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Continuation 1 - Food manufacturers face competition by exporting

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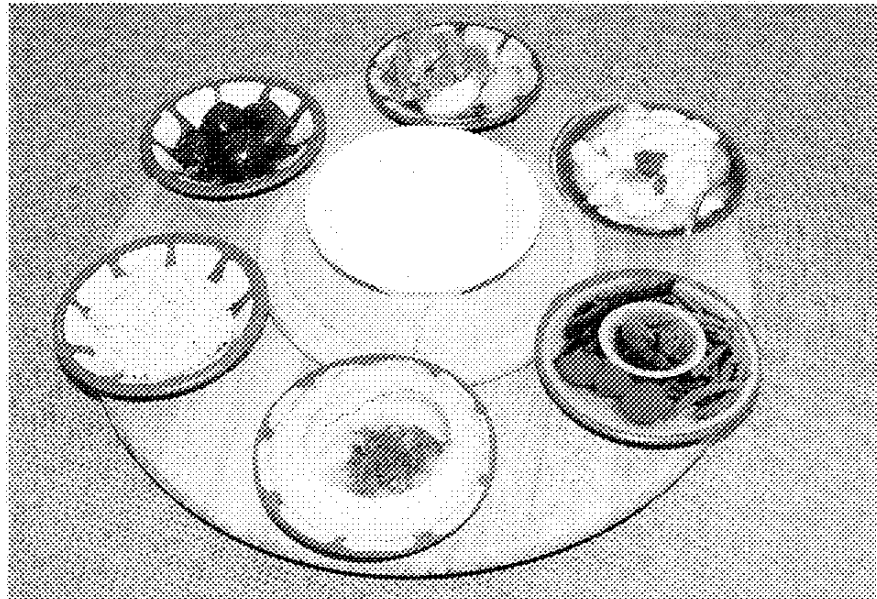
Continuation 2 - Food manufacturers face competition by exporting

## No longer in a jam

# Food manufacturers face competition by exporting

An increase in imported foodstuffs is expected in 2006, mainly from Arab countries. These products are sold at lower prices than the locally manufactured foodstuffs, and create competition for the sector. With the rise in competition from imports, local manufacturers are increasingly improving the quality of their products to enable them to enter foreign markets, where high standards of quality are expected.

The processing of foods and beverages is an industry estimated at more than \$1 billion or 25.58 percent of total industrial production according to the Chamber of Commerce, Industry and Agriculture. The sector includes 130 factories "The increased demand for locally manufactured foodstuffs at home and abroad is due to the high quality of the products, and this has created growth within the sector," said *Georges Nasrawi*, head of the Syndicate of Lebanese Food Industries. *Francois Rizk*, owner of Second House Products, manufacturer of Lebanese foodstuffs, said that the factory raised its output capacity by 30 percent in 2005. The factory has been processing foodstuffs since 1986. Al Wadi Alakhdar, has witnessed a considerable growth in



Lebanese food products are popular in foreign markets

the past few years, with a stable increase of production in 2005. Al Wadi Alakhdar, which produces more than 60 products, was established in 1979. The major products are hommos tahina, fowl moudammas, and baba ghannouge, which were launched in the same year. At Al Rabih factory, a 10 percent increase in production has been reported on a yearly basis. "Established in 1976, around 30 percent of production is destined for the local market," said *Georges Nasrawi* owner of the factory. Al Rabih produces

120 items and exports to more than 75 destinations, mainly in the Arab world and the United States.

### STRINGENT MEASURES

For those in the sector, producing to international standards facilitates exports. The United States and European countries currently demand high quality. If foodstuffs do not reach the required standards, manufacturers cannot enter these markets," said *Nasrawi*. He said that labeling and packaging are now more controlled than

## EXPORTS OF PREPARED OLIVES, VEGETABLES AND FRUIT

	2003	2004	2005
<b>Exports of olives (USD Thousand)</b>	<b>711</b>	<b>715</b>	<b>987</b>
<b>Main countries</b>	United States (19%) Canada (31%)	United States (29%) Canada (26%)	United States (26%) Canada (23%)
<b>Exports of veg. &amp; Fruit (USD Thousand)</b>	<b>2,909</b>	<b>3,937</b>	<b>4,824</b>
<b>Main countries</b>	Saudi Arabia (34%)	Saudi Arabia (30%)	Saudi Arabia (30%)

Source: Trade Information Centre

before, and stringent measures are taken during production to meet the demands of export markets. "These measures will certainly encourage local producers to upgrade their production quality if they are to compete," said *Bechir Mechaalany*, owner of Mechaalany & fils factory, manufacturers of foodstuffs such as jams, syrups, vinegar, pickles, and olives. Some factories which are not mindful of quality control have difficulties in entering overseas markets. "Factories which have not reached required standards for European and US markets, search for other markets in which to sell their products, mainly the African markets, where Lebanese expatriates reside and demand these kinds of foods," said *Nasrawi*. Most of those manufacturing foodstuffs do in fact have The International Organization for Standardization certificate (ISO) and the Hazard Analysis and Critical Control Point (HACCP) a food safety management system certification. The certificates are obtained through three main laboratories. Lebanese laboratories have achieved international accreditation and recognition in the field of testing. Products which are imported are tested by the labs before they come into the market "These measures have an edge, as they prevent products which are below standard from entering the market and being sold at cheaper prices, thus competing with local products which are of a higher quality," said Mechaalany. Rigid testing is beneficial for the factory, which has always invested in quality, and whose products are well-positioned in the market," said *Edouard Kosremelli*, business unit manager at Al Wadi Alakhdar. Al Wadi Alakhdar is a brand owned by Dove Processing, part of the Obegi Group. Qualeb, the EU-funded program worth \$15 million aims to improve quality management capabilities and infrastructure, mainly in the food industries sector. The program administered by the Ministry of Economy seeks to align Lebanese practices to match EU regulations in the field



Local jam producers competing with Egyptian imports

of standardization, testing certification, inspection and accreditation. It also aims to encourage Lebanese export opportunities.

**INTENSE COMPETITION**

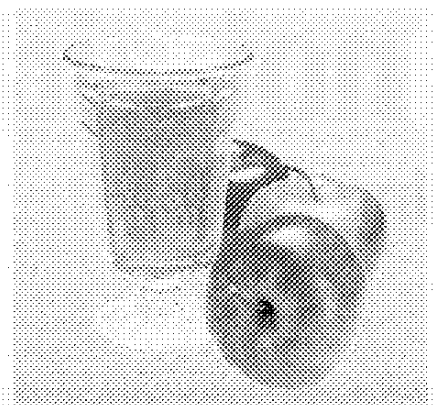
For manufacturers, competition is high from Arab countries from which similar products are imported, mainly from Syria and Egypt. They have a competitive edge over the local products in terms of pricing. "For instance, jams imported from Egypt are competing with locally produced jams because the Egyptian products are 40 percent lower in price," said Mechaalany. Competition has recently intensified from gulf countries. To remain viable, local industries have planned to export more and sell less in the local market. Some in the sector believe that competition is not affecting their business, as locally manufactured products still maintain a

strong position in the local market due to their high quality. After comparing between locally produced foodstuffs and some Arab products, mainly Egyptian, an increased demand from overseas markets has been witnessed due to the superior quality of local foodstuffs. Second House Products is planning to venture into new markets in 2006. Local manufacturers still face strong competition in the export market as prices of local products are often not competitive compared to products imported from Arab countries. The major problem faced by exporters is the pricing of the products, which is related to heavy port duties, and high operation costs. Local producers continuously complain about the high cost of production, mainly the high cost of manpower, communications, and electricity bills, which prevents local manufacturers from being highly competitive.

**IMPORTS AND EXPORTS OF JAMS**

	2003	2004	2005
<b>Imports (USD Thousand)</b>	<b>6</b>	<b>4</b>	<b>5</b>
<b>Main countries</b>	Belgium (70%) United States (12%)	Egypt (45%) United States (25%)	Egypt (32%) Spain (49%)
<b>Exports (USD Thousand)</b>	<b>44</b>	<b>90</b>	<b>98</b>
<b>Main countries</b>	Qatar (49%) United States (20%)	Qatar (45%) Australia (35%)	Qatar (34%) United States (12%)

Source: Trade Information Centre



Food producers have ISO and HACCP certification

### IMPORTS UP

The country has become a haven for foodstuff products with a small market share for local products. The major reason behind the increase of imports is the low custom duties, especially in the case of mutual agreements which have to be implemented, such as the Greater Arab Free Trade Agreement (GAFTA), which has negatively affected this sector. According to those in the business, imports are competing in price not in quality in the local market. Producers have improved quality and targeted overseas markets to face competition. The Trade Information Center shows an increase in imports of prepared foods in terms of dollars. Figures show an increase from 2003 to 2004, from approximately \$1.7 million to \$3.2 million. The main countries from which imports enter are Egypt, Iran, and Syria. While some local manufacturers are suffering from competition from imported foodstuffs the importers disagree. "Imported products entering the market at low prices and with lower quality do not really have a market share," said *Imad Abi Chaker*, general manager at Manyfood, an import, marketing and sales distribution company. "Producers who are complaining about low quality at competitive prices, should

complain if it is high quality at lower prices," said *Abi Chaker*. Manyfood imports mainly from the Gulf Cooperation Council (GCC) countries, United States, and Turkey. "These imports actually give local producers the incentive to improve their products," said *Abi Chaker*. Some manufacturers believe that imports have not heavily affected their products as they have a good position in the local market. "Al Wadi Alakhdar products are not competing with imports entering the market at low prices as they are foodstuffs of a lower quality than that of Al Wadi Alakhdar," said *Kosremelli*.

### EXPORTS ON THE RISE

As the local market is narrow, local producers are searching for new markets to generate profits. "The export market has great potential," said *Kosremelli*. Despite the barriers that hinder exports, mainly the price factor due to the high cost of production, many factories have reported growth in their exports. "There is room for more growth in the future," said *Nasrawi*. For some in the sector, export levels will not increase due to the price competition faced in export markets. For others the local market is not a profitable business, producers depend on the overseas markets. Manufacturers are focusing on the export market. "More than 50 percent of foodstuff manufacturers are targeting export markets," said *Nasrawi*. He said that an increase varying between 15 and 20 percent in exports of foodstuffs has been reported on a yearly basis. Locally produced foodstuffs have reached all the continents. "Second House products, which exports to Europe, the United States, and African countries, focuses on the export market to make profits. More than 90 percent of our production will be sold in foreign markets in 2006," said *Rizk*. Since its establishment, the company has increased its exports on a yearly basis. The Trade Information Center shows an increase in exports. For instance, exports of jams increased in terms of dollars from

\$27,000 in 2004 to \$70,000 in 2005. The main countries that exports are aimed at, are the United States and Nigeria. Al Wadi Alakhdar is planning to increase its export level by 25 percent in 2006 and will be focusing on new markets, mainly African countries such Nigeria and Cote d'Azur. More than 50 percent of Al Wadi Alakhdar's production is targeting overseas markets.

### OPTIMISTIC FORECAST

In 2006, many producers expect booms in production, and an increased demand for foodstuffs due to the high quality of the products. Some in the sector link the growth of this industry to the economic situation, and expect a stable production level in 2006 due the increase of imports which are taking up a large portion of the local market share, as well as the price competition in the export markets, which is hindering exports. An increase of 50 percent in Mechaalany production will be witnessed in 2006, in addition to an increase of 20 percent in exports. Many factories are planning to participate in international exhibitions to promote their products. Mechaalany will participate in exhibitions in both Mexico and France in 2006. The Syndicate of Lebanese Food Industries is encouraging food manufacturers to participate in international trade fairs like Gulf Food, ANUGA in Germany and SIAL in Paris. Producers aim to enter new markets. Al Rabih factory is planning to target the Far East while Mechaalany, whose products are currently on the shelves in supermarkets in the United States, and Canada will target Eastern Europe and Latin America in 2006. Al Wadi Alakhdar will increase its production level by 15 percent in 2006. Manufacturers are making continuous efforts to enter new markets. While some local products meet international standards, and some producers are planning to upgrade their production quality, the export market is still the main key to increasing turnover.

### EXPORTS OF PREPARED FISH & POTATOES

	2003	2004	2005
<b>Exports of fish (USD Thousand)</b>	<b>1</b>	<b>8</b>	<b>4</b>
<b>Main countries</b>	Jordan (100%) Syria (28%)	Jordan (72%) Syria(43%)	Guinea (57%)
<b>Exports of potatoes (USD Thousand)</b>	<b>2,732</b>	<b>3,959</b>	<b>6,059</b>
<b>Main countries</b>	Jordan (33%) Syria (57%)	Syria (82%)	Syria(78%) Iraq (13%)

Source: Trade Information Centre