing and packaging projects in Morocco, will handle plant location issues, permitting, and utility arrangements.

Due to the significant tonnage of high-priced imported cans that Morocco imports annually from Spain, most of the project's initial sales will displace imports rather than existing domestic can production. In addition, the new plant will generate increased aggregate demand for cans not only by underpricing the Spanish imports, but also by giving Moroccan food processors the ability to export a larger quantity and variety of processed food products to Europe in lower cost, higher quality containers. The plant will be able to supply cans to food processors in other North and West African countries via the local ports, thereby expanding its customer base by supplying high quality cans to African markets in competition with Spanish can exporters. Like Morocco, these countries, especially those on the Atlantic and Mediterranean coasts of Africa, could substantially expand their exports of processed food to Europe if they had access to better quality, lower priced cans.

The Moroccan partners have estimated the total cost of constructing and equipping the can-making plant at \$38 million (which could increase to \$46 million if the plant is expanded to including additional processing equipment). Under the basic configuration (\$38 million budget), the Moroccan sponsors would contribute at least \$8 million in equity, and finance the remainder with a combination of loans from Moroccan banks and equity from foreign partners.

Yasmine Enterprises would also have equity in the plant, ensuring U.S. as well as Moroccan participation.

If the plant is constructed with U.S. support and involvement, total export potential for U.S. suppliers of goods and services could exceed \$25 million to build and equip the plant. In addition, U.S. exports of tin plate and other raw materials and intermediate and replacement products consumed by the plant could easily exceed \$25 million annually, meaning cumulative exports of over \$150 million over a five-year period, and \$750 million over the useful life of the plant. Tin plate is a high value-added processed steel product: cold rolled steel with an outer layer of tin plating. It is not produced in North Africa and could be efficiently transported to Morocco by sea from U.S. steel mills near Baltimore, Maryland (Bethlehem Steel), Philadelphia, Pennsylvania (U.S. Steel), or West Virginia (Weirton Steel).

Financial prospects for the project already appear strong, both because of strong and steadily increasing demand among Moroccan and North African food processors for high quality cans, and because certain Moroccan food processors will hold an equity stake in the project in addition to purchasing a percentage of the output. The price ceiling for cans made by the plant will be the market price of imported Spanish cans, which are the only cans of sufficient quality to compete directly with the planned output of the plant. This ceiling averages approximately \$.13 per unit. The benchmark price would be the

market price of existing domestically-made cans: due to the superior quality of the new plant's output, food processors would buy most or all of their cans from the new plant if they were priced the same as other domestic cans (Long-term loyalty to domestic suppliers is negligible.). This benchmark averages approximately \$.11 per unit.

The sensitivity analysis for profitability of the new plant therefore covers the price range between these two points. At a price of less than the Spanish imports but greater than lower-quality domestic cans, the new plant will generate significant demand for its output, with demand maximized within this range if the plant approaches the price of other domestic producers while offering much higher quality. This lower price would enable food processors to significantly decrease the selling price of their exported goods, thereby increasing the demand for their products.

On the cost side, projections indicate that a plant operating at a real capacity of 600 million units using modern equipment and quality materials could produce containers at a high level of profitability selling for an average price of \$.11 per can. This figure is well below the price ceiling that would generate substantial market demand in Morocco.

A. Development Priority

This project would contribute significantly to the expansion of Morocco's agribusiness sector. Since agribusiness is Morocco's largest and most important industry, in order for Morocco to expand its rate of economic growth and create jobs for low skilled workers, it needs to increase the local processing of fruit, vegetable, and seafood products, rather than exporting these products in raw form. As a result of favorable market access agreements

recently signed with the European Union, Moroccan food processors have the ability to compete in the EU market, but only if they can obtain high quality containers at reasonable prices.

A marketing survey conducted by Eagle Engineering has confirmed the loss of export competitiveness of Moroccan canned foods due to difficulties experienced by Moroccan food processors in obtaining cans of sufficient quality. Moroccan fish processing companies, for example, have repeatedly complained about the poor quality and high price of their packaging. This problem has clearly had a negative effect upon the market for Moroccan agribusiness products. Currently, the average price for packaging in Morocco is 35% higher than the international market price. Moreover, EU consumers generally will not buy food products sold in poor quality containers. This lack of appropriate packaging is a major bottleneck not just for Moroccan food processors, but also for their counterparts in other countries in the region. For these reasons, the demand for imported steel packaging has increased steadily for the last three years. Clearly, the Moroccan market is ripe for a domestic, modern and efficient food can manufacturing plant.

B. Host Country Support

There is currently a strong level of host government support for a domestic food can manufacturing plant. Appropriate officials of Moroccan government agencies and quasi-government bodies with direct involvement in the food processing sector have already endorsed this project. As an illustration, Morocco's Federation of Chambers of Commerce and Industry has offered the following supporting statements:

- "Morocco's economic development depends heavily on agriculture and agribusiness."
- "Morocco needs a new can-making plant in order to improve the competitiveness of its local food processing industry."
- "Currently, Morocco has to import cans from Spain at very high prices to satisfy its needs."
- "Moroccans would like to see greater U.S. involvement to strengthen economic ties between the two countries and offset the influence of European firms."

Morocco's leading government institute for research, technology, and extension services in the agribusiness sector is the Institut Agronomique et Veterinaire Hassan 11 (the Hassan 11 Institute of Agronomy and Veterinary Study, or "Institute"). The Institute has provided the following observations in support of the project: "The success of this industry [food, vegetable, and fish processing] depends on the quality of the packaging. The actual situation is that this industry depends on two major food canning companies, which were initially European. We are hoping for an increased presence by American companies in Morocco. We encourage the participation of American business for a new food canning facility. We estimate that the realization of this project is considerable to provide better quality and price competition for this industry in Morocco, and will strengthen an already good relationship between our countries."

C. Host Country Goals

This project will make an important contribution to the competitiveness and expansion of Moroccan agribusiness, which is a key development priority of the government. However, this project will not involve any Moroccan government ownership or control: it is a private

sector initiative, intended to promote the decentralization of the Moroccan economy as well as the growth of the agribusiness sector. Government support

for the project in Morocco will expedite the licensing and permitting process, as well as negotiations with local utilities and local financial institutions.

D. U.S. Government Support

Due to the fact that this project is one of the first private sector joint ventures between the United States and Morocco, there is a high level of U.S. government support and visibility associated with the project. Significant attention and media coverage was given to the signing ceremony in Morocco for the award of a feasibility study grant by the U.S. Trade and Development Agency to this project. The U.S. Department of State's most senior commercial official, Stuart E. Eizenstat, Under Secretary for Economic and Business Affairs, presided at the signing ceremony in Morocco.

E. Parties Involved

I. Host Country Sponsors

Consistent with the project's private sector orientation, the manufacturing facility will not be sponsored by any government or quasi-government ministry, agency, or office. The local sponsors will consist entirely of Moroccan food processing firms who will both invest in the project and purchase a significant percentage of its output. Yabyo International, a leading food processing firm in Morocco, served as the sponsor of the feasibility study and intends to play a major role in the sponsoring consortium of food processors that will launch the project on the basis of the study.

M. Benabdallah Zouhair, the chief executive of Yabyo International, has personally supervised the feasibility study. He has indicated that a consortium of Moroccan food processors is "prepared to invest in this project," now that the feasibility study has confirmed "the project can succeed." He further notes that the consortium "can supply all of the local equity capital, if necessary, that the project might need to get started."

2. *U.S. Sponsors, Advisory Firms, and Engineering Firms*

Yasmine Enterprises, Inc., a Denver-based and U.S. incorporated trading company and consulting firm, has a branch office in K6nitra, Morocco and has worked on many important trade and investment projects in Morocco, including agribusiness and beverage container ventures. Jamal Belcaid, President of Yasmine, is a U.S. citizen but has extensive family, commercial and political contacts in Morocco. Other members of Yasmine also have extensive business experience in Morocco.

George Kleinfeld, project advisor to Yasmine, has many years of experience in negotiating, structuring, and arranging financial and investment transactions in emerging markets. He is an Adjunct Professor of International Finance at George Mason University School of Law and an international lawyer in the Washington D.C. office of Rogers & Wells LLP. Mr. Kleinfeld dedicated a substantial amount of time to laying the groundwork for the project, including planning sessions on behalf of Yasmine in Morocco. He has addressed all relevant financial, investment, trade, and regulatory . issues confronting the project.

Service Tool International, Inc. ("Service Tool"), a U.S.-based and U.S. incorporated enterprise located near Chicago, Illinois, will serve as the primary turnkey engineering

contractor. Service Tool has served the canning industry since 1919 as both an equipment supplier and engineering consultant. It has supervised and engineered numerous turnkey projects in emerging markets, including China, Taiwan, and Thailand, for the high-volume production of cans. Service Tool is highly qualified to address all of the production, technology, equipment, and procurement issues related to the venture, as well as the analysis and modeling of costs and revenues.

Eagle Engineering of Rabat, Morocco is a leading business consulting firm in Morocco for food processing ventures, and has specific expertise in canning and container projects. Eagle is the most knowledgeable advisor on the local issues associated with development of this project, including site selection, utilities, product specifications, standards and market analysis, sales forecasts and growth projections, environmental compliance, permitting and licensing, and transportation and logistics.

Frank J Schuchat of Denver, Colorado, a prominent international lawyer, prepared the section of this study on legal and contractual issues based on a research trip to Morocco for this purpose.