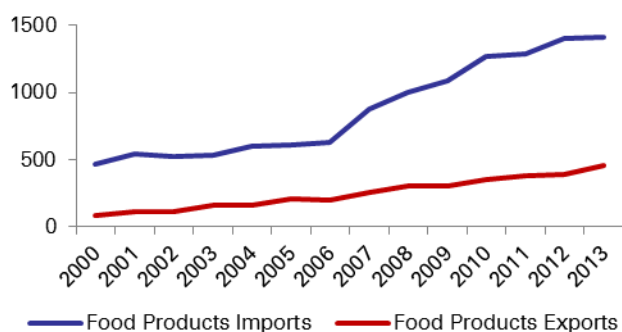


# Agro-Industry in Lebanon: Looming Potential Restrained by Numerous Deficiencies



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## Food Manufacturing External Activity since 2000



Source: The Syndicate of Lebanese Food Industrialists

June 28, 2014

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## Total Industrial Exports (In \$M)



Source: Ministry of Industry

## Agro-Industry Overview

Combining agricultural and industrial techniques, agro-industry in Lebanon is a developed sector with promising outlooks. Despite its several competitive advantages, the sub-sector, that is mainly based on food production and processing, needs rehabilitation and support.

Agro-Industry in Lebanon benefits of a significant economic standing since it is the largest industrial sector. Regardless of the timid 2.2% share in 2011's Gross Domestic Product<sup>1</sup> (GDP), the sector almost contributed to 26.3% of the industrial sector's value added over the same year. Additionally, the food processing sector had an estimated workforce<sup>2</sup> of 20,607 in 2007, constituting the highest share of the industrial sector total workforce at 25%.

Even though the sector revealed a positive economic performance, agro-industrial activity remained sluggish. While the CAGR of GDP stood at 9.1% between 2004 and 2011, the sector broadened at a CAGR of 4.2% with a value added hovering around \$1.13B in 2011 compared to \$814M registered in 2004.

Despite the negative spillovers of the Syrian war on the overall Lebanese economy, agricultural products' manufacturing posted satisfactory performance. First, the interruption of exports'

<sup>1</sup> According to CAS National Accounts of 2011

<sup>2</sup> According to the Ministry of Industry, The Lebanese Industrial Sector Facts & Findings 2007

transportation through the Syrian border did not negatively impacted agro-industrial external activity as some importing markets of Syrian food products shifted their demand to neighboring countries such as Lebanon to compensate for the decrease of Syrian exports. Second, the Syrian crisis attenuated the Syrian competition in the Lebanese market and boosted Syrian refugees' demand for the Lebanese goods.

### Agro-Processed Food Prices in Lebanon

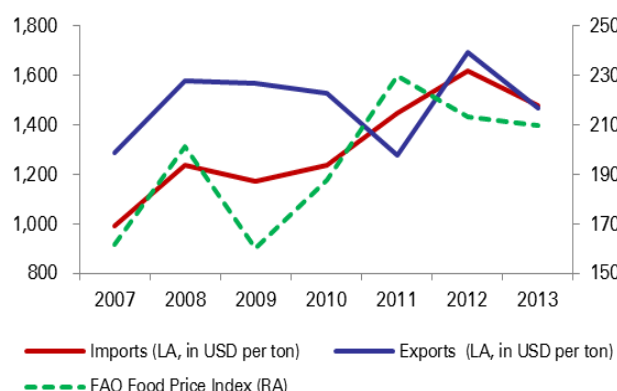
Prices in the agro-food industry were mainly following international trends and partly influenced by the domestic and regional developments. The Food and Agriculture Organization's (FAO) annual Food Price Index indicated that 2008 and 2011 were 2 years of noticeable worldwide increases in food prices by 25% and 22%, respectively. In Lebanon, this was translated by respective 22% increase in export prices in 2008 to \$1,580 per ton. In contrast, 2011 saw an opposite path with food prices slipping by 16% to \$1,280 per ton. This could be explained by the Arab spring emergence in 2011 that heavily influenced Arab demand for the Lebanese agro-industrial products, sending their prices down despite the global growth.

On a comparable scale, Lebanese food products struggle to remain competitive. First, several regional countries heavily subsidize the majority of their exported goods or their production costs (marketing, internal transport, freight and oil costs). This could have a distorting effect when world prices are already low which will worsen prices. This is explained by the over-production in those countries resulting from the subsidies. Accordingly, not all free trade agreements are beneficial to Lebanon but in contrast could cause severe damages to the sector when the cost of production in Lebanon is higher than that in some other countries.

Food Products' Price per ton (in USD)  
and Exports Prices

	Imports	Exports
2007	990	1,290
2008	1,240	1,580
2009	1,170	1,570
2010	1,240	1,530
2011	1,450	1,280
2012	1,618	1,695
2013	1,481	1,468

FAO Food Price Index and Lebanon's Food Imports



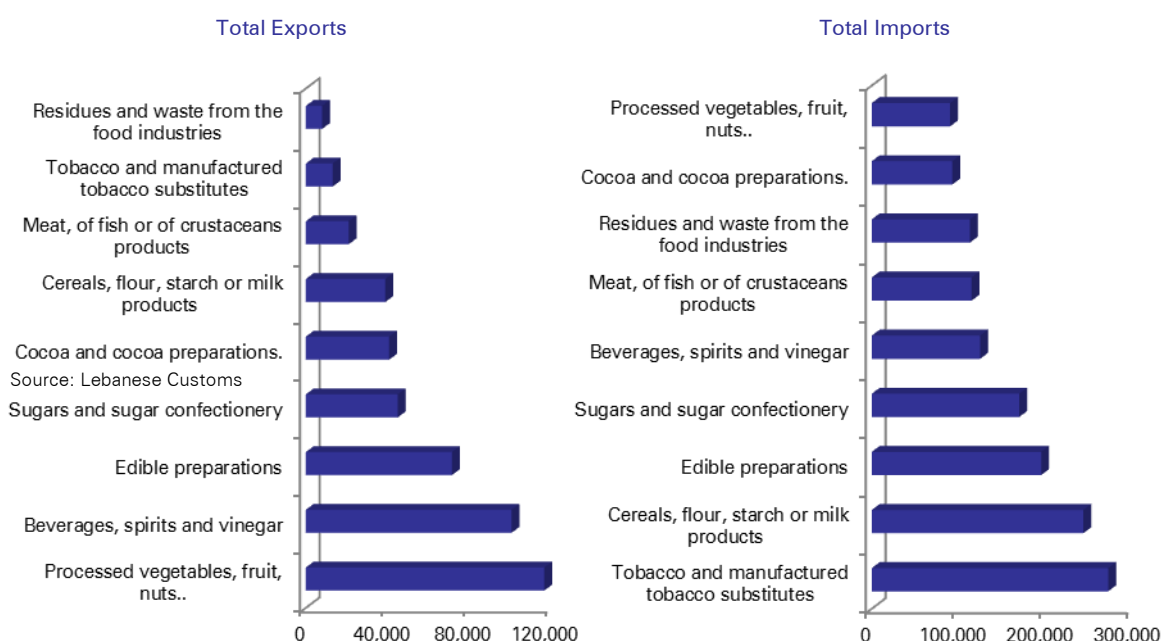
Source: The Syndicate of Lebanese Food Industrialists, FAO, BLOMINVEST Research Department

### Production within the Agro-Industrial Sector

The Lebanese food industry provides its production to both local and foreign markets. Food products exported in 2013 amounted to \$452.80M, almost 46.0% of the year's total estimated production. This leaves the remaining 54% of 2013's estimated production for domestic consumption.

Lebanon's food manufactured products are attracting foreign demand more than the country's raw agricultural products thus gathering higher revenues. While the Lebanese agricultural exports almost constituted 0.5% of 2013's estimated GDP and 5.5% of the year's total exports, agro-industrial products posted a higher 1.0% stake of the same year's GDP and 11.4% of 2013's total exports.

### Agro-Industrial Products in 2013 (In Thousands of USD)



Source: Lebanese Customs

The main exported products were preparations of vegetables, fruits, nuts (25.6% of total agro-industrial products) followed by the Beverages, spirits and vinegar category (22.1% of the total). Edible preparations (including soups, syrups, ice cream, and extracts, essences and concentrates of coffee, tea or mate etc...) came third revealing a 15.7% stake.

Arab countries remain the main importers of Lebanon's agro-industrial products. Saudi Arabia topped the list with a total value of \$69.00M in 2013 compared to \$62.93M in 2012. Syria came second at \$55.02M, up from \$51.64M in 2012 mainly due to the disruption of agro-industrial activity in the war-ridden country. Iraq and the United Arab Emirates (UAE) respectively imported \$51.44M and \$25.59M in 2013. The former revealed a 146.8% upsurge in value and 257.9% in volume, while the latter saw a 40.5% in value and 27.5% in volume. This alludes to the mounting number of trade ties between Lebanon and Iraq as well as the UAE.

In line with the improving status of exports, food imports were also on the rise. While 2013's value of imports barely inched up by a 0.5% year-on-year (y-o-y) to \$1.40B, the volume of processed food imported to Lebanon saw a 9.8% y-o-y growth to 866,795 tons. Accordingly, imported food products saw their average price decrease from \$1,618 in 2012 to \$1,481 in 2013. This was mainly due to the annual 21% similar drop in the average price of beverages, spirits and vinegar as well as sugars and sugar confectionery to \$454 per ton and \$670 per ton, respectively.

Accordingly, the agro-industrial external activity improved in 2013 yet remains deficient. Food manufacturing external trade deficit stood at \$957.39M in 2013, tightening from 2012's deficit of \$1.01B. The imports cover ratio stood at 32.1% in 2013 improving from the 28.0% recorded in 2012. In addition, the average price per ton of Lebanese exports dropped by 13.4%, while that of the Lebanese imports fell at a slower pace of 8.5% y-o-y.

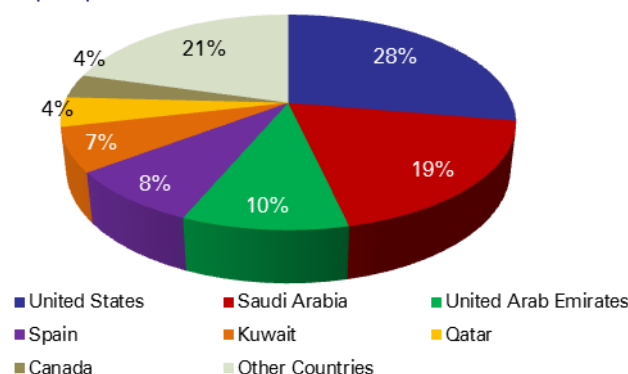
Given the modest size of the Lebanese agro-industry, diversity and volume of food production are impressive. The sector encompasses several sub-industries of which olive oil, spirits, dairy products, canned vegetables, confectionery, juices etc...

### Olive Oil Industry

Olive oil, one of the promising agro-industries in Lebanon that is still not up to potential, is gaining more ground on both domestic and international markets. According to IDAL, total olive oil production reached 90,307 tons in 2011, nine times higher than 2000's production.

On the external front, total exports of olive oil surged by 70% y-o-y in 2013 to hit 7,085 tons worth \$22.45M compared to 4,163 tons worth \$15.24M in 2012. The top 3 importers of the Lebanese olive oil are the United States of America (USA) with a 28% share followed by Saudi Arabia (19%) and the UAE (10%). This is mainly explained by the proliferation of the Lebanese diaspora that heavily uses olive oil as one of its typical ethno-culinary habits.

### Top Importers of Lebanon's Olive Oil in 2013



Source: Lebanese Customs

On a different note, the average price of olive oil slipped in 2013 by 13.5% y-o-y to \$3,168 per ton, considerably higher than the average price of imported olive oil that hovered around \$2,000 per ton. However, the high level of olive oil local consumption forced Lebanon to import in 2013 additional volumes of olive oil products that reached 5,428 tons worth \$10.87M, noting that 98% of the total was imported from Syria.

Worth mentioning that olive oil is one of the few agro-industries to post an external trade surplus in 2013. The mounting status of the Lebanese sub-industry in the markets abroad helped olive oil trade surplus to broaden from \$10.16M in 2012 to reach \$11.58M by the end of 2013.

Despite the noticeable improvement of the sector, olive oil production in Lebanon keeps on facing several difficulties, of which the high cost of production, the inadequate quality as well as the existing competition with imported olive oils that tend to be cheaper.

On a positive note, the trade agreement between Lebanon and the European Union (EU) had a positive impact on Lebanon as olive oil products gained access to the European market besides the regular Arab markets. In details, the agreement allows Lebanon to export 1,000 tons of extra-virgin olive oil to the EU duty-free while allowing the country to impose a 70 per cent tariff rate on EU olive oil.

Numerous projects were initiated to support the promising sub-industry, of which CEDARSplus program (2006-2008) funded by the Cooperative Housing Foundation (CHF) in cooperation with the United States Agency for International Development (USAID). The program promotes the production and marketing of olive oil to meet the increasing demand of international markets.

Another initiative was launched by USAID and LIVCD (Lebanon Industry Value Chain Development) in May this year to develop a seal to certify the quality and origin of Lebanese olive oil. The project will improve the penetration of Lebanese olive oil suppliers into international markets along with rising consumer confidence in the purchased products.

### Dairy Products

The Lebanese dairy market is a viable and competitive sector struggling to maintain its vibrant trend. The sub-sector, that remained immune to the ongoing local and regional developments, benefits from a stable to increasing demand for dairy products. This is due to the classification of dairy products as primary goods in the Lebanese culture. However, the sector suffered earlier this year a scandal related to

the use of Natamycin<sup>3</sup> by some local producers, a banned substance according to the standards of LIBNOR<sup>4</sup>.

Production within the sector is divided between large scale industrial plants, small scale firms and several rural communities. Taanayel Les Fermes almost grasps half of the local market demand, standing as a top provider of the Lebanese dairy products. Dairy Khoury comes second, followed by Libanlait and Dairyday.

However, a fierce competition takes place among the existing suppliers as the Lebanese market size is relatively small. Marketing strategies and new lines of ice cream and specialized yogurt are implemented to maintain the same level of profit.

Besides local production, external trade within the sector witnessed a strong deficit. Exports barely represented 3% of total dairy imports in 2013. On a positive note, and after 2 consecutive years of declines, exports of dairy products improved by an annual 5.2% to \$9.39M in 2013.

The existing players should target markets where labor costs are significantly higher than in Lebanon. However, the critical expiry of such products renders the expansion of export activity riskier.

Several projects were initiated by international entities to support the sub-industry, of which FAO and USAID. In 2011, the LRF-21 dairy project "Recovery and Rehabilitation of Dairy Sector in Bekaa Valley and Hermel – Akkar Uplands" was funded by the Lebanon Recovery Fund (LRF) and executed by the Food and Agriculture Organization (FAO) with direct collaboration and cooperation of the Lebanese Ministry of Agriculture (MOA). The project aimed the sustainability of milk production and the improvement of food safety standards within the dairy industry in specific Lebanese regions.

Another \$6.9M program was funded by the USAID renowned as "The Action for Sustainable Agro-Industry in Lebanon" (ASAIL). The project provided extensive technical assistance, marketing, business development and access to finance by Small Medium Enterprises (SME).

### Spirits Industry

*Winemaking* in Lebanon dates back several thousands of years as the country tend to be ideal for industry growth with an estimated market size at \$26.4M for 2012. FAO estimated wine production to be near 14,200 tons of wine in 2011, ranking it as the 45<sup>th</sup> largest wine producer in the world with 0.05% of global supply.

Yet, and contrary to global trends, Lebanon has been paying less for greater quantities of wine. The reason behind this drop is attributed to the decrease in taxes levied on imported wines through Lebanon's adoption of the Euromena Accords. The agreement which aims at the reciprocal phasing out of taxes imposed on wine between Lebanon and Europe has granted the latter easier access to Lebanese markets.

Lebanon exports the majority of its wine to Europe, primarily UK and France. Local wineries should capitalize on trade agreements such as those signed with Europe to penetrate foreign markets at competitive prices. In an attempt to cement their presence in the global wine market, 33 Lebanese wineries participated in Berlin during May this year in the presentation of their wines to distributors and importers from central Europe.

The future success of the Lebanese wine industry dictates a shift in production towards high quality wines. Despite the high entry costs, operating production costs are relatively low (10-25% of retail value), making the investment appealing in the long run. Unable to compete in mass production, Lebanon should establish itself as a niche market catering to wine consumers.

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<sup>3</sup> Food additive acting as an antifungal agent

<sup>4</sup> Lebanese Standards Institution affiliated with the ministry of Industry

Looking at the Lebanese *beer* market, consumption in Lebanon is estimated at 29M liters annually, placing the country in the 90<sup>th</sup> position internationally from a basket of 123 countries on a per capita basis. Almaza, the market leader, accounts for 74% of the local market, or 21.7M liters.

The costs associated with the business are discouraging, especially since most of beer key ingredients are imported. Shipping costs are thus added into the equation, along with high electricity bill, customs and taxes that can significantly hurt the bottom-line. Even bottles are imported as the glass industry, an energy-intensive business, suffers from high utility costs in Lebanon which can only be forwarded to the end-buyer.

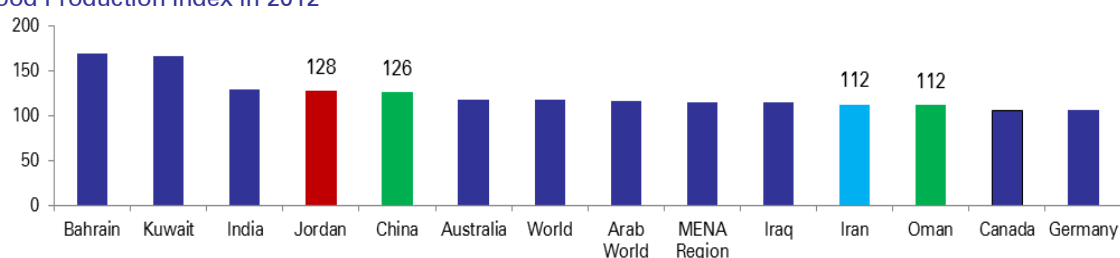
Exports constitute a significant part of the Lebanese brewing business. We estimate Almaza to export roughly 10%, or 2.33M liters annually, to various destinations such as Syria, United States, Turkey, and UAE. Exports allow better profitability since companies are able to charge much more internationally.

When it comes to *Arak*, Lebanon's national drink, assessing the market in Lebanon is almost impossible as the majority of productions is made by individuals. Total production of Arak is estimated to be around 5M to 6M bottles annually<sup>5</sup>, with 50% exported abroad. Arak is one of the few products not imported to Lebanon which appears to be a competitive advantage for the country as it could focus on bolstering, besides its local supply, the export activity of its traditional alcoholic drink.

Other problems related to the costs of production, lack of government regulation and illegal competition hinders the sub-sector performance. First, high costs encounter Arak's production as the manufacturing process is long and complex (Arak is triple distilled for better quality). Second, the absence of regulation encourages the proliferation of the arak "baladi" that often does not respect the standards of production, opening doors to imbalanced competition. And third, an intense competition exists with the different types of spirits such as wine and beer and the international drinks such as whiskey, vodka, etc...

As shown by the aforementioned examples, production in the Lebanese agro-industrial sector faces several challenges that keep its evolution below the potential. According to the World Bank, the food production index of Lebanon stood in 2012 at 102, up by 3.9% from 2011 but remaining below the world index of 118 and the 117 of the Arab World. Noting that imports almost constitute 45% of the Lebanese demand for manufactured food products, several opportunities exist and numerous areas of investments are compelling.

**Food Production Index in 2012**



Source: World Bank

*Al Wadi-Al-Akhdar*, the canned food giant, managed to bolster its sales thanks to the introduction of a large variety of new differentiated products. The food company is never resting on its laurels but aiming to spread its brand on the global scale mainly where the Lebanese diaspora resides. The leading food brand offers a wide range of Middle Eastern and international food products that can be found all over Europe, Asia, Australia and America.

<sup>5</sup> According to L'Orient le Jour "L'arak : un marché bien portant malgré les défis"

*LibanJus*, a market leader in both the juice and ice cream markets, is always upgrading and expanding its business model to boost sales. The firm sequentially introduced Iceberg in 1991, Maccaw in 1999, Uno in 2003 as well as Iceberg milkshake in 2005.

*Ghandour* is another example. The enduring firm in confectionery and food products is facing international competition mainly from Turkey as the latter's products are relatively cheaper. The company is mainly focusing on penetrating new markets hand on hand with plans to improve its brand image by spreading their marketing campaigns, extending their product lines and remodeling their existing brands such as Dabké, Unica, Pik One, Tarboosh etc...

Another big investment was initiated by Kassatly Chtaura, a leading drinks manufacturer that is behind Buzz alcohol drinks and, since 2005, the wine Chateau Ka. Kassatly is to invest up to \$15M, through a loan backed by the Central Bank, in the production of 20M liters of beer a year, close to the amount Almaza produces.

When performing well, the Lebanese agro-industrial sector is a promoter of job creation. Several opportunities reside within the sector as the latter is almost immune to the local and regional uprisings. The decision of the Lebanese government to reduce the tax on industrial export profits by 50% will definitely have a positive impact on the external trading activity of the sector.

Finally, great potential for development resides within the agro-industrial activity, yet more investments are needed to realize economies of scale thus boosting productivity and reducing costs.

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