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Jewelry has been lustrous, having unfathomable significance in different cultures. It has been cherished not only for its ornamental worth, but also for its use as a form of wealth, expression, and body modification. Besides, precious stones and gems were worn as amulets to ward off negative energy.

The jewelry industry has a long history in Lebanon. Jewelry designers have been passing their know-how from one generation to the next, engraving their names around the globe. Lebanese jewelers have thrived throughout the world, becoming the country's ambassadors. Not only do international celebrities wear Lebanese jewelry, but also, the Princess of Monaco, Charlene Wittstock, was adorned on her wedding day in a bespoke necklace made of rose gold set with diamonds and pearls designed by House of Tabbah.

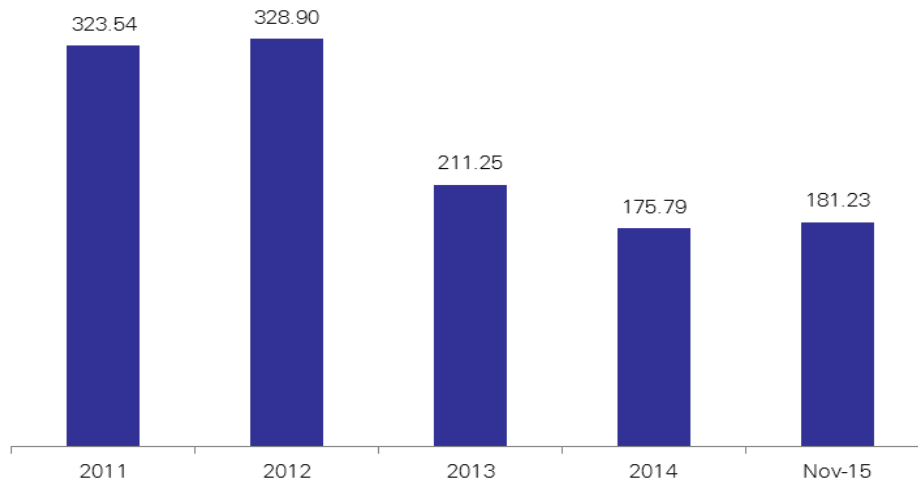
The jewelry market in Lebanon is a large and competitive one, with few names leading the market. The size of the Lebanese jewelry market is estimated at \$600M, fragmented to 3 groups, each targeting a specific clientele. Some of them are very active in the low end segment of the market, others in the medium segment, with only few jewelers targeting the high-end.

Secrecy dominates over the jewelry industry. This industry has always been opaque, with an unidentifiable accurate size of the market and a high level of confidentiality within companies in the industry. However, Nada Le Cavalier estimates that 75% of the jewelry market is locally produced, with the remaining 25% being imported.

"Pearls, precious stones and metals" exports are considered the second main exports of Lebanon, with a share of 15%, or \$407.26M in the first 11 months of 2015. However, 56% (\$226.02M) of this value consists of gold ingots. 22% (\$87.91M) consists of finished diamonds for nonindustrial use. The major markets for Lebanese exports of "pearls, precious stones and metals" are South Africa (44%), United Arab Emirates (25%), Switzerland (13%), Saudi Arabia (5%) and Hong Kong (3%). In fact,

exports are largely underestimated as a large part of Arab buyers purchase jewelry when they are in Lebanon. In 2014, “pearls, precious stones and metals” dropped in value by an annual 29.63% to \$541.66M, however at a volume of 39.34% higher than the previous year, at 85 tons. Worth noting that according to the European Ministry of Foreign Affairs, Lebanon is the 5th largest exporter of jewelry to Europe, with a 4% share in 2014, up from a share of 0.4% in 2013.

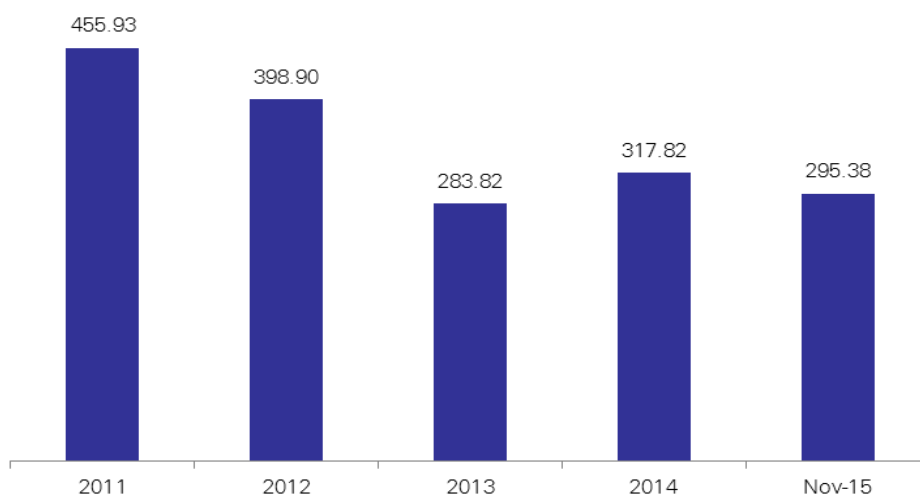
Lebanon’s Pearls, Precious Stones and Metal Exports Excluding Gold Ingots (\$M)



Source: Customs

As for imports, they stood at \$738.03M by November 2015, 60% of which are gold ingots with a value of \$442.65M. 25% of “pearls, precious stones and metals” consist of diamonds for nonindustrial use, having a value of \$185.39M up to November 2015. The major jewelry importers to Lebanon are Switzerland (24%), Togo (20%), Belgium (15%), United Arab Emirates (12%) and Benin (4%).

Pearls, Precious Stones and Metal Imports to Lebanon Excluding Gold Ingots (\$M)



Source: Customs

Unlike the rest of the economic sectors, the jewelry industry preserved its shine, with its sales remaining resilient in the face of the global economic and political upheavals. Demand has been shifting towards diamond and other precious stones in the past 8 years, as it has become more fashionable than only gold medallions. George Kazazian from HIMO jewelry and Nada Le Cavalier both estimate that demand is divided equally between gold alone and gold with diamonds and precious stones.

Other than being a tradition to offer jewelry for many occasions, the robustness of the industry is derived from various factors. First and foremost, Lebanon has a comparative advantage in producing jewelry compared to the European countries. Lebanon enjoys highly-skilled and experienced low-cost craftsmen. One labor hour in the jewelry industry in EU costs €100, whereas in Lebanon 8 labor hours cost \$500, equivalent to \$62.5/hour. Moreover, EU jewelers pay high marketing costs to promote their products. Finally, there is a higher multiplier effect in Europe compared to Lebanon; Lebanese items come straight from the manufacturer to the retailers. In contrast, the jewelry passes through many intermediaries in Europe before reaching the retailer. In addition, Rosy Zaarour from Zoughaib jewelry states that gold produced in Lebanon is of a more refined quality than that of the EU and the US. Most of the gold in Lebanon has a purity of 18 carats or 21 carats, compared to 9 carats and 14 carats in the EU and US. In addition, the high competition in the Lebanese market results in relatively lower prices. Furthermore, unfinished precious stones and metals imported are free from any tax.

Another reason for the buoyancy of this industry is the wide and disparate customer base. According to George Kazazian, 70% of sales are to local customers, while 30% are sold to foreigners. Lebanese jewelers have diversified their income sources, decreasing fluctuations in their sales, by opening in the Arabian Gulf, Paris, London, Geneva, New York, and beyond. Not forgetting to mention that most of the clients of this industry come from the middle and upper classes, which are less affected by the economic disturbances.

Furthermore, jewelry, gold in specific, is considered as a safe haven. According to Rosy Zaarour, many people bought gold coins and gold jewelry when gold price dropped in the past year, in anticipation of making a profit when its price increase again. George Kazazian stated that people prefer buying jewelry since it retains more than half of its price.

Jewelers were affected differently by the Arab spring and the decrease in tourism. According to Zoughaib, the Syrian war only interrupted the shipping process but had no effect on sales. Vending to foreigners persisted via online demand. On the scope of outlets however, their branch in the airport saw a decrease in sales. Yeprem jewelry states that demand was not affected. In contrast, other jewelers were positively affected as rich refugees in Lebanon, from Iraq and Syria, pushed demand up. Hence, one source revealed that its turnover increased by an annual 15% in 2015. However, due to the global recession and political problems, exports to Ukraine, Africa, and Dubai decreased. HIMO pointed out that January used to be one of the high seasons for jewelry as most expats and Gulf

nationals used to spend New Year's Eve in Lebanon. This has not been the case for the past two years.

Most market players in the jewelry industry claimed that they were not affected by the volatility in gold prices, and hence do not adopt any hedging strategy. This comes from the fact that jewelers set their prices in relation to the items' weight. Zoughaib mentioned that they experience a lower turnover when gold prices increase since their products are more concentrated on gold. Jewelers specialized in diamonds and precious stones are affected the least, since gold is used only as a support for the gems and constitutes a maximum of 10% of the item's value. One jeweler indicated that when gold prices fluctuate, the price per ounce of gold charged is the average weighted price over a certain period.

Due to all these advantages, Lebanese jewelers face no competition from the presence of international jewelry brands in the local market. In spite of this, jewelers from the high-end segment encounter rivalry with these brands as they have the same taste and price range and target the same clientele of high-income earners.

Nonetheless, all that glitters is not gold. The Lebanese jewelry industry is highly unregulated and lacks transparency. A few jewelers mix diamond with zircon and sell the item as if it were made of only diamonds. Moreover, they sell diamonds to clients with a certificate indicating that its size is bigger than it actually is. In addition, as there are no barriers to entry, people with no prior education or experience concerning jewelry and the quality of precious stones, can join the market. As a consequence the Lebanese jewelry industry is being flooded by copied items or by poorly manufactured trinkets, with sometimes fake stones. Some of the market players suggest that the Lebanese Syndicate of Jewelers creates a laboratory where clients can be reassured of the quality of ornaments they are buying.

Competition from the Asian manufacturers also constitutes a challenge to the Lebanese jewelry industry. Some Lebanese jewelers have established factories in Asia and taught artisans the trade. These new craftsmen are sought after by the West, due to the cheaper labor costs.

Laws should be implemented to eliminate unhealthy competition and keep the market clean. Independent laboratories to ensure stones' quality and protect consumers would enhance transparency.

However, one main forte for Lebanese jewelers is being proactive, owning a talent for design innovation, and remaining up-to-date. These qualities were the main reasons that burnished the Lebanese jewelry industry, leading designers to burgeon globally.

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