

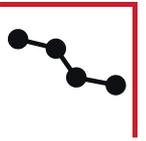
Flash Update

Humanitarian Impact of Ukraine Conflict on Lebanon

March 2022 ■ ■

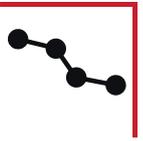


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The Lebanon Crisis Analytics Team (LCAT) provides reactive and in-depth context analysis to inform the humanitarian community in Lebanon. The information and analysis contained in this report is strictly to inform the humanitarian response and policymaking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

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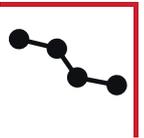
Summary

Lebanon faces significant fallout from the Ukraine conflict due to potential grain shortages and the economic impact of higher commodity prices - in particular fuel - when it can least afford it. Mired in one of the largest economic contractions in history, the heavily import dependent Lebanon must face down the prospect of higher commodity prices and a renewed collapse of the Lebanese lira. Lebanon's economy will be negatively affected by these factors at a time when the government has proven largely unable to mitigate their impact, and is devoid of the resources to do so. This in turn will negatively affect Lebanon's most vulnerable, with the cost of essential goods such as food and fuel disproportionately affecting the country's poorest residents.¹ In the context of rising humanitarian needs in Lebanon and a precarious macro-economic situation, the impact of the Ukraine conflict will exacerbate an already dire humanitarian situation, potentially prompting further political destabilization, undermining the potential for an economic recovery, and driving many more into dependence on humanitarian assistance.

Specifically, Lebanon faces the following risks:

- › A short-term wheat stock supply crisis due to the peculiar structure of Lebanon's imports as well as the loss of its strategic reserve capacity, compounded by short-term market panic affecting availability.
- › The devastating impact of essential commodity price increases, including fuel and food.
- › The risk of short-term hoarding of essential goods and the rise of back market activity.
- › Higher import costs driven by fuel and grain price increases, potentially driving further LBP depreciation and volatility.
- › A further reduction in the quality of critical services such as the provision of electricity, internet, and water.

¹ LCAT will conduct an in-depth report on the implications of the Ukraine conflict for Lebanon and continuously monitor wheat and fuel prices and their impact on vulnerabilities in forthcoming monthly contextual reports.



“ Overview

Russia’s invasion of Ukraine is having a profound impact on the global economy, primarily in the form of higher international grain and fuel prices (see figure 1)². This impact is most acutely felt in countries that are highly dependent on commodity imports and have poor food security indicators. The World Food Program (WFP) has already warned that the food security impact stemming from the Ukraine conflict will be felt globally.³

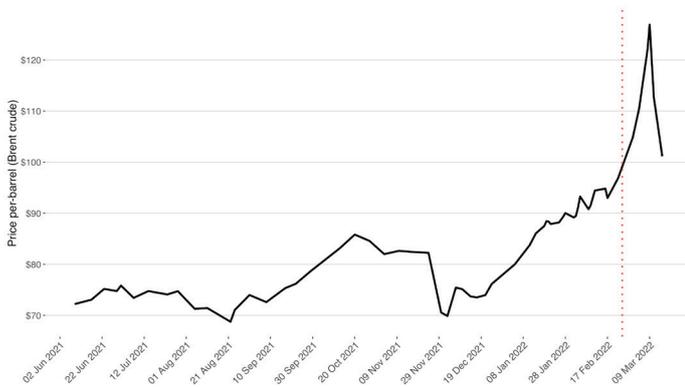


Figure 1: Price of one barrel of Brent crude. The red dotted line indicates the day of the Russian invasion.

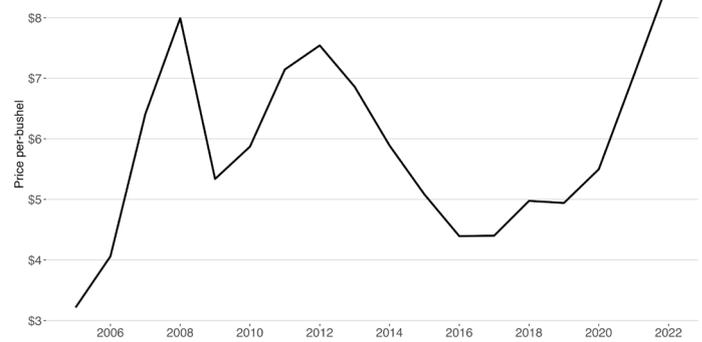


Figure 2: Price of wheat per-bushel. Data obtained from macro trends.

In addition to contending with the devastating economic crisis that began in 2019, Lebanon hosts a large Syrian refugee population and is still reeling from the Beirut Port blast in August 2020. A growing portion of the population depends on subsidized carbohydrates as a primary source of sustenance, increasing their vulnerability to price increases (See figure 3-4). Lebanon’s vulnerability to the vagaries of international commodity markets is made worse by its reliance on short-term spot markets for fuel and grain purchases, as opposed to more secure long-term contracts.⁴ As a result, international price hikes are felt quickly, most often within weeks. Moreover, the collapse of the Lebanese lira has resulted in major price inflation across the board. For example, fuel prices significantly increased on the local market due to the removal of foreign exchange subsidies in late 2021.

² Ukraine and Russia produce a huge proportion of the world’s wheat and other grain products. The closure of Black Sea ports and financial sanctions against Russia have driven the major increase in commodity prices, increases that will be largely linked to the trajectory of the conflict. Even in the low likelihood that the conflict will de-escalate in the coming days, commodity prices will take time to correct. Already it is clear that the 2022 Ukrainian winter wheat harvest in June will be severely affected by the conflict, meaning high wheat prices should be expected well into 2023.

³ Food security implications of the Ukraine conflict | World Food Programme

⁴ There is a degree of opaqueness and secrecy around how Lebanese importers procure fuel in particular, although statements by the Ministry of Economy in 2020 indicate that short term spot market purchases are the likely norm. ([Here](#) and [here](#))

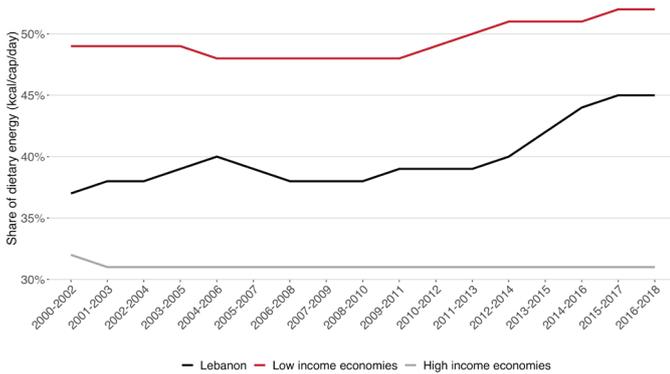
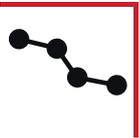


Figure 3: Share of dietary energy supply derived from cereals, roots, and tubers (kcal/cap/day) (3-year average) in percentage. Lebanon increased to 44% from 36% in 2002: Source: LCAT analysis based on FAOSTAT data.

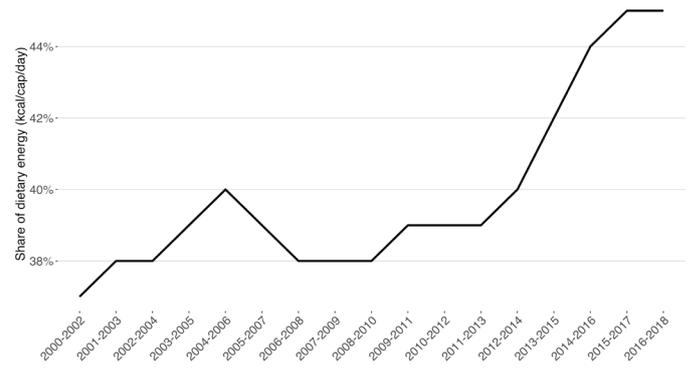


Figure 4: Share of Dietary Energy Supply Derived from Cereals, Roots, and Tubers (Kcal/cal/day).

Wheat and grains:

Lebanon can no longer house a sizable strategic grain reserve following the destruction of grain silos at Beirut Port in the August 2020 blast. Currently, the country holds an estimated six to eight weeks supply of wheat according to officials.⁵ According to FAO and Lebanese customs data, Lebanon sourced 81.2% of its wheat from Ukraine in 2020 (see figure 5).⁶ Similar figures for other grains such as soy and corn, as well as vegetable oils, suggest that the broader impact of the Ukraine conflict on food should not be underestimated.⁷

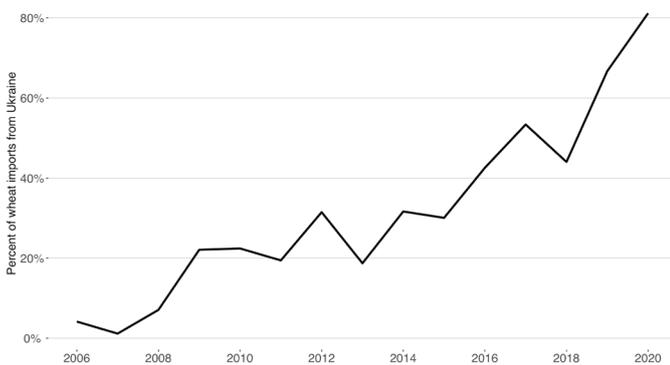


Figure 5: Share of Lebanese Wheat Imports from Ukraine.

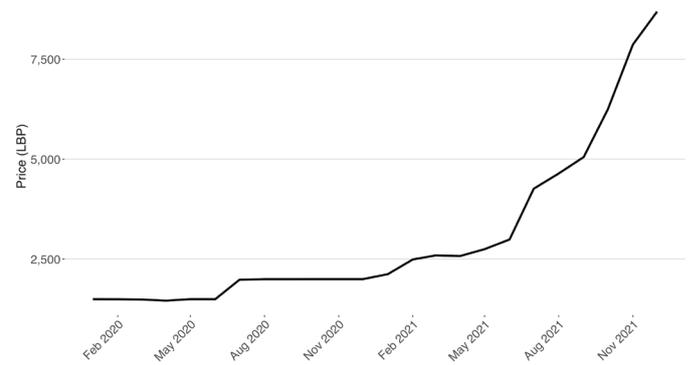


Figure 6: The price of pita bread in Lebanon. Source: WFP

Irrespective of price increases, in the immediate term, a sustained inability to access new wheat sources in the context of a continuing disruption of Black Sea supply could lead to a supply crisis in Lebanon, as buyers around the world scramble to identify new sellers.⁸ According to The National, the situation has prompted the Lebanese government to consider direct intervention to ensure access to wheat supplies in the coming months, with the Lebanese Minister of Economy reportedly requesting that the US and other international donors assist in securing an emergency reserve.⁹ Of note, the destroyed port silos' collective capacity was 120,000 tons and similar storage alternatives have yet to be identified.¹⁰

⁵ Lebanon estimates wheat needs per month are around 50,000 MT, and that therefore supplies at normal consumption should hold out until mid-April, and further with rationing. Commodities other than wheat could also be heavily impacted by the conflict. For sunflower oil, Lebanon imported almost all its needs from Ukraine or Russia, with both countries provide around 80 percent of the global export of sunflower oil.

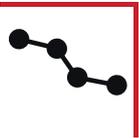
⁶ Dependence on Black Sea grain is a relatively recent development, having increased significantly over the last 10 years.

⁷ Corn is essential for livestock feed, which in turn will increase the cost of meat and poultry products.

⁸ Local production of wheat - some 100,000 tons - covers about 20% of need, although mainly for hard grain consumption.

⁹ Lebanon seeks US aid to buy \$20m wheat a month as Ukraine war hits supply. The purchased wheat will then be reportedly stored at the country of sale and brought to Lebanon as needed. Negotiations with Turkey are ongoing to facilitate this arrangement.

¹⁰ Recent media reports highlight that Lebanon's reserve capacity is higher than previously thought, with warehouses being identified in the Bekaa. Russian Roulette: Ukraine Exposes Lebanon's Dangerous Food Security Game.



Lebanese authorities are attempting to assuage fears of a market shortage by promising direct action. This includes an announcement by the Central Bank that it is opening lines of credit to wheat importers as well as efforts by the government to engage with other exporters, including in Australia and the United States. Lebanese officials are lobbying other governments for support in accessing reliable grain supplies, and Prime Minister Najib Mikati made a similar request to the secretary-general of the United Nations on March 14. Officials told L’Orient Today that in addition to six weeks of domestic reserves, multiple ships carrying wheat are inbound. Moreover, the government indicated that it will ration wheat reserves and limit exports of food products requiring imported cereals such as milled grains, bread, and fodder, but also processed fruits and vegetables, sugar, and some alcohol.¹¹ Therefore, it is unclear to what extent Lebanon will experience wheat shortages in the coming two months. Nevertheless, given widespread dependence on wheat among the population as a basic source of dietary intake, the impact of any shortage will be devastating.

Fuel price Increases:

Perhaps more harmful for Lebanon in the medium term is the projected increased cost of imported fuel. Lebanese authorities have done little to insulate themselves against fluctuations in international markets and global price shocks, despite being warned about the potential for oil price increases in early 2020. Already, the price of Brent Crude has increased significantly this year (See figure 1). The Ukraine conflict exacerbated this, with international prices reaching as high as USD 139 per barrel of Brent Crude on March 6.¹² Fuel imports are the largest drain on Lebanon’s scarce FX reserves, in part due to the country’s inefficient and flawed electricity sector. A reduction in fuel subsidies has also resulted in major increases in the LBP cost of fuel, with further increases in the last few weeks driven by petroleum markets (See figure 7). Moreover, fuel is a major cost driver across all value chains, increasing inflation across the board. This includes staple foods such as bread, driving major increases even in the context of continuing subsidization of wheat by the Central Bank. Of note, the impact of higher prices on electricity provision, either through Électricité du Liban (EDL) or through private generators, will likely offset the positive impact of initiatives such as the Jordan gas deal with Lebanon, which is expected to begin in the next few months.¹³

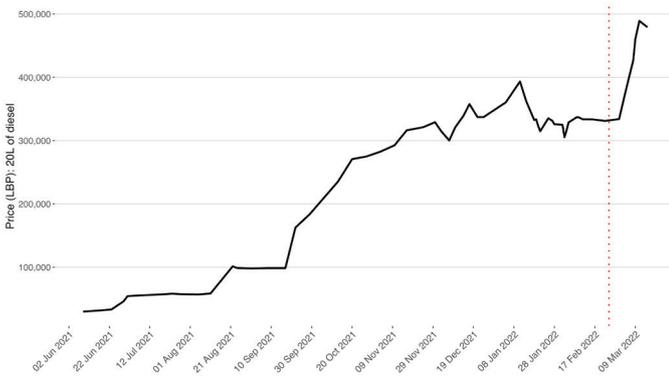


Figure 7: Price of 20 liters of diesel up until March 15, 2022. The red dotted line indicates the day of the Russian invasion.

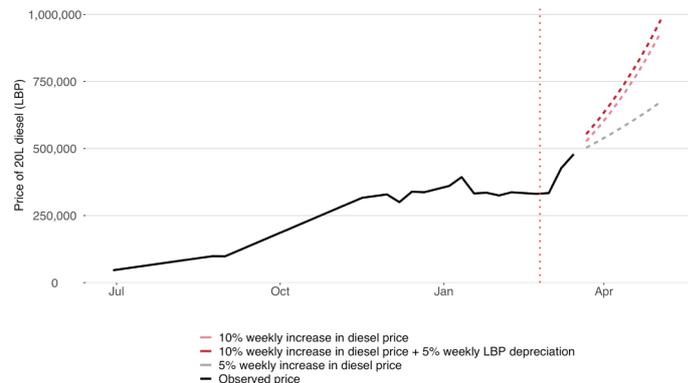
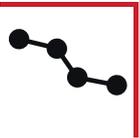


Figure 8: Predicted price of 20 liters of diesel in the context of both international commodity prices and LBP - USD depreciation.

¹¹ [Lebanon bans export of some locally-produced foods - state news agency | Reuters](#)

¹² Prices have subsequently declined, with Brent Crude sitting at about USD 110 as of March 14, 2022. However, JP Morgan has warned the supply crisis could see oil rising as high as USD 185 per barrel. [JPMorgan \(JPM\) Says \\$185 Oil in View If Russian Supply Hit Persists - Bloomberg](#)

¹³ The Minister of Energy stated the increased hours will begin in “Spring”, and that expected public sector electricity hikes will be put in place only after the additional state electricity hours have been implemented. The deal is only expected to bring between 2-4 additional hours.



Risk of further LBP depreciation driven price inflation:

Price rises will also exacerbate macro-economic challenges facing the LBP, with wheat imports being subsidized by the Central Bank amid sharply declining foreign exchange reserves. Despite the subsidies, bread prices rose by over 600% in 2021.¹⁴ Wheat prices have jumped over 30% percent since the Ukraine conflict broke out.¹⁵ The increase in global fuel prices will also pose additional foreign exchange costs on Lebanon’s import bill. This comes at a time when the Central Bank appears to be burning through reserves to stabilize the currency following a sharp depreciation in late 2021.¹⁶

| | Estimated consumption 2020 (\$USD, millions) | Estimated consumption in 2022 with an estimated 30% global price increase in fuels and wheat (\$USD, millions, base 2020) |
|---------------------|--|---|
| Fuel EDL | 1000 | 1300 |
| Gaz (LPG) | 110 | 143 |
| Mazout | 1195 | 1553.5 |
| Other fuel | 1070 | 1391 |
| Medication/supplies | 1300 | 1300 |
| Wheat | 150 | 195 |
| Essential items | 960 | 960 |
| Total | 5785 | 6842.5 |

Table 1: Approximation of the increase in Lebanon’s import bill in USD million based on 30% fuel and grain international price increase.

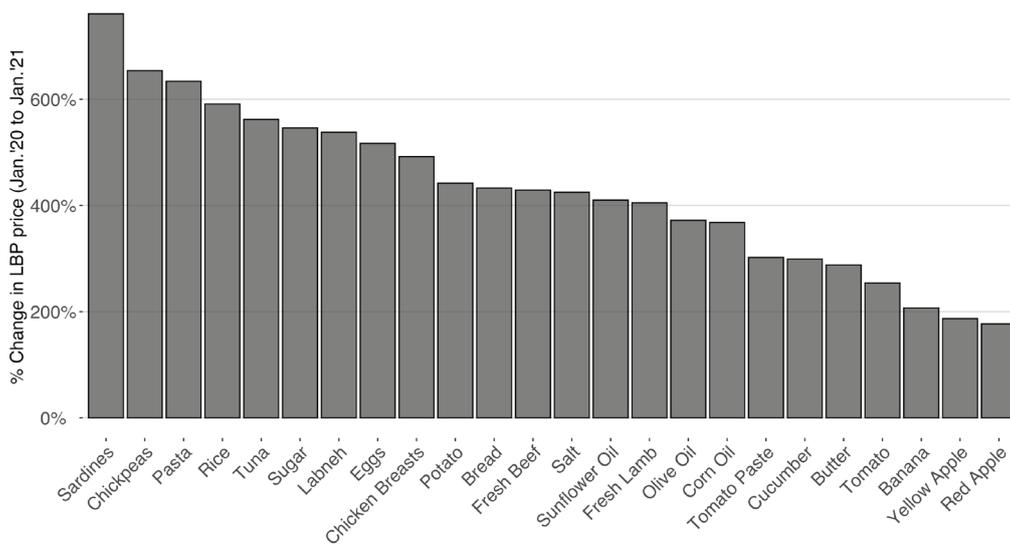


Figure 9: Change in the LBP price of selected goods, from January 2020 to January 2021.

¹⁴ [The last subsidy standing: Lebanon’s wheat subsidy is still in place, but is it working? - L’Orient Today](#)

¹⁵ It is notable that international wheat and grain prices were already historically high, having already risen around 25% over the course of 2021/2022.

¹⁶ Although tactical interventions by the Central Bank to pull the large amount of USD cash liquidity out of households into the market, in combination with a tightening of LBP liquidity, have also played a role in LBP stabilization since January.

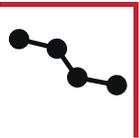


Impact and Analysis:

Short-term risk of shortages: Lebanon risks a wheat shortage if the government cannot successfully identify new suppliers. Should shortages of bread and other core food items affect much of the country, poorer families will likely go hungry amid black market diversion and hoarding, especially given the poorly regulated and decentralized structure of wheat storage. In the context of shortages, government restrictions on the export of manufactured food products in an effort to prioritize local consumption will continue, which in turn could have a damaging impact on affected businesses.

Immediate and short-term impacts on market stability: The Ukraine conflict's impacts are already being felt, despite it being far too soon for international price increases to have reached downstream markets. This is likely due to the nervousness of the population and the actions of local suppliers. Immediate price changes are anticipatory and related primarily to seller market power as opposed to the immediate effect of price increase. During the first week of March, lines at gas stations reminiscent of the shortages experienced in summer 2021 reappeared, driven by a combination of consumer fears of impending price increases, as well as the likely action of sellers holding back stock in anticipation of future price increases. Increased demand for fuel supplies have also led to the return of a black market, as consumers attempt to stock up in expectation of future price increases.

⁷ Agriculture is the third-most productive sector in the country after the tertiary and industrial sectors. It contributes 5% of GDP and 8% of the effective labor force. Source: FAO.



Risk of further LBP depreciation due to nervous currency markets and major increases in import costs: In addition to pressure on the supply of basic goods, currency markets are also nervous, with exchangers telling LCAT that sales in USD are significantly reduced. The LBP rate, stable at around 20,000 LBP since mid-March, dropped to 23,700 on March 9, likely driven - at least in part - by reluctance over the impact of the higher commodity prices. The drain on foreign exchange in the market, even in the absence of Central Bank subsidies on most goods apart from wheat and some medicines, will place increasing pressure on the Central Bank's recent, albeit tenuous, stabilization of the currency, and will accelerate the reduction of Lebanon's current foreign exchange reserves, in turn risking a broader collapse.

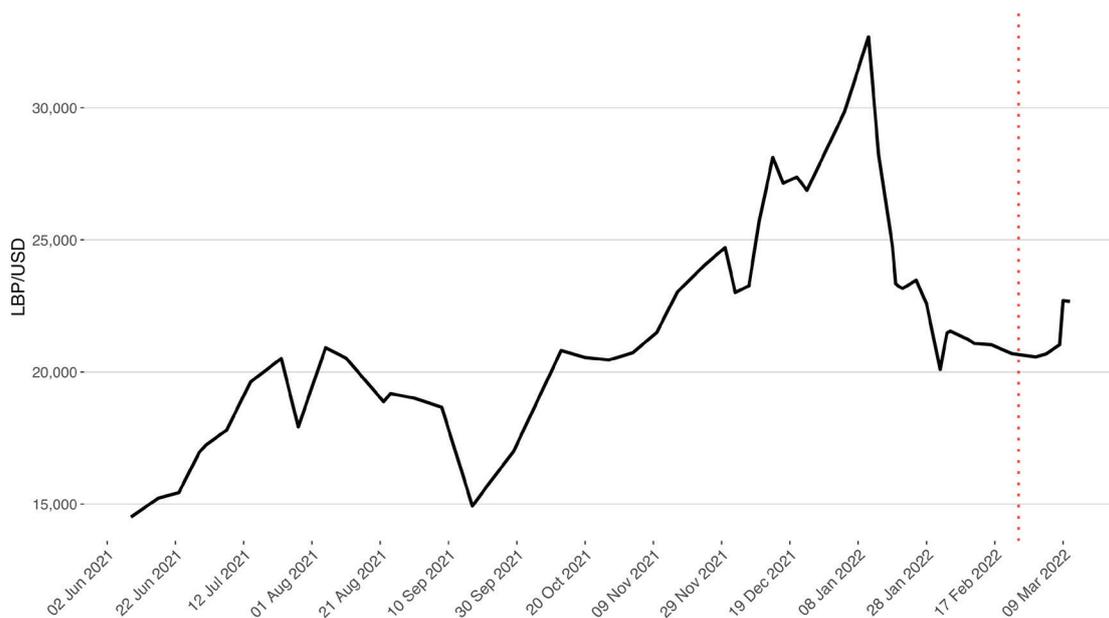
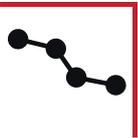


Figure 10: USD/LBP exchange rates. The red dotted line indicates the day of the Russian invasion.

Sustained price increases, driven largely by fuel and grain: Should the Central Bank continue to struggle to support importers' credit lines, it will increasingly push the cost of imports to the market. Amid expected cost increases for a population struggling to pay for electricity and fuel, the main coping mechanism will be reduced consumption. Businesses will close, critical services such as water and communications will deteriorate, and local electricity providers will reduce output. The cost of fuel is expected to rise significantly, either through the direct pass through of higher international prices, or through the impact of any future depreciation of the LBP (See figure 10).

Increased political instability and deterioration of security: There is a significant risk that higher fuel and food prices could drive social tensions, instability, and protests. Historically, there is a strong correlation between political instability and rising international food prices.¹⁷ Competition over scarce resources among political actors seeking to secure control over aspects of the economy to serve certain clientelistic networks above others could also precipitate conflict.

¹⁷ [Interaction between Food Prices and Political Instability, \(PDF\) The Food Crises and Political Instability in North Africa and the Middle East | Marco Lagi and Yaneer Bar-Yam - Academia.edu](#)



“ Implications for **humanitarian actors :**

Price increases will drive a larger proportion of the population into dependence on humanitarian assistance. Humanitarian actors need to respond to increasing needs dynamically and effectively.

It is possible that the impact of the Ukraine crisis, in combination with Lebanon's other economic challenges, **could prompt a further round of severe currency depreciation.** As was the case in similar periods in 2021, this will pose significant challenges to humanitarian operations, accelerating the push towards a full dollarization of humanitarian delivery alongside the concurrent risks this poses regarding social tensions.

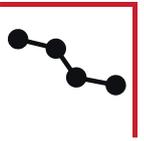
In the context of potential commodity shortages, humanitarian actors may struggle to procure in-kind support and will increasingly rely upon modalities such as **cash assistance - likely the most agile and dignified approach** to supporting beneficiaries in this context - especially as government anti-poverty targeting programs are either absent or insufficient in addressing needs. Where possible, humanitarian actors should advocate for international efforts to **mitigate the risk of short-term supply issues affecting wheat and other basic food commodities.**

Should the political and security situation be affected by expected price increases and shortages, **humanitarian actors could face security challenges and access constraints.** Road blockages and protests would directly affect staff movement, while the increased cost of fuel could pose risks of theft targeting humanitarian assets and staff, as well as beneficiaries receiving support. Humanitarian actors may also be subject to increased **risk of aid diversion and pressure to adjust beneficiary targeting.**

Increased tensions driven by rising household costs and/or shortages **between refugee and host communities,** and more broadly across communities in Lebanon, could result in access constraints for humanitarian actors should certain areas experience a breakdown in security. Humanitarian actors themselves may be targeted for criticism or worse due to a perception of supporting one community over another.

In the context of sustained increases in international fuel prices, **humanitarian actors should expect and prepare for a reduction in services in the coming months,** especially heading into summer. This may entail reduced electricity provision from private service providers. The **increased cost of fuel will affect other basic services such as water networks and phone and internet services.**

The conflict in Ukraine will place pressure on global humanitarian and development assistance budgets, as many countries scale up support for Ukraine in the context of a major conflict and associated refugee crisis. **Any potential reduction in humanitarian funding as a result of the conflict in Ukraine will occur amid increased vulnerabilities across the country,** placing pressure on humanitarian actors to target and program more effectively, with a strong understanding of contextual dynamics and preparedness for potential further economic and political deterioration.



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