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Owing to the fact that no 2 places on earth have the exact same geological composition or experience, or the same geological forces, natural stones are like fingerprints, each one is unique. This means that natural stone of the same type can also vary widely. This is why, even if a country is a producer of natural stones, it has to import from other countries to have a wide variety of these stones.

Due to the usage of natural stone as building and decoration material, the trade of natural stone became very important. In parallel with technological developments, the natural stone extraction and processing have been increased with a minimum loss in recent decades. This report focuses on two types of natural stones: granite and marble.

According to Global Trade Atlas, the international trade of stone products reached a value of \$25.65B, growing by 1.87% compared to 2013's value of \$25.18B. From a quantity perspective, 85.9M tones of natural stones were traded in 2014, compared to 80M tones in 2013. China is the world's largest exporter of natural stones with a market share of 35.8%, followed by Italy and Turkey with respective shares of 13.5% and 12.1%.

As for the international demand of natural stones, it stood at 39M tones, for a total value of around \$11.22B, with a 5.6% increase in quantity and a 2.7% increase in value compared to 2013. The leading country for imports was China with a 21.9% share, followed by the United States (19.8%) and Japan (6%).

Granite is a versatile natural stone product that can be used almost everywhere, and mainly for kitchen countertops. Due to its high density, granite does not host bacteria. Combined with the fact that it does not respond to acid, granite is among the most sanitary countertop materials available. Because of its low absorption rate, granite is less prone to staining and is also heat resistant making it ideal for surface tops. This makes granite the most durable of all surfaces used in counter top construction. Granite is also used for immense structural works due to its high compressive strength. Granite's rich and varied colors, stiffness, and density, make it the ideal choice for flooring, vanities, as well as exterior applications. Next to diamond, granite is the hardest natural stone available. Granite surface tops have a smooth and high gloss finish that exalts the elegance and beauty of the material while maintaining its durability.

As for marble, it has been valued for thousands of years for its rich palette of beautiful colors and appearance. Marble stones consist of limestone that has undergone heat and pressure. Variations of

whiteness of pure marbles are due to the mixture of foreign substances, which form streaks and clouds. Very few rocks have as many uses as marble. It is used for its beauty in architecture and sculpture. It is used for its chemical properties in pharmaceuticals and agriculture. It is used for its optical properties in cosmetics, paint and paper. It is used because it is an abundant, low-cost commodity in crushed stone prepared for construction projects. Marble has many unique properties that make it a valuable rock in many different industries.

The size of the marble and granite market in Lebanon is around \$96.61M, with more than 400 factories and 600 traders.

Although there are a lot of marble factories, there are only 2 granite producers, the biggest being Middle East Granite. This can be attributed mainly to the fact that the machines that cut and polish crude granite are more expensive than that of marble, and require more sophisticated techniques. Moreover, the demand for granite is much lower than the demand for marble.

Due to the severe rivalry in the market, no one company can control the prices of its products. The prices follow the international market. According to Jamil Saadeh, owner of Saadeh for General Trading, the markup for granite and marble is usually 30%.

Depending on the quality, color, and origin of marble slabs, the majority of demand is concentrated at a price range of \$35/m<sup>2</sup> to \$90/m<sup>2</sup>. The lighter the color of the marble and the fewer layers it has, the more expensive it is. Similarly, the majority of demand for granite slab ranges from a price of \$50/m<sup>2</sup> to \$180/m<sup>2</sup>, also depending on the quality, color and origin of the stone.

Within the respective ranges, certain people choose the cheaper stones because they are not well-informed about their quality and the cutting and polishing services provided by the factory or the trader. Construction companies and real estate developers usually opt for marble and granite with low prices, since they are for commercial use. In contrast, people renovating their houses or building their own, in addition to hotels and malls choose more expensive natural stones.

No tariff is imposed on crude marble and granite imported. However, except for the ones imported from the EU and Arab countries, a 25% custom duty is imposed on finished granite and marble. Nevertheless, customs are not well informed about the quality and costs of the stones, which is leading to the billing of inaccurate invoices. Hence many traders are taking advantage of this and importing marble and granite at very low costs.

This manipulation has caused several granite and marble factories to seize their activities because of the fierce and unfair competition they are facing. According to Jad Rizk from Ets Nabil G. Rizk, the Lebanese marble factories are facing tough competition from imports, especially Egyptian marble. The lowest price of raw marble sold at his factory is around \$30/m<sup>2</sup>. However, Lebanese importers are selling finished Egyptian marble at a price of \$13/m<sup>2</sup>.

Other than having the know-hows and the high costs of installing a marble and/or granite factory, there are no barriers to enter this market. As a trader, the only barrier to entry is the 25% custom duty on finished marble and granite imports.

Like all industries in Lebanon, demand for natural stones is affected by the economic and political situation locally and that of Lebanon's trade partners. Therefore, production declined after the Arab spring and the war in Syria. In addition, due to the political developments in the country that led to a recession in the construction sector, local demand for marble and granite decreased. However, according to Arabian Marble Habre, since companies usually take long-term projects of around 4 years, production trails behind demand. Moreover, the Syrian war caused many Syrian marble and granite companies to penetrate the Lebanese market, increasing the competition.

All this has led Lebanese marble and granite companies to witness a weakening in their yearly results. According to Ralph Mouawad, Administrative Manager at Middle East Granite, orders and sales have

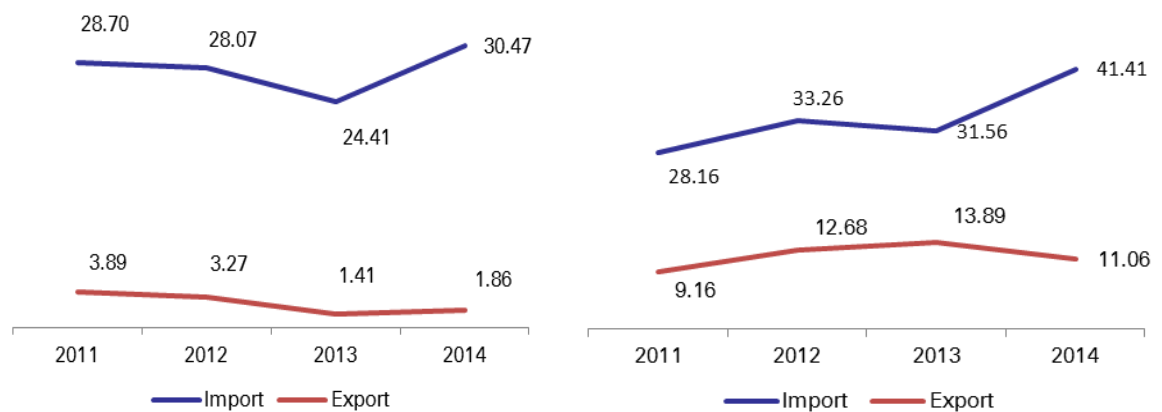
decreased by around 10-15% in 2014 compared to 2013. Besides the decline in demand, prices of some items had dropped due to the severe competition in the market, resulting in smaller profit margins.

Thus companies adopted different approaches to alleviate the worsening performance of the sector. Some tried cutting their costs by reducing employees. Others introduced new machines that are able to reduce costs and added new line items to their production. Certain companies even closed down their businesses.

Regarding trade of natural stones, customs data show that Lebanon has been a net importer of marble and granite for the past 4 years, with a trade deficit reaching \$77.46M in 2014.

### Imports and Exports of Crude Marble (\$M)

### Import and Exports of Finished Marble (\$M)



Source: Customs

Crude marble imports have been on the rise. The value of crude marble imports increased by 24.82% compared to 2013, to reach \$30.47M in 2014. In terms of quantity, imported raw marble grew 3.23% to 159,312 tons in 2014. In the first 8 months of 2015, the value of crude marble imports decreased by 43.01% with a 37.55% decline in volume. Lebanon imports 54.78% of crude marble from Italy, 13.81% from Turkey and 7.65% from Egypt.

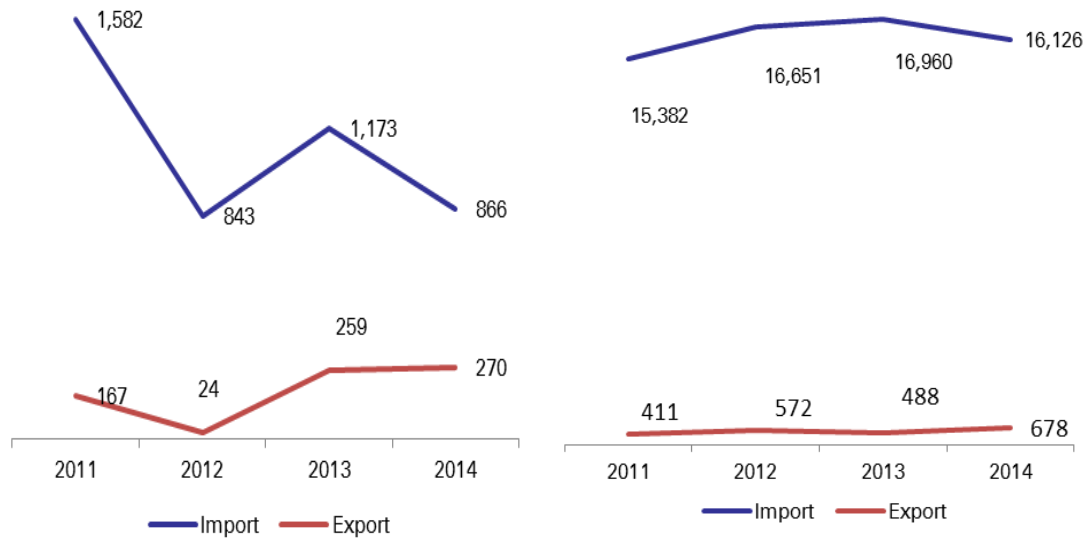
Similarly, finished marble imports edged up 31.23% to \$41.41M, with a 31.60% growth in quantity to 184,680 tons. For the first 8 month of 2015, the value and volume of finished marble imported increased by 23.64% and 5.95%, respectively, compared to the same period of 2014. 53.10% is imported from Egypt, 12.34% from Italy, and 8.33% from Spain.

Looking at crude marble exports, they increased 31.63% to \$1.68M, with only a 1.23% increase in quantity to 12,393 tons. However, comparing 2014 to 2011 and 2012, a 52.25% and 43.31% plunges in the value of crude marble exports is revealed, with a 44.75% and 45.36% declines in the number of tons. This is mainly due to the Arab Spring, which halted exports to the Arab markets. For the first 8 months of 2015, the value of crude marble imported dropped by 30.87% with a 21.99% decrease in volume. Italy is the main importer of Lebanese crude marble with a 35.64% share, followed by Egypt and the United Arab Emirates with respective shares of 26.89% and 9.73%

In the meantime, there was a 20.35% decrease in the value of finished marble exported to \$11.06M, with a 25.63% plummet in the quantity to 6,068 tons. This trend continued in 2015, where up to August, the value of finished marble exported plunged by 32.66% annually, with a 28.92% decline in quantity. 44.14% of finished marble is exported to Saudi Arabia, 23.42% to Qatar and 9.07% to Jordan. According to Jad Rizk from Ets Nabil G. Rizk, production of raw marble has been declining since 2005, due to the closing of marble quarries. In turn, this led to a decline in marble exports. For instance, Ets Nabil G. Rizk used to export polished tiles to markets of the US, UK, Australia, Qatar,

UAE, and KSA by more than 85 containers per annum. However, after the closing of quarries, their export activity stopped.

### Imports & Exports of Crude Granite (\$thousands)   Imports & Exports of Finished Granite (\$thousands)



Source: Customs

Regarding crude granite imports, there was a 26.17% yearly decrease in the value of crude granite to \$866,000, coupled with a 12.37% decrease in the volume to 2,727 tons in 2014. During the first 8 months of 2015, the value of crude granite imported increased by 19.03%, where the volume more than doubled surging by 102%. 52.24% of crude granite is imported from Italy, 18.78% from China, and 13.60% from Spain.

Finished granite imports also saw a 4.92% annual decline to \$16.13M, but at a 1.39% higher volume of 65,554 tons in 2014. Up to August 2015 finished granite imports decreased by 4.86% in value and by 6.59% in volume. 48.41% of finished granite is imported from India, 46.74% from China, and 1.99% from Italy. The decline in granite imports could be attributed to the shift in demand towards a new artificial stone: Quartz. Quartz is considered new, modern, and has the advantage of finding all colors in plain over granite. However it is almost double the cost of granite.

Concerning exports, crude granite saw a 4.25% rise to \$270,000, however at a 39.58% decline in quantity to 316 tons. Similarly, for the first 8 months of 2015, crude granite exports increased by 14.07% in value and 62.68% in volume. 96.43% of the crude granite is exported to Belgium, while the rest, 3.25%, is exported to Kuwait.

Finished granite exports augmented by 14.25% to \$521,000 with a 38.93% increase in quantity to 678 tons, in 2014. On the other hand, up to August 2015, finished granite saw a 33.33% yearly decline in value and a 66.55% drop in quantity. 30.22% of finished marble is exported to Ghana, 24.82% to Congo, and 15.83% to Liberia.

The growth of the marble and granite industry hinges on the development of the real estate and construction sectors. When the real estate and construction activities were booming in the period of 2008-2009, the natural stones industry was thriving. Pressures from the Syrian war and the fragile domestic situation stalled the real estate sector, which in turn started the downward spiral of the marble and granite industry. With no recovery perceived until now on the political and economic front, many marble and granite factories are considering to open in Gulf countries.

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