

Country Commercial Guide 2004 Lebanon



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CHAPTER 1: EXECUTIVE SUMMARY

Lebanon's free market economy, the absence of controls on the movement of capital and foreign exchange, a highly educated labor force, and the quality of life have encouraged a number of foreign companies to set up offices or regional offices in Lebanon in recent years. According to statistics from the Ministry of Economy and Trade, 38 foreign companies – offices and branches - registered at the Ministry in 2002, encouraged to some degree by new legislation and measures taken by the Government of Lebanon in recent years to attract foreign direct investment, create jobs, and stimulate economic growth. In terms of a U.S. presence, Computer Associates established an office in Beirut in January 2003, and Intel announced plans to open a Levant and North Africa office in Beirut during 2003. Several U.S. firms expressed interest in Government projects in the field of transportation and telecommunications.

However, some foreign companies have left, or decided to move their regional offices to neighboring countries, or refrained from investing in Lebanon because of frustration resulting from red tape and corruption, arbitrary licensing decisions, archaic legislation, an ineffectual judicial system, high taxes and fees, and a lack of adequate protection of intellectual property. Violence against several U.S. fast food outlets and calls for the boycott of U.S. products have led investors to opt for a low profile and discouraged expansion. Transparency, clear regulations and fair consideration of bids have never been the rule in Lebanon. Private sector companies should be wary when bidding for public projects. The interpretation of laws remains flexible; for example, while the new Real Estate Law eases restrictions on foreign ownership, the Cabinet rejected a request to own property by a U.S-Palestinian citizen in December 2002, on the grounds that "this could set a precedence that might lay the foundation for the settlement of Palestinians in Lebanon."

2003 held several positive developments for Lebanon following the success of the Paris II Donors conference in November 2002, where Lebanon attracted pledges totaling USD 4.3 billion, of which USD 3.1 billion is to be used to support fiscal adjustment and debt restructuring and USD 1.2 billion to support economic development projects. To date, the GOL has received USD 2.4 billion. About 87 percent of that amount has been used to retire maturing debt, which carried an average cost of 13.5 percent; in return the GOL issued to donors 15-year dollar-denominated Eurobonds carrying a five percent coupon rate, with a five-year grace period for repayment of principal. On the domestic front, the Central Bank of Lebanon (CBL) and commercial banks also contributed to the reduction of debt servicing costs. In December 2002, the CBL wrote off USD 1.8 billion in public debt it held and re-subscribed USD 1.8 billion in 15-year dollar-denominated Eurobonds carrying a four percent coupon, with a five-year grace period for principal. Commercial banks subscribed ten percent of their deposit base as of October 31, 2002, (USD four billion) in two-year Treasury bills at zero-interest rate. As a result of these combined efforts, more than USD 10 billion were mobilized from local and international sources and used to replace high cost, short-term debt with lower cost and longer maturity debt.

The positive impact of Paris II spilled over to the financial markets and as interest rates fell. The foreign exchange market saw an oversupply of dollars that was picked up by the CBL, thus boosting the CBL's assets in foreign currencies (excluding gold) to over USD 11 billion by mid-July 2003. Dollarization dropped from 69.37 percent at the end of 2002 to 67.8 percent at the end of May 2003. Interest rates on Lebanese pound Treasury bills of all categories dropped by more than 40 percent; compared to

November 2002, the yield on the three-month T-Bs dropped from 11.18 percent to 6.96 percent, and from 12.12 percent on the six-month T-Bs to 8.18 percent, and from 13.43 percent on the 12-month T-Bs to 9.13 percent, and from 16.64 percent on the 24-month T-Bs to 9.2 percent. Similarly, commercial banks' deposit and lending rates also dropped. The average LL and USD deposit rates reached 8.51 percent and 3.64 percent in April 2003, falling by 193 points and 50 points respectively relative to November 2002. The average LL and USD lending rates decreased by about 158 points and 40 points, reaching 14.5 percent and 9.22 percent respectively in April 2003. Banks further reduced prime lending interest rates to 11 percent for LL lending and 7.75 percent for USD lending. Demand for Eurobond issues picked up, with prices trading above par. The balance of payments recorded an accumulative surplus of USD 2.417 billion for the first half of 2003.

While the IMF publicly commended the government's efforts on fiscal reform and debt restructuring, it expressed concern over delays in privatization and securitization, and urged for fiscal consolidation, economic reform and improvement in the overall domestic political climate. The GOL had anticipated the privatization of the mobile network operations and the electricity production and distribution as well as the securitization of the Lebanese Tobacco Company "Regie" proceeds during 2003, thus securing about USD 3 billion, that would be used to reduce the debt stock and debt servicing. However, privatization has stalled and seems unlikely to be implemented this year. The Finance Ministry hopes to securitize the proceeds (customs duties and excise on cigarette sales) of the Lebanese tobacco company "Regie" before the end of 2003. The Ministry expects to secure between USD 550 million and USD 650 million from this transaction, and awaits the Cabinet's approval to move forward. The GOL continues to face difficulties securing political consensus to move forward on privatization, securitization, and economic reform. Politicians from all sides oppose privatization, fearing loss of power and constituents' votes. Tension between the President and the Prime Minister that effectively blocks progress on the issue is likely to remain until the Presidential elections in the fall of 2004.

The outbreak of the war on Iraq had a relatively mild impact on the domestic economy, as a result of increased confidence following the inflows of promised pledges and the government's fiscal adjustment efforts. The improved overall economic conditions led international rating agency Standard and Poor's (S&P) to change twice its outlook on Lebanon since the beginning of the year, first from "negative" to "stable" and then from "stable" to "positive". As to the sovereign long-term and short-term ratings, S&P affirmed Lebanon's "B-" and "C" respectively.

For 2003, the Central Bank Governor predicts a real GDP growth between two to three percent, depending on economic performance this summer. The Finance Ministry predicts a 2-2.5 percent growth, less than the projected three percent, as a result of the increase in oil prices, the rise in the Euro valuation, and regional instability. Audi Bank's Research Department projects a two percent growth based on first half economic performance. The IMF Article IV consultation mission predicts a growth between 2-2.5 percent in 2003, picking up to three percent in 2004 if the government's reform program is implemented. Inflation is projected to remain low, at less than 5 percent, and currency stability will be maintained. Several prominent economists foresee that the economy will remain in a status quo until the Presidential elections in fall 2004. The medium-term outlook for the economy will depend on structural reforms and privatization, reduced budget deficits and debt service, and higher growth.

The U.S. seeks to promote political stability, economic development, and the independence, sovereignty, and territorial integrity of Lebanon. After steady declines in U.S. economic assistance to Lebanon in the 1990's, assistance levels stabilized in 1997 with a five-year \$60 million program. In FY2001, following the Israeli withdrawal from south Lebanon, assistance in Economic Support Funds (ESF) increased from a \$12 million annual level to \$35 million per year through FY2004. The assistance program focuses on sustainable community development with multiple objectives and partners. The development strategy has three objectives: rebuilding infrastructure and expanding economic opportunities, increasing the effectiveness of democratic institutions, and improving environmental practices. USAID provides assistance for economic policy reform, parliamentary reform, municipal governance, and anti-corruption, and is involved in supporting a Mine Action program that focuses on mine awareness and victims' assistance. The U.S. also provides humanitarian de-mining and some other non-lethal military assistance (primarily surplus equipment) and military education and training programs to the Lebanese Armed Forces.

The U.S. has neither a bilateral investment treaty (BIT) with Lebanon, nor an agreement on the avoidance of double taxation. Lebanon has expressed an interest in signing both. Discussions of a BIT reached a preliminary stage in 2001 and have been pending since then. Both the Prime Minister and the Minister of Economy have publicly expressed caution regarding a Middle East Free Trade Area.

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CHAPTER 2: ECONOMIC TRENDS AND OUTLOOK

MAJOR TRENDS AND OUTLOOK

2003 held several positive developments for Lebanon following the success of the Paris II Donors conference in November 2002, where Lebanon attracted pledges totaling USD 4.3 billion, of which USD 3.1 billion is to be used to support fiscal adjustment and debt restructuring and USD 1.2 billion to support economic development projects. To date, the GOL has received USD 2.4 billion. About 87 percent of that amount has been used to retire maturing debt, which carried an average cost of 13.5 percent; in return the GOL issued to donors 15-year dollar-denominated Eurobonds carrying a five percent coupon rate, with a five-year grace period for repayment of principal. On the domestic front, the Central Bank of Lebanon (CBL) and commercial banks also contributed to the reduction of debt servicing costs. In December 2002, the CBL wrote off USD 1.8 billion in public debt it held and re-subscribed USD 1.8 billion in 15-year dollar-denominated Eurobonds carrying a four percent coupon, with a five-year grace period for principal. Commercial banks subscribed ten percent of their deposit base as of October 31, 2002, (USD four billion) in two-year Treasury bills at zero-interest rate. As a result of these combined efforts, more than USD 10 billion were mobilized from local and international sources and used to replace high cost, short-term debt with lower cost and longer maturity debt.

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On the fiscal front, the government continued to improve fiscal imbalances, and in turn succeeded in achieving a 27 percent improvement in the overall (budget and Treasury) primary surplus in the first half of 2003 compared to the corresponding period in 2002. Overall revenues increased by 16.8 percent as a result of a 12 percent rise in tax revenues, triggered by a 70.8 percent increase in VAT revenues. Total budget and Treasury expenditures amounted to USD 3.58 billion, an increase of 13.4 percent compared to the first half of 2002. Debt service rose by 11 percent. The overall deficit reached about USD 1.4 billion, up by 8.4 percent compared to the first half of 2002, and represented 38.9 percent of total budget and Treasury expenditures, lower than the 40.7 percent deficit ratio in the first half of 2002, but much higher than the 27 percent ratio set in the 2003 budget.

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Lebanon's gross total public debt (domestic and foreign) reached USD 32.6 billion at the end of May 2003, a four percent increase since the end of 2002, attributable to the rise in foreign public debt resulting from Paris II inflows. Based on the GOL's 2003 GDP estimate, gross public debt reached 179 percent of GDP at the end of May 2003, compared to 175 percent at the end of 2002. While domestic public debt remained nearly stable, foreign debt amounted to USD 15.785 billion at the end of May 2003, representing an 8.5 percent increase since the end of 2002, and accounting for 48.4 percent of gross public debt. This is in line with the government's debt restructuring efforts. The Central Bank Governor remarked that although he projects the net public debt (excluding public sector's creditor account) to reach USD 31-32 billion at the end of 2003 (compared to GOL's projection of USD 25 billion), the debt service will drop by 20 percent in 2004 and 2005 as most of the debt issued in 2003 carries zero-percent or low interest rates.

The outbreak of the war on Iraq had a relatively mild impact on the domestic economy, as a result of increased confidence following the inflows of promised pledges and the government's fiscal adjustment efforts. The improved overall economic conditions led international rating agency Standard and Poor's (S&P) to change twice its outlook on Lebanon since the beginning of the year, first from "negative" to "stable" and then from "stable" to "positive". As to the sovereign long-term and short-term ratings, S&P affirmed Lebanon's "B-" and "C" respectively.

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outlook for the economy will depend on structural reforms and privatization, reduced budget deficits and debt service, and higher growth.

PRINCIPAL GROWTH SECTORS

Banking

Banking activity, measured by the variation in total assets of all banks operating in Lebanon, reported a growth of about 6.7 percent in the first half of 2003, compared to 1.7 percent in the first half of 2002. The commercial banks' consolidated balance sheet shows that total assets reached \$56 billion at the end of June 2003, a 6.74 percent increase in the first half of 2003 and a 15.9 percent increase compared to June 2002. Private sector deposits totaled USD 45 billion, up 13.1 percent from June 2002. The dollarization rate of deposits dropped from 73.6 percent in June 2002 to 69.4 percent in December 2002, reaching 67.4 percent at the end of June 2003, as a result of increased demand for Lebanese pounds. Loans to the private sector rose by one percent compared to June 2002, and amounted to USD 15.6 billion. The dollarization rate in private sector lending rose by 0.9 percent, with the share of loans in foreign currencies reaching 83.6 percent, up from 82.8 percent in December 2002. The slight increase in loans versus the significant increase in deposits led to a drop of the loans-to-deposit ratio to 34.8 percent at the end of June 2003. The banks' liquidity ratio (net liquid assets to total deposits) rose significantly, reaching a record high of 80.2 percent at the end of June 2003; this is attributable to the conservative lending policies of commercial banks. By the end of June 2003, commercial banks held 67 percent of the total Treasury bills portfolio. According to Audi Bank's Research department, banks' consolidated profits slightly increased first quarter of 2003 compared to the corresponding period in 2002, as a result of the positive impact of the Paris II conference on the markets. Quoting Central Bank's preliminary statistics, banks registered a growth in net profits of 2.3 percent in 2002, compared to a 2.3 percent decline in net profits in 2001. Prominent bankers believe that banks' profits in 2003 will be ten percent less than in 2002 as a result of a drop in interest rates on placements in LL and USD instruments and subscription up to ten percent of their deposit base as of October 2003 in zero-interest rate Treasury bills.

Retail banking, electronic banking and bank assurance services are currently growing among Lebanese banks. New products and services range from Internet service packages to insurance policies to Islamic banking services. Monetary authorities strongly support the consolidation of family-owned banks and the creation of financial instruments to channel savings into productive sectors. The banking sector awaits Cabinet's approval of a revised Merger Law for further consolidation. Six commercial banks are currently listed on the Beirut Stock Exchange. Several foreign banks and financial institutions have opened branches or rep offices in Lebanon. Regarding U.S. presence, Citibank has two operating branches in Greater Beirut; American Express Bank, JP Morgan Chase Bank, and Bank of New York maintain representative offices. In 2003, three Lebanese commercial banks were licensed by the Central Bank of Syria to operate in Syria. The Central Bank of Lebanon (CBL), the Banks' Association and the Banking Control Commission are exploring the possibility of establishing a real estate investment firm that would acquire real estate assets repossessed by banks and the CBL (about USD 330 million and USD 300 million, respectively, worth of real estate as of the end of March 2003) in order to provide the CBL and banks with liquidity. The IFC and some Arab investment funds could participate in the firm's capital.

In June 2001, Moody's announced that it would drop its foreign ceiling cap on foreign currency bond ratings for corporate issuers, based on the issuer's creditworthiness, its access to foreign exchange and the fact that these issuers would be able to repay their foreign debts even if their governments could not. In June 2003, Moody's indicated that the financial strength ratings of rated Lebanese banks continue to be constrained by the difficult, though improving, operating environment in Lebanon and the banks' significant exposure to government debt. Moody's kept its "negative" outlook on all ratings of Lebanese banks, as about 35 percent of the banks' assets are exposed to Lebanese debt. Moody's reconfirmed Lebanese banks' foreign currency bank deposit ratings at "B2/Not Prime".

Tourism

Lebanon has fared well in attracting tourists in recent years. Tourist arrivals in 2000, 2001, and 2002 registered increases of 10, 13 and 14 percent, respectively, with Arab nationals constituting the largest percentage. The number of tourists reached 956,000 by the end of 2002, half of which came during the high season months of July, August and September. Lebanon's tourism sector employs 200,000 people. The sector's outlook is broadly positive, with improving infrastructure, additional hotel room supply and new efforts to promote Lebanon abroad. The tourism sector is believed to constitute 9% of GDP.

Beirut is witnessing a spectacular growth in the number of hotels partnered with international chains. Hotel projects worth USD 200 million are currently under construction in downtown Beirut. These include more than six five-star hotels such as Hilton, Four Seasons and Starwood. UAE tycoon Al Habtoor has announced plans to build a USD 150 million city center building that will include another hotel and open in 2006, following the success of his two-year old five-star Metropolitan Hotel in Beirut.

Lebanon's tourist potential is strong despite similarities with other surrounding Middle Eastern or Balkan countries and regional uncertainty. Lebanon's comparative advantage lies in the concentration of diversity. Lebanon is characterized by a diverse landscape, rich historical and religious heritage and open society. The Ministry of Economy and Trade signed a USD one million deal with CNN for advertisement airtime over 2003. Government agencies may utilize the space to promote Lebanon for tourism, investment or other issues. This campaign should help boost Lebanon's image abroad, with the hope of attracting new tourists that are under the impression that Lebanon is still recovering from the civil war.

Industry

After contracting in the late 1990's, Lebanese industry has had two years of solid growth. In 2001, entrepreneurs established 599 new industrial companies with 4,425 new workers, increases of 43 and 29 percent respectively over 2000, according to Ministry of Industry statistics. Additionally, existing industrial companies created 5,000 jobs in the market in 2001. Investments in the sector increased to USD 500 million, of which USD 300 million came in the form of imported machinery. The trend continued in 2002. There were 824 new industrial companies established with a working capital of USD 119 million, and 6,721 new workers hired. These represent increases of 27, 41, and 34 percent over 2001. Company closings and employee layoffs are not/not recorded, however, so it is difficult to estimate what net gains to the economy industry contributed.

Industrialists credit government policies, including cutting customs on raw materials and trimming employer contributions to the social security fund, in giving the sector a needed boost. Most of Lebanon's industries remain small-scale but include a wide variety of sectors from furniture to fruit juice. Some of the most promising sectors are agro-industry and software. Textiles, tanneries and other labor-intensive industries are dwindling, however.

Industrial exports jumped 26 percent in 2001 and 21 percent in 2002. Industrial exports reached USD 973 million in 2002. Main export destinations are the Middle East and the Gulf (66 per cent of exports in 2002), and Europe (24 per cent). Exported commodities include foodstuffs (17 per cent), chemical products (13 per cent), paper and carton (10 per cent), plastic products (9 per cent), electrical and industrial equipment and machinery (9 per cent), and clothing and textiles (6 per cent).

THE GOVERNMENT'S ROLE IN THE ECONOMY

Lebanon has a free-market economy and a strong laissez-faire commercial tradition. In May 2003, the government released Lebanon's national accounts for 1997, which will serve as a base year for calculating national accounts for 1998-2002, to be completed by mid-2004, and continued thereafter. The database is compiled by the Ministry of Economy and Trade with the technical assistance of the French Institute of Statistics and Economic Studies. Results showed that Lebanon's 1997 GDP amounted to USD 15.788 billion, 5.4 percent higher than previous estimates. Since November 2000, the Hariri-led government has adopted several measures aimed at balancing the need for greater revenues with the desire to boost economic activity and attract investments. These include: a substantial reduction in customs duties (from an average 12 percent to 6 percent) and a new Customs Law to simplify customs procedures; introduction of an open skies policy; a ten percent VAT that became applicable in February 2002 and a five percent interest tax that became applicable in February 2003; passage of an Investment Development Law; a new Real Estate Foreign Ownership Law; reduction of firms' contributions to the Social Security Fund (from 38.5 percent to 23.5 percent); and a Euro-Mediterranean Partnership agreement. Lebanon is preparing for accession to the World Trade Organization (WTO). Parliament passed a law for the opening of a Special Account at the Central Bank where all proceeds from privatization and financial assistance will be used towards restructuring the public debt and debt service. However, the government's attitude toward some trade and investment issues and needless red tape hurt Lebanon's image as a country open for investment.

The Cabinet continued to reassert its commitment to implement privatization based on transparency and World Bank best practices. Parliament passed legislation for the privatization of the mobile phone sector, of the telecommunications sector, and of electricity production and distribution. (Every sectoral privatization law has to be approved by the Parliament.) A Higher Council for Privatization (HCP), headed by PM Hariri, was established in May 2001 to set, execute and supervise the privatization process in a transparent manner. Properly-executed privatization would attract substantial investments to Lebanon, improve economic productivity, create jobs and boost growth.

BALANCE OF PAYMENTS SITUATION

For the first half of 2003, Lebanon's balance of payments recorded a surplus of USD 2.417 billion, compared to a deficit of USD 752 million in the corresponding period last year. This cumulative surplus is mainly due to the inflow of funds pledged at the Paris II donors' conference last November and the positive mood prevailing on the foreign exchange market. The balance of payments registered a surplus of USD 1.5 billion in 2002, compared to deficits of \$1.169 billion in 2001 and USD 289 million in 2000.

ADEQUACY OF INFRASTRUCTURE

Telecommunications

Lebanon has a 2,000 km fiber-optic backbone with a capacity of 1.2 million landlines. There are currently 680,000 subscribers to the fixed network, constituting a 20 per cent penetration rate. The GSM cellular network is well developed, with two operators sharing 776,000 subscribers, constituting a penetration rate of 23 per cent. Internet is widely available at competitive rates through seven Internet service providers (ISPs) offering dial-up, leased lines or satellite connections. Dial-up connection speed does not exceed 56 kbps. Leased lines offer speeds ranging between 64 kbps and 2 mbps with monthly access rates between USD 340 and 1,200 within a 20 km range. International leased lines' speed range between 64 kbps and 2 mbps with monthly access rates between USD 3,000 and 25,000 for the Lebanese half circuit. Integrated Services Digital Network (ISDN) services are available for USD 45 basic monthly access rate. Voice over IP (such as Net2Phone) is banned. The Telecom Ministry has licensed some private companies to offer wireless services such as x.25, frame relay, IP networks and Vsat.

Transportation

Air Transportation: Beirut International Airport (BIA), the country's only airport, is currently being used at barely 40% of its capacity of six million passengers per year. A comprehensive plan was established in the early 1990s to redevelop and expand BIA. A new runway extending into the sea was opened in 2002 as well as the west wing expansion at the terminal. The plan also recommends expanding BIA's current passenger capacity of six million per year to reach 16 million per year by 2035 due to the increasing numbers of passengers visiting Lebanon.

Middle East Airlines (MEA), Lebanon's national passenger carrier, is 99.3% owned by the Central Bank of Lebanon and accounts for 38% of BIA passengers. Apart from MEA, more than 40 major foreign airlines operate regular services to and from BIA, a figure that grew sharply after airlines took advantage of the open skies policy. U.S. airlines are banned to fly directly to Lebanon due to a U.S. Presidential Determination issued in 1989.

MEA has consistently recorded losses of some \$50 million a year throughout the post-war period, largely because of overstaffing and poor management. However, MEA was able to cut its 2001 losses to less than \$30 million by applying a 40 percent workforce reduction, and actually recorded an operating profit of \$5 million in 2002. The airline is expected to record minor profits by the end of 2003.

MEA is among the entities scheduled for privatization. The International Finance Corporation (IFC) advised the GOL on total or partial transfer of MEA shares to a strategic investor. However, despite MEA's restructuring, officials are not optimistic about finding a strategic partner due to the current conditions in the aviation industry worldwide.

Among MEA's dormant projects is a joint regional airline bringing together MEA with its Syrian counterpart, Syrian Arab Airways. The project was put on hold due to unfavorable conditions within Lebanon's aviation sector. Nevertheless, Lebanon has an air transport agreement with Syria allowing MEA to operate out of Damascus.

Trans Mediterranean Airline (TMA), established in 1953, is the only national cargo carrier in Lebanon. In recent years, it has vigorously sought out new routes, as well as drawing up a plan to operate a regional taxi service for passengers. In 1998, TMA became the first Arab airline to operate a scheduled service to Shanghai and, although small by international standards, a year later it was ranked by IATA among the top five airlines in the world in Cargo Load Factor.

Sea Transportation: Sea transportation activities are focused primarily on the Port of Beirut, and secondarily on the ports of Tripoli, Chekka, Jounieh, Saida, and Tyre. In addition, there are various specialized installations to offload petroleum.

The project to rehabilitate and modernize the Port of Beirut was awarded to the joint venture Entrecanales/Cubiernas in early 1997. Beirut Port received technical assistance for the overall control of the design from Marseilles Port Authority, while supervision of the works was provided by Dar al Handasah-Shair & Partners Consulting Engineers. New container cranes valued at around \$200 million are expected to arrive from China to Beirut port end of 2003. At the end of 2002, Beirut Port hired the U.S. consultant "Cornell Group" to prepare the tender documents to operate the cranes. The operator is expected to be selected before 2004.

The rehabilitation and development of Tripoli Port , north Lebanon, started in 1997. The Dutch firm Ballasst-Nedam completed the work in 2001. Studies for the development of the ports of Sidon and Tyre in southern Lebanon have been carried out. The government is seeking private investment to expand the Port of Sidon and link it to regional markets by road to Syria. Other studies are in preparation to develop the tourist activities at the Port of Tyre.

Beirut and Tripoli ports are candidates for privatization. In fact, the port of Beirut had been operated privately since 1887, only coming under government control in 1990, leading to the setting up of a provisory commission to manage the port in 1993. Beirut Port operations generate around \$75 million annually to the Lebanese treasury. Currently, fees at Lebanese ports are notoriously high. The forthcoming privatization is expected to attract strategic investors to develop the sector, set competitive prices, enhance the quality of equipment and services, and attract volume by aggressive marketing schemes, particularly in highly competitive activities. However, the port employees have already objected to the draft Beirut Port privatization law, which states that the new partner is not bound to employ all current laborers and employees.

Road Transportation: Lebanon has an extensive road network, which comprises about 6,300km, excluding municipal roads. Highways, extending to Lebanon's borders, stretch

for around 530km, primary roads for 1,650km, secondary roads for 1,340km and local roads for 2,810km. However, much of the road network is inadequate and requires extensive repair.

A proposed Beirut Urban Transport Project (BUTP) is underway to set up an effective traffic control system throughout greater Beirut, upgrade public transport, improve traffic flow along Beirut's entrances and regulate on-street parking in selected zones. BUTP is a bold attempt to solve some of the capital's congestion problems as well as a step toward greater traffic law enforcement. The total project cost is estimated at \$115 million. The World Bank will finance \$65 million and the Lebanese government would contribute the rest.

The Beirut northern entrances have been split into two projects that are funded by the Kuwait Fund for Arab Economic Development. Invitations to tender for the first section comprising the Dbayeh-Antelias and Naccache-Rabieh links were issued in 2000. The works have started and are estimated to cost \$11.7 million. Design work is currently underway for the second section between Antelias and the port of Beirut.

Lebanon has around 200 km of railway, but the network is inoperable. The French firm Sofrerail recommended building a 170 km railway along most of the Lebanese coast, but the project has not been implemented. The proposal would link Syria with Lebanon by rail and also re-open another line from Iraq to Lebanon via Syria.

The U.S. Trade Development Agency (TDA) funded a \$625,000 feasibility study for the Beirut Suburban Mass Transit Corridor for the Lebanese Ministry of Transportation to develop public-private financing options for public transportation systems. Unfortunately, the study was not followed by a project.

Electricity

Lebanon has approximately 2,200 MW of nominal generating capacity, while actual production varies between 1,200 and 1,600 MW. This includes 375 MW additional power as the second gas turbine at Beddaoui power plant (north Lebanon) becomes operational and the steam units at Beddaoui and Zahrani (south Lebanon) stations operate at full capacity. Current demand is about 1,600 MW, and power shortages at peak times are still common. Lebanon's electricity public utility, Electricité du Liban (EDL), faces major challenges: illegal connections to the grid; meter tampering; technical (15 percent) and non-technical (32 percent) losses totaling 47 percent of production; and completion of a 220 KV transmission network. EDL plans to increase power production to 2,700 MW by end 2006 in order to meet increasing demand. Electricity demand is expected to increase yearly by 4 to 6 percent. The government has expressed interest in renewable energy resources, as well as converting power plants from fuel oil and diesel oil to natural gas, due to their economic and environmental advantages. The Ministry of Energy and Water (MEW) is considering a project to construct a LNG terminal and pipeline to supply alternative fuel sources for power generation plants and some local industries. The U.S. TDA has given MEW a grant of \$500,000 to hire a U.S. engineering firm to prepare a feasibility study for the LNG supply project. The MEW has recently signed a contract with a Ukrainian company for the construction of a natural gas pipeline from the Syrian-Lebanese border to the Tripoli Oil Installations (north Lebanon), and thereafter to the Beddaoui power plant. Construction is expected to be completed in April 2004. The MEW has also called for an international tender for consultancy

services for the construction of a natural gas pipeline from Tripoli Oil Installations to the Zahrani combined cycle power plant (in south Lebanon) along the coast. Lebanon, Syria, Egypt and Jordan have agreed to construct a USD one billion pipeline for the transit of Egyptian and Syrian natural gas; construction of the line between Egypt and Jordan was completed in June 2003. Lebanon is expected to start benefiting from this project by the year 2005.

MEW is determined to privatize power production and distribution. The GOL plans to sell 40 percent equity share of production and distribution at EDL, and to retain power transmission; however, it may award the management of the transmission component to the private sector. On December 19, 2001, The Higher Council for Privatization (HCP) mandated investment bank BNP/Paribas to find a strategic partner for the sale of EDL power production and distribution. In the meantime, EDL is trying to improve its dramatic financial situation. However, the improvement in EDL finances, resulting from improved bill collection, in the first half of 2003 was eroded by the rise in the international price of oil derivatives. Currently, the Council for Development and Reconstruction (CDR) is preparing an international tender for the construction of the Electric Network Control Center (NCC). The CDR is presenting evaluating proposals for engineering services. The project will be financed by the Arab Fund for Economic and Social Development. Lebanon plans to join the regional inter-connection network linking Egypt, Iraq, Jordan, Turkey and Syria; a first step to connect to the Syrian network (construction of a 400 KV line and a 400/220 KV substation in Ksara in the Biqa') should be completed by the end of 2003.

Water

Lebanon has plentiful water resources, but inadequate storage, distribution and wastewater treatment systems. As a result, Lebanon suffers periodic water shortages, and according to a preliminary report by Parsons, could suffer dramatic shortages by 2015. Reportedly, about 85 percent of the country's aquifers are polluted. Significant pollution problems arise from agricultural runoff in the Biqa' Valley, downstream contamination from unregulated quarrying in the mountains, and untreated sewage dumping by municipal authorities. To date, the CDR has awarded contracts totaling USD 477 million in the potable water supply sector. Projects consist in the rehabilitation and extension works of existing potable water supply systems all over Lebanon in addition to major projects such as the construction of dams. The Council of the South is also involved in water projects in south Lebanon; it recently completed a project, paid for by the GOL, to pump water from springs near Tyre to some 40 villages in Bint Jbeil. The first construction of a dam in 50 years, which will be only the country's second, is moving ahead northeast of Beirut at Shabrouh (near Faraya); this USD 42 million eight million cubic meter dam will provide drinking water to Kisrwan and Metn districts north and east of Beirut. Work on two other dams, another near Beirut that would provide potable water and one on the Orontes River in the northern Bekaa that would provide irrigation to the area, is scheduled to start this year. MEW is keen to develop a Water Master Plan for Lebanon. The plan will take into account a \$850 million ten-year water strategy plan that was endorsed by Parliament in 2000, focusing on dam construction (66 percent), drinking water projects (16 percent), water irrigation projects (ten percent), correction and maintenance of river lines (five percent) and electrical equipment (three percent). It would also take into consideration a "Master Plan" report financed by the Japanese Development Agency. The MEW is determined to privatize Lebanon's water offices; Parliament has approved a draft law merging regional water agencies into four

Water Authorities (Beirut and Mount Lebanon, Tripoli, South and the Biqa'). On April 16, 2002, the HCP mandated international investment bank Societe Generale de Banque au Liban (SGBL) to find a strategic partner for the four Water Authorities for potable and for used water. But privatization of the water sector is still some way off. In December 2002, the GOL awarded the USD 20 million four-year Tripoli Water Authority management contract to French firm Ondeo; project is financed by the French Development Agency. AID contractor Development Associates International is working at MEW and with the South Lebanon Water Authority on a one-year USD 1 million project to revise water tariffs and to bring in private sector management. According to MEW, about 50 percent of Lebanon's water is being wasted; this percentage is projected to drop to 15 percent with privatization.

Regional Economic Integration

See chapter 6 Membership in free trade arrangements.

CHAPTER 3: POLITICAL ENVIRONMENT

U.S.-Lebanese Political Relationship

The U.S. seeks to promote political stability, economic development, and the independence, sovereignty, and territorial integrity of Lebanon. After steady declines in U.S. economic assistance to Lebanon in the 1990's, assistance levels stabilized in 1997 with a five-year \$60 million program. In FY2001, following the Israeli withdrawal from south Lebanon, assistance in Economic Support Funds (ESF) increased from a \$12 million annual level to \$35 million per year through FY2004. The assistance program focuses on sustainable community development with multiple objectives and partners. The development strategy has three objectives: rebuilding infrastructure and expanding economic opportunities, increasing the effectiveness of democratic institutions, and improving environmental practices. USAID provides assistance for economic policy reform, parliamentary reform, municipal governance, and anti-corruption, and is involved in supporting a Mine Action program that focuses on mine awareness and victims' assistance. The U.S. also provides humanitarian de-mining and some other non-lethal military assistance (primarily surplus equipment) and military education and training programs to the Lebanese Armed Forces.

Political System, Elections, And Political Parties

Lebanon is a republic with a parliamentary system of government. A formal system of power sharing among Lebanon's 18 officially recognized religious confessions affects all aspects of civil society. The President must be a Maronite Christian, the Prime Minister a Sunni Muslim, and the Speaker of Parliament a Shi'a Muslim. The President is elected for a six-year term by the Parliament. The next Presidential elections will take place in fall 2004.

The Prime Minister, nominated by the President in consultation with Parliament, is subject to the Chamber's vote of confidence. Lebanon's 128 deputies are elected by the voters for four-year terms, and are divided equally between Christians and Muslims. Parliamentary elections were held in August/September 2000. The current Parliament will serve for four years and eight months; the next elections will be held in 2005. There is universal adult suffrage. Municipal elections were held in most parts of the country in May 1998 for the first time in over 25 years, and in September 2001, municipal elections were held in the areas of southern Lebanon formerly occupied by Israel. The next municipal elections will take place in 2004.

Israel withdrew its military forces from south Lebanon in May 2000. The United Nations determined a line of withdrawal (termed the "Blue Line") which represents the best approximation of the international border based on available data, and in June 2000, verified Israeli compliance with UN resolutions 425 and 426 pertaining to South Lebanon. Lebanon, Israel and Syria accepted the UN verification. The Government of Lebanon has since deployed some military and civilian law enforcement officials to reassert central authority in the areas formerly occupied by Israel. We continue to urge the GOL to take further steps in this regard. The ultimate goal of the government's efforts is the reintegration of the region into national political and economic life.

The Israeli force withdrawal reduced the level of conflict between Hizballah and the Israelis, although Hizballah has not given up its arms and remains a factor in the South.

Lebanon in October 2000 began asserting a claim to Sheba farms, a small area of the Golan Heights that Israel captured from Syria in 1967. Hizballah since has launched sporadic cross-border attacks in this area. There are 360,000 Palestinian refugees registered with UNRWA, but most observers believe that their actual number is about 200,000. Armed Palestinian groups and some criminal elements operate autonomously in the refugee camps located throughout the country. Syria withdrew some of its troops from Lebanon during the course of the year, maintaining a military presence of approximately 15,000-20,000 soldiers, located primarily in the Bekaa Valley, on strategic roadways and mountain ridges, and around major cities.

CHAPTER 4: MARKETING U.S. PRODUCTS AND SERVICES

Lebanon has a classic free market orientation. However, in some cases, government red tape and corruption constitute major obstacles to investment and entrepreneurial activity. U.S. commodities in Lebanon face strong competition from European goods, due both to the extensive representation of European companies in the Lebanese market, and to the relatively cheaper shipping costs for goods coming from Europe. Still, the U.S. enjoys a good exporter position with Lebanon, ranking as Lebanon's sixth largest source of imports. Over 160 offices representing U.S. businesses currently operate in Lebanon. Since the lifting of the passport restriction in 1997, a number of large U.S. companies have opened branch or regional offices, including Microsoft, Cisco, Intel, Procter & Gamble, American Airlines, United Airlines, FedEx, General Electric, Parsons Brinckerhoff, Eli Lilly, Pfizer and Expeditors International.

"Made In America", an annual trade fair for U.S. products and services organized by the U.S. Embassy, offers an excellent opportunity for U.S. companies to showcase their products and develop new partnerships in Lebanon and the Middle East region. The fair is accompanied by seminars and presentations to introduce American business practices and U.S. Government programs to Lebanon and the region. The U.S. Government, represented by the Department of State, Department of Commerce, Department of Agriculture and the Agency for International Development (USAID), participates in the fair. For further information, please contact the Embassy at BeirutTradeFair@state.gov.

Numerous international fairs and trade shows are also held in Lebanon, with significant participation from European, Asian, Middle Eastern, and, increasingly, U.S. companies. At least one show, fair, or exhibition is scheduled for each month of the year, in a variety of venues including the Beirut International Exhibition & Leisure center (BIEL).

ESTABLISHING A LOCAL OFFICE

Foreign companies may either open a branch or a representative office. Lebanese law provides for a range of business entities available to both local and international investors. These are: partnership and sole proprietorship, joint-stock companies, limited liability companies, holding companies, and offshore companies.

Branch offices may undertake any business activity permitted by Lebanese law with no minimum capital or performance requirements. A foreigner who wishes to establish a branch in Lebanon must have a residence permit and appropriate work permits. U.S. companies may operate through local branches provided they obtain a "Receipt of Acknowledgement" from the Ministry of Economy and Trade and register in a local commercial court. For trade activity, the company must be registered at any of the four Chambers of Commerce and Industry.

Representative offices may only engage in the promotion of their companies' products. The registration requirements are similar to those of the branch office without the requirement to register in a commercial court.

The Investment Development Authority of Lebanon (IDAL) has a "One-Stop Shop" service to issue permits and licenses for investors. IDAL coordinates with all concerned ministries and public authorities. Further information about IDAL and its services are

available at www.idal.gov.lb.

An American-Lebanese Chamber of Commerce (AmCham) was established in Lebanon in 1999. The AmCham promotes business between the U.S. and Lebanon and serves as a platform for contacts between business executives. Further information about AmCham's services and activities are available at www.amcham.org.lb.

CREATING A JOINT VENTURE

Lebanese law does not consider joint ventures to be separate legal entities. Joint ventures are established through a contract between at least two partners without publicizing formalities.

USE OF AGENTS AND DISTRIBUTORS

U.S. companies are advised to establish a branch or rely on a Lebanese agent for wholesale and retail distribution. The contract of commercial representation is written and registered at a local trade registry. It may be accompanied by a clause of exclusivity. The agent may be a partnership, a sole proprietorship, a joint-stock company or a limited liability company with a majority of the capital/shares/partners being Lebanese and with commercial premises in Lebanon. The represented person should be registered at the Ministry of Economy and Trade.

The Cabinet approved a draft law in February 2002 to cancel exclusive agency protection in an attempt to liberalize the economy, end the monopoly of a privileged elite and encourage competition to reduce prices. The draft law, prepared by the Ministry of Economy and Trade, awaits Parliament's endorsement. It offers exclusive dealers a grace period whereby those currently holding franchises would receive five percent of the value of imports brought into the country by other traders over five years. The fee would be collected at customs and paid to the dealers before the goods enter the country.

FINDING A LOCAL PARTNER AND ATTORNEYS

U.S. firms looking for an agent/distributor in Lebanon are encouraged to request the International Partnership Search (IPS) service from the nearest Department of Commerce Export Assistance Center in the United States or the U.S. Embassy's Commercial Service in Lebanon. IPS is a customized search for qualified Lebanese representatives, agents or distributors for US firms.

U.S. firms wishing to conduct business in Lebanon are encouraged to hire a local attorney. A list of lawyers practicing in Lebanon is available at the U.S. Embassy's website at www.usembassy.gov.lb or from the Department of State's American Citizen Services Office in the Bureau of Consular Affairs at www.travel.state.gov.

CHECKING THE BONA FIDES OF BANKS, AGENTS, BUSINESS PARTNERS, CONTRACTORS AND SUBCONTRACTORS, AND CUSTOMERS

Banks' bona fides may be checked with the Association of Lebanese Banks or Lebanon's Banking Control Commission at the Central Bank of Lebanon.

U.S. firms wishing to verify the bona fides of Lebanese companies to determine whether a Lebanese firm is a suitable trading partner may request the International Company Profile (ICP) service. The ICP report includes factual data on the Lebanese firm's management, business activities, product lines, financial condition, credit-worthiness, trading experience, market coverage, business connections in the country, as well as the post's evaluation to help U.S. firms assess risks, reliability and capability.

DISTRIBUTION AND SALES CHANNELS

Foreign firms in Lebanon rely on local companies for wholesale and retail distribution, often supplying short-term home office personnel to work with the local firm in Lebanon. Foreign companies can apply directly for government tenders or can hire a Lebanese representative to bid on their behalf.

There are many reputable and educated entrepreneurs in Lebanon. However, networking and lengthy investigation are necessary to find an appropriate partner. The U.S. Embassy can be helpful through the International Partnership Search (IPS) service.

FRANCHISING

Lebanon, although a relatively small country, is a major player in the franchising industry. With the successful establishment of international brand names and their continuous expansion across the country, franchising has become one of the fastest growing business sectors in Lebanon. The most commonly known are fast food outlets such as McDonald's, Starbucks, Pizza Hut, Kentucky Fried Chicken, Baskin Robbins, Hardees, Chili's, Hard Rock Café, Dunkin' Donuts, Burger King, and Subway.

Franchises are also available for many other products and services in Lebanon. In the area of clothing, for example, the UK retailers Storehouse, Mothercare, and Next, and the Spanish clothing chains Zara and Mango have all opened large stores. Other non-food franchises in Lebanon are Putt Putt, New Horizons, Hertz car rental, Budget Rent-a-Car, Thrifty Rent-a-Car, and Florsheim Shoes.

Franchised hotels are also witnessing a spectacular growth in Lebanon with many local hotels partnering with international chains, to the benefit of local proprietors who can take advantage of the chains' name recognition and international reservation networks. Movenpick and Crowne Plaza hotels opened in Beirut in 2002. The Inter-Continental chain manages 3 hotels, the Vendome, the Phoenicia, and the Mzaar mountain resort. Holiday Inn manages a hotel in Verdun, one of the most prestigious shopping areas in Beirut, and Marriott runs a hotel in Jnah area, between Beirut International Airport and down town Beirut.

Over the next three years, more than six five-star hotels (Hilton, Four Seasons, Starwood and others), worth over USD 300 million, will be built in Beirut and the nearby mountains. The five-star Metropolitan Hotel, owned by the UAE Al-Habtour Group and located in Sin El-Fil, announced plans to build a USD 150 million diverse city center building that will include another hotel and open in 2006.

PRODUCT PRICING AND LICENSING, SALES, SERVICE, AND CUSTOMER SUPPORT

The Consumer Protection Department at the Ministry of Economy and Trade controls

prices and monitors the quality of bread and petroleum derivatives, and the expiration dates of consumables. The Technical Center for Price Control at the Ministry of Economy and Trade surveys supermarket prices of consumer goods every two months. The Ministry of Health also controls the price of pharmaceuticals.

ADVERTISING AND TRADE PROMOTION

Lebanon has become a regional center for the advertising industry despite stiff competition from Arab Gulf states. Lebanon enjoys a sophisticated domestic audience and a thriving media sector. There are eight TV stations, seven regional satellite TV channels, 14 newspapers, 30 magazines and many radio stations.

Television remains the favored medium of advertising and captures half of the market. Other mediums include print, billboards, radio and cinema.

There are numerous Arabic-language dailies in Lebanon, as well as the English-language Daily Star and the French-language L'Orient Le Jour. A weekly Middle-East edition of the French newspaper Le Monde is also published in Lebanon. Most newspapers have websites displaying the latest news on Lebanon. For news in English, check www.dailystar.com.lb. Yalla is a web portal offering updated political and business information and links. It may be reached at www.yalla.com.lb. Other useful websites include www.lebanonlinks.com.

Major business magazines include the English-language Lebanon Opportunities, Executive Magazine and Arab Ad, French-language Le Commerce du Levant and the Arabic-language Al-Iktissad Wal Amal and Al-Mourakeb Al-Inmaii.

SELLING TO THE GOVERNMENT

The Council for Development and Reconstruction (CDR), a public authority established in 1977, is the government unit responsible for procurement that is usually carried out via public tenders. CDR prepares a general plan for reconstruction and development projects and negotiates external financing to implement these projects by appointment from the Council of Ministers. More information about CDR and its projects can be found at www.cdr.gov.lb. However, there are occasional purchases via direct contract when attractive financing protocols are made available by the foreign companies' governments. Procurement practices, subject to political intervention and favoritism, are not always transparent.

IPR PROTECTION

Please refer to the Investment Climate Statement (Chapter7).

CHAPTER 5: LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

NON-AGRICULTURAL GOODS AND SERVICES

TRADITIONAL SECTORS

The U.S. is one of Lebanon's main import partners. In 2002, the U.S. exported USD 464.5 million worth of goods, representing 7 per cent of total Lebanese imports including agriculture. However, 2002 has not been a good year given a 12 per cent contraction in total Lebanese imports and a 10 per cent contraction in U.S exports to Lebanon. As a result, growth has been limited to a small number of sectors. Nevertheless, the U.S. has been successful in maintaining good market shares among Lebanon's top ranked imports and among products of lesser import volume and value.

U.S. import shares among Lebanon's top imports in 2002:
(Values in USD million)

Harmonized System Chapter Description	Value of Leb. Imports	Value of U.S. Exports to Leb.	U.S. Share of Imports
Mineral fuels and oils and distillation products	927	53	6%
Vehicles	559	38	7%
Machinery	490	47	10%
Electrical machinery and equipment	373	27	7%
Pharmaceutical products	333	22	7%

Source: Lebanese Customs

Among those top-imported Lebanese products, only mineral fuels and pharmaceutical products have been growth areas in 2002. Other minor growth areas include optical, photographic instruments and medical apparatus (USD 28 million, 26 per cent share), miscellaneous chemical products (USD 7 million, 14 per cent), perfumery and cosmetics (USD 7 million, 9 per cent share), wood and articles of wood (USD 7 million, 7 per cent share), pulp of wood, recovered paper and paperboard (USD 6 million, 56 per cent share), and printed books (USD 5 million, 15 per cent market share).

Drugs/Pharmaceuticals

Value in USD M	2002	2001	Change 02-01
Total Market Size	410	375	

Value of Lebanese Imports	312	270	15.5%
Value of Imports from the U.S.	20	18	7%
U.S. Share in Imports	6.4%	6.6 %	

Source: Lebanese Customs and private market estimates

U.S. and European research manufacturing companies control 71 per cent of the Lebanese market. U.S. companies have a 32 per cent market share. However, their drugs are not necessarily manufactured in the U.S. Lebanese demand is quality driven but is increasingly becoming price sensitive as the economy is in recession and the government vests efforts to cut down the health bill. The government wants to encourage consumers to move from branded to generic drugs. Opportunities are tremendous for U.S. companies offering generic drugs.

“NEW ECONOMY” SECTORS

Information and Communication Technology

Lebanon has many advantages in the IT sector, including a multilingual, entrepreneurial and skilled workforce, world-class advertising firms, multilingual media content providers and web portals, a "computer culture" connected to seven competitive Internet Service Providers, a robust 2,000 km fiber-optic PSTN backbone and two well-developed GSM cellular networks. Still, Lebanon has not developed adequate legal infrastructure to support ICT, government investment in ICT remains weak, telecommunication costs are high and there is no clear government strategy.

Lebanon's information and communication technology penetration rates are relatively high: 23% for fixed and mobile line subscribers, 7% for internet users and 7% for installed computers. Additionally, adult literacy rate is estimated at 90 percent.

According to a Professional Computer Association market study in 2001, Lebanon's IT market size is estimated at USD 245 million, of which 58 per cent is hardware and infrastructure, 28 per cent services and 14 per cent software. The IT market has grown by an average 23% over the last five years.

Many American companies may capitalize on Lebanon's labor and consumer strengths to provide consulting for communications infrastructure. Local expertise is limited when it comes to the design of infrastructure for broadband, security and physical connectivity and network management. Local development of telecom and computer consulting services may lead to additional purchases of computers, peripherals and communications equipment related to switching, routing, hubs and nodes.

The availability of superior and relatively cheap human resources offers the opportunity for U.S. companies to open software production facilities or outsource software development. Lebanese software developers are very good communicators, transparent and highly exposed to the outside world.

Many Lebanese firms are eager to form joint ventures or represent U.S. ICT companies. High-tech computer and telecom trade fairs in Lebanon offer many opportunities for U.S. firms to

expose their wares to a wider audience in the region. See chapter 12 for a listing of trade events.

Insurance

Lebanon's insurance sector is more significant economically, more advanced, and more innovative than that of its Arab neighbors. Market penetration in Lebanon is twice as high as in the U.A.E. By Western standards, however, Lebanon's insurance sector is small and underdeveloped. Insurance premiums per year per capita in the U.S. are USD 3266 compared to Lebanon's USD 134. Similarly, total insurance premiums in Lebanon account for only 2.8 percent of GNP, compared to about eight percent in developed countries. The sector carries about USD 450 million in premiums, of which about USD 100 million is life and USD 150 million is medical. Despite the sharp jump in premiums during the 1990's, growth has slowed significantly in recent years.

In 1999 the GOL passed a new insurance law, replacing a 30-year old law, which introduced some overdue regulation to the country's unwieldy insurance sector. The increase in capitalization required under the 1999 law forced a handful of mergers, acquisitions, and closings among insurance companies. Fifty-six companies, with some 2500 employees, now operate in the sector. The ten largest companies control 70 to 80 percent of the total insurance market. Several of the top ten are foreign companies or have majority foreign ownership, including AIG's life insurance arm American Life Insurance Company (ALICO).

During the late 1990's Lebanese banks began to penetrate the insurance sector by either buying companies or setting up subsidiary companies. Twelve banks market insurance products, according to Oxford Business Group's Emerging Lebanon 2002, and they are gaining market share. When making a car loan, for example, banks require customers to get car insurance. Non-bank insurance companies claim banks are overstepping their limits by steering customers toward their affiliated companies.

In addition to strengthening the local insurance market, many point to consolidation as a needed step if Lebanon is to move towards becoming the insurance center of the region. Already, several Lebanese companies have business in the region. Some see possibilities for Lebanese insurance companies taking a bite out of Saudi Arabia's medical insurance business, which the Oxford Business Group estimates at USD 15 billion. Similarly, Syria also is a potential huge market. Already, Lebanon draws some Syrians, particularly industrialists, and other Arabs who feel more comfortable getting their insurance in Lebanon than in their own country or in the West.

AGRICULTURAL PRODUCTS

In 2002, Lebanon imported USD 165.3 million worth of agricultural goods from the U.S. This constitutes 13 percent of Lebanon's total agricultural imports and 36 percent of total U.S. exports to Lebanon. Products with large import shares include tobacco (64 percent), cereals (40 percent), oil seeds and fruits (17 percent), residues and waste from the food industries (13 percent), miscellaneous edible preparations (12 percent), animal/vegetable fats and oils (10 percent), and edible fruits and nuts (9 percent).

U.S. agricultural exports experienced a 22 percent drop in 2002 although Lebanese agricultural imports contracted by just 2 percent. U.S. tobacco exports dropped by USD 38 million (63 percent) to reach USD 83 million. Cereals exports decreased by 1 percent reaching USD 44 million, miscellaneous edible preparations dropped by 31 percent reaching USD 8 million, and residues and waste from the food sector (soybean meal) dropped 63 percent reaching USD 4 million.

Lebanon's Agricultural Imports (Harmonized System code chapters 1-24)

Value in USD M	2002	2001	Change 02-01
Value of Lebanese Ag. Imports	1,237	1,268	-2%
Value of Ag. Imports from the U.S.	165	211	-22%
U.S. Share in value	13%	17%	

Soya Beans

Net weight in metric tons	2002	2001	Change 02-01
Local Produce	N/A	0	
Lebanese Imports	58,946	1,020	5,679%
Imports from the U.S.	30,738	2	1,536,800%

Lebanese imports of soya bean from the U.S largely increased in 2002 due to the opening of a crushing facility that produces soy bean meal. The U.S. main competitor in soya beans is Argentina with 28,129 tons in 2002 and 1,000 tons in 2001.

Corn

Net weight in metric tons	2002	2001	Change 02-01
Local Produce	N/A	3,800	
Lebanese Imports	332,631	298,421	11.4%
Imports from the U.S.	264,220	222,872	18.5%

The U.S main competitors in corn are Argentina with 17,175 tons in 2002 and 32,210 tons in 2001, Hungary with 36,433 tons in 2002 and 7,457 tons in 2001 and Ukraine with 14,693 tons in 2002. Brazil was a competitor in 2001 with 35,741 tons imported into Lebanon.

Almonds

Net weight in metric tons	2002	2001	Change 02-01
Local Produce of Almonds	N/A	23,900	
Lebanese Imports of Shelled Almonds	2,092	2,020	3.5%
Shelled Almonds Imports from the U.S.	1,525	1,527	-0.1%

The U.S main competitor in shelled almond is Spain with 490 tons in 2002 and 429 in 2001. Despite a slight decrease in volume, U.S imports of shelled almonds increased in value by 8% in 2002.

Wheat

Net weight in metric tons	2002	2001	Change 02-01
Local Produce	N/A	139,500	
Lebanese Imports	372,531	368,984	0.9%
Imports from the U.S.	98,726	141,775	-30.3%

U.S. exports of wheat dropped by around 43,000 tons in 2002. This is due to a 79,000-ton drop in food aid and high U.S. wheat prices relative to other supplies. There was no monetized wheat in 2003. Main competitors to U.S. wheat include Russia with 190,567 tons in 2002 and just 8,953 in 2001, Australia with 45,932 tons in 2002 and 72,933 tons in 2001. Other competitors include Germany, Turkey, Hungary and Ukraine.

SIGNIFICANT INVESTMENT OPPORTUNITIES

The Investment Development Authority of Lebanon (IDAL), a public agency under the Prime Minister, encourages foreign investments through a One-Stop-Shop Information center, Investors Matching Service and one-on-one meetings with potential foreign investors. IDAL has the

authority to award licenses and permits for new investments as well as to grant special incentives, exemptions and facilities to large projects (referred to as the “Package Deal Contract”). IDAL’s website is: www.idal.com.lb

Privatization Efforts

Since June 2002, the Government of Lebanon has enacted a privatization law to generate revenues to serve the public debt and attract international donors support. Economic sectors subject to privatization include but are not limited to telecommunications, electricity, water, gas exploration and the ports. Pursuant to the Privatization Law, the Higher Council for Privatization (HCP) has been established as an authority in charge of planning and implementing the privatization program and its relevant operations. It maintains a website at www.hcp.gov.lb.

There hasn’t been any substantial progress on privatization in the first eight months of 2003. Despite the GOL’s commitment to Donor countries at the Paris II conference in November 2002 to move forward on privatization and securitization, the GOL has not been able to initiate privatization as a result of domestic political bickering, regional instability, the outbreak of the Iraq war and worldwide recession.

Privatization of the cellular sector is in the works. Privatization of electricity is believed to be next. The GOL also hopes to privatize the telecom fixed network, the management of the Beirut and Tripoli ports, Beirut port silos and the regional water authorities.

Telecommunications:

Privatization of the mobile network has been slow and full of controversies. Pre-qualified bidders were announced in May 2003, however differences within the GOL over the tender and/or auction terms of reference remain unresolved. The cellular sector is the first to be privatized.

Privatization of the fixed network is anticipated in the medium future. The GOL passed in July 2002 a Telecom Liberalization and privatization law which establishes a regulatory authority, liberalizes the sector and paves the way for privatization of the fixed network. OGERO, the government owned operator, is to be corporatized into Liban Telecom with a 20-year license for fixed, GSM and data communication. The decrees setting up the regulator are complete but await the Council of ministers review. At this stage it remains unclear when the privatization of the fixed network will be launched.

Electricity:

Parliament passed in September 2002, a law providing for the privatization of the electricity sector. The GOL would sell a 40 percent equity share of power production and distribution at Electricite du Liban (EDL), Lebanon's national power company. The GOL plans to retain the power transmission component and may award a management concession to the private sector. The law, however, sets no timeframe for privatization and is not clear on how the private companies will be created and how many will be established.

Infrastructure Projects

Investors should visit the Council for Development and Reconstruction’s website www.cdr.gov.lb for updated information on public tenders.

Major projects under preparation include:

- Rehabilitation and widening of Ghazir-Jdeidet Ghazir road
- Construction of Nabi Chit technical school/ Supervision and works
- Additional sewers and potable water distribution lines in Baalbeck City and Amichki
- Construction of Baalbeck stadium
- Construction of Bayssour school
- Purchase of furniture for the educational compound in Bir Hassan.
- Construction of the sewer network for Baalbeck city
- Rehabilitation of Sour Naqoura road
- Construction of Jebrayel road, Mafraq Rahbe road, Berqayel bypass & main road, Fnaideq internal roads project
- Sewer network for Baalbeck city & immediate surrounding communities
- Expression of interest for a national social development strategy
- Supervision of the rehabilitation of Damascus road
- Rehabilitation of Damascus road (section of Mdeirej-Masnaa)
- Design build & turnkey of Bourj Hammoud wastewater treatment plant
- Rehabilitation and restoration of laboratories' buildings relative to the Ministry of Agriculture
- Execution and supervision of potable water supply in the caza of Minieh
- Maintenance and operating of the Unesco Palace and its annex building
- Supply and installation of medical equipment & furniture for Hasbaya governmental hospital

CHAPTER 6: TRADE REGULATIONS, CUSTOMS, AND STANDARDS

MEMBERSHIP IN FREE TRADE ARRANGEMENTS

Lebanon is traditionally a country with a free and open trade regime. Efforts towards trade liberalization have been focused on the European Union (EU), World Trade Organization (WTO), and the Arab world fronts. Lebanon does not have free trade arrangements with the U.S.

Lebanon and the EU's association agreement came into effect on March 2003. The agreement provides for reciprocal free trade on the majority of industrial goods and liberalizes trade on a large basket of agricultural and processed agricultural goods. The Euro-Med Partnership aims at establishing a free trade area in the Mediterranean region by the year 2010.

Lebanon is in the process of acceding to the World Trade Organization (WTO). Having gained the observer status in 1999, Lebanon held its first Working Party negotiations in October 2002. Lebanon anticipates WTO accession by 2005.

In an effort to integrate with the Arab region, Lebanon acceded to the Arab League's Greater Arab Free Trade Area agreement (GAFTA) in 1997. The GAFTA calls for a ten percent annual mutual reduction in tariffs over ten years, effective 1998. Lebanon has signed bilateral free trade agreements with Syria (effective 1999), Egypt (effective 1999), Kuwait (effective 2000), UAE (effective 2001), and Iraq (effective 2002). Free trade negotiations are ongoing with Jordan. The agreements call for a 25 percent annual mutual decrease in tariffs over four years.

NON TARIFF BARRIERS

The import and export of goods is subject to a number of non tariff barriers imposed by ten Lebanese government state bodies. Measures include prohibitions, licenses, quotas, visas, veterinary certificates, and phytosanitary certificates. All goods subject to import and export prohibitions are also prohibited from transiting through the territory of Lebanon. A limited number of goods (e.g. juices and electric phone wires) are subject to more than one trade measure but for different purposes. To know whether a specific product is subject to non tariff barriers, kindly consult the customs website at www.customs.gov.lb.

IMPORT DUTIES

More than 83 per cent of customs tariff lines have duties equal or below 5 per cent. The Customs website (www.customs.gov.lb) provides a searchable database that displays import duties by tariff number.

IMPORT/EXPORT REQUIREMENTS

Import processing requires the following documents:

- Declaration form based on the Single Administrative Document (SAD)
- Bill of lading
- Packing list
- Commercial invoice (original)

- Delivery order (to prove ownership of goods)
- Quietus from the Social Security Office renewed every six months (required only for legal persons and commercial establishments)
- Contract of sale between importer and seller at the country of exportation (may be requested for value verification only in case customs officers doubt the invoice value)
- Certificate of origin, issued by Chambers of Commerce in the country of exportation (required in case importer wishes to benefit from preferential treatment)
- Depending on the type of imported good, a number of other documents may also be required including license, advance license, permit, advance permit, approval, advance approval, visa, advance visa, conformity certificate to mandatory standards, phytosanitary certificate, analysis certificate, packing conditions, health certificate, transport permit, fumigation certificate, disablement certificate for alcoholic products, specialization certificate, and country of origin certificate for seeds and seedlings.

Export processing requires the following documents:

- Declaration form based on the Single Administrative Document (SAD)
- Packing list
- Invoice
- Certificate of origin issued by Chamber of Commerce except for exports to Europe. The certificate of origin must be certified by the Ministry of Agriculture for all food products of plant origin and by the Ministry of Industry for all industrial products. Certificate of Origin for exporting industrial products to Europe are issued by the Ministry of Industry according to EUR 1 and FORM A and are certified by Customs.
- Quietus from the Social Security Office renewed every six months (required only for legal persons and commercial establishments)
- A number of other documents may also be required depending on the type of exported good. They include licenses, advance licenses, passage licenses, permits, advance permits, private permits, transport permits, visas, conformity and export certificates for quality verification for all food products of plant origin, agricultural certificates, and agricultural health certificates.

PROHIBITED IMPORTS AND U.S.-IMPOSED EXPORT CONTROLS

Prohibited Imports:

- Cedar seeds and seedling (in conservation of Lebanese cedars species),
- Chemical improvers used in bread making (health measure),
- Table salt not containing iodine (health measure),
- Waste/slag/ash/scrap of many chemical, mineral and metal products (in protection of the environment),
- Clinker and black cement (in protection of local industry),
- Vehicles older than eight years and motor vehicles for the transport of goods older than five years (in protection of the environment),
- Used medical and radiography apparatus (health measure),
- Gas fueled pocket lighters (to prevent any fire incident),
- Wireless phone sets of 900 Megahertz.

Boycotts/Lebanese imposed import controls on the U.S: Lebanon adheres to the Arab League boycott of Israel. Yet, enforcement is selective as many goods on the

boycott list are available in the Lebanese market. The Arab League's Central Boycott Office maintains a blacklist of U.S. firms that are believed to contribute to Israel's military or economic development. In accordance with U.S. anti-boycott regulations, U.S. companies may not certify that their products do not come from Israel. If there appears to be any request that might be in support of boycotts, companies should contact the Bureau of Industrial Security (BIS) in the U.S. Department of Commerce (www.bis.doc.gov).

U.S. imposed export controls: Lebanon is not subjected to special sanctions. In principle, all exports require a license, though in practice the vast majority of U.S. exports fall under a "general license" that allows export without getting permission from the Bureau of Industrial Security (BIS) in the U.S. Department of Commerce (www.bis.doc.gov). When doing business with Lebanon, U.S. exporters should consider the following U.S. export regulations:

- For a number of items, a specific export license is required. These include products whose high-tech nature implies that export may involve a national security risk. Contacting BIS will enable an exporter to determine whether or not his specific items require a license. If a specific license is required, one of the considerations will be the reliability of the end-user. Government agencies and companies with a solid business reputation are more likely to be granted a license.
- U.S. companies need to verify whether the Lebanese company or individual has been blacklisted by the U.S. government as a result of past violations of export regulations. The BIS has a Denied Persons List and the Office of Foreign Assets Control has a Specially Designated Nationals List. Both are available online on www.bis.doc.gov and www.treas.gov/offices/eotffc/ofac/index.html.

CUSTOMS REGULATIONS

Lebanon follows the Harmonized System for its tariff regime. A new and modern customs law was implemented in 2001. It simplifies and expedites custom procedures, adopts international standards for the valuation of goods, applies modern and fair dispute settlement procedures, allows for electronic declaration of goods, and fosters the development of industrial and free zones. This new law has reduced delays and administrative burdens in clearing imported products through customs at the airport and ports. Furthermore, Customs has been very active in introducing online operations for its automated clearance system whereby traders and custom brokers will be able to enter and track customs declarations. In a later stage, users will be able to register, assess and pay declarations from their bank accounts.

LABELING REQUIREMENTS

Labels should include the net weight of the product, manufacture and expiration date, ingredients and origin. Labeling language varies between Arabic, English and French. Products with Hebrew labels are not accepted.

STANDARDS

Libnor, the Lebanese Standards Institution, is the sole authority in Lebanon to issue, publish, and amend Lebanese standards. EU norms are acceptable in Lebanon. Standards set out by international benchmark setting organizations are also widely

followed. They include Codex Alimentarius for food safety measures, IPPC for plant health measures, OIE for animal health and ISO for quality measures.

TEMPORARY GOODS ENTRY REQUIREMENTS

There are two types of permits for the entry of temporary goods. Customs grants a regular temporary goods entry permit to foreign products that will be manufactured or finished in Lebanon and then re-exported outside Lebanon or displayed in free zones. This permit is valid for six months and may be renewed for up to two years.

The Customs' Director-General may grant a special temporary goods entry permit for a range of products intended for temporary use. However, the period of the permit is limited to three months. Goods subject to the special permit include:

- Equipment and machinery used in public works, archeology, cinema and journalism,
- Goods or samples to be displayed in trade fairs,
- Goods intended for maintenance and repair or goods used for maintenance and repair,
- Empty containers or packages to be filled in Lebanon and re-exported or full containers or packages to be emptied in Lebanon then re-exported.

FREE TRADE ZONES AND WAREHOUSES

There are currently two free trade zones in Lebanon, at the Port of Beirut and at the Port of Tripoli. Free zones are considered outside the customs territory of Lebanon. No duties or taxes are charged on products when imported into, or exported from, the free zones. The entity investing in the free zone may, however, impose fees related to storage, porter and any other services rendered by them. All goods entering or existing in the free zones must be registered by the Customs Directorate for control and statistics purposes. Products admitted into free zones may remain there indefinitely.

Lebanon maintains two types of warehouses: industrial warehouses and storage warehouses. All customs warehouses remain under the customs control and could be administered by public or private entities, after obtaining the customs approval.

Currently, there are around 100 industrial warehouses in Lebanon. Industrial warehouses are considered to be an industrial plant under the supervision of Customs. Goods admitted into warehouses are subject to the regime of temporary admission of goods into Lebanon. Goods are temporarily exempt, under a personal or commercial undertaking, from import duties when imported into the industrial warehouses. Goods admitted to an industrial warehouse must undergo processing within a period of one year. Manufactured goods in the industrial warehouse may be exported to a foreign country, transferred to a free zone or public warehouse, or offered for consumption in the domestic market. In the latter case, the importer may choose to either pay the duties on the manufactured goods at the time they are offered for local consumption or duties on the value of imported goods used as input in the process of manufacturing at the time they are offered for local consumption.

Storage warehouses provide for temporary exemption from import duties. Goods in the storage warehouse may be offered for local consumption after settling import duties on the value of the goods.

CUSTOMS CONTACT INFORMATION

For further information on customs please refer to the following websites:
Customs: www.customs.gov.lb and Finance Ministry: www.finance.gov.lb

For specific inquiries, please address your e-mails to customs@inco.com.lb

-- Key contacts:

Brigadier General Assaad Ghanem
Director-General
General Directorate of Customs
Beirut, Lebanon
Tel: 961-1-980065/6
Fax: 961-1-643826

Mr. Hussein Nehmeh
President
High Customs Council
Beirut, Lebanon
Tel: 961-1-810920
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CHAPTER 7: INVESTMENT CLIMATE STATEMENT

A. INVESTMENT REGIME

A.1. OPENNESS TO FOREIGN INVESTMENT

Lebanon's free market economy, the absence of controls on the movement of capital and foreign exchange, a highly educated labor force, and the quality of life have encouraged a number of foreign companies to set up offices or regional offices in Lebanon in recent years. According to statistics from the Ministry of Economy and Trade, 38 foreign companies – offices and branches - registered at the Ministry in 2002, encouraged to some degree by new legislation and measures taken by the Government of Lebanon in recent years to attract foreign direct investment, create jobs, and stimulate economic growth. In terms of a U.S. presence, Computer Associates established an office in Beirut in January 2003, and Intel announced plans to open a Levant and North Africa office in Beirut during 2003. Several U.S firms expressed interest in Government projects in the field of transportation and telecommunications.

However, some foreign companies have left, or decided to move their regional offices to neighboring countries, or refrained from investing in Lebanon because of frustration resulting from red tape and corruption, arbitrary licensing decisions, archaic legislation, an ineffectual judicial system, high taxes and fees, and a lack of adequate protection of intellectual property. Violence against several U.S. fast food outlets and calls for the boycott of U.S. products have led investors to opt for a low profile and discouraged expansion. Transparency, clear regulations and fair consideration of bids have never been the rule in Lebanon. Private sector companies should be wary when bidding for public projects. The interpretation of laws remains flexible; for example, while the new Real Estate Law eases restrictions on foreign ownership, the Cabinet rejected a request to own property by a U.S-Palestinian citizen in December 2002, on the grounds that "this could set a precedence that might lay the foundation for the settlement of Palestinians in Lebanon."

Over the last two years, the GOL passed several laws and decrees to encourage investment, such as the Investment Development Law of August 2001 and Cabinet's approval of the applicable decrees in January 2003. This law granted the Investment Development Authority of Lebanon (IDAL), a public agency under the Prime Minister, the authority to award licenses and permits for new investments as well as to grant special incentives, exemptions and facilities to large projects (referred to as the "Package Deal Contract"). In June 2003, IDAL granted its first package contract to Dubai-based Al Habtoor Group's Metropolitan City Center real estate project valued at USD 150 million. This package consists of a ten-year tax exemption on income and profit, fee reductions on work and residency permits and other incentives. IDAL announced during 2003 that it would soon grant the Package Deal Contract to other projects worth USD 313 million, mainly in the tourism sector. In an attempt to attract foreign investments, IDAL launched in 2003 the "Investors Matching Service" to facilitate the creation of strategic international-local partnerships through joint venture, equity participation, acquisition, and others. It has also adopted a new strategy based on one-on-one meetings with potential foreign investors, especially the Lebanese Diaspora. As a result, IDAL visited Brazil, Saudi Arabia and the Emirates. Lebanon hosted several regional and international conferences over the year to attract foreign direct investments.

In March 2001, Parliament passed a new Real Estate Law easing legal limits on foreign ownership to encourage investments in industry and tourism. To date, the bulk of investments have gone into hotel construction, with several international chains opening in 2002, including the Movenpick, the Crowne Plaza Hotel, and the Metropolitan Hotel. Currently, a Four Seasons Hotel is under construction.

Despite the GOL's commitment to donor countries at the Paris II conference in November 2002 to move forward on privatization and securitization, the Government has registered no progress on the issues as a result of domestic political bickering, regional instability, the outbreak of the Iraq war and a worldwide economic slowdown. Initially, the GOL will look for "strategic partners", foreign or domestic, to participate in the corporatization of public utilities. The GOL still intends to start with the telecommunications sector by auctioning two 20-year GSM licenses or awarding management contracts. In a second stage, the GOL would sell a 40 percent equity share of power production and distribution at Electricite du Liban (EDL), Lebanon's national power company. The GOL plans to retain the power transmission component and may award a management concession to the private sector. The GOL hopes to privatize the management of the Beirut and Tripoli ports, privatize Beirut port silos and the regional water authorities in 2004-2005.

The Council for Reconstruction and Development (CDR) progress report for 2002 revealed a USD three billion program for the next three years, focusing on developing public utilities, securing basic services and meeting demands in remote parts of the country. CDR plans to allocate USD one billion for projects of national benefits and USD two billion for regional development projects. The three-year program is to be implemented over a six-year period based on the dates of launching projects.

A foreigner can establish a business under the same conditions that apply to a Lebanese national, provided the business is registered in the Commercial Registry. Registration depends on the foreigner having obtained residence and work permits. Lebanese law does not differentiate between local and foreign investors, except in land acquisition. (See real property section below.) Certain restrictions are placed on foreigners establishing companies in Lebanon, but foreign investors can generally establish a Lebanese company, participate in a joint venture, or establish a local branch or subsidiary of their company without difficulty. Other specific requirements apply for holding and offshore companies, real estate, insurance, and banking. There are no sector-specific laws on acquisitions, mergers, or takeovers, except for bank mergers. All companies established in Lebanon must abide by the Lebanese Commercial Code and regulations, and are required to retain the services of a lawyer.

Generally, a company is established either as a joint-stock corporation or as a limited liability partnership, modeled after the French Societe Anonyme (S.A.) or Societe a Responsabilite Limitee (S.A.R.L.). Under S.A. or S.A.R.L., Lebanese must hold majority ownership and a majority capital share. This is not applicable for holding or offshore companies.

JOINT STOCK COMPANIES (Societe Anonyme Libanaise- S.A.L.): This is governed by Decree Law No. 304 dated January 24, 1942 on Commercial Law. There are some limitations connected with foreign participation: a general limitation on management participation (Article 144), indirect limitation with regard to acquisition of capital shares (Article 147), limitation on capital shares with regard to public utilities (Article 78) and

limitation on capital shares and management with regard to commercial representation (Article 78). In the financial sector, most establishments, including banking and insurance, should take the form of a joint stock company.

LIMITED LIABILITY PARTNERSHIP (S.A.R.L.): This is governed by Decree Law No. 35, dated August 5, 1967.

HOLDING COMPANIES/OFFSHORE COMPANIES: At least two Lebanese should be on the Board of Directors, according to Decree Law No. 45 (on Holdings) and Decree Law No. 46 (on Offshore companies), dated June 24, 1983.

REAL PROPERTY: Foreign acquisition of property is governed by Law No. 296 dated April 3, 2001, which amended a 1969 law (No. 11614). The new law eased legal limits on foreign ownership of property, abolished discrimination for property ownership between Arab and foreign nationals, and lowered real estate registration fees from six percent for Lebanese and 16 percent for foreigners to five percent for both Lebanese and foreign investors. The law permits foreigners to acquire up to 3,000 square meters of real estate without a permit; foreigners can acquire more than 3,000 square meters subject to a Cabinet Decree. However, the law prohibits acquisition of property by Palestinians for fear of implantation.

In the industry and service sectors, Lebanon generally provides equal treatment for foreign investment. However, branch offices of foreign insurance companies that register in Lebanon as a branch (and not as S.A.L.) are treated less favorably than domestic suppliers in the insurance sector. Article 26 of Insurance Law No. 94 dated June 18, 1999 requires these branch offices to provide double the insurance guarantees of Lebanese firms. Domestic insurance companies are subject to capital requirements (\$1.5 million) not applied to branch offices of foreign insurance firms. Broadcast media licenses are restricted to Lebanese joint stock companies under the terms of Article 16 of Law No. 382/94. All shares should be nominally owned by Lebanese and not be transferable to foreign legal or natural persons. The banking sector is subject to screening by the Central Bank of Lebanon (CBL) under the terms of the Money and Credit Code, which was issued as Decree 13513 of August 1, 1963.

A.2. CONVERSION AND TRANSFER POLICIES

There are no restrictions on the movement of capital, capital gains, remittances, or dividends, or on the inflow and outflow of funds. The conversion of foreign currencies or precious metals is unfettered. Foreign currencies are widely available and can be purchased from commercial banks or money dealers at market rates. There are no delays in remitting investment returns except for the normal time required by the banks to carry out transactions.

A.3. EXPROPRIATION AND COMPENSATION

Land expropriation in Lebanon is relatively rare. The Law on Expropriation (Law No. 58 dated May 29, 1991, Article One), as well as Article 15 of the Constitution, clearly specifies the purpose of expropriation and calls for fair and adequate compensation. The Government may expropriate property for public utility projects, such as enlarging highways and streets. The Government, with the agreement of the Parliament, established two private and public real estate companies to encourage reconstruction

and development in Greater Beirut (a private corporation "SOLIDERE" for Beirut's downtown commercial center, and a public company "ELYSSAR" for the south-west suburbs of Beirut). It is attempting to develop a third company, "LINORD", for the northern suburbs of Beirut. These companies have been granted the authority to expropriate certain lands for development, although in doing so they have faced serious legal challenges from landowners and squatters. Compensation is paid at the time of expropriation and is often perceived as below market value. Several court cases are still pending against SOLIDERE after nine years of litigation.

The Government does not discriminate against U.S. or other foreign investors, companies, or representatives in expropriation.

A.4. DISPUTE SETTLEMENT

The U.S. Government has no record of any investment dispute or land expropriation case involving U.S. investors, although a local lawyer, representing a Lebanese family, including one dual-national Lebanese-American, is challenging the expropriation and demolition of the family's property by SOLIDERE in local courts.

Over the last few years, the GOL has faced problems with previously awarded contracts. In June 2001, the Cabinet terminated Lebanon's two GSM operators, Cellis (two-thirds owned by France Telecom) and Libancell (11 percent owned by Finn Sonera) ten-year Build/Operate/Transfer (B.O.T.) contracts, which were signed in 1994. Both companies received compensation for contract termination as estimated by international consulting company KPMG. The GOL intended to move fast on the privatization of the cellular through the issuance of two new twenty-year GSM licenses; however, disagreement among the political leadership continues to delay the privatization of this sector. As of July 2003, Cellis and Libancell and the GOL had not resolved their case, pending since 1999, at the International Court of Arbitration regarding GOL fines of USD300 million from each operator for alleged contract violations. Following passage of a mobile phone law that sets August 31, 2002 as the deadline for GOL takeover of the operators' assets, Cellis filed an additional complaint at the UN Trade Rights Commission for violation of the investment protection treaty signed between Lebanon and France. Despite the ongoing arbitration, both operators will be allowed to participate in future tenders for new GSM licenses.

Other international firms have resorted to arbitration. Hochtieff/CCC has brought claims against the GOL regarding several issues related to the Beirut International Airport (BIA) project, and the issue is still pending. Similarly, the Kuwaiti Al-Khurafi Group filed claims regarding the B.O.T. for a car park at BIA, and the issue was resolved.

Some contracts awarded on a basis other than merit were not sustainable, and the contracts were terminated. The Dubai Port Authority, which was awarded the Beirut Port Container Terminal, asked to revoke its contract with the Ministry of Transport at the end of 2000. In May 2001, Canadian investor SNC-Lavalin, which held 66 percent of LibanPost, pulled out of the 15-year B.O.T. contract to provide Lebanon with a modern postal system due to lower-than-projected revenues.

In one case involving a U.S. firm, the changes in the Board of one administration negatively reflected on contract implementation. In late 2002, U.S. consultants Graeber, Simmons and Cowan terminated the USTDA-funded Feasibility Study for Beirut

Emerging Technology Zone (BETZ) that the company was preparing for IDAL as a result of a lack of agreement between the U.S. firm and IDAL on the quality of the reports delivered. The company had to deal with three different IDAL Presidents and Boards while preparing the study.

Cases in Lebanese courts are not settled rapidly because of a shortage of judges, inadequate support structures, and a traditional slowness in the handling of cases inherited from the days of the French mandate. There is interference in the court system. Local courts accept investment agreements drafted subject to foreign jurisdiction, if the latter does not contradict Lebanese law. Judgments of foreign courts are enforced subject to the *exequatur* obtained. The Commercial Code (Book No. 5, Articles 459-668) and the Penal Code govern insolvency and bankruptcy. By law, a secured creditor has a right to share in the assets of a bankrupt party. Verdicts involving monetary values in contract cases are made according to the currency of the contract or its equivalent in Lebanese pounds at the official conversion rate on the day of the payment.

The "Lebanese Center for Arbitration" became operational on May 8, 1995. Created by local economic organizations, including the four Lebanese Chambers of Commerce, Industry and Agriculture, the Center acts as an arbitrator in solving Lebanese and international conflicts related to trade and investment. Its statutes are similar to those of the International Chamber of Commerce in Paris. Lebanon has an administrative judicial system that handles all kinds of disputes with the State. The Government does not accept binding international arbitration of investment disputes between foreign investors and the State. However, there is an exception for investors of countries that have signed an investment protection agreement (ratified by the Lebanese Parliament) that stipulates international arbitration in case of dispute. Lebanon is not a member of the International Center for the Settlement of Investment Disputes (ICSID - Washington Convention). Lebanon has ratified the New York Convention of 1958 on the recognition and enforcement of foreign arbitral awards.

A.5. PERFORMANCE REQUIREMENTS/INCENTIVES

Foreign investors enjoy the same incentives as local investors. Incentives are specified in laws or legislative decrees. The Government offers tax exemptions of six or ten years, depending on specific criteria, for industrial investments in rural areas (Law No. 27 dated 7/19/80, Law No. 282 dated 12/30/93, and Decree No. 127 dated 9/16/83). Exemptions are also available for investment in south Lebanon, Nabatiyah and the Biqa' (Decree No. 3361 dated 7/7/00). For example, new industrial establishments manufacturing new products will benefit from a 10-year income tax exemption. Factories currently based on the coast that relocate to rural areas or areas in south Lebanon, Nabatiyah and the Biqa' benefit from a six-year income tax exemption. The Government reduces to five percent the tax on dividends for: (a) companies listed on the Beirut Stock Exchange (BSE); (b) companies that open up 20 percent of their capital to Arab companies listed on their country stock exchange or foreign companies listed on the stock exchange of OECD countries; and (c) companies that issue GDRs (Global Depository Receipts) amounting to a minimum 20 percent of their shares listed on the BSE. Moreover, industrial warehouses for export purposes are customs exempt. Companies located in the Beirut Port or Tripoli Port Free Zone benefit from a 10-year corporate tax holiday and are not required to register their employees with the Social Security Service if they provide equal or better benefits.

Some clauses in the Investment Law are deemed non-WTO compliant. They give IDAL and the Prime Minister discretionary powers to determine incentives to be offered to investors in the form of "package deals" as well as in approving projects that could benefit from these incentives. Thus, potential MFN and national treatment violations (discriminatory treatment) with regard to incentives may occur. The Investment Law divides Lebanon into three investment zones located outside Beirut, with different incentives provided in each zone. The Law encourages investments in the field of technology, information, telecommunications and media, tourism, industry and agriculture. Incentives include (a) facilitating issuance of permits for foreign labor; (b) allowing introduction of tailor-made incentives through package deals (for large investments projects), including tax exemptions up to 10 years and reductions in construction and work permit fees; and (c) exempting companies that list 40 percent of their shares on the Beirut Stock Exchange from income tax for two years.

Lebanon maintains one measure inconsistent with WTO Trade-Related Investment Measures (TRIMS) obligations. Importers of wheat and derivatives must purchase 25 percent of their overall purchases from the Ministry of Economy and Trade-Cereals and Sugar Beet Office (which purchases wheat from Lebanese farmers at prices higher than international markets).

There are no performance requirements on investment imposed by law. However, to benefit from facilities in the issuance of work permits under "package deals", investors must hire two Lebanese for every foreigner and register them at the National Social Security Fund. There are no requirements on foreign investors regarding geographic location, amount of local content, import substitution, export expansion, and technology transfer, or source of financing. Investors are not required to disclose proprietary information as part of the regulatory approval process, except in the case of banks, which must have the Central Bank's approval for transfer of ownership.

In Government procurement tenders, local products benefit from a 15 percent price differential over imported goods.

Domestic and foreign investors can benefit from 5 to 7 percent interest rate subsidies by the Central Bank of Lebanon (CBL) for loans (up to a ceiling of approximately USD 10 million) provided by banks, financial institutions and leasing companies to industrial, agricultural, tourism, and information technology establishments. Domestic banks offer favorable term loans for investments in the industrial and hotel sectors under a European Investment Bank 30 million Euro loan (approximately USD 27 million).

Foreigners doing business in Lebanon must have work and residency permits and must register with a Chamber of Commerce to participate in trade-related activities.

A.6. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

The right to private ownership is respected in Lebanon. Foreigners can engage in all kinds of remunerative activities. They can freely establish, acquire, and dispose of interests in business enterprises.

A.7. PROTECTION OF PROPERTY RIGHTS

The concept of a mortgage exists, and secured interests in property, both movable and real, are recognized and enforced. Such security interests must be recorded in the Commercial Register and the Real Estate Register. Lebanon has a Real Estate Law that governs acquisition and disposition of all property rights by Lebanese nationals; real estate acquisition by non-Lebanese is governed by Law No. 296 dated April 3, 2001.

Lebanon has WTO observer status. On May 15, 2001, Lebanon submitted its Memorandum on Foreign Trade Regime to the WTO Secretariat. Working Party negotiations have begun and Lebanon anticipates WTO accession in 2005. The U.S. is providing technical assistance to the Ministry of Economy to facilitate Lebanon's accession.

Lebanon's March 17, 1999 Copyright Law largely complies with WTO regulations and needs minor amendments to become fully compatible. The new law allows educational institutions and students to copy legitimately acquired software for non-commercial use. A modern Patent Law, approved on July 25, 2000, provides general protection for semiconductor chip layout designs, plant varieties, and trade secrets, but with no adequate coverage for these latter areas. Lebanon is currently drafting a new Trademark and Geographical Indication Law. Although legislation provides generally adequate coverage for copyrights and patents, violations of intellectual property rights (IPR) remain a serious problem in Lebanon, and Lebanon has not yet established a record of adequate and effective enforcement of intellectual property. Unauthorized copying of imported books, videotapes, cassettes, and computer software is common in Lebanon. Cable piracy remains the most serious problem. According to the Business Software Alliance (BSA) and the International Intellectual Property Alliance, cable piracy reached 80 percent in 2002, causing losses to the industry amounting to about USD eight million. The BSA indicated that software piracy dropped in Lebanon from 79 percent in 2001 to 74 percent in 2002, causing losses to the industry amounting to approximately USD 4.3 million. In April 2003, the USTR Special 301 Review maintained Lebanon on the "Priority Watch List" category due to severe copyright piracy problems and a lack of serious Government commitment and efforts to improve IPR and patent protection.

Registration of copyrights in Lebanon is not mandatory. Copyright protection is granted without the need for any registration. As for trademarks, the 1924 Law on Industrial Property does not require examination of trademarks, but calls for simple deposit. However, examination of trademarks prior to registration became the norm starting in 2001. The examination process delays up to 3-4 months the registration of industrial trademarks due to a shortage of resources at the Ministry of Economy and Trade. The Lebanese legal regime does not require examination, prior to registration, of patents for novelty, utility, and innovation. Simple patent deposit is required at the Ministry. The application is examined only for conformity with general laws and ethics.

A.8. TRANSPARENCY OF THE REGULATORY SYSTEM

In principle, the Government of Lebanon encourages competition among companies bidding on Government contracts and does not discriminate among foreign suppliers. There is no one specific law regulating all aspects of Government procurement in Lebanon. Government administrations often award contracts by mutual agreement, without calling for a tender. The Government does not always establish "clear rules of the game."

In early 2001, the United Nations' Economic and Social Council for West Asia (ESCWA) surveyed 50 foreign investors in Lebanon to identify major difficulties encountered by foreign investors in Lebanon. The study revealed that the main obstacles are: **bureaucratic and administrative red tape, lack of transparency, corruption, slow customs procedures and the level of customs duties, work ethics, unexpected changes in economic policies, infrastructure and tax regulations.** Major problems faced by start-ups include complex administrative procedures for obtaining approvals and permits and difficulty accessing information. The ESCWA survey also revealed that contract enforcement and the unpredictable judiciary system were considered the most important risk factors.

A.9. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

Lebanon places no restrictions on the movement of capital in or out of the country, whether for investment or other purposes. The Government permits the free exchange of currencies, precious metals, and monetary instruments, both domestically and internationally. Credit is allocated on market terms, and foreign investors can get credit facilities on the local market. The private sector has access to overdrafts and discounted treasury bills, in addition to a variety of credit instruments, such as housing, consumer, or personal loans, and loans to small and medium enterprises. In June 2003, the International Finance Corporation (IFC), the private sector arm of the World Bank, and Citibank signed a USD 35 million four-year revolving trade facility to help Lebanese companies finance the import of capital goods and raw materials; the IFC will guarantee fifty percent of each transaction.

Trading on the Beirut Stock Exchange (BSE) has substantially picked up in 2002 compared to the previous year. According to the BSE data, the volume of shares traded in 2002 totaled 26.18 million shares valued at USD 118.9 million, compared to 14.7 million shares for a value of USD 53 million in 2001, an increase of 78 percent and 124 percent respectively. Market capitalization reached USD 1.395 billion, an increase of 11.8 percent compared to 2001. Trading activity continued to pick up in 2003. For the first five months of 2003, trading activity increased by 36 percent compared to the corresponding period in 2002. Total volume of trading reached 11.86 million shares with a cumulative value of USD 56.64 million. SOLIDERE shares accounted for 71.5 percent of aggregate trading volume, followed by bank stocks (12.4 percent). Market capitalization rose by 14.6 percent year-on-year to USD 1.413 billion. Presently, the BSE quotes six commercial banks, two funds, and five companies, including "SOLIDERE," one of the largest publicly held companies in the region. On July 10, the BSE launched a new trading system, a combination of an auction and continuous trading, to conduct electronic trading and enable remote trading in the future. Legislation allows the listing of tradable stocks or papers on the BSE. In 2002, Lebanon's largest bank, Banque du Liban et d'Outre-Mer (BLOM), listed its Global Depository receipts (GDR) on the BSE. Lebanon is now the headquarters of the Arab Stock Exchange Union. The BSE is currently working on creating the Arab Stock Exchange.

The regulatory system is transparent and consistent with international norms. Banks abide to the Bank for International Settlement (BIS) standards. Lebanon has legislation regulating issuance of and trading in bank equities. Parliament passed a law on unification of bank shares whereby banks may increase their capitalization and shareholder base as well as to optimize trading of bank shares on the BSE. New laws

governing the operation of the stock market, such as securitization, still await Parliament's approval.

The banking system is sound and enjoys a high capital adequacy ratio of about 19 percent, more than double the ratio as set by Basel I (eight percent). The Central Bank and the Association of Banks have set up a committee to prepare the banking sector to comply with Basel II recommendations concerning capital adequacy. Commercial banks have moved into retail banking to meet increasing demands for new products and services, such as Internet banking, PC, phone banking and bank assurance. Banks have established a network of 708 ATMs by the end of March 2003, a 19.8 percent increase over March 2002, to meet consumer needs. In June 2002, a real estate investment fund (similar to the U.S. "Real Estate Investment Trust" model) was launched, for the first time in Lebanon, by Saradar Bank, one of the top ten banks in terms of assets. The USD 15 million fund will be listed on the Beirut Stock Market. Saradar Bank will have a USD 5 million participation in capital and the rest will be subscribed by Arab investors. In April 2002, BEMO Securitization, a subsidiary of BEMO bank, and brokerage firm Financial Funds Advisors launched the first asset securitization transaction in the Middle East for the SOLIDERE account. In June 2003, Bank of Beirut, one of the largest banks, and small-size First National Bank jointly launched the Beirut Global Income Fund, a five-year USD denominated investment vehicle that aims to raise a minimum of USD 20 million. The Fund will be listed on the Beirut Stock Exchange (BSE). This is the second joint fund launched by the two banks, following the issuance of the Beirut Interbank Fund in September 2002, and which is currently trading on the BSE.

The Lebanese banking sector, encouraged by the Central Bank, continues to consolidate. Over Twenty-five bank mergers have taken place in the past decade, and additional mergers are anticipated after the Cabinet approves a revised Bank Mergers Law. International firms established in Lebanon such as BNP/Paribas, Credit Suisse First Boston, Credit Agricole Indosuez, HSBC, Citibank and Merrill Lynch remain active. Many sectors are dominated by traditional businesses in the hands of commercially powerful families. The Government is trying to improve the transparency of such firms in order to help solidify an emerging capital market for company shares.

The total assets of Lebanon's five largest commercial banks reached about USD 25.8 billion in 2002, or 48 percent of total banking assets. At the end of 2002, about 27 percent of total loans are estimated as non-performing, compared to 22.8 percent at the end of 2001. However, banks continue to maintain two-thirds provisions against non-performing loans, while the remaining provision is covered by collateral.

On June 21, 2002, the Financial Action Task Force (FATF) removed Lebanon from the list of countries not cooperating against money laundering after an FATF delegation to Beirut on May 20-22 determined Lebanon was effectively implementing a Money Laundering Law (No. 318 dated April 20, 2001). In July 2003, Lebanon joined the Egmont Group of Financial Intelligence Units; this group works on international cooperation in the fight against money laundering.

A.10. POLITICAL VIOLENCE

Lebanon's location between two major regional states, Israel and Syria, directly affects the country's political and security environment. Israeli withdrawal in late May 2000 was

expected to encourage investors to look for reconstruction and development opportunities in the South. However, continued violations of U.N. Security Council Resolution 425 and regional instability have hindered foreign investment. Demining operations in south Lebanon achieved great progress during the year with \$50 million in financing from the Government of the United Arab Emirates and the training of the Lebanese Armed Forces demining office. United States Government programs have also contributed to this effort. Stability in south Lebanon would improve Lebanon's security risk rating, provided the Government asserted its full authority in the region.

In March/April 2003, several demonstrations and protests, some led by political figures, took place throughout Lebanon, including at UN Headquarters and near the U.S. Embassy, to protest the U.S.-led war in Iraq. The protests were coupled with calls for a boycott of U.S. products. There were a number of violent incidents against U.S. outlets in 2002-2003. The most serious came in April 2003 when a device exploded inside the McDonald's outlet in Dora causing the injury of three persons. Another bomb was set to explode in the parking lot of McDonald's, but failed to detonate.

A.11. CORRUPTION

Lebanon has laws and regulations to combat corruption, but historically these have not been enforced. Lebanon is not a signatory to the OECD Convention on Combating Bribery. According to the Lebanese research company "Information International," Lebanon wastes over USD 1 billion a year because of corruption. It is widely believed that investors routinely pay bribes to win contracts and that Government contracts are often awarded to companies close to powerful politicians. International companies are faced with an unpredictable, opaque operating environment, and often encounter unanticipated obstacles or costs late in the process. Companies may also encounter informal quid pro quo arrangements, discovering that to win a contract they must invest capital in a related project. The UN-ESCWA's early 2001 survey of 50 foreign investors operating in Lebanon revealed that 66 percent of them consider corruption a major obstacle, along with "red tape" and lack of transparency. Passage of the Investment Development Law, granting IDAL the authority to award licenses, permits and all the necessary Government formalities, is expected to curtail red tape for new investments.

Corruption is more pervasive in Government contracts (primarily in procurement and public works), taxation, and real estate registration, than in private sector deals. According to Lebanese law, it is a criminal act to give or accept a bribe. The penalty is imprisonment for up to three years, with hard labor in some cases, plus a fine equal to at least three times the value of the bribe. Bribing a Government official is also a criminal act. The Central Inspection Directorate is responsible for combating corruption in the public sector, while the public prosecutor is responsible for combating corruption in the private sector.

During 2000, several NGOs were established to raise awareness and combat corruption. A local NGO "Kulluna Massoul" (meaning in Arabic "we are all responsible") launched a USAID-funded media campaign and organized seminars and workshops in schools. Another local NGO "The Lebanese Transparency Association", also known as "La Fasad" (meaning in Arabic "no corruption") adopted a Code of Ethics for NGOs; it is currently in the process of opening a Lebanese Chapter of Transparency International. The American-Lebanese Chamber of Commerce adopted a Business Code of Ethics in spring 2002. In October 2002, the International Chamber of Commerce sent to the

Prime Minister a draft law on combating corruption.

USAID spent USD 2.6 million in 2000-2001 for anti-corruption campaigns in Lebanon. The program included a media campaign, activities to strengthen investigative journalism, enhanced financial and administrative capability of Beirut Municipality as well as transparency and accountability grants. In March 2001, USAID launched a USD two million Transparency and Accountability Grants project. The project provides funds to civil society organizations and civic leaders to implement activities that address corruption and promote transparency, accountability, and good governance. To date, 55 grants were signed financing short-term, high impact activities in the public and private sector. Additional funds would be allocated for this project in 2003. The Transparency and Accountability Grants project has demonstrated that there is a committed Lebanese constituency willing to work hard and creatively to address corruption in all sectors.

B. BILATERAL INVESTMENT AGREEMENTS

The U.S. has neither a bilateral investment treaty (BIT) with Lebanon, nor an agreement on the avoidance of double taxation. Lebanon has expressed an interest in signing both. Discussions of a BIT reached a preliminary stage in 2001 and have been pending since then. Both the Prime Minister and the Minister of Economy have publicly expressed caution regarding a Middle East Free Trade Area.

Lebanon has signed bilateral investment treaties with the following countries (in alphabetical order): Armenia, Austria, Azerbaijan, Belarus, Benelux, Bulgaria, Canada, Chile, China, Cuba, Cyprus, Czech Republic, Egypt, Finland, France, Gabon, Germany, Greece, Hungary, Iran, Italy, Jordan, Kuwait, Malaysia, Morocco, Netherlands, Pakistan, Romania, Russia, Spain, Sweden, Switzerland, Syria, Tunisia, Ukraine, the U.A.E., the U.K., and Yemen.

Lebanon signed the Euro-Mediterranean Partnership agreement on June 17, 2002. Lebanon and Syria have four bilateral cooperation agreements in the fields of economy, transport, agriculture and health. Since January 1, 2002 Lebanon and Syria have fully implemented a trade agreement to allow nearly unrestricted flow of goods between the two countries. Lebanon has also signed the Arab Free Trade Zone Agreement as well as bilateral Free Trade Agreements with Egypt, Iraq, Kuwait, Syria and the UAE.

C. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

On February 10, 1981, Lebanon and the U.S. signed an OPIC agreement in Beirut, but no investment using the OPIC insurance coverage was undertaken at that time. In 1996, OPIC provided coverage to Citibank and the Beirut Marriott Hotel. In September 1999, OPIC signed a USD eight million loan agreement for the construction of the Galaxy-Marriott Courtyard Project. OPIC also provided political risk insurance for Cooperative Housing Foundation (CHF) International (based in Maryland) in the AMEEN housing project in Lebanon. The CHF project began in April 2001 through an agreement signed with Lebanese bank Credit Libanais. The Lebanese Government's National Investments Guarantee Corporation (NIGC), which was established in 1977, continues to insure new investments against political and war risks, riots, losses due to non-convertibility of currencies and transfer of profits. Other major trade/investment insurance programs open for business in Lebanon include COFACE (France), ECGD (UK), HERMES (Germany), SACE (Italian) and IAIGC (Arab Consortium). Lebanon has

joined the Multilateral Investment Guarantee Agency (MIGA) of the World Bank.

The U.S. dollar value of the local currency has been roughly trading at Lebanese Lira (LL) 1,500 to the dollar for the last eight years. Demand for the Lebanese pound continues to pick up as a result of the positive mood in the markets following the success of the Paris II donors' conference and monetary measures by the CBL encouraging placements in LL instruments. As a result, the CBL has been purchasing the excess supply of dollars in the market, thus boosting its foreign assets to an all time high, reaching USD 11.7 billion by mid-July 2003 and at the same time maintaining a stable foreign exchange rate. The Government of Lebanon has repeatedly expressed its commitment to maintaining a stable pound. There is no fear of depreciation or devaluation in the short term.

D. LABOR

The 1964 Labor Law provides for written and oral contracts and specifies a maximum workweek of 48 hours (with several exceptions, notably in agriculture and the food service industries).

There are no thorough or reliable statistics on the composition of Lebanon's labor force. The Central Administration of Statistics' 1997 study on household living conditions reports that Lebanon's working population totals 1.36 million, including foreign residents, but excluding the seasonal work force. The report estimates Lebanon's total population at four million. According to the World Bank Development Indicator, Lebanon's active labor force is estimated at 1.53 million in 2002, out of an estimated total population of 4.4 million.

Local unskilled labor is in short supply, and Arab (mainly Syrian and some Palestinian refugees), Asian, Indian, and African laborers are hired to work in construction, agriculture, industry, and households. There are no reliable statistics on unemployment. Unemployment is forecast to be high among university graduates. The local firm International Information Research Consultants (IIRC) estimates unemployment at between 13-15 percent, noting that in the absence of reliable statistics, it could be as high as 20-25 percent. Reputed economic consultants estimate the unemployment rate in 2002 at 12-13 percent.

Lebanon has a Federation of Labor Unions (CGTL), recognized by the Government, whose membership is limited exclusively to Lebanese workers. The CGTL's activities are mainly limited to demanding cost-of-living increases and other social benefits. Collective bargaining is common in some sectors, such as banking, and is regulated by the Ministry of Labor in accordance with 1964 decrees. The Government is a member of the ILO Convention. The Government/Labor relationship has improved compared to previous years, yet it remains difficult. The CGTL conducted demonstrations in the last two years calling for increased benefits. Labor-management relations have also been problematic, and strikes take place frequently to protest layoffs. Wages are relatively low, and many businesses tend to be labor intensive.

E. FOREIGN TRADE ZONES/FREE PORTS

Foreign-owned firms have the same investment opportunities as Lebanese firms. Lebanon has two free zones in operation, the Beirut port and the Tripoli port. Two new

free zones in north Lebanon (one in Selaata and the other in Qleiaat) are expected to be developed and operated by the private sector on a B.O.T. or B.O.O. (Build/Operate/Own) basis. The new free zones have been under discussion since 1999 and there is still no time frame for implementation. The Directorate General of Civil Aviation (DGCA) is finalizing a master plan for a free zone at BIA that will facilitate courier service and high-tech industries. The reconstruction of a 120,000 square meter free zone at the Port of Beirut is complete and a 6,000-square meter bonded warehouse facility is now available. The new Customs Law (WTO compatible) issued by Decree No. 4461 dated December 15, 2000 fosters the development of free zones (Chapter 3, Articles 242-261).

F. FOREIGN DIRECT INVESTMENT STATISTICS

There are no official statistics available on foreign direct investment. It is estimated that construction and real estate account for the largest part of foreign investment. In January 2002, UN-ESCWA granted Lebanon technical assistance to build an FDI database. According to a report released by the Inter-Arab Investment Guarantee Corporation (IAIGC), Lebanon received the second largest share in Arab multilateral investments in 2002, attracting approximately USD 650 million, representing 22.3 percent of total inter-Arab investments in 2002. Lebanon's share nearly tripled from USD 225 million in 2001. Reportedly, 53.8 percent of Arab investments in Lebanon came from Saudi Arabia, followed by the U.A.E. (29.3 percent) and Kuwait (15.4 percent). Lebanese investments in Arab countries increased by 59 percent, from USD 103.8 million in 2001 to USD 165 million in 2002, representing 5.7 percent of inter-Arab capital movements in 2002. According to IDAL's president, about 85 percent of Arab direct investment was in the hotel sector. There is also some Arab direct investment in real estate development projects, and through franchises in clothing and fast food industries. According to U.S. Department of Commerce data, U.S. direct investment in Lebanon amounted to \$79 million in 2000 and \$78 million in 2001. Foreign direct investment still constitutes a small part of capital inflows to Lebanon, with the lion's share comprised of remittances (estimated in a recent World Bank to have reached USD 2.3 billion in 2002), repatriated capital, and placements in treasury bills and Eurobonds.

French, Italian, German, British, Korean, and Finnish companies have won most of the Government contracts in the fields of electricity, water, and telecommunications, and for the Sport City Center and Beirut International Airport (BIA) projects. This could be attributed to (a) the travel ban which delayed the physical presence of U.S. companies in the Lebanese market to bid on projects until 1997, and (b) tied bilateral financial protocols, which provide grants and soft-term loans, signed between Lebanon and some European countries. U.S. companies won contracts in solid waste treatment and landfill, and some contracts in the power sector, air transport (radar equipment for BIA), and media (equipment for the national Radio Lebanon).

A total of 38 new foreign companies (offices and branches) registered at the Ministry of Economy and Trade in Lebanon during 2002, compared to 40 companies in 2001 and 44 companies in 2000. According to the statistics released by the Ministry, European enterprises totaled 19, followed by twelve from Arab countries, four from the U.S., one from Singapore, one from Australia and one from Virgin Islands. By early July 2003, 10 new foreign companies registered, of which four were from Saudi Arabia, five from Europe, and one from Bermuda.

The U.S. Embassy in Beirut tracks U.S. companies' participation in the Lebanese economy. The Embassy actively lobbies to support U.S. companies bidding on projects, providing equal support to all U.S. bidders via letters and direct meetings with senior Lebanese Government officials, and demanding fair consideration of U.S. bids. In some cases, the Embassy and U.S. Department of Commerce have provided higher-level advocacy from Washington. The Embassy encourages U.S. companies bidding on projects to contact the Embassy's Commercial Section for assistance and advocacy.

CHAPTER 8: TRADE AND PROJECT FINANCING

THE LEBANESE BANKING SYSTEM

Lebanon has the most liberal banking regime in the region. Bank secrecy is strictly enforced and there is no restriction on the movement of foreign currency or capital. The foreign exchange market is not regulated or restricted. There are no restrictions imposed on currency conversions and transfers, and no foreign exchange controls affect trading. About 50 percent of international trade is financed through letters of credit, and the remaining 50 percent through direct transfers. The National Institute for the Guarantee of Deposits insures up to LL 5 million (about \$3,317) of Lebanese and foreign currency deposits in commercial banks.

Strict bank regulation has helped Lebanon avoid the emerging markets crisis. Bank credits are closely monitored by the Banking Control Commission (BCC). The BCC complies with most of the CORE principles of the Basel Committee on banking control and ensures that all banks comply with Basel regulations on capital adequacy ratio. The average capital adequacy ratio of the banking sector -- shareholders' equity to risk-weighted assets -- currently stands at about 19 percent (while the Basel standard is eight percent, and CBL regulation is 12 percent). The Central Bank, the BCC and the Banks' Association have set up a committee to prepare the banking sector to comply with the Basel "New Capital Accord" (Basel II) as soon as possible (Note: Basel II imposes compliance starting January 1, 2007 for banks operating in non G-10 countries). All credit transactions are subject to timely and accurate disclosure. Bank financial statements are in compliance with international accounting standards. Annual accounts are audited by independent auditors and several banks utilize internationally recognized accounting firms.

EXPORT FINANCING AND INSURANCE

-- Export - Import Bank

The Export-Import Bank of the United States (Ex-Im Bank) is an independent U.S. Government agency that helps finance the export of all types of U.S. goods and services as long as they are not military-related (certain exceptions exist). Ex-Im Bank resumed its financing programs to Lebanon in November 1994. For additional information, you can visit Ex-Im's website at www.exim.gov.

-- Overseas Private Investment Corporation

The Overseas Private Investment Corporation OPIC's mission is to mobilize and facilitate the participation of United States private capital and skills in the economic and social development of less developed countries and areas, and countries in transition from non-market to market economies. OPIC also works with host country governments to help create economic climates that attract U.S. investment, facilitating the entry of hundreds of U.S. businesses into new markets abroad. For additional information, you can visit OPIC's website at www.opic.gov.

-- Credit Guarantee Programs GSM 102 - 103

GSM 102

The U.S. Department of Agriculture USDA has authorized credit guarantees for sale of U.S. agricultural commodities to Lebanon under the Commodity Credit Corporation's Export Credit Guarantee Program (GSM-102). The Commodities covered under GSM 102 are animal feed products, aquaculture feed, feed grains, nursery stock, oilseeds, planting seeds, protein meals & wheat. From FY 1999 to FY 2001, USDA approved annually \$10 million in GSM-102 credits for Lebanon. In 2001, Lebanon's Ministry of Agriculture benefited from facilities under this program for \$570,000 for the import of 750 tons of potato seeds from Agpro International Co, based in Idaho. In 2003, Lebanon's private sector imported over USD 5.8 million worth of corn and soybean from the U.S.

GSM 103

The U.S. Department of Agriculture has authorized \$10 million in credit guarantees for sale of U.S. breeder livestock to Lebanon under the Commodity Credit Corporation's Export Credit Guarantee Program (GSM-103). The Commodities covered under GSM 103 are breeder livestock (cattle, swine, sheep, horses, and donkeys, including semen and embryos). From FY 1998 to FY 2002, USDA approved annually \$10 million under GSM-103 for Lebanon. Lebanon benefited from facilities under this program for a total of about \$10.5 million for the import of 5,092 heifers from T.K. Export Inc., based in Virginia.

For additional information, you can visit the FAS website at <http://www.fas.usda.gov> or contact the FAS Information Division on (202) 720-7115.

-- U.S. Trade and Development Agency

The U.S. Trade and Development Agency TDA is a small, independent federal agency that assists U.S. companies in capitalizing on overseas business opportunities and responding to foreign competition. TDA funds feasibility studies, orientation visits, specialized training, business workshops, and various forms of technical assistance to enable American businesses to compete for infrastructure and industrial projects in middle-income and developing countries.

USTDA works closely with the U.S. Department of Commerce, The Export-Import Bank, the Overseas Private Investment Corporation, and other export promotion agencies to advance American business interests abroad.

TDA activities in Lebanon from 1997 to 2003 are outlined below:

- Normandy Landfill Reclamation (FS) \$450,000: Feasibility study to assess the environmental and seismic risks of constructing commercial and residential projects on the Normandy landfill. (Paul C. Rizzo Associates Inc) (FY2003)
- Byblos Solid Waste Management Project (FS) \$200,000: Feasibility study for a Solid Waste Management Project in Byblos. (Ecodit) (FY2003)

- Central Bank of Lebanon Virtual Private Network (FS) \$630,745: Feasibility study grant to the Central Bank of Lebanon to examine the installation of a virtual private network. (Hewlett Packard) (FY2002)
- Beirut Suburban Mass Transit Corridor (FS) \$625,000: Feasibility study grant to the Lebanese Ministry of Transportation to develop public-private financing options and instruments to serve the passenger demand of suburban commuters into Beirut. (Frederic R. Harris) (FY 1999)
- Beirut Emerging Technology Industrial and Research Center (FS) \$226,160: Feasibility study grant to the Investment Development Authority of Lebanon for the construction of an industrial park which will manufacture advanced communications products for the Middle Eastern market. (Graeber, Simons & Cowan) (FY 1999/2000)
- Normandy Landfill Reclamation (TG) \$220,000: Training grant to Solidere in support of Radian International's bid for an engineering services and equipment supply contract for the Normandy Landfill Reclamation project in Beirut. Carnegie-Mellon University's Brownfields Reclamation Center will do the training. (FY 1999)
- National GIS Center and System (FS) \$129,560: Feasibility study grant to the Council for Development and Reconstruction to assess a Geographic Information System project. (Geographic Planning Collaborative, Inc.) (FY 1998)
- National LNG Pipeline Supply (FS) \$500,000: Feasibility study grant to the Ministry of Hydraulic and Electric Resources to examine the supply and storage options for the proposed national pipeline. (M.W. Kellogg Company) (FY 1998)
- Billing and Collection Modernization (FS) \$340,000: Feasibility study grant to the Ministry of Hydraulic and Electric Resources for the proposed modernization of the billing and collection system of Electricite du Liban, the country's electrical utility. (Alpha-Gamma Technologies, Inc.) (FY 1998)
- Quleaat and Riyak Airports Technical Assistance (TA) \$154,300: Technical Assistance for the tenders and the evaluation of bids for the Quleaat and Rayak airports conversion and modernization projects. (Parsons Brinckerhoff International) (FY 1997)
- IFC Middle East Airlines Privatization (Desk Study) \$ 2,500. (Emercon LLC) (FY 2000)

For additional information, you can visit TDA's website at www.tda.gov.

PROJECT FINANCING AVAILABLE

Project financing in Lebanon varies and is not always clearly defined. According to the Council for Development and Reconstruction (CDR), the government's executive body for redevelopment, Lebanon's total foreign funding available at the end of 2002 amounted to USD 5,077million composed of grants, soft loans and other types of loans (export credits, commercial loans and loans on intermediate terms). The breakdown is as follows:

Millions of US dollars

	Grants	Loans			Total
		Soft loans	Others	Sub total	
Amount	713	2,128	2,236	4,364	5,077
% of total	14%	42%	44%	86%	100%

Ministries and other public bodies play a part in the implementation of the program.

More than 30 funding sources are involved in CDR's reconstruction plan. Ten financing sources together represent over 90% of the total funding. These are the World Bank (15%), the Arab Fund for Economic and Social Development (15%), Kuwaiti funds (10%), the European Investment Bank (10%), , the Islamic Development Bank (9%), Italy (7%), the commercial banks (6%), France (5%) and the EU (5%).

The World Bank (WB) opened a permanent office in Lebanon in early 2000 to track WB loans and to assist the Lebanese government in obtaining additional loans geared towards administrative, tax, and social reform, as well as assistance to municipalities.

New financing obtained during 2002 reached \$445 million, an increase of 16% over 2001 financing. The main sources of the new financing were as follows:

-- The Arab Fund for Economic and Social Development provided a loan agreement of \$80 million during 2002 to finance the National Control Center project (\$23.2 million), the development and rehabilitation of Beirut infrastructure project (\$56.7 million), the rehabilitation of archeological sites in Tripoli (\$ 330,000) and a technical assistance project for the Ministry of Finance.

-- The Kuwait Fund for Arab Economic Development provided a loan agreement of \$118 million during 2002 to finance the Litani water conveyor project (\$ 66.7 million) and the rehabilitation of 22 schools in Beirut (\$ 51.3 million.)

-- The Islamic Development Bank provided loan agreements of \$28 million in 2002 to finance the procurement of medical equipment for the Government University Hospital in Beirut (\$8.3 million) and the procurement of petroleum products for Electricite du Liban (\$ 20 million.)

-- The World Bank provided a loan agreement of \$108.5 million in 2002 to finance the Urban Transportation Development Project (\$65 million) and the potable water supply and wastewater disposal projects in West Beka'a (\$43.52 million.)

-- The French Agency for Development provided a loan agreement of \$12.5 million in 2002 to finance potable water supply projects in south Lebanon.

-- The Saudi Fund For Development provided loan agreements of \$38 million in 2002 to finance potable water supply project in the North (\$ 8 million) and several road projects in Lebanon (\$30 million)

BANKS WITH U.S. CORRESPONDENT BANKING ARRANGEMENTS

60 banks (out of 63 operating in Lebanon) maintain correspondence relationships with U.S. counterparts. Below is a list with contact information of the top ten commercial banks (ranked by assets as of December 31, 2002) with correspondent U.S. banking arrangements:

BLOM BANK S.A.L.

Dr. Naaman Azhari, Chairman-General Manager

BLOM Bank Bldg
Rashid Karamah str,
P.O.Box: 11-1912 Riad El Solh
Beirut, Lebanon
Tel: 961-1-738938; 961-1-743300
Fax: 961-1-738946
Email: blommail@inco.com.lb
www.blom.com.lb

BYBLOS BANK S.A.L.

Dr. Francois Bassil, Chairman-General Manager
Byblos Tower Bldg.,
Ashrafieh, Elias Sarkis Avenue
P.O.Box: 11-5605 Riad El Solh
Beirut, Lebanon
Tel: 961-1-335200
Fax: 961-1-339436
Email: byblosbk@byblosbank.com.lb
www.byblosbank.com.lb

BANQUE DE LA MEDITERRANEE S.A.L.

Dr. Mustafa Razian, Chairman-General Manager
Mediterranee Group Center
482 Clemenceau Str.
P.O.Box: 11-348 Riad El Solh
Beirut, Lebanon
Tel: 961-1-373937
Fax: 961-1-362706

BANQUE AUDI S.A.L.

(Note: Bank Audi also has a sister bank in New York, Bank Audi (USA). End note.)
Mr. Raymond Audi, Chairman-General Manager
Banque Audi Plaza, Bab Idriss
Beirut 2021 8102 - Lebanon
P.O.Box 11-2560 Riad El-Solh
Beirut, Lebanon
Tel: 961-1-994000; 961-1-995000
Fax: 961-1-990555
Email: bkaudi@audi.com.lb
www.audi.com.lb

BANQUE LIBANO-FRANCAISE S.A.L.

H.E. Farid Raphael, Chairman-General Manager
Beirut Liberty Plaza
P.O.Box 11-0808
Beirut, Lebanon
Tel: 961-1-340350/4
Fax: 961-1-340355
Email: info@eblf.com
www.eblf.com

FRANSABANK S.A.L.

Mr. Adnan Kassar, Chairman
Fransabank Center, Hamra Street
P.O.Box: 11-0393 Riad El-Solh
Beirut, Lebanon

Tel: 961-1-340180/8; 01-745761/4
Fax: 961-1-354572
Email: fsb@fransabank.com
www.fransabank.com

BANK OF BEIRUT S.A.L.

Mr. Salim Sfeir, Chairman-General Manager
Foch Street, Beirut Central District,
Bank of Beirut Bldg
P.O.Box: 11-7354
Beirut, Lebanon
Tel: 961-1-972972
Fax: 961-1-972972
Email: Executive@bankofbeirut.com.lb
www.bankofbeirut.com.lb

SOCIETE GENERALE DE BANQUE AU LIBAN S.A.L.

Mr. Maurice Sehanoui, Chairman
Sehnaoui Bldg, Riad El-Solh Street
P.O.Box: 11-2955
Beirut, Lebanon
Tel: 961-1-980783
Fax: 961-1-980785
Email: sgbl@sgbl.com.lb
www.sgbl.com.lb

CREDIT LIBANAIS S.A.L.

Dr. Joseph Torbey, Chairman-General Manager
Asrafieh, Sofil Center, 5th floor
P.O.Box: 16-6729
Beirut, Lebanon
Tel: 961-1-200028/9
Fax: 961-1-325713
Email: info@creditlibanais.com.lb
www.creditlibanais.com.lb

BBAC S.A.L.

Mr. Ghassan Assaf, Chairman-General Manager
250, Clemenceau Str.
BBAC bldg
P.O.Box: 11-1536 Riad El Solh
Beirut, Lebanon
Tel: 961-1-366630/1
Fax: 961-1-374299
Email: marketing@bbac.com.lb
www.bbac.com.lb

U.S. FINANCIAL INSTITUTIONS IN LEBANON

CITIBANK N.A.

Mr. Elia Samaha, Vice President and General Manager
Clemenceau Street,
Gefinor Center, Bloc E, 5th &6th floors
P.O.Box 113-5794
Beirut, Lebanon

Tel: 961-1-738400/5
Fax: 961-1-738406
Email: elia.samaha@citicorp.com

AMERICAN EXPRESS BANK (Rep. Office)

Mrs. Rana Mikati, Director and Representative, Near East region
Foch Street, Beirut Central District
The Atrium Bldg, 3rd floor
Beirut, Lebanon
P.O.Box 11-0327
Beirut, Lebanon
Tel: 961-1-987722
Fax: 961-1-987723
Email: rana.f.mikati@aexp.com
www.americanexpress.com

BANK OF NEW YORK (Rep. Office)

Mr. Mohamed Ali Beyhum, VP and Representative
Maarad Street, Place de l'Etoile
The Atrium Bldg, 2nd floor
Beirut, Lebanon
Tel: 961-1-988788
Fax: 961-1-989001
Email: Mbeyhum@bny.com
www.bankofny.com

JP MORGAN CHASE BANK (Rep. Office)

Mr. Mohammed Allaf, VP and Levant Manager
Clemenceau Street, Gefinor Center, bloc B,
16th floor, Suite No.1601
Beirut, Lebanon
P.O.Box 11-5133
Beirut, Lebanon
Tel: 961-1-739583
Fax: 961-1-739581
Email: mohammed.allaf@jpmorgan.com
www.jpmorgan.com

MULTILATERAL DEVELOPMENT BANKS IN LEBANON

The World Bank

United Nations House, 6th floor
Riad El Solh Square
P.O.Box:11-8577
Beirut, Lebanon
Tel: 961-1-987800
Fax: 961-1-986800
www.worldbank.org.lb

CHAPTER 9: BUSINESS TRAVEL

BUSINESS CUSTOMS: Lebanon uses the metric system of weights and measures, and the monetary unit is the Lebanese pound (LL), also called the Lira. There are no exchange controls, and U.S. dollars circulate freely. Cash is the most common method of payment in Lebanon. Payment by check or credit card is possible nearly everywhere. Bank ATM machines are widespread and cash may be withdrawn in Lebanese pounds or U.S. dollars.

TRAVEL ADVISORY AND VISAS: The U.S. Department of State advises all U.S. citizens of the risks of travel to Lebanon and recommends that Americans exercise caution while traveling there. For more information, please contact the Department of State at (202) 647-5225 or travel.state.gov or www.usembassy.com.lb.

Visas are required and may be obtained at Lebanese embassies (www.lebanonembassy.org) and consulates, or upon arrival at Beirut International Airport (only for holders of American, Canadian and Western European passports). Travelers whose passports contain any Israeli stamps or visas are routinely refused entry at the airport; if they hold an "Arab nationality", they may be subject to arrest and imprisonment.

LOCAL HOLIDAYS: New Year's Day (Jan. 1); St. Maron's Day (Feb. 9); Feast of Ramadan (Variable); Good Friday and Easter Monday, Western Rite (Variable); Labor Day (May 1); Eastern Orthodox Good Friday and Easter Monday (Variable); Martyr's Day (May 6); Feast of Al-Adha (Variable); Ashura (Variable); Moslem New Year (Variable); Assumption Day (Aug. 15); Prophet's Birthday (Variable); All Saints' Day (Nov. 1); Independence Day (Nov. 22); and Christmas (Dec. 25). Kindly check U.S. Embassy website, www.usembassy.com.lb, for official holiday schedule.

WORKWEEK: Government offices hours: 8:00-14:00 Monday through Thursday; 08:00-11:00 on Friday; and 08:00-13:00 on Saturday. Bank counters: Monday through Friday: 8:30 am to 12:30 AM (some bank counters remain open until 15:00 or 16:00); Saturday 8:00 am to 12:00 noon. Private office hours vary and some exceed the 40 hour workweek.

TRANSPORTATION: Although many international airlines serve Beirut, a 1984 Presidential Determination prohibits direct air links between the U.S. and Lebanon. Lebanon lacks adequate public transportation, but private, unmetered taxis and shared cabs are plentiful in and around the capital. Rental cars are readily available at a daily cost of \$20 and up, depending on the type and model of the car.

LANGUAGES: Arabic is the official language. French and English are widely spoken.

COMMUNICATIONS: International calls are possible. The domestic public phone network is generally reliable. Various private cellular telephone and fax facilities exist. Prepaid cellular cards are widely available. Cellular phones may be rented for the duration of a visit. Internet service is available at an average monthly subscription fee of \$13 for unlimited access and is accessible to visitors at many hotels and a multitude of Internet cafes. Local time is GMT plus two in the winter, and GMT plus three in the summer. Western Union has over 170 branches (many open 24 hours and on weekends) to facilitate wire transfers.

HOUSING: There are over 300 hotels in Lebanon, with over 60 percent located in Beirut and Mount Lebanon. There are several international and four-star hotels. There is a shortage of mid-priced hotel options in Beirut. Special corporate rates can be negotiated and seasonal rates are available. Furnished apartments are available, especially in Beirut and surrounding areas.

HEALTH: All kinds of pharmaceuticals and health-related products are readily available on the local market. Private hospitals in Beirut and surrounding areas provide modern care. Doctors and hospitals often expect immediate cash payment for services if health insurance is not available.

FOOD: All kinds of food are available on the local market, and restaurants offer a variety of cuisines. American fast food chains are ubiquitous (including McDonald's, TGIF Friday's, Hard Rock Cafe, Chilis, Hardee's, Pizza Hut, Kentucky Fried Chicken, Popeye's, and Dunkin' Donuts).

TEMPORARY ENTRY OF GOODS: There are no restrictions on the temporary entry of laptops and software. Temporary entry of exhibit materials requires a Temporary Admission (ATA) carnet, which can be obtained from the Chamber of Commerce. Video and audio disks and tapes may be subject to search and seizure.

U.S. business travelers are encouraged to obtain a copy of the "Key Officers of Foreign Service Posts: A Guide for Business Representatives" available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402; Tel: (202) 512-1800; fax (202) 512-2250.

Business travelers to Lebanon seeking appointments with U.S. Embassy Beirut officials should contact the Economic & Commercial Section in advance. The Economic & Commercial section can be reached by telephone at 961-4-544860 or 961-4-544868, by fax at 961-4-544794 or by e-mail at commercial@usembassy.gov.lb. Visit our website at www.usembassy.gov.lb.

CHAPTER 10: ECONOMIC AND TRADE STATISTICS

APPENDIX 1: COUNTRY DATA

Population (est.): 4.4 million.

Population growth rate (est.): 2 percent.

Religions: Christian (Maronite, Greek Orthodox, Greek Catholic, Roman Catholic, Protestant, other), Muslim (Sunni, Shi'a, other), and Druze.

APPENDIX 2: DOMESTIC ECONOMY

	2001	2002	2003 (projected)
GDP (IMF and GOL estimates in USD millions)	16,660	17,292	n/a
Real GDP Growth Rate (GOL estimate) (Audi Bank estimate)	2% 1.0%	2% 1.5%	3% 2%
GDP per Capita (in USD) (based on Audi Bank population estimate of 4.4 million)	3,786	3,930	n/a
Government Spending as a % of GDP (Finance Ministry)	35.3%	38.9%	n/a
Inflation (Audi Bank estimates)	2.9%	4.2%	2%
Unemployment (St Joseph University; Economic Consultants)	11.5%	12- 13%	12-13%
Foreign Exchange Reserves (owned by CBL and excluding foreign exchange deposits by banks and financial institutions held at CBL; in USD millions)	1,912.4	n/a	n/a
Average Exchange Rate for USD 1.00	1,507.5	1,507.5	1507.5
Debt Service Ratio as a % of GDP (Finance Ministry)	17.2%	17.7%	n/a
U.S. Government Economic Assistance (in USD millions)	50	36	35

APPENDIX 3: TRADE STATISTICS

Figures in USD Millions	2001	2002	2003 Jan-June
Total Lebanon Imports	7,291	6,444	3,228
Total Lebanon Exports	889	1,045	694
U.S. Exports to Lebanon	510 (418)	465 (318)	191
U.S. Imports from Lebanon	60 (90)	54 (62)	34

Source: Lebanese Customs

Figures in parentheses represent U.S. Department of Commerce data

APPENDIX 4: INVESTMENT STATISTICS

According to U.S. Department of Commerce data, U.S. direct investment in Lebanon amounted to USD 78 M in 2001, USD 79 M in 2000 and USD 80 M in 1999.

CHAPTER 11: U.S. AND COUNTRY CONTACTS

Investment Development Authority of Lebanon (IDAL)

Samih Barbir, Chairman
Nijmeh Square, Hussein Al-Ahdab Street, Bldg No 1145
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Home Page: www.idal.com.lb

Council for Development and Reconstruction (CDR)

Jamal Itani, President
Tallet Al Serail, Beirut
Tel: 961-1-981431/2; 961-1-980099
Fax: 961-1-981381
Home Page: www.cdr.gov.lb

Trade Information Center

Rafif Berro, Office Director
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Home Page: www.economy.gov.lb

Beirut Chamber of Commerce, Industry and Agriculture

Adnan Kassar, President
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Home Page: www.ccib.org.lb

American Lebanese Chamber of Commerce

Salim Zeenni, President
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Lebanese Bankers Association

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Lebanese Industrialists' Association

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Beirut Merchants' Association

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Masri Etudes et Expertises

Habib Khalil Masri, General Manager
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Fax: 961-1-511109
URL: www.masri.com.lb

Consultant and Research Institute (CRI)

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Tour St Nicolas, St. Nicolas Str.
Ashrafieh
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Centre de Recherches et d'Etudes Agricoles

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Jdeidet Al-Metn
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American Task Force For Lebanon (ATFL)

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Trade Information Center Number in Washington

1-800-USA-TRADE

U.S. Department Of State

Office of Business Affairs
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U.S. Department Of State

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U.S. Trade and Development Agency

Cybill Sigler
Middle East and North Africa Country Manager
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E-mail: info@tda.gov
Home Page: www.tda.gov

Overseas Private Investment Corporation

Abed Tarbush
Tel: 202-336-8799
Home Page: www.opic.gov

U.S. Export Import Bank

Robert Bosco
Tel: 202-565-3716
Fax: 202-565-3839
Home Page: www.exim.gov

CHAPTER 12: TRADE EVENT SCHEDULE

LAST QUARTER, CALENDAR YEAR 2003

September 1-3 MADE IN AMERICA 2003: FOR THE EARTH

Organized by the U.S. Embassy in the Export Center at the Port of Beirut
The first annual trade fair for U.S. products and services. For more information about "Made in America" fair, contact BeirutTradeFair@state.gov.

September 18-23 TERMIUM 2003 IN COOPERATION WITH GITEX

Organized by Promofair at Beirut International Exhibition and Leisure center (BIEL)
The 10th international information technology exhibition, featuring computer hardware and software, networks, office automation, furniture and supplies, telecommunication, and security.

Sept 30 - Oct 4 BEIRUT FASHION WEEK 2003

Organized by IFP at Beirut International Exhibition and Leisure center (BIEL)
The 8th international trade exhibition for ready-to-wear textiles, fashion accessories and children's wear, shoes and leather goods, incorporating a wedding showcase.

Sept 30 - Oct 4 BEIRUT 2003- WORLD TRADE FAIR

Organized by IFP at Beirut International Exhibition and Leisure center (BIEL)
The 4th international trade fair for consumer goods, industrial goods, leisure, travel and business to business services for the Middle East.

October 14-18 MEPRINT 2003

Organized by IFP at Beirut International Exhibition and Leisure center (BIEL)

The 5th international printing technology exhibition for the Middle East.

November 10-19 MEGAHERTZ/HOUSEMANIA 2003

Organized by Promofair at Beirut International Exhibition and Leisure center (BIEL)
The 8th international fair for electronics, audio-visual and photographic equipment, electrical household appliances and accessories.

November 23-26 BANKS, INSURANCE & REAL ESTATE 2003

Organized by Promofair at Beirut International Exhibition and Leisure center (BIEL)
Lebanon's first exhibition for banks, credit card companies, insurance companies, property developers and real estate brokers.

CALENDAR YEAR 2004

Jan 30 - Feb 4 WEDDING FOLIES 2004

Organized by Promofair at Beirut International Exhibition and Leisure center (BIEL)
The most important wedding exhibition in the Middle East showcasing the very latest products and services under one roof

February 4-8 JOAILLERIE LIBAN 2004

Organized by IFP at Beirut International Exhibition and Leisure center (BIEL)
The 8th international jewelry, watches and luxury goods exhibition .

February 7-16 SHOPPING FOLIES 2004

Organized by Promofair at Beirut International Exhibition and Leisure center (BIEL)
Trade fair for consumer goods

April 1-4 HORECA 2004

Organized by hospitality services at Beirut International Exhibition & Leisure center (BIEL)
The 11th Levant trade show for the foodservice and hospitality industries.

May 11-15 PROJECT LEBANON 2004

Organized by IFP at Beirut International Exhibition and Leisure center (BIEL)
The 10th international trade exhibition for construction technology, building materials and equipment. Project Lebanon is among the largest construction exhibitions in the Middle East. Exhibit focuses on architectural finishes, construction tools and technology, environmental technology, stone treatment and handling, and power generation and controls.

May 11-15 ELECON MIDDLE EAST 2004

Organized by IFP at Beirut International Exhibition and Leisure center (BIEL)
The 10th international exhibition for electricity, electronics engineering, lighting and air-conditioning and lighting and accessories.

May 11-15 STONE 2004

Organized by IFP at Beirut International Exhibition and Leisure center (BIEL)
The international stone and stone technology exhibition for the Middle East.

May 26-30 BEIRUT BOAT 2004

Organized by IFP at Beirut International Exhibition and Leisure center (BIEL)

The 4th international Boat and Super Yacht Show

July 21-25 JOAILLERIE LIBAN 2004

Organized by IFP at Beirut International Exhibition and Leisure center (BIEL)

The 9th international jewelry, watches and luxury goods exhibition.

Sept 29 - Oct 3 BEIRUT 2004- WORLD TRADE FAIR

Organized by IFP at Beirut International Exhibition and Leisure center (BIEL)

The 5th international trade fair for consumer goods, industrial goods, leisure, travel and business to business services for the Middle East.

Sept 29 - Oct 3 BEIRUT FASHION 2004

Organized by IFP at Beirut International Exhibition and Leisure center (BIEL)

The 9th international trade exhibition for ready-to-wear textiles, fashion accessories and children's wear, shoes and leather goods, incorporating a wedding showcase.

September 18-23 TERMIUM 2004 IN COOPERATION WITH GITEX

Organized by Promofair at Beirut International Exhibition and Leisure center (BIEL)

The 11th international information technology exhibition, featuring computer hardware and software, networks, office automation, furniture and supplies, telecommunication, and security.

For further information on the above-mentioned events, contact their respective organizers:

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