

2013

Syrian Agricultural Trade



Executive summary

This report includes comprehensive analysis for Syrian total and agricultural, accompanied with a view of recent developments in terms of general and agricultural policies.

The report consists of five chapters that discuss the issues of trade flows and policies, besides a special chapter on the state and development of organic agriculture in Syria and the world.

Here is a review of these chapters:

Chapter 1: This chapter deals with recent developments regarding international trade, where the year 2013 was characterized by three issues that influenced the international economy. The most important issue among the three ones was the sharp reduction in the American budgetary deficit as well as the European sovereign debts; besides the expected growth rates in emerging economies, particularly the BRICS countries. The international economy growth rate in 2013 ranged between 2.3% and 2.7%, which underlines the continuous decline of this rate since 2010, where it was 4.9% then it became 3.3% in 2011 and 3.1 in 2012.

The international trade value reached US\$ 37,002 billion in 2012 according to WTO statistics, with slight increase of 1% if compared to 2011 figure. The European trade represented the region with largest share of international trade among shares of geographical regions. In addition, the EU (27), China, USA, Japan, Korea and Russia ranked respectively as the six major exporter countries in the world both in 2011 and 2012.

In general, most geographical regions in the world witnessed noticeable decrease in agricultural exports in 2012, comparing with the situation in 2011. However, Europe is still dominating the global agricultural exporters, with a wide gap between its share and shares of other geographical regions. On the import side, European agricultural imports decreased, though there is still a huge gap with other regions' imports. Nevertheless, the values of other regions' agricultural imports increased. In this sense, Middle East agricultural imports from Asia, Europe and Commonwealth of independent states (CIS) increased noticeably in 2011 and 2012. Yet, its agricultural imports from North America, Central and South America and Africa decreased during the same period.

International production of wheat shrank in 2012 by 5.5%, largely due to the drought period affected Eastern Europe and Middle Asia. Simultaneously, Egypt became the first wheat importer in the world. Regarding barley, Saudi Arabia stayed in the first rank among its importers, with a share of more than 26% of total international imports. In addition, the year 2012 witnessed strong demand on rice. Identically, East Asian countries met this demand by their exports, which represent 90% of international exports of rice. Japan continued to be the first global importer of maize in 2012, and international production of cotton increased in the season 2011-2012 due to the expansion of cotton cultivated areas to about 36 million ha, which was reflected as an increase in international producer prices.

Chapter 2: this chapter reviews the situation of Syrian trade from all sides, including both trade performance and trade partners, by demonstrating recent developments of trade and evaluating their economic importance between 2003-2005 (average) and 2011 (in case of total trade) or 2012 (in case of agricultural trade). In this respect, economic growth (measured by GDP in fixed prices, (2000=100)) demonstrated a growth of 4.6% between 2003-2005 (average) and 2011, while GDP per capita was 67645 S.P. in 2011, decreasing by 3634 S.P. if compared to 2010 figure. The contribution of agricultural sector in total GDP reached about 20% in 2011, thus increasing by 4% if compared to 2010 number.

The contribution of total trade in GDP measured by current prices reached 42.5% in 2011, shrinking by 14% comparing with its contribution in 2010. However, the annual growth rate of total trade reached 12.4% between 2003-2005 (average) and 2011, and total trade per se increased by 2.5% between 2010 and 2011. Yet, the contribution of agriculture in Syrian exports shrank by 2% in 2011 comparing with 2010.

Syrian economy witnessed unprecedented increase in imports value in 2011, while the exports decreased by 14.2% comparing with 2010. This is due to the imposed war on Syria and the imposition of economic sanctions on the country, which directly affected financing Syrian foreign trade. Nevertheless, previously, Syrian imports developed noticeably between 2003 and 2005; the increase in trade value reached 17.1% during this period. Also, the increase in Syrian imports was 14.3% in 2011, comparing with 2010 import values. Syrian imports consist mainly of chemical products, main minerals, food stuffs, textiles and tobacco products.

In terms of agricultural trade, its annual growth rate reached 17% between 2003-2005 (average) and 2011, whereas its contribution in total trade decreased from 24% in 2010 to 21% in 2011. Furthermore, fruits and fresh vegetables were the largest component in agricultural exports (their share was 32% in 2010 and became 42% in 2011). However, if we compare exports value in 2011 and 2012, we will find sharp decrease in values for all exportable chapters due to the imposed sanctions on Syria, excluding live animals and cork and corky products, as well as skins with fur.

On the imports side, the year 2012 witnessed a decrease of 23% in imports value due to the events taking place in Syria, where agricultural imports value slumped from US\$ 4235 million in 2010 to US\$ 2878 million in 2012. Cereals were the most important sector in terms of agricultural imports, where its share in agricultural imports was 26%. On the other hand, concerning agricultural trade balance, it could be noticed that the balance recorded continuous deficit between 2009 and 2012. Nevertheless, the highest deficit was recorded in 2011, which was the starting-point year of the events. Yet, this deficit helped securing people's basic commodities, and helped affording primary inputs required for agricultural production.

Chapter 3: This chapter presents a detailed review of Syrian agricultural trade during the period under study, through three sections. The first section reviews the performance of Syrian agricultural exports, using three specific indicators, which are the revealed comparative advantage (RCA), the relative units of value (RUV), and the map of Syrian agricultural trade. The second section comprises the current situation of Syrian agricultural exports and imports, and the major developments in this field between 2001 and 2012. The third section sheds light on Syria's main trading partners in terms of agricultural trade.

The RCA indicator reveals that uncared and uncombed cotton as well as grapes and chickpeas lost their comparative advantages in 2011, whereas uncared and uncombed cotton possessed this advantage strongly in 2001 and 2008. The indicator also reveals that cotton linters and live sheep, besides virgin olive oil recorded the highest RCA in 2011, though live sheep RCA decreased by more than 50% if compared to its figures in 2001 and 2008.

In 2011, the RUV indicator recorded values less than 1 for each of uncared and uncombed cotton, oranges, tomatoes, cheese, grapes and virgin olive oil, which underlines the notable competitiveness of these products in foreign markets. Nevertheless, chickpeas recorded an RCA

value larger than 9 in the same year. Therefore, this commodity is unable to compete due to its price that is largely higher than the international price.

Analyzing export markets' diversification shows a decrease in total number of destination markets for specific commodities. In this sense, destination markets for uncared and uncombed cotton decreased from 14 markets in 2010 to 5 markets in 2012, and those for durum and soft wheat decreased from 4 markets to 1 market. Also, total number of destination markets for pistachio decreased from 27 to 13. In addition, a high concentration of exports flows to the main 5 partners was registered in 2012, reaching 97.1%. Regarding import markets analysis, the highest level (100%) of import concentration was recorded, considering the main five import partners, in terms of the following major imports: mate, maize, soybean, banana, brans, butter and ghee, barley. Identically, the lowest level of concentration was registered in terms of sugar. Concerning commodity balance, among the most important exportable agricultural products which had exportable surplus in 2012 were cumin seeds, apples, tomatoes, lentils, citrus, sheep, among others.

Arab countries remained the most important destination for Syrian agricultural products between 2010 and 2012, followed by Asia then the EU states, while in terms of imports the main source was South America followed by Asia, the EU states and Arab countries respectively.

It is noticeable that agricultural trade balance recorded negative values or deficit in most years under study; however, it recorded positive values in 2012 with e Iraq, Saudi Arabia, Kuwait and Qatar, though negative values were registered with other partners like Ukraine, Argentina, Thailand and Brazil. Furthermore, Ukraine ranked first among Syria's agricultural trading partner, with a mutual trade value of US\$ 478.1 million, and a share of 12.4 of total volume of Syria's agricultural trade, followed by Saudi Arabia with US\$ 303.8 million (7.9%) then Iraq with US\$ 273.1 million (7.1%).

Dealing with individual countries, Iraq remained the largest destination for Syrian agricultural exports in 2012, followed by Saudi Arabia, Egypt and Lebanon respectively. Yet, those from which Syria imported agricultural products were topped by the EU states, followed by Ukraine, Thailand and Brazil respectively.

Chapter 4: This chapter sheds light on the developments of international trade policies as well as international agreements. In this sense, the year 2013 was distinguished by holding the WTO

9th ministerial conference in Bali Island, in Indonesia. The conference didn't achieve important breakthroughs except some understandings in terms of food security as well as a number of issues related to trade facilitation. Still, the most important achievement of the conference was introducing the critical evidence that the organization is yet alive and the multilateral trade negotiations are still taking place.

On the other hand, despite extending the discussions of the 8th conference of Kyoto treaty for gas emission that was held in Doha in December 2012 in order to define the details of negotiations paths and create further paths, the conference didn't result in important outcomes; the participating countries lacked the seriousness needed to achieve breakthroughs in the negotiations.

Regarding the regional trade agreements, three trade-investment giant blocs are emerging in different parts of the world. Once any of them is completely developed, it will have substantial impact on international trade. The three greats (China, Japan and the USA) play crucial role in building these blocs, where each of these countries seeks much more influence on markets as well as greater market access, particularly the Asian markets. These blocs are: the Trans-Atlantic Partnership, comprising the EU and the USA; the Trans Pacific Partnership, linking North and South America to Asia; and the Comprehensive Economic Regional Partnership, connecting East Asian countries as well as Australia, New Zealand, and India. Furthermore, according to the plans, the negotiations in the three paths should be finalized at most by the end of 2015 (finalizations are due different dates).

In addition, in June 2014, the governments of Russia, Belarus and Kazakhstan formally inked the agreement on establishing a common economic union that comprises the three countries, after two decades of negotiations. The new bloc was called the Eurasian Economic Union, and it doesn't include Ukraine. The agreement will be enforced by the beginning of 2015.

Concerning China, the government is planning to build a high-level network of free trade agreements, while it keeps supporting the multilateral negotiations in the framework of the WTO. The Chinese government is establishing the basis for a network of regional trade agreements, where some of them have been completely constructed and others are under construction. In this sense, by the end of 2013, china concluded 12 free trade agreements on the whole, either with neighbor or far countries and unions. Furthermore, China is negotiating for 6

more agreements, and seeking to update another one. In addition, China announced in its annual statement on policies (China's 2013 no. 1 policy document) that it intends to intensify its agricultural subsidies to cereals' producers in order to reach self-sufficiency and also to balance the growth of rural and urban areas. The new plan indicates the desire of Chinese government to handle the problem of rural poverty as well as the weakness of food security.

On the local side, Syrian government took practical measures in mid-2013 to activate the goods-goods bargain with Russia. The Syrian and Russian governments also signed a memorandum of understanding about custom and economic cooperation; a step that contributes in establishing the legal bases for developing the mutual trade relations in order to achieve a substantial advance in terms of these relations. This, in turn, will increase the mutual trade volume. On the other hand, the Syrian and Iranian governments agreed in the beginning of 2014 to secure Syria's needs of food stuffs and agricultural production inputs during 2014 through the agreement of the credit line between Syria and Iran. The products that would be supplied by Iran include 25 food and agricultural stuffs. Finally, The Syrian and Iraqi government agreed in February 2013 that Syria will export all kinds of Syrian agricultural products that are unprocurable in Iraq, in accordance with an agreed agricultural calendar.

Chapter 5: This chapter makes reference to the recent and most important developments in terms of Syria's monetary, financial, trade and investment policies. It also sheds lights on recent developments in agricultural policies.

The chapter indicates that after three years of imposing the war on Syria, the war's negative consequences are still oppressing the national economic resources and delay the growth of Syrian economy. In this sense, the national GDP decreased by 25% in 2012 comparing with 2010. Nevertheless, there are several positive indicators that underline the recovery (even though slow) in some economic sectors, such as resuming agricultural activities in terms of several crops as well as animal production of poultry and eggs, besides the increase in market activities after the improvement in security circumstances, which contributed in restoring the consumptive expenditure, with a slow return of investors, particularly in food industries.

During the period of the imposed war, the balance of exchange rates has been disturbed, and the Syrian pound value, measured by the US\$, slumped, which evoked repeatedly direct and immediate intervention by the central bank, within the policy framework of "rational direct

intervention in foreign currency market when necessary”. Also, the central bank of Syria, represented by Monetary and Credit Council as well as Banks Management Committee, issued several decisions and circulations that adjust and manage the bulk of local currency, and also adjust the foreign currency market and guide the exchange companies that work in this market. On the other hand, the process of lending and loaning was slowed down upon a governmental decision and in accordance with a suggestion raised by concerned monetary authority, in order to maintain the normal levels of liquidity in general banks.

Regarding the financial policy, Syrian government, represented by its concerned financial institutions (Ministry of Finance and General Commission for Fees and Taxes) conducted a policy for reforming tax system by moving towards computerizing this system in order to make it more precise and transparent for the citizen dealing with it. The policy also aimed at abolishing the personal estimation of tax, implemented by financial units’ employees, and combating tax evasion and tax accumulation. Supplementarily, Syrian stock market in 2013 recorded a circulation of 2.2 billion S.P., with a total volume of 19 million stocks, distributed among 11,000 transactions, thus registering an increase of 4.8% comparing with 2012 figure, which recorded a circulation of 2.1 billion S.P., and a total volume of 11 million stocks, distributed among 8,000 transactions. The improvement in this market was due to several reasons, particularly the high confidence that the investors felt towards the market, considering that the market has never stopped during the imposed war.

On the investment side, the imposed war and the pressures exerted by foreign countries on Syria influenced clearly and obviously the investment climate and investment volume in Syria; this applies to all economic sectors. In this respect, the statistical data indicates the slump in total number of investment projects covered by investment laws in Syria, where the number of registered agricultural projects in 2012 was 10 projects according to the Ministry of Agriculture’s data, from which one project only is new. The Syrian Investment Committee is trying to create anew and modern investment legislation in the framework of investment promotion, so as to cover more other sectors and unify the legislations that organize investment activities.

The economic sanctions and the imposed war motivated Syrian government to modify its trade policy in a way that is characterized by rationalization and supply-demand balance,

simultaneously holding the commitment to secure all basic food products for citizens, as well as medical and baby-food products. The new direction also includes a governmental intervention policy, besides the reliance on available domestic potentials and local production activation. In addition, the intention of the Syrian governments and traders to move towards alternative foreign markets in “friend” countries has been notable.

Chapter 6: This chapter is the special issue, and it deals with the current situation of organic farming in the world and in Syria, as well as the main international rules that organize it. The chapter defines the organic farming as a production system that implies avoiding usage of chemical fertilizers, pesticides and growth promoters. The organic farming is based on four acknowledged principles, which are: health, ecology, fairness and care. The chapter indicates that organic farming is one of the important ways to reduce ecological pollution and maintain public health, besides its economic, social and health advantages. Organic farming was launched in Arab world in the 80s, despite the legislative and organizational barriers. In Syria, however, the production of organic cotton started practically in 2006, where the Cotton Research Administration formally conducted extended experiments in terms of organic cotton, through the “Institutional Development of Organic Agriculture Project”, and by applying adequate biological and mechanical methods, simultaneously taking into account domestic circumstances and the ecological, social and economic considerations, in a way that fits with national and international laws in terms of organic cotton production. Furthermore, the production of a number of organic products in Syria had been licensed by the German company AK until 12-9-2012.

Concerning Syrian organic products exports, the chapter underlines exporting quantities of organic cotton. Moreover, all produced quantities of organic olives and grapes are exported usually, where the producers and foreign companies contract on the demanded quantities after achieving the required certifications from institutions recognized by the EU. On the import side, any quantity of organic product hasn't been imported yet.

In terms of legislations, the study on organic farming that was prepared jointly by the Ministry of Agriculture and Food and Agriculture Organization (FAO) established the basis for launching the “Institutional Development of Organic Agriculture Project” in 2006, where one of its major priorities was drafting a national law for organic farming and building a proposal for establishing and developing a special institution for certification. Accordingly, the legislative decree No. 12

dedicated for organic farming in Syria was issued in 2012 in order to supplement the efforts put in this regard and afford them a legal framework so as to facilitate the work and control all bodies dealing with organic farming.

In terms of the main challenges which organic farming could face, obtaining the required knowledge and expertise for farmers, and meeting the increased demand on organic products could be mentioned. More importantly, developing the opportunities for internal and external marketing, in a way that guarantees adequate income for the producers, is to be among main challenges also. Correspondingly, there is a need for spreading awareness of the Syrian trade mark that indicates the Syrian organic product, which would increase consumer confidence in this product and can act as its passport in local and international markets.