

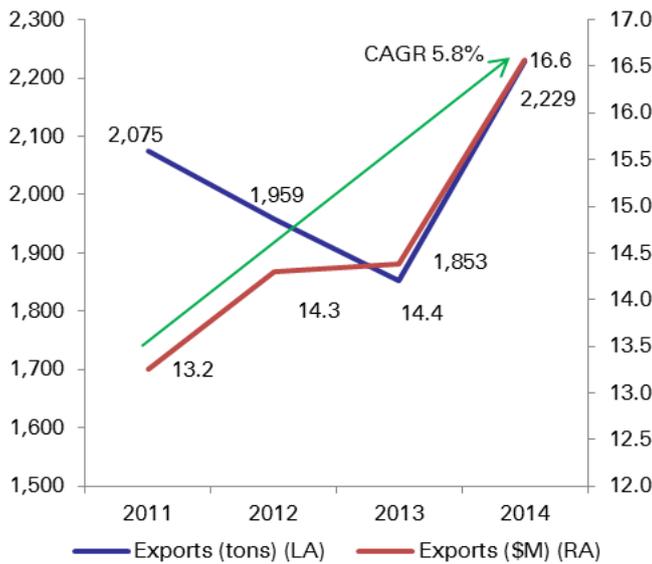


Wine Exports

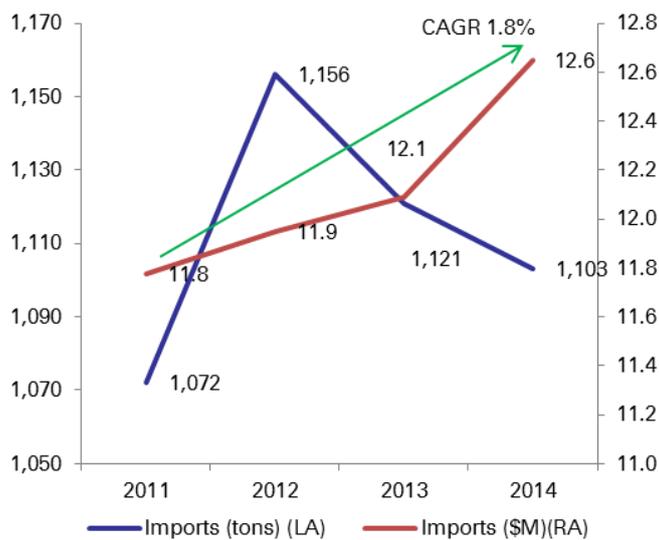
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Wine Imports

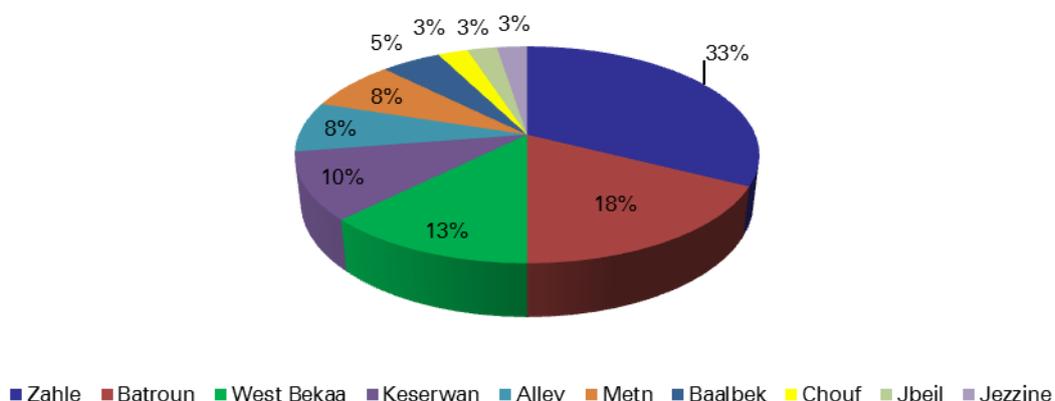


Source: Customs

Endowed with the ideal Mediterranean climate and a diverse landscape of a sun-drenched waterfront, looming summits and desiccated valleys, Lebanon has long been prolific terrain for vineyards. More than 5000 years ago, the Phoenicians were making wine in Lebanon and trading it throughout the Mediterranean and Europe. The Temple of Bacchus, the Roman God of Wine, in Baalbek stands in testimony to the history of wine in the Bekaa valley. Moreover, it is believed that Christ's first public miracle, where he transformed water into wine, occurred in Cana, South Lebanon.

The number of wineries in Lebanon has increased sharply since the end of the Civil War, reaching 40 wineries in 2015, compared to only 5 after the war. 33% of the wine producers, or 13 wineries, are located in Zahle, due to the district's suitable "terroir" for wine making.

Distribution of Wineries across Lebanese Districts



Source: BLOMINVEST Research Department

Of the 40 wineries, 19 are members of the "Union Vinicole du Liban" (UVL), Lebanon's official association of wine producers. The prime aim of the UVL is "to consolidate and build on Lebanon's image as a wine producing country by highlighting its proud history and promoting its potential." It deals with governmental and economical institutions when needed to ease wineries' participation in international fairs. With the collaboration of Lebanese embassies abroad, the UVL is participating in international wine events, in which Lebanese wineries exhibit together under the name of 'Lebanese Wine', instead of each individual brand alone.

Lebanese vineyards cover around 2,000 hectares, producing 8,000,000 bottles of wine annually. According to UVL, Chateau Ksara produces around 37.5%, equivalent to 3,000,000 bottles; followed by Chateau Kefraya with 1,500,000 bottles, Chateau Musar with 600,000, Clos St Thomas with 400,000 bottles and 300,000 for each of Chateau Ka and Chateau Massaya. According to chief executive manager of Chateau Kefraya, Emile Majdalani, Ksara and Kefraya are the top providers in the Lebanese market with almost 30% market share each. and Mr. Issa, partner at Domaine des Tourelles, stated that his winery grabs 3-4% of the local market.

The following table summarizes the different varieties of grapes grown in Lebanon and used in winemaking:

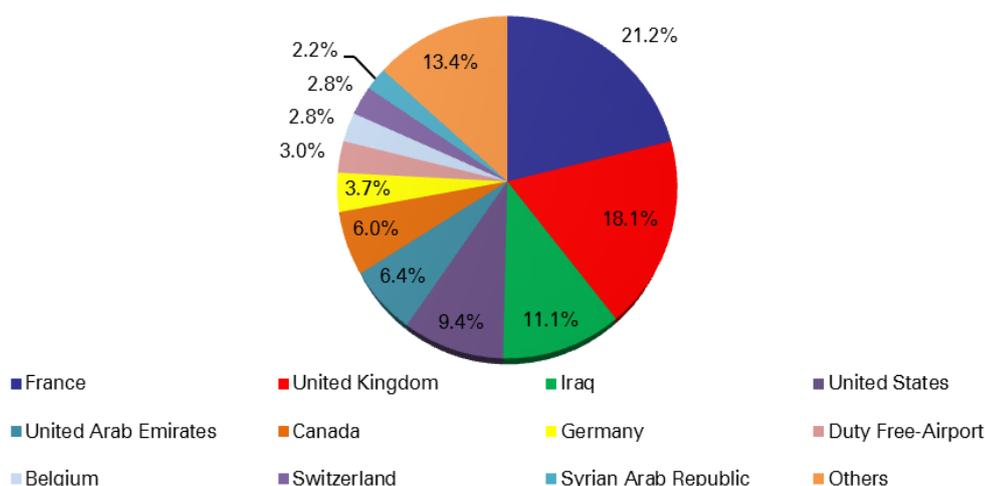
| REDS | WHITES |
|---|--|
| Cabernet Franc is a red grape variety planted in Bordeaux and the Loire Valley that is also popular among the wine makers of north east Italy. A new grape to Lebanon, it is planted both in the Bekaa and in Bhamdoun. | Chardonnay is a relatively new arrival to Lebanon but has thrived in the Bekaa terroir. |
| Cabernet Sauvignon has, in the past twenty years, become Lebanon's most widely planted grape (500 hectares – a quarter of the total area under wine grape vine – were planted between 2000 and 2005) and comprises roughly 40% of the country's wine grapes under vine. It is used by all the major Lebanese wineries in blends and can be found as varietal in its own right. | Gewürztraminer is used in Lebanon in extremely limited quantities |
| Carignan has been used for decades in Lebanon, where, local producers say, it performs better than in France. It gives a beautiful dark hue, good acidity and high alcohol. It is used to structure reds that are destined for ageing as well as rosé wines. | Clairette has been a popular grape but is used less these days. |
| Cinsault has been used to make wine for 150 years in Lebanon and today makes up nearly 35% of Lebanon's total wine grapes. | Merweh is a white Lebanese cultivar used in wines and arak. |
| Gamay is planted in extremely limited quantities for nouveau wines. | Muscat is a white grape planted in limited quantities in Lebanon, where it is blended with other varieties. |
| Grenache is widely used by Lebanese producers, for whom it can give wines with a high alcoholic content. | Obeidy is a white Lebanese cultivar used in wines and arak. |
| Merlot is a popular and important grape in the majority of upper and mid-range wines. | Sauvignon Blanc is a versatile, highly acidic, grape used extensively in Lebanese white wines. |
| Mourvèdre is popular with a few Lebanese producers, who value its ability to contribute to well-structured wines. | Semillon is planted in limited quantities in Lebanon. |
| Petit Verdot is used in limited quantities by those wineries who appreciate that it can contribute significantly to a wine's ageing potential because of its high tannin content. | Ugni Blanc was one of the earliest imported white grapes used in Lebanon, where it was used for wines, arak and other eaux de vie. |
| Syrah is a favourite with Lebanese producers, who value its longevity as well as its aromas and flavours of prunes, spices and berry fruits. | Viognier is recent arrival in Lebanon, where it has been blended successfully with Chardonnay, Sauvignon Blanc and Muscat to make premium whites. |
| Tempranillo is arguably the most important Spanish grape variety and one that is popular with a few Lebanese producers. | |

Source: Union Vinicole du Liban

Customs data show that Lebanon has been a net exporter of wine in the past 4 years, with a trade surplus amounting to \$4M in 2014. Wine imports and exports have been gradually increasing, however at different paces, where exports recorded a 15.3% increase from 2013's value while imports edged up by only 4.1%.

Of the 8M bottles that Lebanon's wineries produce, 50% are exported, worth \$16.6M, at an average price of \$4.2/bottle. The major 3 destinations are UK (30.5%), France (15.0%), and the US (11.3%). In terms of tonnage, France imports 21.2% of the 2,229 tons that Lebanon exports, followed by UK and Iraq with respective shares of 18.1% and 11.1%. Worth noting that in 2011, Syria was the third major destination for Lebanese wine, importing 206 tons worth \$748,000. Exports to Syria plummeted to 49 tons worth \$128,000 in 2014.

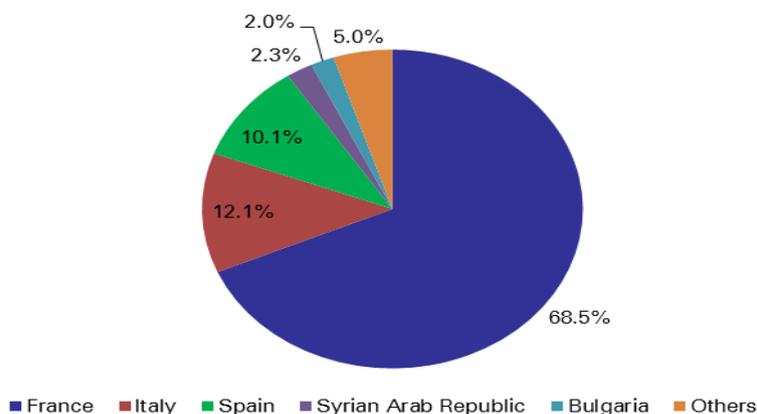
Top Wine Exporters (In terms of tonnage)



Source: Customs

Lebanon consumes 6M bottles of wine yearly, where 33.3% or 2M bottles are imported with an average price of \$6.3/bottle. Wine imports, which amount to \$12.6M, consist of 65.2% still wine and 34.8% sparkling. 83% of total wine imports, or \$10.5M, is imported from France, 8.6% (\$1.1M) from Italy, and 2.3% (\$294,000) from Spain. In terms of tonnage, Lebanon imports 1,103 tons of wine, of which 68.5% came from France, 12.1% from Italy, and 10.1% from Spain. Worth mentioning that in 2012, Lebanon used to import 38 tons of wine worth \$126,000 from Syria. This number plunged to 0 in 2013 and picked up to 25 tons or \$72,000 in 2014.

Top Wine Importers (In terms of tonnage)



Source: Customs

The wine industry in Lebanon has no barriers to entry, besides the availability of adequate land. However, Ghida Kassatly Boulos, marketing manager at Chateau Ka, pointed out that even though the market has no barriers to entry, a prospective château faces a huge initial investment and high costs of production. According to several wineries, return on investment in wine production is not achieved before 10-20 years, as it takes almost 5 years to produce the first bottle. Besides the high cost of land and labour, the main burden that wineries endure is the high costs of equipment, barrels, bottles, labels, and cork-stoppers, all of which are imported (due to bad or non-existent local production) and are subject to VAT (10%) and Customs (5%).

The major obstacle that Lebanese wineries face is competition from imported wine. Imported wine holds an advantage over local wine across different consumer preferences. Foreign wine benefits from greater brand recognition and customer appeal. People who are price-oriented would still prefer the foreign wine because it is cheaper than its local counterpart. This was aided by the gradual reduction of customs on European imports until it was completely cancelled in 2014. According to UVL, French wines were the greatest beneficiaries of this customs reform. Therefore, European wine is preferred regardless of price.

Moreover, according to Mr. Issa, small wineries and potential entrants face aggressive competition as powerful wineries dominate the local market rendering an imbalance of visibility. He states: "Small wineries will face difficulties entering the market in the presence of exclusivity and money power."

Another impediment that Lebanese wineries have been facing is the spill-over effects of the Syrian Civil war. As previously mentioned, wine exports to Syria and other regional markets decreased substantially from 2011 to 2014, partly due to land freight interruption. Furthermore, tourists have been reluctant to visit Lebanon, which in turn led to the decrease in wine consumption.

Lebanon's wine sector was also affected by the recent European crisis. As the euro depreciated against the U.S. dollar, Lebanese wines became more expensive in the European markets and European wines were cheaper locally. Therefore, Lebanese wine became less competitive.

Despite these hurdles, Lebanese wineries are strengthened by wine tourism. According to its PR manager, Rania Chammas, Chateau Ksara was ranked the 5th touristic sight in Lebanon, as it is the oldest winery in Lebanon and has natural caves. In 1898, Ksara discovered an extensive Roman cave system underneath the winery, which was expanded and repaired to become Lebanon's only natural cellar system. Other wineries that gain from wine tourism are those with restaurants, such as Chateau Kefraya, Massaya, Domaine des Tourelles and Ixir. Noting that due to the clashes in the Bekaa region, tourists have been reluctant to visit the chateaux there and are showing a greater preference to those in Batroun, as the area is considered more secure. For instance, in its golden years, Chateau Ksara received 75,000 tourists annually who visited its natural caves; this number has dropped to around 25,000 after the security instability.

Furthermore, the Lebanese Ministry of Agriculture endorses the wine sector by allocating a slightly higher budget each year. The targeted budget this year is \$132,000, compared to \$105,000 last year. To advertise Lebanese wine abroad, the Ministry has been holding exhibitions in major cities around the world under the name of "Lebanese Wine Day". The first fair took place in Paris in 2013, and was followed by one in Berlin in 2014. This year the "Lebanese Wine Day" exhibition is planned to take place in New York. In addition, one winery mentioned that to increase wine exports, the government is planning a new tax reform on exported wine where the government will pay back 50% of the profit tax and the L.P 200/litre alcohol excise on exported wines. However, this has not yet been put into effect.

Nevertheless, to further promote Lebanese wine, a system, like the one used in France that identifies the originating region of the grapes used in each kind of wine, should be adopted. This is because each kind of grape is influenced by different climate conditions and natural resources which bestow them with a specific taste, characteristics, reputation and quality that are distinct from the ones grown in other regions. This would offer wineries, cultivating their grapes in conditions suitable for growing vines, market recognition and often higher prices.

For instance, France applies the “Appellation d’Origine Controlee” (AOC, translation: “controlled designation of origin”) system on its wines, which is a set of very strict rules on the types of grapes grown in each wine region. The set includes restrictions as to the specific geological area where the fruit is grown and the wine was made, along with the type of allowable grape variety planted in the vineyard. There are also specific, agreed upon production methods, minimum levels of alcohol, vine age and required minimum vineyard planting densities. There are also rules for harvesting and wine-making techniques in place along with restrictions on where the cellars must be located. The reason behind the AOC system is that it is the place where the product is produced that gives the wine its unique character and style.

Lebanese wineries have been trying to find new ways to improve their produce. In 2015, a new wine recipe made solely from purely Lebanese “Obeidy” grapes was launched by local wineries, to create a distinct image for Lebanese wine. In addition, Chateau Wadih was the initiator of the probiotic wine, red wine with probiotic substance that protects the liver from the effects of alcohol and stimulates the immune system, without affecting the wine’s taste. Outside Lebanon, only one winery produces a probiotic blend, which learned the method from Dr Bou Younes, owner of Chateau Wadih.

Finally, all wineries agree that before endorsing Lebanese wine in foreign markets, Lebanese citizens should have a stronger national feeling and consider their country’s wine as a national pride. Lebanese wine has been considered as an adequate ambassador to Lebanon in foreign countries. However it is time for Lebanese wineries and their products to achieve similar levels of acknowledgement and recognition inside their own country’s borders.

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