

# Flash Report

## Food Security in Lebanon Following Russia's withdrawal from the Black Sea Grain Initiative (BSGI)

July 2023



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The Lebanon Crisis Analytics Team (LCAT) provides reactive and in-depth context analysis to inform the aid community in Lebanon. The information and analysis contained in this report is therefore strictly to inform humanitarian and development actors and associated policymaking on Lebanon.

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## Executive summary:

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While it remains unclear what impact Russia's withdrawal from the Black Sea Grain Initiative (BSGI) will have on Lebanon's food security, even modestly dramatic scenarios demand serious attention from aid actors and policymakers alike. Combined with another unexpected shock – such as India's recent announcement of a ban on rice exports – Russia's withdrawal from the BSGI may mark the beginning of an era of unprecedented food inflation and essential commodity volatility.<sup>1</sup> The dynamic and unpredictable nature of the Ukraine war makes these scenarios more likely, each of which could have grave repercussions for Lebanon and the rest of the Middle East and North Africa (MENA) region.

## Key takeaways for aid actors:

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It is not yet clear whether Russia's decision to withdraw from the Black Sea Grain Initiative (BSGI) will lead to severe interruptions in Lebanon's grain supply,<sup>2</sup> although this scenario remains possible, necessitating contingency planning. What is more certain is that global food commodity prices will spike in the near to medium term, including wheat, a staple of the Lebanese diet. Higher wheat prices will likely increase the cost of state-subsidized and price-controlled bread bundles, which could have knock-on effects on Lebanon's economic outlook and aid actors administering both in-kind food and cash assistance.

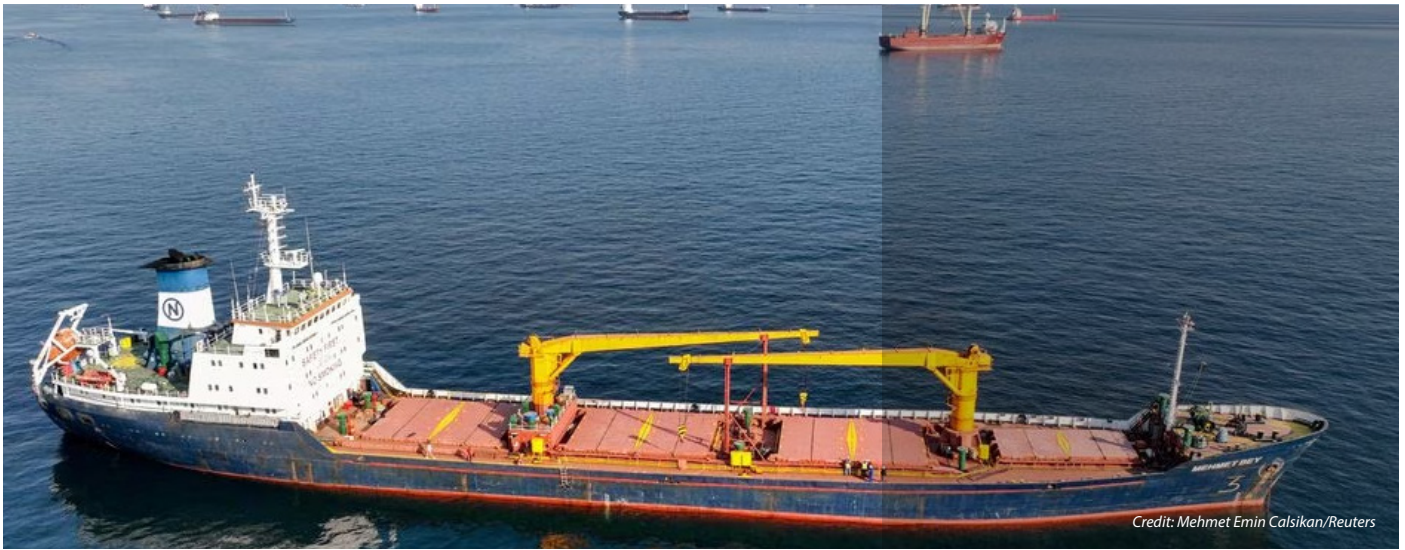
As has become a recurring theme throughout Lebanon's overlapping crises, the impact of price increases and potential supply shocks will disproportionately affect Lebanon's most vulnerable residents. Policy makers and aid practitioners should be aware of the fragility of Lebanese households' access to wheat and wheat-based products and that Lebanon's so-called "summer recovery" has done little to benefit vulnerable individuals. In fact, the illusion of recovery – premised upon a short-term inflow of foreign currency brought by tourists and returning expatriates – is dangerous because it masks larger structural issues that are likely to re-emerge as crisis points later in the year. Analysis suggesting that global wheat markets have already "priced in" the risk of the BSGI's failure should also be regarded with skepticism. Further Russian escalation, such as the attacks on the Danube terminals and possible Ukrainian reprisals against Russian grain, bring new and unexpected risks to markets with inevitable upward price pressures.

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<sup>1</sup> Financial Times, [Indian ban on rice exports stokes fears of global food inflation](#) July 2023.

<sup>2</sup> L'Orient Today, [No risk of wheat supply interruption to Lebanon](#) July 20, 2023.





## Context:

One year after the Black Sea Grain Initiative (BSGI) came into effect, Russia announced on July 17 that it would not extend the agreement.<sup>3</sup> The United Nations-facilitated joint grain export regime between Russia, Ukraine, and Turkey facilitated the shipment of 32 million metric tons of Ukrainian grain to world markets.<sup>4</sup>



Figure 1: Global Wheat Prices in USD per bushel.  
Source: tradingeconomics.com

<sup>3</sup> Reuters, [Black Sea grain deal: Russia refuses to renew and says no guarantees for ships now](#) July 17, 2023.

<sup>4</sup> United Nations Office of the Secretary-General, [Secretary-General's press encounter on the Black Sea Initiative](#) July 17, 2023.



The BSGI stabilized global grain prices following a period of marked volatility, during which food security was severely threatened in countries across the globe, in particular in the Middle East and North Africa. In response to Russia's announcement and its attacks on Ukrainian grain export infrastructure, global grain prices rose and now appear to be on a steady upward trajectory. Since the signing of the BSGI, Ukraine had shifted much of its wheat exports to alternative routes overland or through the river Danube as part of a derisking strategy hedging against the possible failure of the initiative. Russian attacks on the Danube terminals, a few hundred meters from Romania, suggest that further escalation and counterattacks are possible, which would imperil wheat supply beyond market expectations. Given Lebanon's reliance on the Danube ports of Reni and Izmail for its Ukrainian grain imports, supply and price shocks in Lebanon are both possible.<sup>5</sup>

These developments are expected to have a palpable effect on Lebanese importers and consumers. Despite global food commodity shocks in early 2022 leading to a rise in food prices in Lebanon, specifically bread,<sup>6</sup> the government has yet to adopt a national food security plan<sup>7</sup> or establish stable grain import channels. Lebanon currently relies on local private companies to import grain, which is primarily purchased using a World Bank-backed USD 150 million loan and converted International Monetary Fund (IMF)-issued Special Drawing Rights (SDR).<sup>8</sup> These stop-gap measures ensure that grain continually flows into Lebanon, despite the fact that Lebanon no longer has a dedicated domestic strategic grain reserve storage facility. The Beirut Port grain storage facility has yet to be refurbished after sustaining major damage in the August 2020 port blast, limiting options to ensure the stability of local supply chains and distribution.

Apart from the absence of a food security plan, Lebanon has contended with interwoven economic, fiscal, and monetary challenges and crises since late 2019. These have manifested in severe domestic currency depreciation, limited state economic interventions, and infrastructure deterioration. Compounding this, Lebanon faces the prospect of descending into a hyperinflationary spiral, exacerbating the already burdensome effects of Lebanon's economic, fiscal, and monetary malaise on households, particularly low-income households with limited access to US dollars (USD). This report highlights the significance of Moscow's withdrawal from the BSGI and how Russian military strikes targeting Ukrainian wheat infrastructure could affect Lebanese food security. While the severity of the cost and supply shocks in global grain markets depends on how the conflict develops, further disruption of Ukrainian exports will have noticeable repercussions on the food security of small economies with structural vulnerabilities like Lebanon.

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<sup>5</sup> L'Orient Today, [No risk of wheat supply interruption to Lebanon](#) July 20, 2023.

<sup>6</sup> LCAT, [Effects of the Ukraine conflict on Lebanon's economic and humanitarian crisis – one year on](#) February 28, 2023.

<sup>7</sup> Ukraine and Russia accounted for 86% of Lebanese wheat import in 2022. With no backup import strategy, local supply, or foreign support, Lebanese residents are at risk of bearing the full brunt of global wheat price fluctuations.

<sup>8</sup> World Bank, [Lebanon Wheat supply emergency response project](#) Accessed on July 24, 2023.



Credit: Joseph Eid/AFP

## Analysis and Impact:

A sustained rise in global grain prices will affect local bread prices. The Lebanese state and World Bank currently cover the majority of wheat import costs, with the remainder covered by private importers.<sup>9</sup> Additional global food commodity price surges would increase private importers' costs, hastening the depletion of the World Bank loan balance and any remaining credit lines opened by the Central Bank. Under such a scenario, private procurers would implement immediate precautionary price increases to compensate for anticipated additional costs.

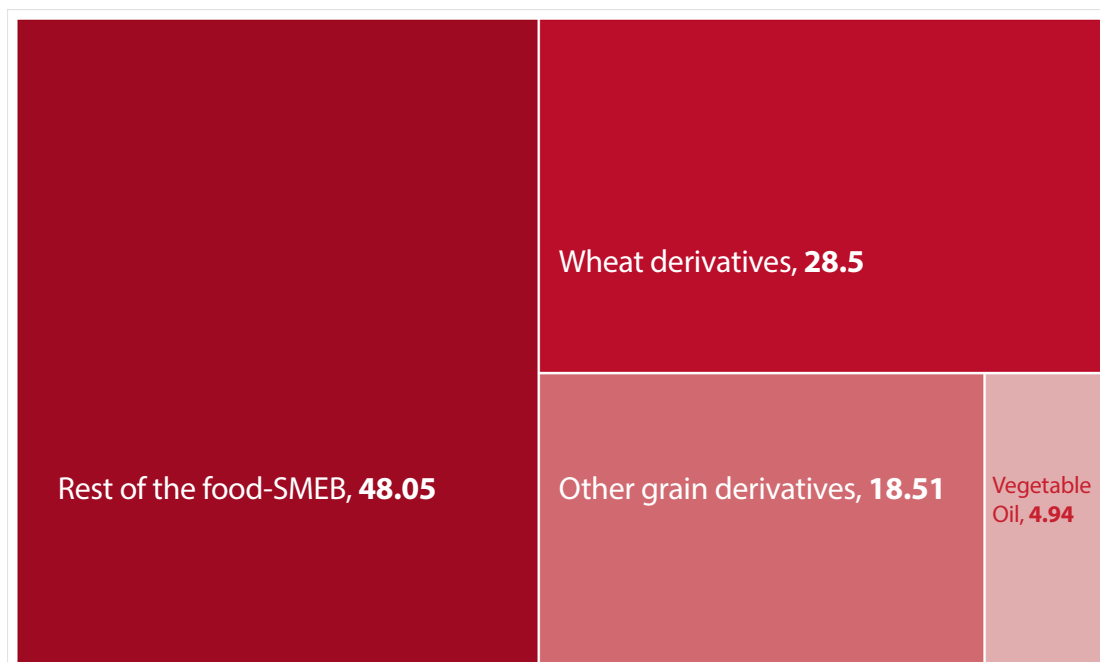


Figure 2: Food SMEB grain derivatives price percentage distribution (According to WFP Lebanon Food Security & Vulnerability Report)

<sup>9</sup> A World Bank, [Lebanon: wheat supply response project project information document](#) April 14, 2022.



Local bread price increases in the immediate aftermath of increased import costs would likely not be significant because the World Bank project will remain in effect through spring 2024. Once the balance is exhausted, however, import costs would be transferred through the supply chain to consumers.<sup>10</sup> The Ministry of Economy, the ministry responsible for setting bread prices, would face two options: adopting new bread pricing schemes in LBP or adding bread to the rest of dollarized items on supermarket shelves, thus ending the last standing food subsidy. Both scenarios would lead to higher bread prices, burdening vulnerable households with deteriorating purchasing power and higher costs of living.

Subsidizing new expensive wheat imports could also exhaust Central Bank reserves more quickly than expected.<sup>11</sup> Before the World Bank project came into effect in February 2023,<sup>12</sup> the Lebanese government partially covered USD 121 million of wheat import costs by converting SDRs.<sup>13</sup> The remainder was covered through Central Bank credit lines, using up its foreign currency reserves. In the absence of external funding sources, such as a renewed World Bank loan balance, the government would likely revert to Central Bank reserves to secure import credit lines. Since future global grain commodity price fluctuations are unpredictable, largely because they are so closely tied to the Russian-Ukrainian conflict, the total cost imposed on state coffers is difficult to forecast.

Vulnerable households will be most affected by global grain commodity price increases. Bread and grain derivatives occupy a significant share of the food basket that Lebanese households still rely on and are able to afford. Moreover, the bread bundle – namely the price at which it is sold – has historic symbolic significance in relation to national food security. Price shocks affecting local carbohydrates prices could trigger a social response, such as protests, labor strikes, or increased social tensions similar to those seen in 2022.<sup>14</sup> Only 1.16% of Lebanon's fertilizer imports came from the Russian Federation in 2022, which should have a minimal impact on Lebanese agriculture.<sup>15</sup> The increasing costs of grain-based livestock food and provisions,<sup>16</sup> however, might leave a more noticeable inflationary effect on locally produced food items such as dairy, egg, and meat - a basket already becoming a luxury for the most vulnerable Lebanese households.

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<sup>10</sup> LCAT, [Effects of the Ukraine conflict on Lebanon's economic and humanitarian crisis – one year on](#) February 28, 2023

<sup>11</sup> Prior to the implementation of the World Bank wheat import project, Lebanon's Central Bank allocated lines of credit for wheat imports totalling USD 12 million per month in 2020 and USD 20 million in 2021.

<sup>12</sup> World Bank, [First Shipment of 33,000 tons of Wheat Helps Rebuild Lebanon's Stock and Ensure Access to Affordable Bread](#) February 11, 2023.

<sup>13</sup> Lebanon began using its SDRs in September 2021. L'Orient Today, [Lebanon has spent at least two-thirds of its IMF SDRs](#) April 5, 2023.

<sup>14</sup> In response to bread shortages and increased prices following Russia's invasion of Ukraine, harassment and discrimination against Syrian refugees at bakeries increased. [Save the Children, Lebanon: Bread shortages fuelling tensions with Syrian refugees](#), August 2022.

<sup>15</sup> [UN Comtrade Database](#)

<sup>16</sup> Those provisions include corn, barley, and soybeans.





## Outlook for Aid Actors and Programming:

Price increases in the global wheat market will have an immediate impact on aid actors distributing in-kind food assistance. Even though a relatively small proportion of the Survival Minimum Expenditure Basket (SMEB) is based on wheat and wheat derivatives, the cost of providing in-kind food assistance packages will likely increase.<sup>17</sup> The broad effects of this price shock are dependent on how long prices increase. After Russian drones attacked the port of Reni, wheat prices hit a five-month high, but were still significantly lower than 2022 prices, which peaked in May in the aftermath of the Russian invasion of Ukraine.<sup>18</sup> Further Russian escalation and Ukrainian reprisals will be key to monitor here.

A separate but related dynamic is the cost of procured wheat if supply chains from Ukraine are severely disrupted. The World Food Programme (WFP) for example, procured 80% of its global wheat grain from Ukraine under the BSGI as of July 2023.<sup>19</sup> Rerouting from other grain suppliers will likely be more costly and lead to longer stock lead times. This scenario does not appear to be likely in the immediate term while land export routes remain open, but in the long run agencies such as the WFP may begin to diversify wheat imports away from Ukraine. In this scenario, the WFP might return to a procurement strategy similar to pre-BSGI, according to which about 50% of wheat is procured from Ukraine.<sup>20</sup> Unlike some other humanitarian contexts in which aid actors tend to purchase grains and cereals from domestic or regional markets, Lebanon's heavy reliance on Ukrainian wheat (77% of total import value) may leave organizations working in food security doubly exposed to a lack of import diversification.<sup>21</sup>

<sup>17</sup> According to the SMEB component distribution in the WFP report on Lebanese food security and vulnerability released in July 2022, about 10 percent of the total SMEB is produced from wheat and its derivatives. [WFP, Food Security and Vulnerability Analysis of Lebanese Residents](#), July, 2023.

<sup>18</sup> Trading Economics, [Wheat trading data](#), Date accessed: July 26, 2023.

<sup>19</sup> UN News, [One year of the Black Sea Initiative: Key facts and figures](#), July 2023.

<sup>20</sup> UN News, [One year of the Black Sea Initiative: Key facts and figures](#), July 2023.

<sup>21</sup> LCAT, [Effects of the Ukraine conflict on Lebanon's economic and humanitarian crisis – one year on](#) February 28, 2023.



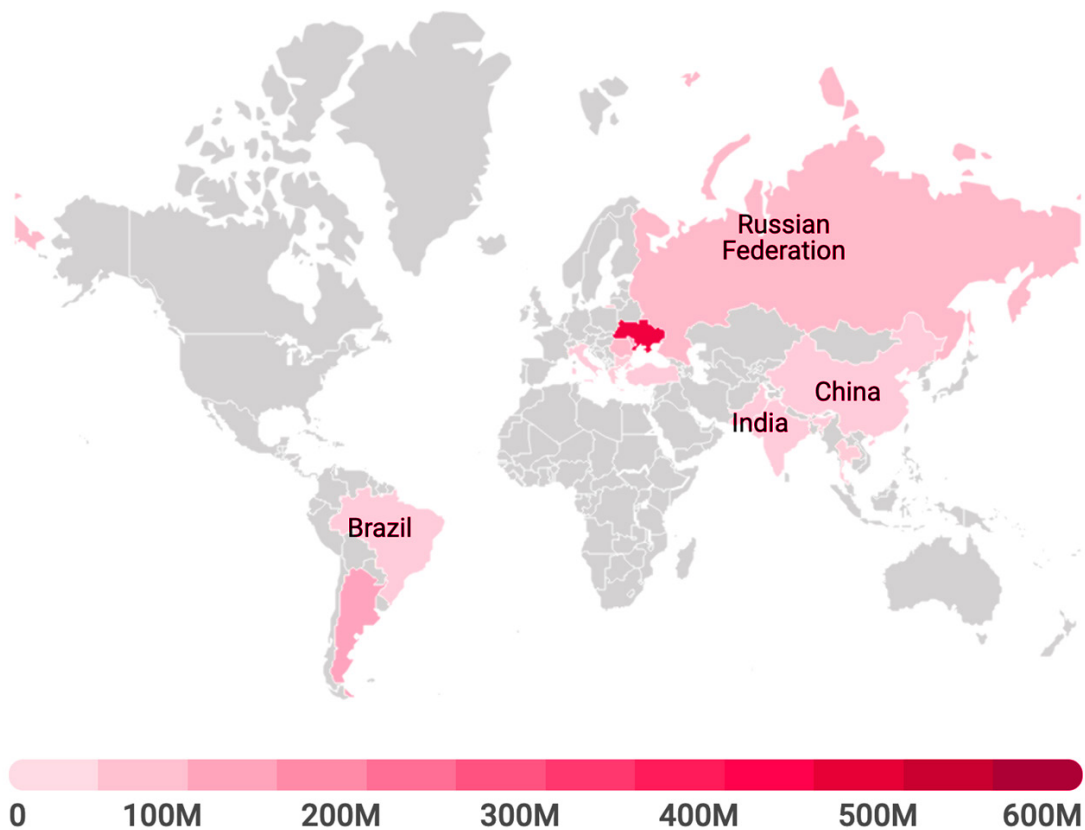
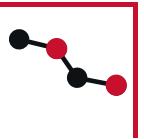


Figure 3: Major sources of cereals imports to Lebanon in 2022, in thousand tons, Lebanese customs official data.

As outlined in the analysis and impact section of this flash report, bread subsidies are only viable in the medium term as long as the World Bank supports Lebanon's wheat imports. Once framework agreements with selected importers expire later this year, the government will be unable to shield consumers from the volatile global wheat market and private importers will pass price shocks onto consumers. Since bread is a central part of the Lebanese diet, this would push up the cost of living considerably, increasing needs and rendering more people dependent on humanitarian aid, such as cash assistance.

Longer term, Russia's decision to withdraw from the BSGI may bring renewed scrutiny to Lebanon's food security planning and the roles that aid actors can play in it. This discourse may channel more donor funding towards ensuring food security objectives, disrupting previous predictions of donor priorities. Tremendous food price shocks in 2020 brought Lebanon's import dependency and narrow sourcing into focus among the aid community. And yet at the outbreak of the Ukraine war, Lebanon was the country with the greatest dependence on Ukrainian wheat globally.<sup>22</sup> Over one year later, Lebanon remains overwhelmingly reliant on Ukrainian wheat, raising questions about import dependency and narrow sourcing once again. Donor funding discourse may shift towards longer-term development strategies and goals to make Lebanon less import dependent, or at least reliant on a greater number of wheat exporting countries.

<sup>22</sup> LCAT, [Effects of the Ukraine conflict on Lebanon's economic and humanitarian crisis – one year on](#) February 28, 2023.



## What to expect for aid actors

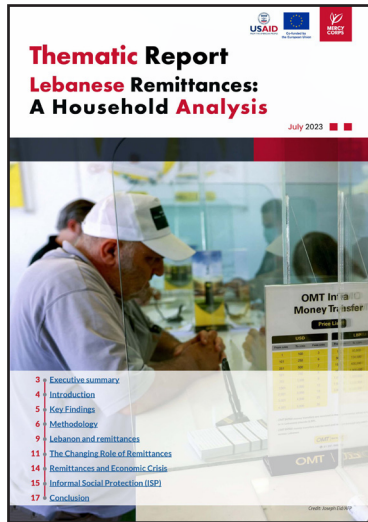
In an increasingly unpredictable wheat market, humanitarian actors in Lebanon will need to consider changing both the scale and approach of their interventions. First, increased wheat prices will affect various types of food security interventions. The global wheat price shock will have a direct impact on aid actors' budget lines for wheat-based goods provided in food packages to vulnerable households. Meanwhile, higher bread prices in the medium term will drive up need among vulnerable households. Aid actors will have to balance, on the one hand increased need due to higher costs of living, and on the other costlier interventions and the limitations of available funding opportunities.

Second, more sophisticated price prediction models are required to help aid actors efficiently allocate their resources in a more costly intervention environment. Such systems might track global grain price increases alongside ministry announcements concerning bread bundle price changes, in order to provide reactive and prognostic information about possible short-term scenarios. Since the global wheat market is responding to changes on the ground in Ukraine at a rapid pace, contingency planning will become increasingly important to aid actors in the coming months. If Russia does not rejoin the BSGI in the near term, organizations implementing in-kind food assistance should begin securing backup supply lines in order to guarantee goods procurement.

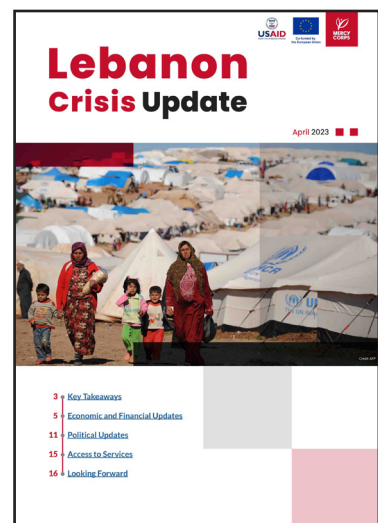
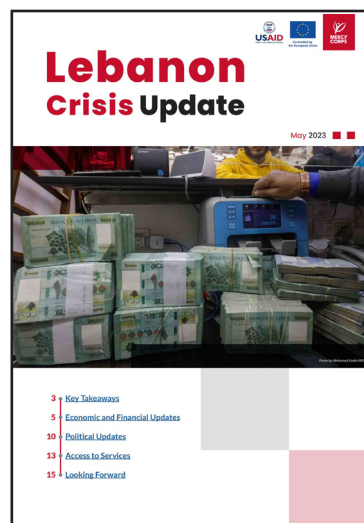
Aid agencies would be well advised to closely observe the caretaker government's actions (or lack thereof) in the coming weeks and months. The World Bank wheat import project affords Lebanon valuable time to account for rising global wheat prices, but there is no certainty that the government has the political will to push through bold initiatives, such as a national food security plan. Amid a fight over the future of the Central Bank leadership and who should be elected the next president, aid actors should expect executive policy responses to remain sparse and inadequate for handling continued food security crises. Therefore the impact of price increases and potential supply shocks will disproportionately affect Lebanon's most vulnerable residents, regardless of the so-called "summer recovery".



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