

HALAL PRODUCTS SYSTEM AUDIT AND ITS IMPORTANCE FOR THE CZECH REPUBLIC EXPORT STRATEGY

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Abstract

There is a great Muslim population in the world so there is also a significant demand for halal products. Therefore, halal certification is a current trend on the food market. The aim of this paper is to analyze the halal certification process with focus on administrative and audit processes related to the certification and the potential of Czech halal food producers to export to Muslim countries and to fulfil the Czech Republic export strategy.

Keywords: halal, certification, audit, SWOT, export.

JEL code: D 11, L 15, L 66

1. Introduction

There is a large Muslim population of approximately 1.8 billion and the demand for halal products is constantly growing. Therefore, the halal certification presents an important competitive advantage and a large economic tool for the Czech exporters to enlarge the sales volumes. Czech business focus on halal products is present mainly on the food market.

There are strict norms related to the halal certification that are to be kept by the businesses. There are also administrative demands and a yearly business audit carried out by the related certification center.

Halal production encompasses all food products including beverages that are in line with Islamic rules. It includes beef, mutton, chicken, non-predatory wild animals (e.g. deer) or non-predatory birds (e.g. pigeon, quail). Animals permitted by the Islamic rules must be hunted and slaughtered according to the Islam canon. Apart from the listed meat there is also an acceptance of all cereals, fruits, vegetables and selected bird's eggs and milk from animals that are on the approved list.

Some production is forbidden by the Islamic rules and this is called haram. It includes pig and wild pigs, dogs, cats and birds of prey. The products cannot include any blood or alcohol. Halal includes standards and lists permitted and forbidden products.

There are special demands for the systems of halal products producing, furnishing, wrapping, labelling, storing and transferring. I will mention only some of them.

Halal food must be prepared, produced or packaged in the way that prevents it from contact with haram products. If there is an equipment used for halal production that was previously used for haram production, it must be cleaned according to the hygienic standards to prevent the contamination. All wrapping material must also be in standard with halal norms. It must be labelled with the certification body name and symbol and product name. There must be a list of all ingredients, production date and the country of origin. All staff in contact with halal products must be lectured and aware of the standards.

The aim of this article is to analyze the halal products certification process with focus on administrative and audit processes related to the certification and on the Czech halal food products producers' potential with regards to the export to Muslim countries and complying with the Czech Republic export strategy. This is further elaborated on in the article research part.

Halal production has been elaborated on in numerous research papers. A. M. Bohari, CH. W. Hin a N. Fuad (2013) applied SWOT analysis on the Malaysian halal food industry. E. S. Soesilowati (2010) dealt with business opportunities on the halal production on the worldwide market. V. N. Mathew, A. Abdullah a S. N. Ismail (2012) elaborated on the halal products and non-Muslim consumers. M. Abdul, H. Ismail, H. Hashim a J. Johari (2009) worked on consumer decisions. S. Shafie a N. Othman (2006) analysed the halal certification from the marketing tool view. I. A. Latif, Z. Mohamed, J. Sharifuddin, A. M. Abdullah a M. M. Ismail (2014) carried out a comparative analysis of selected certification centres demands. S. M. Yusof a N. Shutto (2014) addressed the halal industry development in Japan. M. A. M. Noor a M. R. Moi (2015) investigated the halal industry potential in Maghreb.

The Czech export and halal certification link is missing in research papers of both foreign and Czech authors. It is this fact that prompted me to write this paper.

2. Materials and Methods

The paper authors relied on research, observation and SWOT analyses.

SWOT analyse is a technique used for evaluating internal and external factors influencing the success of a project. Projects weak and strong points are internal factors. Opportunities and risks that influence the project are external factors. Authors carried out a SWOT analysis and identified strong and weak points of the Czech agricultural export related to halal production and possible risks and opportunities linked to the halal production.

Then they observed the activities of the company that produces halal products. Based on this, they described the standard process of running the agenda and the audit realization.

The authors used the Ministry of Foreign Affairs of the Czech Republic and Salaam Gateway database data as the source quantitative data describing the halal production potential.

3. Results

The observation and analysis of activities during the certification process

Administrative and audit activities are a necessary part of the certification process. The whole agenda of obtaining and yearly prolonging the certification can be divided into two kinds of activities. The first is regular and the second one is of a onetime nature.

The first group includes regular reporting on production volumes and certification prolongation which is being repeated every year. The produced and exported halal products volume and the related turnover serve as a base for fee determination. The fee is defined in percentage according to the contract concluded between the company and the certification center. The sum is set up according to the monthly turnover. This fee is the biggest cost related to the certification issuing for the company. The company standard is that of the fee is an average of 5% of turnover from exported halal products.

The prolongation process is accompanied by the certification request to the certification center with a list of halal products of the particular company. The audit checks certification validity of ingredients that the halal products consist of. It is therefore not only the final product but also their ingredients that have the individual certifications of their approval to the Islamic rules.

There are also one-time activities of the halal products companies. These are mainly new products certification that the company would like to add to its halal products list. New products are being certified during the whole year. If the certification center approves its compliance with Islamic rules, then they can be added to the halal products list. These newly added products together with previously certified products are checked during the yearly audit.

The yearly audit has got a form of a personal visit of professionals from the center that the company has got a contract with. The company should make everything ready for the inspection and there should be the company halal specialist present. Certification center professionals check the validity of all individual certification of products and ingredients during the audit. They also check the production conditions. If the certification center professionals do not find any serious problems they issue a new halal producer certification to the company.

There are numerous organizations that can issue the certificate in the world. Individual certification centers differ in the demands for halal certificate issuing. Nevertheless, all of them follow rules and norms of the Quran.

The halal certification importance for the Czech Republic export strategy

The government of the Czech Republic and the Food Chamber of the Czech Republic set a food export strategy in the context of the foreign policy for 2014-2020. The document authors highlight the business with third countries (the countries outside of the European Union). It is namely: Lebanon, Jordan, Israel, Egypt, Tunisia, Algeria, Morocco, Turkey, United Arabian Emirates, Saudi Arabia, Transcaucasia, Iran, Russian Federation.

Some of the above-mentioned countries are listed among states with the largest Muslim populations in the world.

Table no.1: Countries with the largest Muslim populations

Country	Muslim population (in million)
Indonesia	209.1
Pakistan	176.2
India	167.4
Bangladesh	134.4
Nigeria	77.3
Egypt	77.0
Iran	73.6
Turkey	71.3
Algeria	34.7
Morocco	31.9

Source: World Atlas

For the Czech Republic to be competitive and attractive from the view point of countries with a substantial or majority Muslim population, it needs to include halal products to its export portfolio. These products are demanded by the Muslim population.

Halal products consumption is one of the current worldwide trends. To meet its export strategy, the Czech Republic should develop its business relations not only with countries that have the largest Muslim population in the world but also with the countries where the halal consumption is the highest.

Table no.2: Top Muslim halal food expenditure markets – 2014, USD billion

Country	Expenditure
Indonesia	158
Turkey	110
Pakistan	100
Egypt	76
Bangladesh	62
Iran	59
Saudi Arabia	44
Nigeria	39
Russian Federation	35
India	34
Algeria	31
Iraq	29
Morocco	25
Sudan	23
United Arab Emirates	19

Source: Global Islamic Economy Gateway

There are products that are recommended for the export to the territories in accordance with the Czech Republic export strategy. These are the following. Meat for the Russian federation. Dairy products for the countries of the Middle East and northern Africa. Baker's and confectionery products to the Russian Federation, northern Africa and Arabian countries of the Middle East.

Although there are several companies holding the halal certificate, the awareness of this certificate is considerable low in the Czech Republic. Consultancy and services in the field of halal certification are provided by the Czech- Middle Asian Chamber of Commerce that is a contractual partner of the Muftis Association of the Russian Federation, the founder of one of the certification centers. Businessmen can also turn to one of the private companies dealing with consultancy and certification system preparation. An example is UniConsultings.r.o. Individual ministries and the Czech Chamber of Commerce and Agrarian Chamber should further support and inform about the halal certification.

There are some large companies present on the Czech market that hold the halal certificate. It is for example TRUMF s.r.o., the spices and spice mix producer which exports its products to the Russian Federation, Kazakhstan and Kyrgyzstan. Hamés.r.o., the canned food producer which exports to Russia, Libya and Israel. Emcos.r.o. which exports its cereal and muesli products for example to the Malaysian market.

SWOT analysis of the Czech halal products export to Muslim countries

Strong points

The strong point of the Czech halal products export is the long-term tradition of the agrarian industry in the Czech Republic and the presence of the large companies on the Czech food industry market that have the potential to meet the demands of the Muslim consumers. The Czech export advantage is the focus of the current export strategy which is in favor of the intensification of the business with the Muslim countries. The Czech Republic lies in the strategic center of Europe and keeps its independent monetary policy allowing to alter the exchange rate and thus help the export.

Weak points

Czech food export weak point is the high percentage of products with low added value. In 2016 wheat was the main exported product (6% of the total agrarian export) and the rapeseed oil (5.6%). Then baker's products (5%), animal nutrition products (4.7%), chocolate and cocoa products (4.4%) and then meat products and cheese. Related to halal export, it would be better to focus on products with higher added value such as processed meat.

Cultural differences are a disadvantage that makes the business toward the Muslim consumers difficult. There is also a low awareness of the halal certification that is caused by a low marketing from the side of the Czech government institutions.

Opportunities

There is a large Muslim population of 1.8 billion worldwide and a growing demand for halal products. Therefore, this industry is a great opportunity for Czech exporters in the view of entering the Muslim markets and competitiveness of Czech companies. The Ministry of the Foreign Affairs of the Czech Republic estimates that the halal certification could increase the Czech exporters turnover on the Malaysian market by 15%.

Risks

Czech halal products export could be threatened by political risks. Some Muslim countries are politically unstable and there are war conflicts threatening the business as the whole. On the other side there are anti system and populist Czech political parties that view the Islam world in a negative way.

The scheme below summarizes the above mentioned and other weak and strong points, risks and opportunities of the Czech halal products export.

Scheme no.1: SWOT analysis of the Czech halal export products

<p>Strong points</p> <ul style="list-style-type: none"> ▪ Long term tradition of the agrarian industry in the Czech Republic ▪ Presence of several large food producers ▪ Current export strategy focus ▪ Transit location of the Czech Republic ▪ Openness of the Czech economy ▪ Independent monetary policy of the Czech Republic ▪ High percentage of small and medium sized companies (99.84% of all companies) that can adapt to new demands 	<p>Weak points</p> <ul style="list-style-type: none"> ▪ Majority export of food products with low added value (mainly cereals) ▪ Cultural differences ▪ Low knowledge of languages in small companies ▪ Low awareness of halal certification
<p>Opportunities</p> <ul style="list-style-type: none"> ▪ Increasing competitiveness on the Muslim markets ▪ Increasing export to Muslim countries ▪ Increasing the total company sales ▪ Meeting the Czech Republic export standard ▪ New experience for the Czech entrepreneurs 	<p>Risks</p> <ul style="list-style-type: none"> ▪ Political and war risks in some Muslim countries ▪ Political risks in the Czech Republic- increasing power of anti-system and populist parties

Source: Own research

4. Conclusion

SWOT analysis carried out in this paper shows that producing halal food products is a great opportunity for Czech producers how to increase their competitiveness and sales in the countries that are currently priority countries for export in the current Czech Republic export strategy. It is thanks to the large Muslim population worldwide and the growing demand for products complying with the Islamic norms.

There are several weak points of the Czech export, but these are not constant and unbeatable. Strong points of the Czech export offer a potential in this field. Even though there are some risks, we see halal certification as a suitable product for Czech companies.

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