THE FOOD AND BEVERAGES SECTOR: POSITION, PROBLEMS AND PROSPECTS

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A. The sector's economic weight

The F&B sector in Lebanon is the largest among manufacturing activities. According to the Ministry of Industry, the activity comprises the largest number of industrial establishments with 1219 producers, currently, accounting for 18.2 percent of total industrial enterprises. Of these companies, 574 are registered members of either one of the four chambers: 280 (over 50 percent of producers) are registered in the Beirut and Mount Lebanon Chamber, 137 in the Zahle Chamber, 86 in the Saida Chamber and 71 in the Tripoli Chamber.

According to the latest census of the Ministry of Industry "The Lebanese Industrial Sector" (2007), on six counts, the activity is the largest within the industrial sector:

- it employs the largest percentage of the industrial work force (24.9 percent);
- it produces the largest share of industrial output (25.7 percent);
- it accounts for the largest portion of industrial value added (26.9 percent);
- its fixed assets are the industrial sector's largest at 13.9 percent of that sector's total;
- its gross fixed capital formation is the sector's largest at 30.5 percent of the total;
- and its exports account for 18 percent of the country's total exports in 2017, second only to jewelry exports, which owe their first place solely to their high-value precious-metal content.

1. Products of the food industry

Lebanese food processing enterprises produce a variety of national foods and beverages including traditional products such as alcoholic beverages, confectionery, bakery products, olive oil, pickles, preserves, spices, condiments, and processed and canned fruits and vegetables.

Bakeries represent 48 percent of the F&B sector and comprise 160 establishments, the sweets industry accounts for 22.5 percent and the F&B processing and preservation sub-sector constitutes about four percent of the total number of enterprises in the F&B sector.

2. The sector in figures

a. Input and energy

The F&B sector is the single largest user of raw materials and energy compared with other industrial activities.

In 2007 (the year the latest industrial census was carried out), the sector's total spending in 2007 prices on raw materials had added up to $958.2 million whereas spending on energy had added up to $110.7 million. In that year, the sector had about $1.03 million worth of environmental equipment.

b. Sales and industrial output

The sector is a top ranker in terms of sales, which amounted to $1,655.5 million, that is 26 percent of total sales in the industrial sector. Total output added up to $1,748.4 million and constituted also 26 percent of the sector's total output.

c. Fixed assets

The food and beverages industry owns 30 percent of total assets in the industrial sector, of which 44 percent constitutes machinery, 25.7 percent building and 18 percent land.

d. Expenditure on salaries and wages

The sector employs more workers than any other manufacturing activity. Some 17,727 fixed and 1,188 seasonal workers are on the payrolls of F&B producers, who incur $131,632,000 in salaries and wages that is 24 percent of the industrial wage bill and the industrial sector's largest such expenditure.

The F&B sector's workforce includes skilled and unskilled workers. Skilled workers, such as technicians and engineers assume supervisory functions, quality control functions, and responsibilities in analytical and microbiological laboratories and in equipment maintenance. Managerial staff carries out functions in the procurement of raw materials and in marketing on domestic and export markets. The F&B industry also has the highest percentage of home workers.

e. Production

F&B production is mainly sold on the local market with sales amounting to $1,655.5 million. Whereas, total exports of the sector amounted to $500.2 million in 2017 according to customs data. The largest export component of this category is the prepared food-vegetables, fruits and nuts.

The main destinations of Lebanese agro-food exports are: Syria, Saudi Arabia and Iraq, which bought respectively 16, 12 and 8 percent of the sector's total exports.
Imports of F&B ad up to $1.9 billion in 2017. Main suppliers include: Turkey, France, Germany and KSA.

3. The CCIA-BML sample

According to data tallied by the Chamber of Commerce, Industry and Agriculture of Beirut and Mount Lebanon (CCIA-BML), 280 food and beverages producers are presently registered as members of the CCIA-BML and employ a total of 17,149 employees according to an estimate based on the classification of companies in each category. Total registered capital, at incorporation, of these firms stands at around $290 million. The majority of producers, nearly 79 percent, are small and medium enterprises.

CCIA-BML member companies in the F&B sector				
Category	**Average number of workers per company**	**Number of companies**	**Total number of workers***	**Total capital**** *(in million LL)*
Excellent	187	59	11,033	407,924
First	87	42	3,654	23,262
Second	30	63	1,890	3,557
Third	7	68	476	688
Fourth	2	48	96	1,824
	Total	280	17,149	437,255

**estimate*
***capital registered at incorporation*

4. The sector's competitiveness

To the extent that it relies mainly on local agricultural production for its raw materials, the F&B sector draws some of its comparative advantages from the characteristic strengths of that production. Of these characteristics:

• Climate diversity, soil fertility, and the abundance of water resources are factors that contribute to the broad variety of quality agricultural produce at the disposal of F&B processing industries.

• Relatively cheap but skilled agricultural labor accounts for comparatively low production costs in some crops.

• Geographical proximity to Arab and EU export markets.

These strengths, however, are outweighed by serious weaknesses that undermine the F&B sector's reliance on local agricultural produce as raw materials for processing.
• High costs of production due to the lack of modern networks of infrastructural facilities, poor water management systems, power supply deficiencies and high energy costs. These costs render local production unable to compete with imported products.

• Lack of mechanization and modern technologies, underdeveloped waste management techniques and inappropriate post-harvest handling of the produce that may cause its deterioration and make it unsuitable for production.

• Most local production is not compliant with international standards and use improper practices such as the excessive use of pesticides and herbicides. These practices affect the quality of production and lead to exports being denied access to US, EU and other export markets.

• Poor public financing or support services such as research and development, extension and advisory services, technical assistance and training programs.

• Difficult access to credit essential for investment aiming to improve the production and competitiveness of Lebanese products.

• The F&B sector has to deal with a commercial challenge to increase its competitiveness in light of the integration of Lebanon into the global economy. Moreover, it has to face the competition from low cost producers, and low cost industries (Syria, Egypt, and Jordan).

B. The sector's problems

It has been increasingly challenging for Lebanese exports to access foreign markets as most countries are applying progressively more stringent standards and specifications on imports.

Therefore, enforcing compliance with internationally accepted health and safety standards, is a must in order to facilitate the access of Lebanese F&B products to export markets.

Lebanese exporters of processed food and beverages are at par with their Arab regional competitors such as Syria and Jordan in terms of the type of violations detected by the Food and Drug Administration (FDA) where exports were denied access to US markets.
Violations usually fall into two broad categories:

a. Violations that corrupt food safety and quality, such as the presence of unacceptable levels of pesticide residues, toxic levels of bacteria, or the use of unsafe color additives, or products that are plainly described as “filthy”.

b. Violations that are less hazardous to health, but nonetheless cause exports to be denied access, such as labeling, misbranding and administrative infringements.

The prevalent form of violation detected in the food and beverage products pertains to technical infringements. Labeling non-conformity occurred most frequently in product detention instances of exports from Lebanon and neighboring countries.

C. Trade exchange in the F&B sector

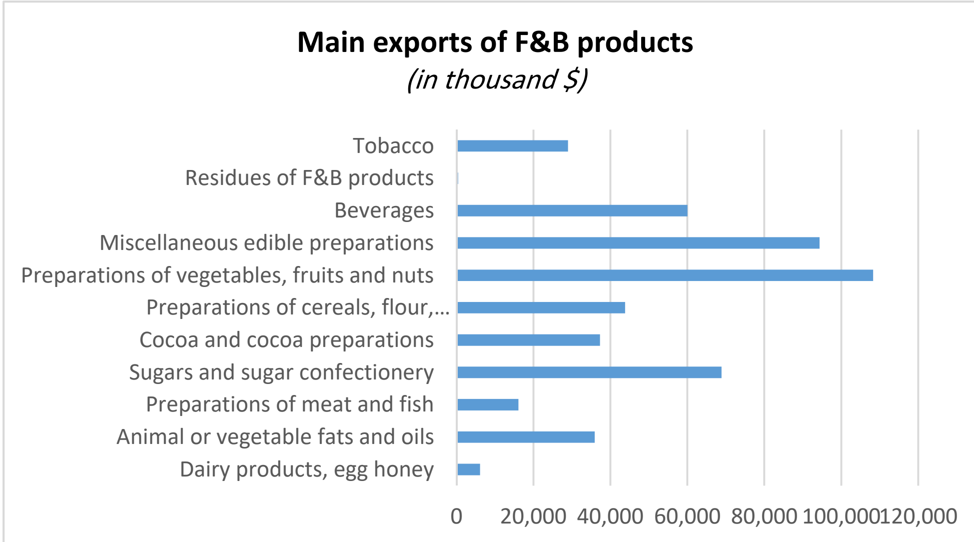
1. Main F&B products exported

Total exports of the Lebanese agro-food industry stood at $500.2 million in 2017, a mere two percent increase from their last year’s value.

Preparations of vegetables, fruits and nuts ranked first in the list of main Lebanese F&B products exported; exports of this category stood at $108.3 million in 2017 and remained little changes from their value during 2016. This category represents nearly 22 percent of total F&B exports.

The second most important exported item is edible preparations which totaled $94.4 million in 2017 and formed 19 percent of total F&B products exported.

Sugars and confectionery products came third in importance and amounted to $68.9 million and represent 14 percent of total F&B industry exports.



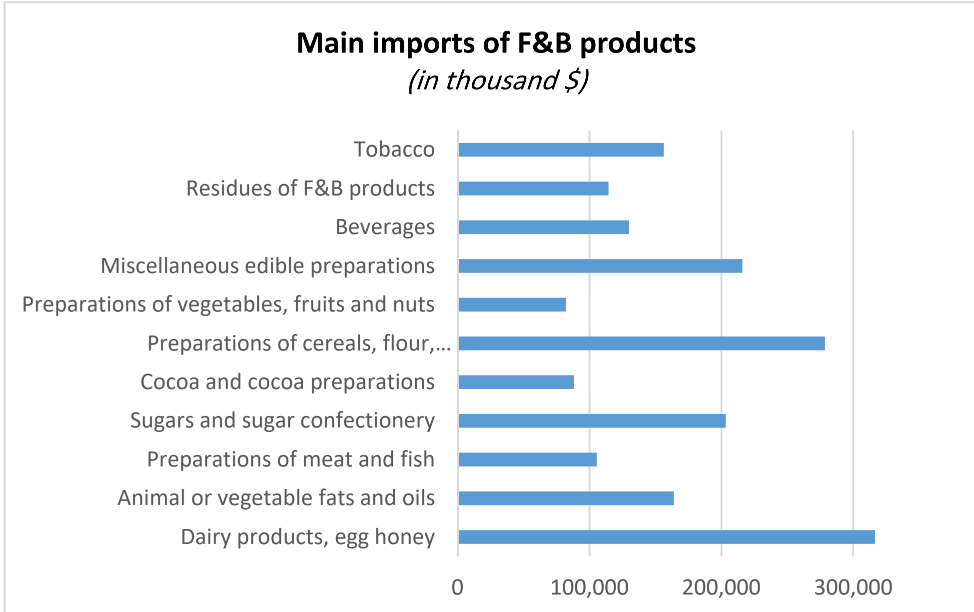
The fourth largest exported category is beverages which reached $60 million in 2017, a forty percent decrease from their 2014 peak of $101.8 million. Export of beverages formed 12 percent of total F&B industry exports.

Main exports of F&B products *(in thousand $)*							
HS code	**Product description**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
4	Dairy products, egg honey	6,127	6,205	7,421	8,883	9,389	8,925
15	Animal or vegetable fats and oils	35,938	39,338	33,669	32,780	36,531	30,804
16	Preparations of meat and fish	16,111	14,454	16,738	24,858	20,800	21,290
17	Sugars and sugar confectionery	68,891	72,208	77,933	50,675	44,684	26,711
18	Cocoa and cocoa preparations	37,316	36,126	38,038	51,401	40,525	40,947
19	Preparations of cereals, flour, starch or milk	43,805	38,924	49,514	46,515	38,666	39,193
20	Preparations of vegetables, fruits and nuts	108,265	108,524	126,588	127,738	115,956	108,449
21	Edible preparations	94,357	88,570	72,234	83,147	71,027	51,837
22	Beverages	60,020	63,253	82,042	101,795	100,009	79,973
23	Residues of F&B products	414	1,238	1,981	3,712	7,922	3,345
24	Tobacco	28,991	22,206	17,646	25,350	13,043	20,437
	Total	**500,235**	**491,046**	**523,804**	**556,854**	**498,552**	**431,911**

2. Main imports of F&B products

Total imports of the Lebanese F&B industry amounted to $1.9 billion in 2017, nearly unchanged from their value in 2016.

With imports adding up to $316.6 million, dairy products form the biggest category of F&B imports and represented 17 percent of total agro-food imports in 2017.



The second largest category of imports is the preparations of cereals, flour, starch or milk; amounting to $278.6 million. Their share of total F&B imports is 15 percent.

Edible preparations rank third in the list of top F&B products imported. Their value reached $216 million in 2017 which represents 11.6 percent of total industry imports.

The fourth main imported item is sugars and confectionery products which amounted to $203.3 million and formed 11 percent of total F&B imports in 2017.

Main imports of F&B products
(in thousand $)

HS code	Product description	2017	2016	2015	2014	2013	2012
4	Dairy products, egg honey	316,573	292,327	307,214	401,949	351,303	297,179
15	Animal or vegetable fats and oils	163,956	158,215	164,018	186,892	199,454	194,601
16	Preparations of meat and fish	105,465	103,807	99,877	116,359	114,341	102,465
17	Sugars and sugar confectionery	203,330	202,870	176,423	164,853	169,064	162,981
18	Cocoa and cocoa preparations	88,331	92,013	94,538	95,810	92,459	81,391
19	Preparations of cereals, flour, starch or milk	278,610	272,636	278,694	243,864	242,455	208,295
20	Preparations of vegetables, fruits and nuts	82,246	88,734	86,638	88,566	89,839	73,184
21	Edible preparations	215,929	213,336	196,903	202,888	194,150	178,426
22	Beverages	130,145	116,886	124,892	132,014	124,232	144,379
23	Residues of F&B products	114,494	143,352	123,667	142,732	112,578	112,632
24	Tobacco	156,292	173,925	176,882	225,097	270,905	338,940
	Total	**1,855,371**	**1,858,101**	**1,829,746**	**2,001,024**	**1,960,780**	**1,894,473**

3. F&B trade deficit

The Lebanese F&B industry, just like all other sectors of the Lebanese industry, has been facing a recurrent trade deficit. The F&B trade deficit stood at $1.4 billion in 2017. Imports exceed exports for all categories except the preparations of vegetables, fruits and nuts which recorded a trade surplus of $26 million. The highest deficit reached corresponds to dairy products and totaled $310.4 million.

Trade exchange of F&B products in 2017 *(in thousand $)*				
HS code	**Product description**	**Imports**	**Exports**	**Trade balance**
4	Dairy products, egg honey	316,573	6,127	-310,446
15	Animal or vegetable fats and oils	163,956	35,938	-128,018
16	Preparations of meat and fish	105,465	16,111	-89,354
17	Sugars and sugar confectionery	203,330	68,891	-134,439
18	Cocoa and cocoa preparations	88,331	37,316	-51,015
19	Preparations of cereals, flour, starch or milk	278,610	43,805	-234,805
20	Preparations of vegetables, fruits and nuts	82,246	108,265	26,019
21	Edible preparations	215,929	94,357	-121,572
22	Beverages	130,145	60,020	-70,125
23	Residues of F&B products	114,494	414	-114,080
24	Tobacco	156,292	28,991	-127,301
	Total	**1,855,371**	**500,235**	**-1,355,136**

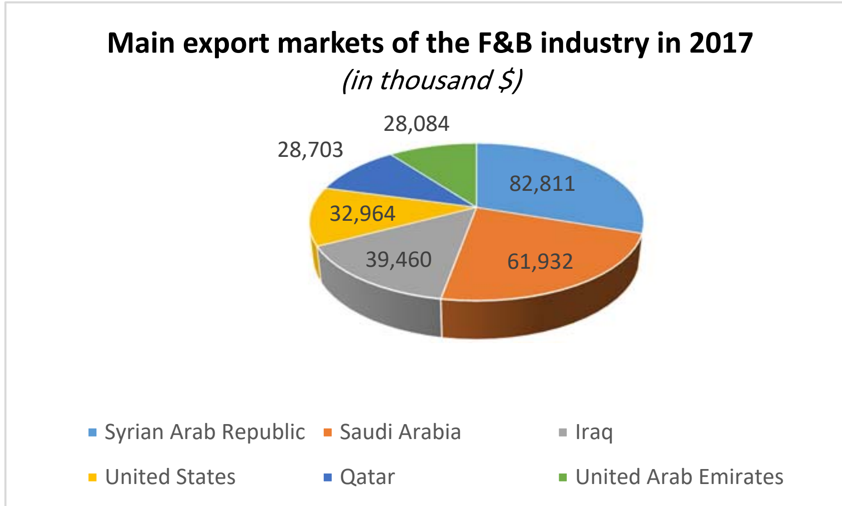
4. Main export markets

The biggest share – 16 percent - of products of the Lebanese F&B industry went to Syria with exports reaching $82.8 million in 2017.

Exports to KSA ranked second in importance and totaled $61.9 million, forming 12 percent of total F&B industry exports.

Iraq represents the third largest export market for Lebanese F&B products. Total exports to Iraq reached $34.5 million and formed 12 percent of total F&B exports in 2017.

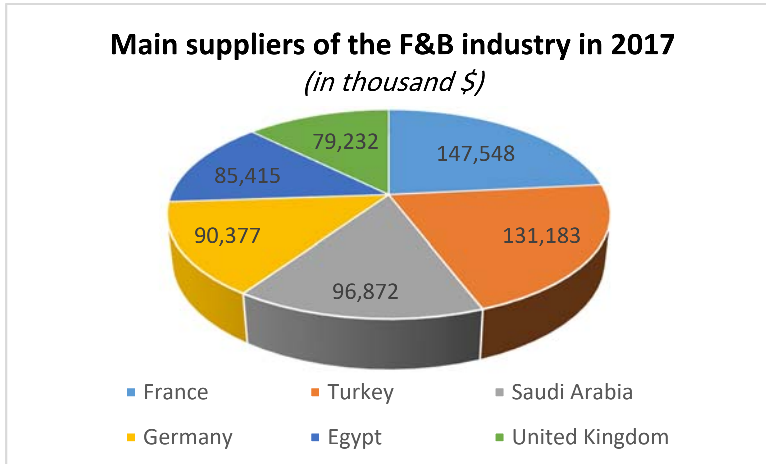
The US occupies the fourth rank with seven percent of total exports, followed by Qatar and the UAE which imported six percent of the sectors products, respectively.



Main export markets of the F&B industry in 2017			
Country	**Thousand $**	**Tons Net**	**Share**
Syrian Arab Republic	82,811	118,942	16%
Saudi Arabia	61,932	25,160	12%
Iraq	39,460	24,449	8%
United States	32,964	9,997	7%
Qatar	28,703	13,077	6%
United Arab Emirates	28,084	12,876	6%
Egypt	20,748	6,387	4%
Jordan	16,363	8,292	3%
Canada	17,021	6,904	3%
Kuwait	18,054	11,429	4%
Germany	14,964	7,522	3%
United Kingdom	13,527	4,294	3%
Sweden	9,595	4,963	2%
Oman	9,125	3,887	2%
France	8,485	3,240	2%
Total	**503,718**	**324,881**	

5. Main suppliers

France represents the main supplier of F&B products to Lebanon. Total agro-food imports from France stood at $147.5 million and represent eight percent of Lebanon's imports of F&B products in 2017.



The second largest supplier of agro-food products is Turkey. F&B imports from Turkey totaled $131.2 million and its share of total F&B imports reached seven percent.

KSA, Germany and Egypt occupied the third, fourth and fifth positions, respectively. F&B imports from each of these three countries represented five percent of total imports of agro-food products, respectively.

Main suppliers of the F&B industry in 2017			
Country	**Thousand $**	**Tons Net**	**Share**
France	147,548	65,401	8%
Turkey	131,183	80,862	7%
Saudi Arabia	96,872	49,543	5%
Germany	90,377	33,628	5%
Egypt	85,415	47,753	5%
United Kingdom	79,232	14,582	4%
United States	62,717	23,938	3%
Argentina	61,187	157,215	3%
Italy	60,196	27,650	3%
Brazil	60,142	95,018	3%
United Arab Emirates	53,654	15,743	3%
Netherlands	51,650	20,478	3%
Cuba	47,816	95,013	3%
Thailand	45,662	16,694	2%
Switzerland	38,433	1,726	2%
Total	**1,858,550**	**1,198,912**	

D. Four new trends in the F&B sector

1. Changing customer preferences

Consumers are increasingly becoming aware of health and wellness with respect to their food preferences. Their purchasing behavior is reflecting the trend towards healthy and organic food, even when it comes for snacks, because being fit and nutritious is essential. Be it an on-the-go or a homemade meal, people are knowledgeable about the importance of having balanced and healthy food. The packaging of meals in bowls of salads for instance is gaining a strong popularity among consumers and companies that did not shift their products and packaging towards quick and healthy options are losing business.

2. Food safety

Food safety is a major area of concern for the typical 2018 consumer. People are constantly questioning the source of raw materials in their meals and in food products.

Consumers are becoming “label-readers” and prefer sealed products that display the nutrition facts clearly on the package. This places pressures on food producers to comply with food safety and packaging standards in order to preserve their customers’ loyalty and trust.

3. Technology, e-commerce and social media

The new technologies are shaping people’s life especially in the way consumers purchase goods and services.

To better cater for customers’ needs in today’s fast-paced lifestyle, home delivery and online shopping are becoming highly in demand. Customers want to be a click away from purchasing their groceries and other food products and are eager to research the product before buying it. Therefore, producers should provide the digital and social media platforms needed in order to get in touch with their clients and share all the information their clients want to know about their products.

4. Food sustainability

Lebanese consumers are becoming increasingly aware of responsible and sustainable production. They want to make sure that F&B producers are implementing best practices in every step in the production process, to the final delivery of the product. Many customers like to know that the products they are purchasing are compliant with international standards (HACCP; GMP; ISO certified). Customers also like to hear that food producers are implementing a corporate social responsibility policy, are charitable and give back to their surrounding community.