



Value Chain Analysis Lebanon Fresh Fruit and Vegetables 2018

Management summary

Lebanon is a net exporter of fresh fruit and vegetables. The value of yearly imports amounts to approximately €185 million, while yearly exports add up to approximately €225 million, which is equivalent to around 500,000 tonnes in volume. Most Lebanese exports of fresh fruit and vegetables are destined to the Middle East, in particular the Gulf states. Exports to this region face challenges since the Gulf markets gradually opened for global suppliers in recent years. Furthermore, competition in the Gulf increased since the start of the Russian boycott on fresh fruit and vegetables from the EU and other countries. Various global suppliers found a good alternative destination for their fresh produce in the Gulf. Lebanese exporters have strong arguments to diversify their markets and Europe is one of the potential export destinations. However, it is difficult for Lebanon to meet the strict requirements of high-end markets, such as Europe. The Syria crisis, resulting in a high influx of Syrians in Lebanon, puts an extra burden on the Lebanese society and its economy. Increase of exports of Lebanese agricultural products to new European and other markets, is expected to boost the Lebanese economy, creating more opportunities for locals and newcomers.

The European fresh fruit and vegetables market

The main characteristics and trends in the European markets for fruit and vegetables are:

- Volumes are big and the market still shows growth, but it is also highly competitive and tough to enter;
- Large supermarkets dominate sales and distribution and require high food safety and quality levels and strict logistical procedures. Three supermarket segments can be identified: premium, mid-range and low price. All of them work with high standards;
- Small retail formats and street markets are facing difficulties due to long lasting price competition and less favourable advantages of scale;
- Relevant consumer trends include 'healthy', 'pure and natural', 'convenience' and 'low price'. Influx of immigrants results in a growing demand for ethnic niche assortments;
- European consumers value social and environmental issues, so buyers favour suppliers that have corporate social responsibility (CSR) certifications;
- An ongoing tendency towards retail concentration in trade and logistics leads importers to consolidate and specialise to become preferred suppliers for retail chains. This translates into shorter supply lines and closer contact among producers, traders and retailers.

The Lebanese value chain of fresh fruit and vegetables and its readiness for Europe

Production and post-harvest practices in Lebanese agriculture generally have a small scale and lack the capacity to produce volumes and qualities for high-end markets. Cultivation and post-harvest practices are below international standards, quality is inconsistent, not much production is GlobalG.A.P. certified and the cold chain is broken, resulting in high post-harvest losses and pressure on competitiveness. Export management capacities and market intelligence at company level and sector level are weak and domestic market structures are immature and not transparent. Small farmers face difficulties to become involved in exports, partly because of the absence of effective cooperative models. People and organisations in Lebanon do not tend to work in cooperation.

The export enabling environment is not supportive. Lebanon is still in the recovery process from years of civil war, which includes a rather unstable political situation and an inefficient government. There is no clear national vision on agriculture and no national export marketing strategy. Policies, legislation and regulations have critical limitations, such as lack of quality frameworks, quality standards and accredited labs. Connections between the public sector and the private sector are weak. Applied research, education and extension are below the level required to support businesses. Business support organisations lack sufficient staffing and funds to develop and deliver valuable export-related services to the private sector. Since the border closures with Syria, traditional export routes within the region have become less available and more expensive. Availability and distribution of high-quality inputs, equipment and technologies are limited and prices are high. Banks and microfinance institutions do not offer competitive finance schemes.

All these factors together limit opportunities for sustainable exports of large volumes to any market. It does not help that Lebanon does not have a positive image among European buyers, which are mostly unaware of which products the country offers for export. To the contrary, many buyers have the perception that Lebanon is a dangerous country and that doing business can be risky. However, high-end markets, Europe included, display an open-mind attitude for new suppliers with something special to offer. Lebanon may find intrinsic opportunities for certain narrow windows into the fruit and vegetables market. And it has a group of large producers and exporters with the motivation and capacity to make these exports happen.

Market opportunities in Europe

Lebanon has the best opportunities in niche markets, under the precondition that it improves efficiency in the supply chain, reaches better quality and reliability as well as compliance with all market access requirements, including CSR. Stronger marketing communication could help, including storytelling and more attention to the added value of taste and flavour of Lebanese produce. Specific opportunities in Europe for the value chains in this study are:

- Table grapes: a potential window is late in the European season, past October, and before the peak of South African supply in December. Europe prefers seedless grapes.
- Avocados: European demand is expected to show continuous growth in the coming years. There is a preference for Hass. Competitiveness is the highest in the first months of the year.
- Citrus fruits: there is an interesting window for Valencia oranges in the summer from June to September, after Spain leaves the market and in the start of the South African supply season.
- Potatoes: the European potato market is too competitive and too difficult for big expectations; only specialties, with high quality and marketed under premium branding, have a chance.
- Other less significant products: Lebanese traders exporting table grapes, avocados, citrus fruit or potatoes usually also export other products. Cherries, stone fruit, nuts and other upcoming vegetables and fruits, such as cherimoya, may find narrow windows in European market channels. The European market also has opportunities for a wider range of organic products.

Lebanon's main competitors on the European market are the Mediterranean countries Spain, Italy, Israel, Turkey, Morocco and Egypt, mainly because of rather similar climatic conditions and seasonality. In addition, South Africa and South American countries supply the European market with similar products.

Regional markets' suppliers and opportunities for Lebanon

Gulf countries are by far the largest markets for Lebanese fruit and vegetables and will maintain significant demand for Lebanese fresh produce. However, competition is strongly increasing and

market access requirements are moving in the direction of high-end markets, such as Europe. Under the condition that Lebanon improves its supply chain performance, the Gulf can remain the major export destination not only for a limited number of niche products in small windows but for the full assortment of citrus, pome fruit, stone fruit, potatoes and other vegetables. In Russia, Lebanon still has a moderate position as supplier of fresh produce. There is growth potential for a wide assortment, again under the condition that scale and efficient distribution channels come in place. There is also potential for Lebanese fresh produce in some upcoming markets in East and West Africa.

Need for improvements in the value chain and the export enabling environment

There is a strong need to improve the organisation and quality all along the supply chain, especially in the farming and the post-harvest handling stages. Reaching larger scale and more professionalism is crucial. One way of achieving it would be through the establishment and facilitation of more and better cooperative models for smaller producers to join forces, aggregate product volumes and achieve higher levels of productivity and quality. This will also help them in gaining easier market access. Another approach is stimulating and supporting large enterprises to guide the sector towards high-end markets by taking on the role of service companies providing technical services, certification support, knowledge, training, etc., to affiliated small farmers. Furthermore, it is necessary to improve the cold chain infrastructure by initiating investments in packing houses and cold storage.

There is also a strong need to strengthen BSOs in developing and offering export-related services for the private sector and to create more and deeper linkages between the public and private sector. The capacity of institutions in agricultural research and extension and agricultural and business education should be developed to better offer practical services for the sector. The development of a national export marketing strategy for fruit and vegetables would support these developments. We strongly recommend establishing an action plan or roadmap for the public and private sector, including a positioning and branding agenda to increase the name and recognition of Lebanon as a fruit and vegetables supplier. Elements for such a national strategy and action plan include:

- determine priority crops in the national product calendar for certain markets, e.g. table grapes and avocado as the leading crops ('flagships') for the European market;
- identify specialty segments in high-end markets and focus less on supplying to ethnic markets, which usually have a low-quality and low-price character;
- use the outstanding taste of Lebanese agricultural produce as an added-value factor;
- stimulate organic production and aim at adding organic as the other added-value factor;
- invest in Europe but at the same time work hard to improve the channels towards markets in the GCC, Russia and African markets;
- include the Lebanese diaspora all over the world in branding, marketing and distribution operations.

Last but not least, we recommend better structural coordination with all actors that have a development agenda in the Lebanese fruit and vegetables sector, including donors and implementing organisations.

Corporate social responsibility

There is a lack of awareness in the Lebanese agriculture sector regarding the importance of CSR in international trade and a lack of capacity to transform the existing obstacles and risks into

opportunities. In the area of human rights, the main hurdles are the legal position of workers, especially refugees, their working conditions, child labour and lack of freedom of association. In relation to the environment, the main problems are the use and mishandling of agrochemicals and incorrect waste disposal, affecting people's health, causing soil pollution of soil and depleting water resources. Current agricultural practices in combination with climate change also affect biodiversity. Regarding value chain transparency and chain inclusiveness, the weak market position of small farmers is the main hurdle. Their loose and non-transparent arrangements with buyers do not allow them to benefit from periods of higher product demand. Finally, discrimination, low economic participation and fewer opportunities for women and youth also create obstacles and risks.

On the other hand, the sector and its actors can use CSR as an instrument to position themselves as serious suppliers, ready for all market types and levels. SMEs have opportunities by achieving compliance with international standards, such as GLOBALG.A.P. or other specific CSR standards attesting sufficient levels of attention to human rights, environmental aspects, value chain transparency and inclusiveness.

Existing interventions

Various donors conducted and currently conduct interventions to address obstacles and needs of the private sector and the export enabling environment in the fruit and vegetables sector. The most relevant donors are the European Commission, providing a private sector development programme through Expertise France, and USAID with two programmes, contracted by Chemonics (LED) and Land O'Lakes (LINQ). The embassy of the Kingdom of the Netherlands in Beirut also supports the sector in various fields. All these donors cover the entire agriculture sector in the main production regions in the Bekaa valley, the north (in Akkar Governorate) and the south. They all cooperate with a large number of implementing organisations, being public institutions, international and local NGOs and foundations, such as the chambers of commerce, especially in the Bekaa, Emkan, Fair Trade Lebanon, FAO, Georges N. Frem Foundation, ILO, MADA Association, René Moawad Foundation and Safadi Foundation. This setting provides a good foundation for CBI to offer an export promotion programme, knowing that these other donors and organisations focus more on the pre- and post-harvest stages of the chain, while CBI can add to strengthening the marketing and export capacity.

Possible CBI interventions

Based on the results of the value chain analysis, we conclude that a CBI export promotion intervention has a good potential to support the Lebanese fruit and vegetables sector in strengthening its position in export markets, achieving more export volumes and value in European and other markets and improving employment and working conditions for locals and newcomers. Such an intervention can have various linkages with other donor interventions. The three components of a projected CBI intervention are:

- a business export coaching programme (BEC). Between 10 to 15 exporters of fruit and vegetables can be selected for a four to five-year CBI BEC. Projected modules include:
- support in developing a marketing strategy and defining product market combinations, or in other words, assistance with drawing a bankable export marketing plan;
- training and coaching in business development, market intelligence, costing and pricing, business-to-business (B2B) matchmaking with suppliers, obtaining certifications, implementing CSR, models to collaborate with farmers and farmer groups, vertical cooperation models in the chain;
- coaching during the market entry and market consolidation phases;

- activities addressing issues in the export enabling environment beyond the control of SMEs:
- support in developing a national vision on exports of fruit and vegetables, the development of a national export marketing action plan and a positioning and branding roadmap, plus guidance of the stakeholders in the implementation thereof;
- training institutions to assist SMEs in complying with legislation in target markets;
- support sector stakeholders (the government in the first place) in developing national quality standards;
- support in more effective donor coordination;
- support in developing a national CSR strategy and in preparing and conducting CSR awareness campaigns for SMEs, BSOs and the public sector;
- a multi-year support programme for the four regional chambers of commerce that further professionalises their operations, focusing on organisational strengthening, improving long-term financial sustainability, such as providing paid services and increasing staff competencies, as well as on the capacity of the organisations to support SMEs with, among others:
 - business development services;
 - export development and export promotion services;
 - market intelligence services;
 - CSR compliance.

Risks

An intervention in Lebanon involving both the public and private sectors, comes with uncertainties and risks. From a market point of view, there is a risk that Lebanon will not reach enough competitive power to achieve sustainable positions in Europe and other high-end markets. There is a specific risk that SMEs face too many obstacles in reaching compliance with high-end market standards, including CSR components. From an organisational point of view, potential risks that may negatively influence the impact of a CBI effort include: political instability, no government vision and not enough support and funds for the sector, little confidence of the private sector in the government, mistrust, corruption and difficulties to achieve effective collaboration with other donor interventions.