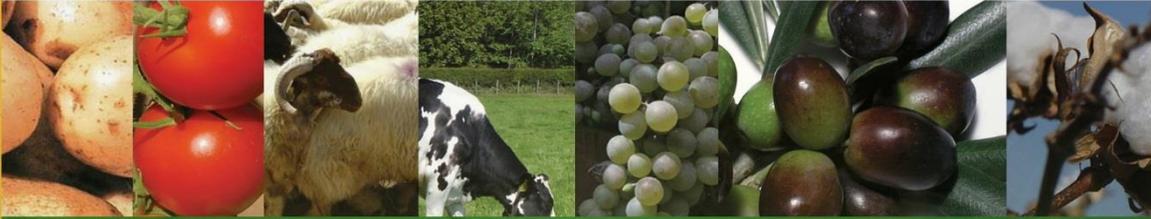


2015

Syrian Agricultural Trade



Executive summary

The previous issues of Syrian Agricultural Trade (SAT) report included an analysis of Syrian total and agricultural trade as well as recent development of international trade, besides an overview of progresses in general and agricultural policies, either local or global ones. Each previous issue of SAT consists of five chapters that deals with the above topics, and an additional chapter that focuses on a special issue. The current issue of SAT, however, lacks the chapter dedicated for features of Syria's foreign trade, and the chapter on Syrian trade performance, products and partners; this is due to data unavailability. Consequently, the current SAT contains four chapters: the first one deals with international trade; the second is about international policies; the third reviews recent developments in Syrian economic and trade policies; and the fourth, which is the special issue chapter that sheds light on hot topics, deals with the opportunities of Syrian agricultural trade in the context of joining the Eurasian Union.

Here is a brief about these chapters:

Chapter one: deals with recent developments in terms of international trade, where global economy has been influenced by 2008-2011 financial and economic crisis, and re-gaining the global strong and steady growth is still far from hand. The global economic progress stayed weak in 2015, and the growth of emerging and developing economies was 4% in this year, which is the lowest registered value since the crisis took place in 2008-2009. The reduction in growth of emerging economies for the five year in row reflects a mixture of several factors, including the retrogressive growth of oil-exporting economies and the stagnant economic progress in China, as well as the weak economic growth of countries that export raw material (including Latin America's countries). The geopolitical tensions in some of major emerging economies can be deemed a reason also. In 2015, the growth of international trade remained lagging around 2.8%; no difference comparing with growth rate in 2014, which makes the year 2015 the fourth year in row in which annual growth of international trade is less than 3%. China, EU, USA, Japan, Korea, Hong Kong, Russia, Canada, Singapore and Mexico were respectively the major exporting countries in 2013 and 2014; their total share in international trade was 63.6% in 2013 and 64.8% in 2014- more than 50% of international trade value. China ranked first among international

exporters while the EU fell to the second rank. The US, however, remained in the third rank. Identically, concerning import side, no change occurred in terms of major importing countries in 2014. In both 2013 and 2014, the US was the main importer country in the world, the EU is the second and China is the third.

Regarding trade, agricultural export values of all main regions increased in 2014, if compared to 2013, except Middle and South America, which were influenced by the international reduction in agricultural commodities' prices. The EU is still the major exporter of agricultural products in case its internal trade is taken into consideration; the EU share in international agricultural exports was 38% in 2014. If intra-EU trade is exempted, however, it would rank second after the US and before Brazil. Concerning other major agricultural exporters, they all increased their agricultural exports' values in 2014, except Argentina, where its agricultural exports shrank by 9.8% in 2014 comparing with 2013. Furthermore, India and Thailand also suffered from contracted agricultural exports in 2014. Regarding agricultural imports, nonetheless, the EU remained the first importer, no matter if its intra trade was included or excluded. China, in turn, ranked second.

In terms of the Middle East, it became a major destination for agricultural products, particularly food products, besides that the region in general is relying increasingly on imports, which makes the Middle East countries among net food-importer countries. In this respect, Middle East countries need to import food along the year, yet its list of exporting countries varies according to several factors, such as the climatic conditions, including drought and floods in the origin countries as well as changes in prices and international stocks of some foods. In general, Middle East agricultural imports from Europe and North America increased in 2014, comparing with levels of 2013 and 2012.

Lastly, regarding wheat, its international exports' value was US\$ 48.1 billion in 2014, with a reduction of 1.7% comparing to the last two years. The US was the first exporter country of wheat in 2014, where its export's value was US\$ 7.78 billion (about 16% of global exports' value), followed by Canada (US\$ 7.18 billion), and then France and Russia respectively.

Chapter 2: This chapter discusses the developments of international policies and agreements. In this sense, the year 2015 was marked by the event of the 10th ministerial conference of the WTO in Nairobi city, capital of Kenya, where some important breakthroughs in the field of agriculture have been achieved. The conference announced that an agreement was reached; the agreed package

comprises the abolition of export subsidies, which was perceived as a historical decision, besides agreeing on some LDCs-related issues. The conference adopted a proposal that grants special safeguard mechanism to developing countries. The mechanism enables these countries to raise their customs tariffs in case of unexpected surplus of import, or in case of prices' fall. The conference also emphasized the importance of trade rules and intellectual property rights issues, yet without achieving significant progress in both fields.

On the other hand, about 200 countries have reached, for the first time, a worldwide agreement on a multilateral international system that is capable of reducing gaseous emission; the package was called Paris Convention. The agreement was reached at the end of the 21st Conference of the Framework Convention of the United Nations on Climate Change. According to the agreement, all member states will introduce individual contributions for gaseous emissions' reduction, starting from 2020. These contributions will be determined individually each five year. The agreement also includes a commitment to exert maximum efforts to reduce the temperature so that the planet's temperature does not increase more than one and half degree above its level before the industrial stage.

Furthermore, the pace of bilateral and regional free trade agreements (FTAs) has been accelerating. In this sense, half of the African continent has integrated in one trade bloc, and the establishment of the Tripartite Free Trade Area was announced. The bloc represents the largest FTA in the African continent; it includes 26 African countries, ranging from the Cap in the far south to Egypt in North Africa. The FTA also includes about 600 million people and enjoys a GDP of thousand billion (trillion) dollars (about 51% of Africa's GDP). The FTA consists of three regional economic unions; these are: the Common Market for Eastern and Southern Africa (COMESA), Eastern African Union (EAC), and the Southern African Union for Development (SADC). The FTA also includes giant regional economies such as Nigeria, Mozambique, Kenya, Ethiopia, Congo, Egypt, and South Africa. The establishment of this giant area is to be the first step towards establishing the African Customs Union which is anticipated to be announced in 2019.

Identically, negotiations on the Partnership across the Pacific are still progressing as well as the negotiations of Trans-Atlantic Trade and Investment Partnership, where the latter has reached an advanced stage. Partnership across the Pacific covers 12 countries, notably the US and Japan, and represents 36% of global output and 11% of total world population, and one third of world trade

in goods. Identically, Trans-Atlantic Trade and Investment Partnership includes the US and the EU, and represents 46% of global output and 28% of total world trade in goods.

On the other hand, the role of the Eurasian Union (Eurasian Union) is emerging globally, where the Russian government declared that more than 40 countries expressed their intentions to strike a free trade agreement with the Eurasian Union; some of these countries are Zimbabwe, Jordan, Syria, Mongolia, Albania, Indonesia and Cambodia. However, the Russian government said that due to the huge number of applications, there is no room to accept them all, yet they will be studied carefully in order to prioritize them.

On the local side, the cooperation between Syria and its friend eastern countries is still advancing, particularly Iran and Russia, in spite of the continuous terrorist war against Syria and the unjustified sanctions imposed by western countries and the Arab League. In this respect, Syria and Iran agreed to cancel the transitional period dedicated for tariff reduction (five years), so that the FTA will be fully applied immediately. In the same time, the so-called Green Corridor (a Syrian - Russian shipping line) was launched in 14/10/2014, where the first load of agricultural products was shipped to Russia in November 2014.

Chapter three

This chapter reviews recent and most important developments regarding Syrian monetary, financial, trade and investment policies. It also sheds light on recent developments concerning agricultural policies during 2014 and 2015. The chapter underlines that during the crisis period, the government focus was on the issue of exchange rate, as a major target for monetary policy in order to limit the fluctuations of Syrian pound's value vis-à-vis foreign currencies, and to maintain a relatively fixed exchange rate in the context of "supply and demand" (i.e. demand on hard currencies) function.

On the other hand, imports have been controlled and re-organized, and financing importation of commodities and products has been re-adjusted according to their importance and priority in the framework of national economy. This was accompanied by stricter scrutiny and follow up policy focused on import flows, so as to ensure that the sold currencies were used in a way that supports commodities' affordability and restricts fake importation that uses sold foreign currencies in exchange rate speculations.

In addition, in 2014 and 2015, state financial bodies (i.e. Ministry of Finance) have been focusing on enforcing their plans to re-balance financial performance and reduce budget deficit on the one hand and activating the economy and combating tax evasion, as well as putting their annual financial policy in place, including rules and principles that rationalize spending and increase tax collection in parallel with encouraging investment on the other hand.

Identically, after the reduction in liquidity during recent years, banking sector started to recover in 2015, where a notable enhancement and increase in repositions and liquidity rates occurred – about 38% in the Commercial Bank, 35% in the Saving Bank and 33% in the Real Estates Bank. Consequently, relying on this enhancement and on Central Bank approval, Ministry of finance re-launched offering small loans to finance small and medium projects, particularly those in agriculture, industry and traditional handicrafts sectors.

Furthermore, in order to overcome the difficulties and economic obstacles, which resulted from the imposed war on the country and the consequences of the unjustified sanctions, the Ministry of Domestic Trade and Consumer Protection focused its efforts on securing basic needs of citizens, particularly bread. So it put its efforts to keep bread price supported and secure its inputs, including flour, yeast, salt, plastic sacks and fuel, despite the hard circumstances the war imposed on the country.

The ministry also set the ceiling of profit margin for all episodes of import chains of tea, coffee and soda beverages, among others. Moreover, the ministry formulated a committee to set the administrative prices and study the status-quo of supply and demand as well as the costs, and suggest prices for a number of products, as a way to secure a basket of food products for citizens with acceptable price and relevant quantity; this basket includes eggs, chickens, dairy, macaroni, cereals, children milk, among others.

The Ministry of Economy and Foreign Trade issued several decisions that contributed to mitigating the impacts of the unjustified sanctions, and presented quick solutions for a number of economic problems, particularly in terms of export and import. The ministry also focused on creating alternative destination markets for Syrian products, heading particularly towards “brother” countries like Iraq and Lebanon, and friend countries like Russia, China, India and Iran (thus enforcing the credit line agreement with Iran, which aims at securing basic food commodities).

Lastly, in spite of all adverse circumstances resulted from the war, the Ministry of Agriculture and

Agrarian Reform (MAAR) put all efforts (as much as possible) to secure the required support and provide with the needed necessities to promote agricultural sector and achieve its goals in a way that enhances its competitiveness and helps developing it, and integrating it with other sectors. In additions, MAAR aimed at achieving good contribution for agriculture in total GDP by enhancing production and productivity and optimally using inputs, as well as bringing in alternative plantations that have high economic returns. The ministry, additionally, focused on exporting processed and semi-processed products in order to utilize the added values, besides launching income generator projects that are capable of promoting levels of producers' livelihood and developing least developed regions, as well as limiting poverty levels.

Chapter four (special issue)

This chapter explores Syrian agricultural trade opportunities in the context of joining the EAU, where the union is economically characterized by balanced interests, efficiency, transparency and dialogue in the framework of major topics, mainly tariff and non-tariff organization, liberalizing labor movements across the union member countries and adjusting the functioning of financial markets (banking, insurance, exchange rate and the stock market). Furthermore, the union allows for exchanging information about external trade and competition policy among its member countries. In addition, it focuses on developing macro-economic and energy policies as well as foreign-currency and transportation policy. Consequently, it is clear that there is an embedded opportunity for Syria in joining this union, where Syria's possible accession can create significant advantages for Syrian economy and re-vitalize some of its critical features, particularly considering that all Eurasian member states are friend countries, and have been steadily supporting Syria during the war period.

Russia enjoys great productive advantages in terms of many agricultural products. In this respect, its diversified climate along with its vast cultivatable areas provide the relevant requirement for agricultural production, particularly in light of the efficient exploitation of these resources. Cereals (wheat - corn - barley - rice) rank first among Russia's exports; cereals exports represented about 30% of Russia's total agricultural exports in 2013, whereas fish ranked second with a share of 17%. Plant oils (soybean oil, sunflower oil, maize oil, olive oil), fats and grease ranked third in the same year with a collective share of 13%. Moreover, Russia exports fruits, like bananas and strawberries, and dried legumes (lentil, chickpeas and beans).

By applying a number of trade indicators, it can be drawn that it is probably better to promote bilateral agricultural trade between Syria and each of the Eurasian countries through preferential agreements, focusing particularly on Russia and Armenia (in light of the weak trade ties with them, Armenia in particular) as well as Kazakhstan (considering its vast natural resources and agricultural commodities) rather than joining the union. This would pave the way to establish steady commercial ties with the Eurasian countries, considering the current hard circumstances which Syria is passing through, which makes joining the union difficult for it.

Furthermore, it can be concluded that focusing on cherries' export to Kazakhstan and potato to Belarus (in case there is a surplus of varieties demanded in that market) as well as oranges to Russia are recommended on the short run. On the long run, however, it is recommended to enhance the quality and increase the productivity of cucumber and capsicum in order to raise the level of their exports, taking into consideration their competitive advantages and the substantial demand on them in the Eurasian markets. Lastly, it is advised to enhance the quality and competitiveness of olive and olive oil, and introduce them to the consumer in the Eurasian markets; the same applies for some other Syrian agricultural commodities that are economically important, such as figs, cumin seeds and mutton, considering the existence of demanding markets on the one hand and the surplus of Syrian production of these commodities on the other hand.