

The Lebanese Agricultural Sector in 2013: Minor but Steady Steps to Recovery



BLOMINVEST
BANK

June 14, 2014

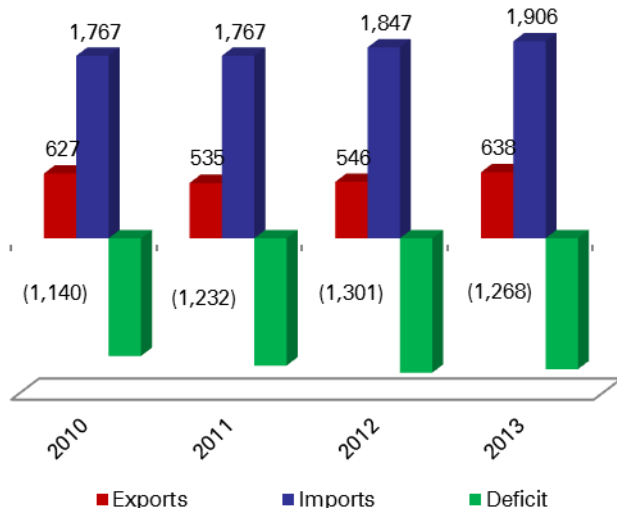
Contact Information

Research Analyst: Mirna Cham
mirna.chami@blominvestbank.com

Head of Research: Marwan Mikhael
marwan.mikhael@blominvestbank.com

Research Department
Tel: +961 1 743 300 ext:1285

Agricultural Products External Position (In thousand tons)



Source: Lebanese Customs

The agricultural sector in Lebanon revealed shy signs of recovery in 2013, yet the realized agricultural capacity remains below its potential. The dominating moderate weather, fertile soil and relatively abundant water resources are the main strengths of the sector. Still, the sector continues to go through tough times partly stemming from internal deficiencies, local uprisings as well as regional spillovers mainly from the Syrian war.

The agricultural and livestock sector managed to preserve its economic position over the period extending from 2004 to 2011. The contribution of the sector remained subdued at 4.1% of Gross Domestic Product (GDP) in 2011 despite the economic development across several sectors mainly trade (16% of GDP), professional & administrative services (7% of GDP) and financial services (7% of GDP). The diversification of the Lebanese economy away from agriculture into services did not heavily affect the former sector.

Activity of agriculture and livestock sector increased between 2004 and 2011 revealing a CAGR of 8.5%, when the CAGR of GDP was 9.1% over the same period. The sector posted a value added hovering around \$1.52B in 2011 compared to \$792.70M registered in 2004.

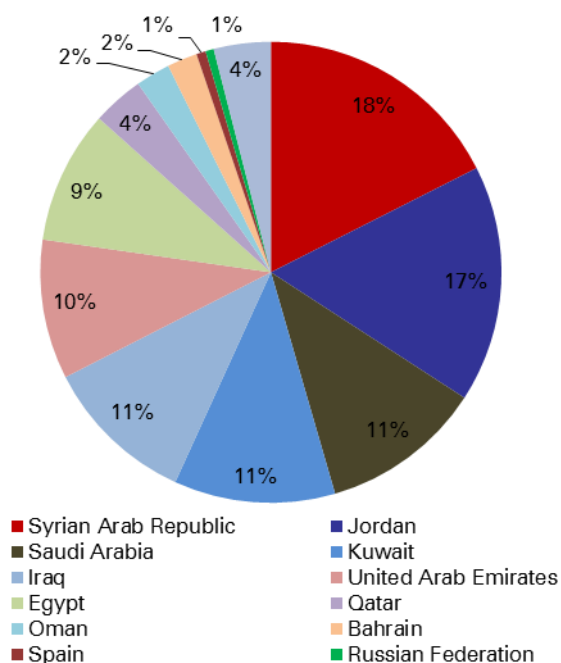
Although exports through the Syrian border were hit by the 3-Year war, the net impact of the latter on the Lebanese exports has been positive. Agriculture exports reached 638,369 tons amounting to \$215.70M in 2013, 17.0% higher than 2012's level of 545,639 tons worth \$171.24M. Certainly, the war in Syria weighed over agricultural exports starting 2011, noting that a considerable share is transported through the Syrian territory. However, numerous Lebanese farmers profited from the Syrian misfortune. In details, some importing markets of Syrian agricultural products (AP) shifted their demand to neighboring countries, such as Lebanon. Hence, Lebanese agricultural exports almost constituted 0.5% of 2013's estimated GDP and 5.5% of the year's total exports. However, the new trend is mainly temporary and will remain highly associated to the war status in Syria.

Despite the improving standing of exports, the country still suffers an ongoing structural deficit on its trade balance of AP. In this context, trade deficit stood at \$707.09M in 2013, widening from 2012's deficit of \$696.38M. At the same time, Lebanon imported 1.91M tons worth \$922.79M of AP in 2013, compared to the 1.85M tons imported in 2012 priced at \$867.62. Accordingly, imports were about four times the value of

exports, while the exports cover ratio stood at 23.4% in 2013 improving from the 19.7% recorded in 2012. In addition, the average price per ton of Lebanese exports rose by 7.7%, while that of Lebanese imports rose at a slower pace of 3.0% year-on-year (y-o-y).

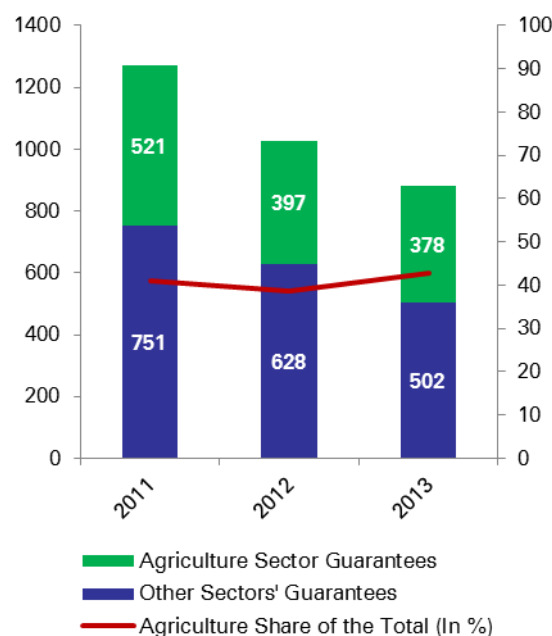
Back to the Lebanese market, domestic consumption of AP is estimated around \$1.62B in 2013. Accordingly, almost 88.2% of total consumption was intended to the local market.

2013 Main Importers of the Lebanese Agricultural Products



Source: Lebanese Customs

Kafalat Guarantees



Source: Kafalat

The top destinations of Lebanon's AP were mainly concentrated in the neighboring Arab countries, with a small portion associated to remote countries where some of the Lebanese diaspora reside. Syria topped the list with an 18% share of the total volume of exported products in 2013 and was tracked by Jordan and Saudi Arabia with respective shares of 17% and 11%.

Main exports¹ in 2013 were Potatoes (17% of total exports), Flour (9% of the total), Coffee (Re-export, 8% of the total) and Bananas (8% of the total).

The improving performance of AP exports in 2013 remained counteracted by some persisting vulnerabilities due to the lack of a comprehensive and strong strategy to organize and develop the sector. Issues related to quality control, standards, organization are impeding export to markets such as Europe, where labor costs are significantly higher than in Lebanon. In addition, the high production cost (mainly transport and storage costs) and the lack of cooperatives of production and marketing of products, deepen trade deficit within the agriculture sector.

Government's assistance for the sector in Lebanon is present but minimal. It mainly consists of input subsidies, agriculture credits, tax exemption², subsidized food purchases, price support and export subsidies. However, low priority is attributed to agriculture spending as revealed by the portion of programs benefitting the agriculture sector that barely touch the 0.4% of government budgets, leaving the sector dependent mainly on FAO grant programs, private sector, and foreign investment. This lack of support devoted to the sector has a spillover effect

¹ Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon

² Income Taxes, Value Added Tax (VAT), Stamp & Custom Duties

as it brings economic weaknesses, among which higher cost of imported products triggered by higher global food prices, leading to imported inflation.

The rising instability in 2013 and the ongoing political deadlock took their toll on total subsidized loans by Banque du Liban (BDL), of which agricultural loans³. Despite the 20.6% surge in total outstanding loans of the agricultural sector to \$546.83M by 2013. Investors were concerned about the political stalemate related to the Cabinet formation, sending down newly subsidized loans by 14.7% to \$35.44M in 2013. However, subsidized loans for agriculture showed the slowest decrease when comparing to the respective 27.0% and 23.8% declines of the industrial (\$214.44M) and Tourism (\$157.77M) sectors.

Kafalat loans to the agriculture sector's Small and Medium Enterprises (SME) also decreased in 2013, yet they saw their share rise. Kafalat is one of the institutions that provide agriculture firms with subsidized and guaranteed loans, supporting the expansion of agricultural businesses. However, Kafalat guarantees to the agricultural sector decreased from 397 in 2012 to reach 378 guarantees by the end of 2013. In terms of value, Kafalat loans by the end of 2013 stood at \$37.32M compared to \$37.67M in the previous year. In contrast, the agricultural sector's stake of total guarantees went up to 43.0% in 2013 compared to 38.7% in 2012. This was the result of respective declines in the majority of Kafalat loans over the year with the advanced technology sector revealing the sole uptick from 16 to 19 guarantees. The decline in Kafalat guarantees' number is mainly explained by the deteriorating investment sentiment that painted 2013 following the several security incidents and political deadlocks.

The Investment Development Authority of Lebanon (IDAL) is another institution aiming the support of the Lebanese agricultural sector by promoting the latter's products regionally and internationally. The introduction of "Agri Plus" in September 2011 had the approval of the Lebanese government and came to replace "Export Plus" program as of 2013. The program, which came in line with the World Trade Organization requirements, has the objectives of improving quality and quantity of the Lebanese agricultural exports, tapping new export markets and increasing consumer confidence in the Lebanese agricultural exports. "Agri Plus", the \$33M program, is constituted of 6 components: Financial incentives, Local and abroad trade fairs, packaging and storage houses' upgrade, training programs, market studies to target potential export markets as well as promotional and marketing strategies.

Subsidized agricultural exports constitute almost 81.9% of total agricultural exports. In fact, the remaining 18.1% represent the volume of exports not subsidized in addition to the re-exports. According to IDAL, exports subsidized by the program jumped 15.0% y-o-y to 522,538 tons by the end of 2013 reflecting the success of "Agri Plus". Potato took the lion share among "Agri Plus" products, grasping 37% of the total, or 193,340 tons in 2013. Citrus and Malus products followed with 15% each, while Bananas accounted for 11% of total exported AP.

Despite the positive impact of "Agri Plus" on Lebanon's export activity, some suggestions should be taken into consideration related to the selection of agricultural products within the program. In this context, the program should target higher value added products such as organic food that is currently gaining consumers' interest domestically and globally. Second, the selected products should be easily marketable and packaged at a competitive price. Hence, higher are the margins made by the Lebanese farmers on the external market, higher is the competitiveness.

The Lebanese agricultural sector could realize its potential and improve significantly its contribution to economic growth. Several measures need to be fostered in order to boost agriculture standing in the economy. A 5-Year strategy should be adopted through the implementation of high standards in farming and water conservation techniques, the expansion of the credit system functionality for the agriculture sector, and the development of an efficient worldwide distribution network.

³ Worth noting, that the majority of agricultural products is subsidized

New trade agreements should also be signed to target new markets such as Europe given that the Lebanese APs are more competitive due to their lower cost. In addition, the cost of air shipping should be reduced especially with the interruption of land transportation through Syria. Worth noting that the nature of the Lebanese agricultural sector prevents achieving economies of scale as the majority of products have low value added due to the small size of parcels. A wise decision would be to diversify the APs towards products with high value and small size such as kiwi, truffles etc...

Regardless of the agricultural sector progress on the external trade front, agricultural activity is expected to show a marginal slowdown in 2014 on considerable water deficiency witnessed over the year. Heavy loads will be carried by the Lebanese farmers in the summer season. The sector's sustainability and expansion could be extremely threatened by the water's actual situation as any intensification in the agricultural industry will lead to an increasing demand for irrigation.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department
Verdun, Rashid Karamah Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Tel: +961 1 743 300 Ext: 1283
research@blominvestbank.com

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 743 300 Ext: 1234

Disclaimer

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.