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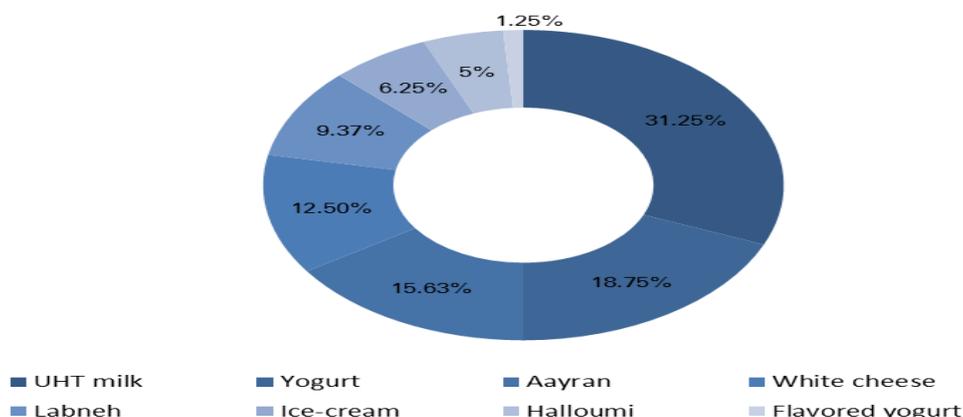
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The Lebanese dairy sector has grown and diversified throughout the years, proving its economic standing as a key player in the agro-industrial sector. The dairy industry extends from small family-owned businesses to sizeable well-established firms. Foreign and institutional investors have entered the market, advertising has inflated, and competition is fierce. Several dairy farms date back centuries, showing how trade is passed on from generation to the next.

Dairy has long been a part of the Bekaa Valley’s history, known as Lebanon’s dairy basin. The Bekaa governorate is home to extensive dairy farming, covering 44% of the country’s total farming land. Nearly 75%-80% of Lebanon’s cows, 45% of goats and 35% of sheep are raised in the region, which produces 188 tons of milk a day. The Bekaa region has 1,500 dairy cow farmers for over 18,000 cows, and approximately 150 creameries with a predominance of small traditional dairy operations.

According to Roula Makhoul, from the Lebanese Dairy Board, the size of the dairy market in Lebanon is approximately \$200M, with a total production estimated to be at 62,000 metric tons per year. However, Lebanon has a much higher production capacity of around 160,000 metric tons per year, of which 31.25% is UHT liquid milk (Ultra high-temperature milk that has been pasteurised at a higher temperature, but for a shorter time, to preserve taste and nutrition), 18.75% yogurt, 15.63% aayran, 12.5% white cheese, 9.37% Labneh, 6.25% ice-cream, 5% Halloumi, and 1.25% flavoured yogurt.

Composition of Dairy Potential Output per Year



Source: Lebanese Dairy Board

According to Skandar Chedid, owner and general manager of Jdita Center for Dairy Products, Lebanese processors need around 450 tons of milk daily for the processing of dairies, where Lebanese milk producers supply only 30%, and the rest is imported.

The Lebanese Dairy Board is a non-profit organization, aimed, among other things, at protecting dairy producers and launching unified marketing campaigns. The board is composed of 6 dairies: Taanayel Les Fermes/Bonjus, Dairy Houry, Liban Lait, Dairy Day, Dainka Dairy, and Jdita. These companies provide 75% of the local demand.

The dairy industry is composed of many semi-artisanal plants which do not have good control over milk and quality and have a low innovation capacity in terms of cheese and dairy products.

Many dairies do not have their own herds, sourcing from local farmers. The Ministry of Agriculture has worked to improve sourcing via milk collection centres, of which there are 40 in the Bekaa and Akkar regions, collecting 150-200 tons of milk/day from 3,000 farmers.

Milk collectors (known as "Hallab") play a very prominent role in the dairy industry, linking milk producers to processors. In many cases, the milk collector is also a producer and ensures the collection, transportation and sale on behalf of a network of producers.

These collectors buy goat and sheep milk at a price that depends on the quality of milk (mostly fat content) and the transportation involved. On average, they add a 20% mark-up when selling to processors. Prices are generally the same for good quality sheep and goats' milk but falls as supply increases. However, as the milking season ends, prices rise as farmers begin using supplemental feeding with semi-intensive production systems.

Payment to producers is usually made within 2 weeks, after the processor who buys the milk pays collectors. Some collectors have long-term relationships with processors, which guarantees supply and quality for the processors, and incentivizes the collectors to promote high quality milk production and transport.

Processors vary in size. Some are large, having their own farms and buy additional milk to supplement production. They have their own distribution channels, or make deals with distributors for specific geographical areas. Their products are innovative and are always branded in high quality packaging. Due to their quality requirements, large processors are less price-sensitive and are willing to pay high prices for good quality milk. These processors also have good cash flow and maintain good relationships with collectors, paying within 15 days.

In contrast, small processors purchase milk from collectors or directly from local producers. These processors usually struggle with working capital and have trouble meeting their bank loan requirements, which constraints their ability to invest in improved storage and production. They are extremely price-sensitive, and are more likely to purchase lower quality milk in order to compete with larger producers. These dairies do not typically brand or market their products.

Looking at the demand side, Lebanese consumption of dairy per capita consists of 14 litres of fresh and powdered milk, 24 kg of cheese, and 20 kg of Labneh, annually. This is equivalent to a high demand of almost 189 litres of equivalent milk per capita. According to Rabih Helou (Liban Lait), demand is rising annually. Two main reasons are behind the yearly growth in demand: the increase in the number of Lebanese nationals and the influx of Syrian refugees.

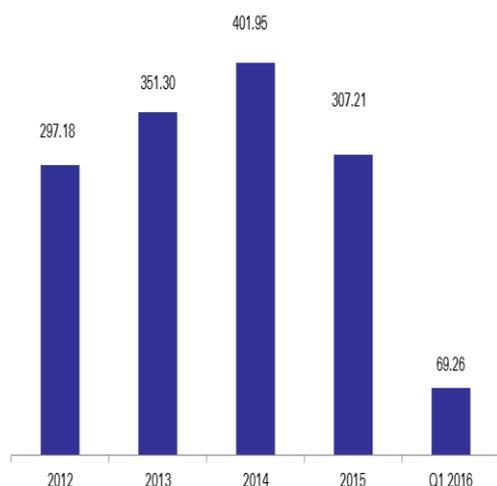
Local production is more than sufficient to cover demand; however, Lebanese producers face high foreign competition internally and internationally, as Lebanese products are more expensive.

Lebanon imported \$69.26M of dairy products in the first quarter of 2016. In 2015, the volume of dairy imports dropped annually by 12.84% to 74,146 tons, with a 23.57% decrease in value to \$307.21M, of which 14.51% came from Netherlands, 12.21% from Morocco, 11.53% from Denmark, 10.43% from

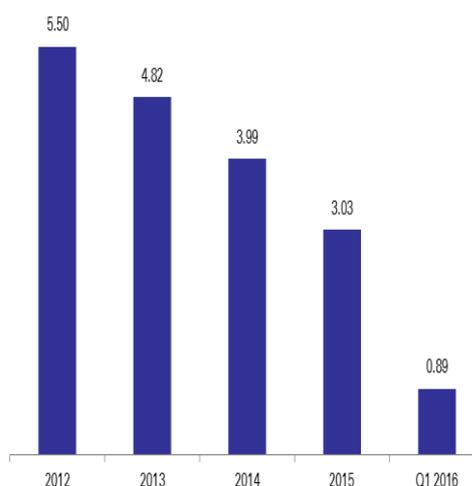
France, and 6.89% from Hungary. Most dairies claimed that the cutthroat competition is the result of illegal Syrian dairy products flooding the Lebanese market, with their low quality and cheap produce.

As for the presence of dairy products in the global market, exports from Lebanon have been following a decreasing trend exporting only \$894,000, in the first quarter of 2016. The volume of dairy exports declined 16.46% yearly to 7,421 tons and their value decreased 24.05% to \$3.03M, in 2015. Iraq is the main destination of Lebanese dairy product exports with a share of 47.24%, followed by Qatar (8.45%), Ivory Coast (6.33%), UAE (6.29%) and Kuwait (4.11%).

**Dairy Product Imports (\$M)**



**Dairy Product Exports (\$M)**



Source: Lebanese Customs

Catering to a vast client base, the Lebanese dairy sector is facing several challenges on the internal and external fronts, starting with the loss of demand due to the ongoing Syrian war and extending to the set of tight regulations imposed by the Ministry of Health.

According to the Lebanese Dairy Board, the dairy production has decreased by 20% during the past 5 years. In the local market, this was the result of dairy product trafficking from Syria as borders' control is deficient, in addition to the smuggling and opening of poor production Syrian dairies in Lebanon.

On the external front, decline in exports was due to increased shipping costs, after the closing of the Nassib border, aggressive competition from Iran, Turkey and Egypt, and very low worldwide prices of milk, compared to the expensive local milk. According to Skandar Chedid, the cost of milk in Lebanon is \$0.60-0.70/liter, compared to global prices ranging from \$0.30-0.40/liter.

According to Rabih Helou, the main threats facing Lebanese dairies are the high costs of raw material and custom duties, in addition to the electricity problem in Lebanon.

In an attempt to regulate the market and protect consumers, the Ministry of Health imposed tight regulations on dairies, and shut down non-compliant processors. However, according to Mr. Chedid, there are many small dairies that had gone unnoticed, operating without licenses and contrary to regulation, using powdered milk or even starch in their products.

In the face of the mentioned challenges, the dairy industry has a wide spectrum for burgeoning. Lebanon has a competitive advantage in the production of many distinctive dairy products, such as yogurt, Labneh and Double-Crème cheese. Nevertheless, it lacks aid and regulation from the government. The Lebanese government should enforce its control on the whole sector, by closing unauthorized producers, halting the entrance of illegal imports, and helping dairies in marketing their

products internationally. This will give dairy products, the Lebanese cultural heritage, a chance to flourish internationally.

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