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”European Neighbourhood Policy”

Country Report

Lebanon

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1. INTRODUCTION

On 1 May 2004, the enlargement of the European Union took place with the accession of ten new Member States. It has brought changes to the EU's political geography offering new opportunities to deepen existing relations between the Union and its neighbours to the East and to the South. The Union is determined to further develop partnerships with its neighbours to mutual benefit, promoting security as well as stability and prosperity. The EU's external borders will not become new dividing lines but the focus of enhanced co-operation.

The European Neighbourhood Policy (ENP) sets ambitious objectives for partnership with neighbouring countries based on commitments to shared values and political, economic and institutional reforms. Partner countries are invited to enter into closer political, economic and cultural relations with the EU, to enhance cross border co-operation and to share responsibility in conflict prevention and resolution. The Union offers the prospect of a stake in its Internal Market and of further economic integration. The speed and intensity of this process will depend on the will and capability of each partner country to engage in this broad agenda. The policy builds upon the existing framework of co-operation.

In this report¹, the Commission provides an assessment of bilateral relations between the Union and Lebanon. The report reflects progress under the Cooperation and Interim Agreements, and describes the current situation in selected areas of particular interest for this partnership: the development of political institutions based on the values – democracy, the rule of law, human rights – enshrined in the Agreement, regional stability and co-operation in justice and home affairs, and economic and social reforms that will create new opportunities for development and modernisation, for further liberalisation of trade and for gradual participation in the Internal Market. The report provides guidance for the preparation of a joint action plan and serves as a basis for assessing future progress in the Union's relations with Lebanon.

1.1. Relations between the European Union and Lebanon

Lebanon and the European Community first established contractual relations in 1977 by signing a **Co-operation Agreement**, which entered into force in November 1978. The **Euro-Mediterranean Partnership** inaugurated at the 1995 Barcelona Conference established a policy with ambitious long-term objectives. The three main fields of activity are (a) political and security partnership, (b) economic and financial partnership, and (c) partnership in social, cultural and human affairs. The 2002 Association Agreement sets out in more detail the specific areas in which these objectives can be developed bilaterally.

Based on respect of democratic principles and fundamental human rights, the **Association Agreement** (AA) provides a framework for political dialogue, co-operation in economic policy, including approximation of laws and application of Community standards to support Lebanon's efforts to achieve sustainable economic and social development and the gradual establishment of a free trade area, as well as close co-operation in the social field particularly promoting the role of women and a better understanding amongst cultures. Co-operation to counter terrorism is covered in a separate exchange of letters between Lebanon and the EU. The AA commits both parties to further liberalisation of bilateral trade in various sectors. An

¹ For the most part, covering events and developments until 31 December 2004

Interim Agreement allowed the trade and trade-related contents of the Association Agreement to enter into force in March 2003. Under the current contractual relationship a Co-operation Council and a Co-operation Committee were established. The Co-operation Council met for the third time in February 2004 in Brussels, while the Co-operation Committee has not yet been convened. A new institutional structure will be established under the Association Agreement - an Association Council, an Association Committee and sub-committees.

Since 1999 Lebanon has been an observer to the **WTO**. In June 2001 it presented its Trade Policy Memorandum for accession. Lebanon has started consultations to become a member of the **Agadir Free Trade Agreement** with Egypt, Jordan, Morocco and Tunisia.

Bilateral relations between the EU and Lebanon have been intensified with the entry into force of the Interim Agreement on trade and trade related matters in March 2003. The entry into force of the Association Agreement is imminent. EU-Lebanon relations should enter into a renewed and more intense phase with the inclusion of Lebanon in the European Neighbourhood Policy, covering a much wider spectrum of fields of cooperation.

In its Decree of 27 January 2005, the Lebanese Government welcomed the European Neighbourhood Policy initiative.

1.2. Community and macroeconomic assistance

Lebanon is one of the Mediterranean beneficiaries of community assistance through the **MEDA** programme (bilateral and regional programmes). The EU (Community, Member States, EIB) is Lebanon's leading donor.

The total amount of funds committed under MEDA I (1995-1999) bilateral assistance was €182 million while under MEDA II (2000-2006) the total amount allocated is €74 million.

Total commitments / payments (MEDA I and MEDA II) in million €

| | MEDA I (5 years) | | | First 5 years of MEDA II (2000-2006) | | | | | | | | | | Total MEDA II | | |
|----------------|------------------|-----|-------------|--------------------------------------|----|------|---|------|---|------|----|--------|----|---------------|----|------------|
| | 1995-1999 | | | 2000 | | 2001 | | 2002 | | 2003 | | 2004*) | | 2000 – 2004 | | |
| Commitments | C | P | P/C ratio | C | P | C | P | C | P | C | P | C | P | C | P | P/C ratio |
| LEBANON | 182 | 1.2 | 0.66 | 0 | 31 | 0 | 2 | 12 | 6 | 44 | 24 | 18 | 18 | 74 | 81 | 109 |

*) Situation on 31/07/2004

Projects and programmes under MEDA I focussed mainly on economic transition and reform, the rehabilitation of public institutions, industrial modernisation and balanced social development. In terms of **macro-financial** assistance, Lebanon benefited from a structural adjustment facility of €50 million signed under MEDA I to assist with its economic transition and stabilisation, including the introduction of VAT. The Industrial Modernisation Programme (IMP) has been the most important and comprehensive private sector development intervention.

Under MEDA II the four main priorities of EU financial co-operation with Lebanon, as set out in the Country Strategy Paper 2002-2006, are i) support for the economic reform process

with a focus on promoting the effective implementation of the EU-Lebanon AA; ii) support for sustainable development and poverty alleviation, including support for environment protection, iii) support for human resource development, and iv) improving the human rights situation.

The National Indicative Programme (NIP) 2002-2004 for Lebanon amounts to €80 million. The NIP for 2005-2006 involves total funding of €50 million focusing on four main priorities: i) support for European Neighbourhood initiatives and promotion of the implementation of the AA ii) support for the knowledge economy (vocational training, Tempus, scientific co-operation) iii) strengthening the competitiveness of the private sector, and iv) water reform and environment. In addition to the ongoing support to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), a special regional programme for Palestinian refugees is under preparation for an amount of €20 million for Lebanon, Syria and Jordan, of which large parts are to be used for support in Lebanon.

Lebanon participates in a range of Euro-Med programmes promoting people-to-people contacts and co-operation between civil society actors associations and NGOs. Lebanon is eligible for participation in the Community programmes Tempus, LIFE-Third Countries.

The **European Initiative for Democracy and Human Rights (EIDHR)** supports civil society initiatives aiming at promoting democracy and human rights. There is one national EIDHR project in Lebanon for an amount of €761,000. Lebanon will also benefit from activities of three regional projects under the EIDHR.

Grants under the MEDA programme are complemented by financing of risk capital and interest subsidies related to loans provided by the **European Investment Bank (EIB)**. Since 1978 a total amount of €479 million in EIB loans has been committed for Lebanon. Priority sectors are productive infrastructure, private sector and environment. Resources made available for private sector support, in the form of long-term loans and risk capital facilities, are managed by the EIB and play a key role in contributing to the financing of private and financial sector development. In the framework of the Barcelona Process, the EIB has strengthened its financial partnership with the Mediterranean Partner countries through the creation of a specialised instrument, the Facility for Euro-Mediterranean Investment and Partnership (FEMIP). Under FEMIP the annual volume of EIB lending to all partner countries will gradually increase. These resources are to support a much broader range of activities with priority given to private sector development.

2. POLITICAL ISSUES

2.1. Democracy and the rule of law

Lebanon is a **presidential republic**, independent since 1943. The Constitution dates from May 1926 and has been amended several times, most recently by the Charter of Lebanese National Reconciliation (Taëf Agreement) of October 1989 which ended 15 years of civil war. Lebanon's political system is characterised by power sharing between religious confessions. According to the Taëf Agreement Christians and Muslims are represented on a 50:50 basis in the Parliament, the Council of Ministers as well as in all high ranking civilian and military posts. All sub-communities Alawi, Druze, Shia, Sunni within the Muslim community, and Armenian Catholic, Armenian Orthodox, Greek Catholic, Greek Orthodox,

Maronites and Protestants within the Christian community are represented in a "proportional" manner within this overall ratio.

Traditionally, the President is a Christian Maronite. The current President, General Emile Lahoud, was elected in 1998 for six years. In a widely contested move, his term was extended in September 2004 for another three years through a constitutional amendment. The Prime Minister is traditionally a Sunni Muslim. The power sharing arrangement provides its own complex system of checks and balances. The inter-communal political competition maintains a large space for political dialogue and no leader or group can dominate. Broad consent is required to pass important government decisions, decrees, or laws.

Legislative power lies with the Parliament, composed of 128 members belonging to blocs representing deputies of different geographical and/or religious origin. There are only three women in the current Parliament. Parliament elects the President, nominates the Prime Minister, invests and dismisses governments, approves legislation and the annual budget and has the power to question Ministers. The President of the Parliament, Nabih Berry, was elected in 2000 for a four years term and belongs to the Shia community.

The establishment of **political parties** is based on the general Law of Associations, which was promulgated under the Ottoman rule in 1908. There is no specific legislation governing political parties. Citizens are free to form a party with the permission of the Ministry of Interior and the approval of the Council of Ministers. Political parties are fairly marginal in Lebanese electoral politics as politics are highly personalised and based on direct contacts between the candidate and his constituency. The majority of deputies and ministers is not affiliated to a party and party politics accounts for only around 15% of political representation.

Parliamentary elections were last held in 2000. As in past elections, the electoral law and the management of elections gave rise to controversy. The main political parties in Lebanon are Amal, Arab Socialist Baath Party, Hezbollah, Kataeb Party, Lebanese Communist Party, Lebanese Forces, Progressive Socialist Party, and Syrian Social Nationalist Party. The next elections are due in May 2005. The EU attaches priority to free and fair elections according to the Constitution.

The supreme organ of **executive** and administrative power is the government. The Council of Ministers (usually a coalition cabinet) is composed of 30 members and represents all groups.

According to the Constitution, the President of the Republic contributes to preserving Lebanon's independence, unity, and territorial integrity, is supreme commander of Lebanon's armed forces and heads the Supreme Defence Council. He nominates the Prime Minister-designate after consultation with the Parliament, issues decrees and promulgates laws. The President is entitled to present any urgent issue to the cabinet. The Prime Minister has a large share of executive power. He heads the government and signs all decrees, except his own nomination and accepting his Cabinet's resignation. He ensures co-ordination of work between the different Ministries and acts as deputy chairman of the Supreme Defence Council. The Council of Ministers ultimately decides on all executive decrees.

At the time of writing, Lebanon is facing a period of political uncertainty with many political figures questioning the influence of Syria over Lebanon's political life. Presidential elections were due in November 2004 but in September the Parliament endorsed a constitutional amendment allowing the incumbent President Lahoud to stay in office a further three years

period. The extension of the presidential term was taken one day after the adoption of UN Security Council Resolution 1559, which underscored the importance of free and fair elections without foreign interference and respect for constitutional rules, and which called for the withdrawal of all remaining foreign forces from Lebanon, the disbanding and disarmament of all militias, and supported the extension of the control of the Lebanese government over all Lebanese territory. Over the past years, similar principles have been upheld by the EU.

In October 2004, a report by the UN Secretary-General noted that the requirements of UNSCR 1559 have not been met by the parties and requested a timetable for their full implementation. The Security Council then approved a Presidential Statement along the same lines, urging relevant parties to fully implement all provisions of this resolution and requesting the UN Secretary-General to report every six months to the Security Council. In December 2004, the European Council in a Declaration on the Middle East Peace Process recalled the importance of the implementation of UNSCR 1559.

The political crisis triggered by the extension of the presidential term led to the resignation of Prime Minister Hariri on 20 October 2004 and to the appointment of Omar Karami. The new government is transitional, awaiting the results of parliamentary elections.

On 14 February 2005, Mr Hariri was assassinated in a devastating bomb attack in Beirut which killed 14 other people, critically wounded two former ministers and injured over 100 bystanders. Opposition figures have united around a programme which calls for implementation of UNSCR 1559. On 28 February 2005 Prime Minister Karami and his government resigned during a special parliamentary session held to discuss the political situation following Mr Hariri's death. These events threaten to deepen Lebanon's political crisis in the run up to elections scheduled for May 2005.

At **regional level**, Lebanon consists of eight districts (*mouhafaz*), each one with its administrative centre: Beirut (Beirut); Southern Lebanon (Saïda), Nabatiyé (Nabatiyé); Mount Lebanon (Baabda); Northern Lebanon (Tripoli); Akkar (Halba); Bekaa (Zahlé); and Hermel (Baalbeck). Each district is divided into smaller districts (*kadaa*). The seven districts are headed by a *mouhafez* who is appointed by the government and represents all the Ministries except the Ministries of Justice and Defence. There are no elections at regional level.

At **local level**, the country is structured into *cazas*, a local government with moral personality and with a degree of administrative and financial autonomy. Municipalities are headed by the *caimacam*, responsible for the enforcement of laws and regulations, and the control of the proper functioning of public services. The *caimacam* is under the direct supervision of the *mouhafez* who solely communicates with the central Government. Each *caza* is further composed of several districts, with financial and administrative autonomy. They are governed by the Municipal Council, which is directly elected and a President designated by the Municipal Council. Local elections are held every four years; the last ones took place in May 2004. Unlike the central government, there is no obligatory confessional balance.

The **judicial system** consists of approximately 380 judges in ordinary courts of first instance for civil, commercial and criminal cases. There are four Courts of Cassation, three for civil and commercial cases and one for criminal matters. Each of the religious communities (Christian and Muslim) and each of their sub-communities have their own religious courts which adjudicate matters related to personal status, property, marriage, divorce, inheritance and child custody according to religious law. The Military Court, composed of one civilian

and four military judges, tries cases involving military personnel and civilians in security-related issues. The Constitutional Court established by the Taëf Agreement rules on the constitutionality of laws. The Supreme Court hears charges against the President and the Prime Minister. The Judicial Council is a permanent tribunal of final instance consisting of five senior judges adjudicating on threats to national security at the behest of the Cabinet and on the recommendation of the Minister of Justice.

The judiciary's performance is affected by procedural inefficiency and the backlog of cases, due to a lack of human and technical resources. The Constitution provides for the independence of the **judiciary**. However, in practice, judges are employees of the Ministry of Justice and are under considerable administrative control. The principle of immovability of judges is not foreseen in Lebanese law and the Ministries of Justice and Finance have power over the appointment, mobility and promotion of judges, as well as their salaries and benefits upon recommendation by a Higher Judicial Council. There is no code of conduct for judges. Salaries and the social status of judges are low, in particular when compared to local politicians and ministers which increases the risks of corruption. The government considers the reform of the judiciary as a priority; however, reform proposals have so far been rejected by the Parliament.

The wide remit of the Military Court means that in practice military justice is active in all sectors of law, including property rights, and that people are arrested and tried on grounds that are unclear and may appear arbitrary.

One of the most urgent post-war priorities was the re-establishment of the **public administration**. Over the years, the vast size of the public sector has become a major problem. The government employs approximately 260,000 people, which represents around 6.5% of the population. Public sector expenditure amounts to €6 billion (half of which for debt servicing), which represents approximately 38% of the GDP.

In 2004 the Transparency International's *Corruption Perception Index* ranked the country in 97th place, indicating a perception of a very high level corruption. Lebanon has signed but not ratified the UN Convention against Transnational Organized Crime and has not signed the UN Convention against Corruption. Corruption is widespread in Lebanon. The reasons are, *inter alia*, low salaries and high living, education and health costs and red tape which provides civil servants with opportunities. High profile cases of corruption among politicians have had a negative impact on the public perception of the integrity of the political class. An anti-corruption law was drafted in 2002, but has not yet been presented to the Parliament.

2.2. Human rights and fundamental freedoms

The Constitution offers broad guarantees of freedom of speech, assembly, association and religion. Every citizen is equal in front of the law. International treaties, once ratified by the Parliament, become part of the national legislation and can be directly invoked in court. Essential elements of respect for democratic principles and fundamental human rights, as set out in the Universal Declaration of Human Rights, have entered the body of law. Lebanon co-operates with NGOs on human rights issues in many areas, and local branches of international NGOs organisations function openly in Beirut.

Lebanon has ratified the core UN Human Rights Conventions, except some of the optional protocols related to these treaties. It has not yet signed or ratified the Convention on the Protection of the Rights of All Migrant Workers and Members of their Families.

The government has not established a comprehensive human rights strategy. Recently, major amendments to the Penal Code were proposed by the parliamentary justice committee. Human rights activists led a campaign against the proposals which, they claim, could lead to serious restrictions on freedom of association and expression and further erode the rights of women.

The Constitution provides for **freedom of speech and of the press**. Lebanon has a rich tradition of freedom of opinion, speech and the media is largely privately owned. There is a multiplicity of newspapers and journals, many of them critical of the government, often linked to a particular financial, religious or political group. The government owns one TV and one radio station. In 2002 the Supreme Court upheld a decision of the Publications Court to order the closure of an opposition TV channel, known for its anti-Syrian position, on grounds that it had broadcast election material in contravention of article 68 of the Parliamentary Election Law. While access to external satellite and internet services is widespread and unrestricted, there is close scrutiny and censorship of books, journals, magazines, films and plays, both domestic and foreign. Texts and pictures which risk inflaming inter-confessional tensions are strictly censored. The 1991 security agreement between Lebanon and Syria contains a provision allowing the prohibition of publication of any information deemed harmful to the security of either state. Human rights groups have shown alarm at the increasingly assertive reaction by the judiciary and certain state agencies against criticism of Syria's presence in Lebanon. Dozens of journalists accused of endangering state security have been tried.

The Constitution provides for **freedom of belief**. There is no state religion in Lebanon. Every citizen must belong to a specific religious group. In order to seek official recognition as religious group, a dogma and moral principles are to be submitted for governmental review to ensure that they do not contradict the Constitution or popular values. Official recognition conveys certain benefits such as tax-exempt status. State recognition is, however, not a requirement to practice religious rites. Lebanon is a mosaic of religious **minorities** with 18 officially recognised religious groups. No official census has been conducted since 1932. Baha'is, Buddhists and Hindus are not officially recognised, and are allowed to practice their religion freely, although their marriages, divorces and inheritance are not recognised under the law. No law in Lebanon provides for civil marriages. The State does, however, recognize civil marriages which have been concluded outside the country. There has been a relatively successful effort to shape a united national armed force without consideration of religious affiliation.

The Constitution recognises **freedom of assembly, association and movement**. Although legally recognised, freedom of assembly is subject to some restrictions. Groups wishing to organise a rally have to obtain prior approval from the Interior Ministry, but decisions are not rendered consistently. Opposition groups have been refused permission, and opposition rallies dispersed at times by excessive force. As regards the freedom of association, new organisations must notify the Ministry of Interior, which acknowledges receipt. However, further administrative requirements are often imposed and there is concern that the notification procedure has turned into an approval procedure where not receiving receipt of notification can be interpreted as denial of permission. There are few barriers to freedom of movement although. restrictions of movement can be imposed by religious courts in family litigation cases. .

There is a wide and active range of **civil society organisations** in Lebanon performing important tasks, especially with respect to the provision of social services. The NGO sector, of about 4,000 NGOs, employs a large number of people. The sector is diversified and offers democratic and open debate. There is no specific legislation related to NGOs. The

government is currently reviewing the law governing Public Interest NGOs (a sub-sector of NGOs). The Commercial Code is also relevant since NGOs can be registered through a simple notary procedure as non-profit private companies.

Lebanon has ratified most of the ILO's Conventions on core labour standards (forced labour, freedom of association, collective bargaining, child labour, discrimination) except Convention 87 on the freedom of association and protection of the right to organise. As regards the **freedom to organise and form trade unions**, all workers except government employees are allowed by law to join labour unions and to strike. Around 14% of Lebanon's 900,000 work force is unionised. The influence and impact of unions has diminished in recent years. Strike action, which has become increasingly rare, tends to be organized for general political, rather than for specific bargaining reasons.

In 2001 the Parliament adopted a new Code of Criminal Procedure, which provides for better legal protection during **detention**, including the right to a lawyer, to medical treatment and information for relatives. Under the Code, arresting officers are required to refer a subject to a prosecutor within 48 hours of arrest, unless there were witnesses to the crime, in which case the suspect may not be held in custody for more than 24 hours without being charged. Defendants have the right to legal counsel, but there is no state-funded public defender's office. The Bar Association operates an office for those who could not afford a lawyer, and the court panel on many occasions asks the Bar Association to appoint lawyers for defendants. Conditions in prisons, including health conditions, do not meet up to minimum international standards. In November 2004 only 47% of the 5,375 prison population had yet been convicted. Despite a presidential decree in 2002 authorizing access, visits to prisons by human rights monitors are not permitted - the International Committee of the Red Cross (ICRC) was refused access to all prisons, including those operated by the Ministry of Defence where civilians are held.

Lebanon has not adhered to the UN Convention against **Torture**. The practice of torture and ill-treatment, including against foreign nationals, is often cited by human rights organisations at international and national level as being widespread, occurring in police stations and military establishments.

The Constitution allows for the **death penalty** for crimes such as assassinations and terrorism. Although a *de facto* moratorium was in place since 1998, three detainees were executed in January 2004 despite intense local and international pressure. 69 people are currently sentenced to death.

Lebanon has not yet signed or ratified the Rome **Statute of the International Criminal Court**.

Since 1953 women have the right to vote and run for elections. Women may own property, and in court their testimony is equal to a man's. In 2001, Parliament adopted a law providing equal pay for equal work for men and women. In 2004, the Parliament passed legislation giving women serving in government the same rights as men in terms of medical coverage and hospitalisation. However, in practice, women face discrimination in the workplace. Women find employment possibilities in fields such as medicine, law, arts, academia and government, but to a lesser extent in business. In parts of society, pressure against women pursuing a professional career is strong. Sexual harassment is punishable by law, but is still reportedly widespread. A number of laws on family and personal status **discriminate against women**. "Honour crimes" by relatives against women for alleged immoral acts are frequent

and the law allows for reduced punishment of such crimes. Citizenship is transmitted by paternity, which is a problem for women who are divorced, widowed or abandoned. Without nationality and citizenship, their children are often denied access to education, health and employment rights. In 1997 Lebanon ratified the Convention on the elimination of all forms of discrimination against women (CEDAW), albeit with some reservations. These are related to personal status, which addresses the issue of equal rights and responsibilities in marriage, of the mother in all matters related to her children including guardianship, custody, trusteeship, adoption and the right to choose the family as well as the right to choose a family name, further to citizenship and naturalisation and to arbitration.

Lebanon has ratified the UN Convention on the **Rights of the Child** without reservation. Since 1998, primary education for children is compulsory. Child labour is common and increasing, particularly among the poor. According to the UNICEF State of the World's Children Report, the most recent statistics for child labour (5-14 years) is 6% of all children. 30% of Lebanese youth (15-19 years old) are already out of school and this number is expected to increase to 45% in the near future. They work mainly in the industrial, craft, and metallurgical sectors with an income of approximately €7.6 a week.

In June 2002, the Parliament ratified the ILO Convention No. 138, concerning the minimum age for employment, which Lebanon set at 14 years. The Labour Code defines workers under the age of 14 as child workers, who are entitled to 21 days paid annual leave. According to UNICEF, 60% of working children are below 13 years. According to the Labour Code workers under the age of 18 are not allowed to work more than six hours a day or during the night or in jobs endangering health, safety or morals. In 2001 Parliament adopted a law concerning the protection of juveniles exposed to danger, but enforcement of legislation is not effective. There are no child welfare programmes or state institutions to take care of neglected or abused children.

2.3. Foreign relations – general

Lebanon is a member of the United Nations, the Arab League and of the Organisation of Islamic Countries. It participates in all sectoral institutions/bodies of the above organisations. Lebanon has applied for membership of the WTO and has observer status in the organisation.

The domestic and foreign political agenda in Lebanon is strongly **influenced by Syria**, which maintains a military presence in Lebanon and is closely involved in political life. The Taëf agreement, which ended the civil war, foresaw the gradual withdrawal of these forces according to a schedule to be agreed between the Lebanese and Syrian governments, as is also required by UNSCR 1559, the objectives of which are fully supported by the EU. In the past year, the continued Syrian presence has been increasingly contested by opposition forces in Lebanon as well as by the international community.

As regards the **Middle East situation** Lebanon supports full implementation of UN resolutions on Israel-Palestine issues, as well as the return of refugees as set out in UNGAR 194. It calls for Israeli withdrawal from the small area of Shebaa farms and supports “resistance“ by *Hezbollah* (see 2.4)

Iraq remains Lebanon's leading export market (50% of total exports). Lebanon strengthened its ties with Iraq by signing a Free Trade Agreement in 2002, which triggered an early round of tariff cuts. Lebanon was critical of the prospect of war with Iraq, fearing the possible

repercussions and impact on the delicate inter-confessional balance on which its own stability depends.

Lebanon is party to the **Non-Proliferation Treaty** and has signed the Treaty and the Convention on the banning of the development, production, stockpiling and use of Chemical Weapons and on their destruction. Lebanon is not a member of the Convention on Conventional Weapons (CCW) and has not acceded to the 1997 Ottawa Convention on the Prohibition of the Use, Stockpiling, Production and transfer of Anti-Personnel Mines and on their Destruction. There are a large number of mines laid throughout the country, with South Lebanon being the most heavily contaminated area.

Lebanon is party to 10 of the 12 UN Conventions regarding **terrorism**. Lebanon condemned the 11 September 2001 attacks and indeed all forms of international terrorism. However, Lebanon was unable to accede to US demands to freeze the assets of *Hezbollah* – and other extremist Islamic groups – and to locate named terrorists. Since Lebanon considers *Hezbollah* as an official resistance to Israeli occupation, many Lebanese regard the group's attacks against Israel military targets as legitimate. The EU's own list of terrorist organisations does not include *Hezbollah*. The Lebanese government has proclaimed its readiness to co-operate with the EU in the **fight against terrorism** in line with its commitments under an exchange of letters on co-operation on counter terrorism.

2.4. Territorial and other conflicts/disputes

The security situation in **South Lebanon** is fragile due to the simmering conflict at the frontier and the fact that the government has declined international appeals to deploy its army at the border, allowing *Hezbollah* to fill the security vacuum. The *Hezbollah* justifies its 'resistance activity' on the basis of Israeli occupation since the 1967 war of 12 square kilometres of land known as the Shebaa farms, which Israel regards as Syrian and therefore part of the occupied Golan whereas Lebanon claims that the farms are part of its territory.

Israeli troops withdrew from South Lebanon in May 2000. The UN ruled that UNSCR 425 had been implemented but Lebanon considered that the withdrawal of Israeli forces was incomplete as it did not include the so-called Shebaa farms area in the South-East. Lebanon rejects the UN demarcation line as the international frontier with Israel. A 2,400-strong **UNIFIL** (United Nations Interim Forces in Lebanon) peace-monitoring force continues to monitor the situation along the frontier with Israel. The reintegration of the former occupied zone is under way, with state services gradually returning after an absence of nearly 20 years. In January 2004 a German-brokered exchange of prisoners took place between Israel and *Hezbollah*.

A dispute flared up between Israel and Lebanon in September 2002 over the construction by Lebanon of a pump station on the **Wazzani springs**, which feed the Hasbani river flowing into Israel. Israel objects to the unilateral action, and has called for suspension of pumping, and for consultations, through an intermediary if necessary. During 2003 the Commission carried out a technical hydrological study of the Hasbani river basin in order to assess the arguments concerning planned use for water extracted from the Hasbani river. The EU's Special Representative for the Middle East has raised the matter in the region and the EU has offered its services to the UN to mediate in the dispute.

There are around 250,000 **Palestinian refugees** in Lebanon, mostly living in one of twelve overpopulated refugee camps run by UNRWA. In addition, it is estimated that between

10,000 and 40,000 Palestinian refugees are not registered with UNRWA and are therefore receiving very limited assistance from it. Palestinian refugees face *de jure* and *de facto* discrimination as compared with other non-citizens, with regard to the right to own and inherit property, the right to work and social security, access to housing and social services, as well as the rights to effective remedies and are restricted from rebuilding or redeveloping refugee camps due to government-imposed restrictions.

The resettlement of these **Palestinian refugees**, whose presence is considered to be potentially destabilising to the delicate demographic balance, is a priority issue for Lebanon. There is a national consensus on the right of return of Palestinians. Most Palestinian refugees are housed in 12 camps with poor living conditions and are barred from most forms of employment and economic activity. Only a few have been allowed to settle as legal residents. The UN Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), largely funded by the EU, runs schools, medical care and shelter rehabilitation in the camps (see 2.5). Despite tight controls on movements in and out of the camps, the worsening violence in the West Bank and Gaza has led to a number of armed attacks into Israel by Palestinian refugees wishing to support the *Intifada*. The Lebanese army has been partly effective in preventing such attacks.

2.5. Justice and Home Affairs

There is no specific law regulating **migration** flows.

Lebanon has become a transit country for **asylum** seekers from Iraq, North Africa and Sahel using Lebanese ports bound for the EU. Caritas estimates the number of asylum seekers to be around 40,000, of which roughly 10,000 are officially registered as asylum seekers. The EU is not a primary destination for Lebanese migrants, but there are significant communities in some Member States, notably France.

Lebanon has not ratified the 1951 Convention concerning the Status of Refugees and its 1967 Protocol. The Government grants admission and temporary refuge (6 months) to asylum seekers, but not permanent asylum. Since 1969, the government cooperates with the office of the United Nations High Commissioner for Refugees (UNHCR) as well as with UNRWA. The Memorandum of understanding signed in September 2004 between the Government and the UNHCR might represent a step forward in formalising the role of the latter in protecting refugees and asylum seekers and reducing the risk of their rights being violated.

The Euro-Med Association Agreement with Lebanon contains a readmission clause in Article 69. The only readmission agreement Lebanon has signed is with Cyprus.

Lebanon's national **security forces (police)** consist of the internal security forces, the *Sûreté Générale* and the Directorate General for State Security. The internal security forces are under the Ministry of Interior. The approximately 14,000 staff (a considerable increase from 7,000 in 1988 to 10,000 in 1991) are assigned to the territorial police force (*gendarmerie*) and Beirut police force, the criminal investigation department, the state administration and security personnel for Embassies. Officers attend the military academy, followed by a 6 month specialisation at the Hadaath police academy. The 2,700 staff of the *Sûreté Générale*, also under the Ministry of the Interior, primarily deal with internal security missions (*secret service*), policing at the borders and protection of high-level personalities. The Directorate General for State Security, with 2,000 staff, was created in 1991 and is attached to the office of the Prime Minister. Its main task is to provide the Higher Council on Defence with

information on the political situation and security and to propose measures designed to cope with internal and external threats, as well as coordination with other relevant services, such as the security forces and the army information service.

Border management in Lebanon is carried out by the *Sûreté Générale*, as far as land borders are concerned. The military wing of *Hezbollah* controls the security of South Lebanon. UNIFIL peace-monitoring forces continue to monitor the situation along the frontier with Israel. The Lebanese Navy is in charge of maritime borders.

As regards **trafficking in human beings** neither a national action plan to combat trafficking nor specific anti-trafficking laws exist. However, the Penal Code contains a provision according to which any person depriving another of freedom either by abduction or any other means shall be sentenced to temporary hard labour. Lebanon is a destination country for involuntary domestic servitude for African and Asian women and to a lesser extent, Eastern European and Russian women trafficked for sexual exploitation.

In 2001 Lebanon signed the **UN Convention against Trans-national Organized Crime** and in 2002 the Protocol to Prevent, Suppress and Punish Trafficking in Persons, especially Women and Children. In terms of anti-trafficking measures, the government has closed approximately 15 illegal employment agencies for violating trafficking related regulations. In 2002, the Ministry of Labour established a complaints procedure against employers or employment agencies, but to date only few victims of trafficking have used this. Lebanon has signed but not ratified the Protocol against the Illicit Manufacturing of and Trafficking in Firearms, their parts and components and ammunition. It is a participating State of the UN Programme of Action to Prevent, Combat and Eradicate the Illicit Trade in Small Arms and Light Weapons in All its Aspects (UNPoA). The possession of small arms and light weapons (SAMW) is common among ordinary citizens, with both carrying and trading of arms legal and relatively easy under Lebanese law.

Lebanon is a party to the 1988 **UN Drug Convention**, the 1971 **UN Convention on Psychotropic Substances**, the 1961 **UN single Convention on Narcotic drugs**, and its 1972 Protocol. According to the report presented during the Mini Dublin Group meeting held in Beirut in May 2004, Lebanon is considered neither a major producer of **drugs** nor a major drug transit country. Indeed, thanks to government efforts, cannabis cultivation is decreasing gradually. Programmes to uproot drug crops and severe police control has resulted in reducing the problem, although it has not completely disappeared. The government has launched awareness-raising campaigns to discourage the use of drugs. There are no public detoxification centres for the treatment of drug addicts. The National Council of Drugs intended to assist drug addicts and their families as well as raise awareness has not yet been established. There is one comprehensive private drug rehabilitation program, OUM AL NOUR, partly funded by the state, which operates three drug treatment centres in Lebanon. The government has demonstrated political determination to conduct an effective anti-drugs policy by taking serious preventive actions, and by eradicating most of the cultivated areas before harvest. The implementation of programmes for massive uprooting of drug cultivation and severe police controls has reduced the problem. Drug trafficking across the Lebanese-Syrian border has decreased as a result of efforts on both sides to deter smuggling activities.

In April 2001 a law was passed criminalizing **money laundering**. The law provided for the creation of a Special Investigation Commission (SIC) within the Bank of Lebanon as an independent legal entity with judicial status, having the exclusive right to lift banking secrecy.

Lebanon is no longer on the list of Non-Co-operative Countries and Territories of the Financial Action Task Force.

3. ECONOMIC AND SOCIAL SITUATION

3.1. Macro-economic and social outlook

3.1.1. *Recent economic developments and outlook*

Lebanon is a small, service-based, upper-middle income country (2004: US\$ 4000 per capita) with a population of around 4 million. The civil war and destruction during 1975-1990 led to a decline in the income level by two thirds due to the severe damage to infrastructure and physical assets in all principal sectors and disruption to private sector activity. Since 1992 all economic programmes have focused - with mixed results - on the dual task of achieving stability and supporting the economic revival via reconstruction. While economic growth was strong from 1991-1995, the increase in GDP slowed markedly since the mid 1990's, also as a consequence of the high debt burden. In 2004 many indicators point to a strengthening in growth (4-5%), with strong export and tourism receipts, a recovery in construction activity and a catch-up effect from the impact of the Iraq war as driving factors. Inflation remained restrained in the past years (2004: around 3%) thanks to the exchange rate peg against the US\$ and a moderate fiscal consolidation course.

The International Community and several EU Member States gave Lebanon some relief from its very high debt (178% of GDP) and economic problems during the successful **Paris II** donors conference in November 2002. 18 governments attended the Conference, as well as the heads of the EIB and World Bank, and IMF. Lebanon was urged to go further with its economic reforms, and to engage with the IMF, which is also a condition for EU macro-financial assistance. At this Conference, Lebanon announced a set of measures to reduce the debt burden and to bring about macro-economic restructuring, but reform implementation has not yet begun.

3.1.2. *Fiscal management, monetary and exchange policy*

Lebanon's key macroeconomic challenge remains its high level of **debt** and its unsustainable **fiscal policies**. This indebtedness arose from large and persistent fiscal deficits, which have led to a vicious circle of an ever-increasing public debt stock and debt service burden. Following the November 2002 donors' conference (Paris II), the government announced a three-pronged strategy in order to put the country back on a sounder basis based on strong fiscal measures, faster privatisation and international support. These policies resulted in some fiscal consolidation, albeit at a pace slower than expected. In 2004, stronger revenues and lower debt service costs have tightened the overall fiscal deficit to around 8% of GDP, while the primary surplus continued to increase. Although the total stock of gross debt is expected to decline to 178% of GDP in 2004, the debt burden remains substantial, continues to threaten fiscal sustainability, and makes the Lebanese economy vulnerable to external shocks.

Despite progress, further efforts in fiscal consolidation are needed to restore fiscal sustainability. Donor support and domestic refinancing operations since Paris II have helped to alleviate immediate financing constraints, but the success of the strategy, in the medium-term, depends upon continued fiscal consolidation through sufficient primary surpluses and the realisation of substantial revenues from privatisation and securitisation. The lagging

behind of key Paris II objectives is in part due to the fact that privatisation is proceeding more slowly than originally envisaged, meaning that the debt stock and related interest payments remain too high. Furthermore, expenditure side reform measures generated fierce political opposition and held the administration back from pursuing more substantial cuts.

Public finance management in Lebanon suffers from some weaknesses, which the authorities are starting to remedy. Notably, with IMF support the authorities are implementing a Public Expenditure Management programme to improve budget preparation, reporting and control, treasury management and to prepare for the adoption of a performance-based budgeting. Furthermore, budget comprehensiveness suffers from the absence of consolidated accounts, including all public sector activities. Although efforts have been made to improve forecasting for budget preparation, a medium-term expenditure framework is not yet in place. On the positive side, budget classification is now consistent with Government Finance Statistics (GFS) standards, the accounting system has been modernised and fiscal reporting is frequent and quite detailed. However, despite government announcements, tax reforms have been cancelled last year and no streamlining of existing regulations has taken place.

Monetary policy continues to be centred on maintaining the de facto exchange rate peg with the US\$, whose credibility has been boosted by Paris II, reversing a period of sustained downward pressure. The conduct of monetary policy is complicated by the relatively high degree of dollarisation, roughly two thirds of overall deposits are denominated in US\$. The current exchange rate regime has come under pressure from time to time, as in the second half of 2004, when the ongoing international pressure on Lebanon to adopt UNSCR 1559, the internal political conflict as well as the US proposal to freeze Syrian and Lebanese property have motivated some investors to sell Lebanese assets.

3.1.3. External situation

Lebanon's service-based economy and heavy reliance on imports of goods has traditionally resulted in large trade deficits, feeding into high and unsustainable current account deficits. These deficits amounted to 40% and 55% of GDP, respectively, in the mid 1990s but are expected to have narrowed to around 13% and 29%, respectively, in 2003. Trade data needs to be interpreted cautiously, as there are large weaknesses in trade and service transaction data. In 2004, exports grew significantly on the back of strong global demand and successful export market penetration, especially with the opening up of the Iraq market for Lebanese exports and the depreciation of the real effective exchange rate. Driven largely by intra-regional travel but also renewed overseas interest, tourism continued to increase strongly in 2004 and remains a key potential growth area for the future.

The structure of the capital and financial accounts continues to be characterised by a relatively high degree of change in the composition of its components, as indicated by events in the recent past. Gross **capital inflows**, in particular those related to Paris II, have been very strong in 2003 but dropped over the first six months of 2004. Short term capital outflows have characterised the balance of payments in 2002, when the currency was under pressure, but ceased thereafter. Since September 11, a general reflow of Arab capital to the region continued to benefit Lebanon. This, as well as the need to recycle windfall profits from oil-exporting countries, has also stimulated FDI inflows recently, amounting to US\$ 2.2 billion (11.6% of GDP) in 2004, mostly into the real estate sector.

Lebanon - Selected Economic Indicators, 1997-2003

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|-------|-------|-------|-------|-------|-------|-------|
| Real GDP growth (in %) | 4,0 | 3,0 | 1,0 | -0,5 | 2,0 | 2,0 | 3,0 |
| Unemployment rate | --- | --- | --- | --- | --- | --- | --- |
| CPI inflation (avg; in %) | 7,7 | 4,5 | 0,2 | -0,4 | -0,4 | 1,8 | 1,3 |
| Broad money (M3, end of year; % change) | 19,3 | 16,1 | 11,1 | 9,6 | 7,4 | 7,6 | 13,0 |
| Central government balance (% of GDP) | -27,4 | -18,2 | -16,2 | -24,6 | -18,9 | -15,1 | -14,6 |
| Current account balance (% of GDP) | -29,4 | -27,1 | -20,0 | -17,9 | -21,5 | -13,8 | -13,1 |
| Official net international reserves (end of year) | | | | | | | |
| In billions of US dollars | 6,0 | 6,6 | 7,8 | 5,9 | 4,4 | 5,1 | 10,2 |
| in months of imports | 12,7 | 13,8 | 13,1 | 9,8 | 5,7 | 6,0 | 10,2 |
| Public external debt (% of GDP) (end of year) | --- | --- | 30,4 | 40,1 | 50,8 | 64,1 | 84 |
| Debt service (in % of exports of GNFS) | 19,0 | 12,0 | 11,4 | 12,7 | 13,3 | 12,8 | 17,2 |
| Exchange rate (LBP/euro) (end of year) | 1685 | 1773 | 1521 | 1402 | 1341 | 1580 | 1764 |
| Real effective exchange rate (1997=100)* | 100,0 | 104,4 | 105,9 | 107,8 | 109,1 | 109,0 | 102,9 |
| Population (million) | 4,1 | 4,2 | 4,3 | 4,3 | 4,4 | 4,4 | 4,5 |
| GDP per capita, in USD | 3585 | 3860 | 3873 | 3789 | 3800 | 3894 | 4012 |

* A negative sign implies a real depreciation and, therefore, a gain in international competitiveness

Source: IMF, World Bank, various national sources.

3.1.4. Social situation and Human Development Policies

Since the early 1990s, following the end of the civil unrest, social indicators have gradually improved. Overall, male illiteracy fell from 12 to 8%, while female illiteracy declined from 27 to 19% by the early 2000s. Literacy indicators among young people are even more promising, also as far as gender equality is concerned. In the last decade, life expectancy increased from 68 to 71 years, while the number of children dying before age one fell from 36 to 28 (per 1,000 live births), and infant immunization increased from 61 to 94%.

The scope and characteristics of the **labour market** as well as poverty in Lebanon remain difficult to analyse due to statistical weaknesses. The government is currently undertaking a household income and expenditure survey. Reconstruction investments and the rapid growth of the economy have increased employment opportunities, to a certain extent, but unemployment is still estimated to be between 15-20% (the last population survey of 2001 reported an unemployment rate of 11.5% of the active population, which represents around 35% of the total Lebanese population). First-time job seekers seem to experience unemployment rates twice the national average.

The law requiring employers to provide medical care and **social security** rights is rarely respected. The UNDP 2002 report on Arab Human Development estimates that 40% of the population do not benefit from social coverage. State hospital services are unsatisfactory and under-funded. Those who can afford subscribe to relatively expensive private social and health programmes. Migrant workers, particularly domestic workers, do not fully benefit from protection under the **labour code**.

Education reform is another major challenge, especially in terms of training graduates with those skills currently demanded by the labour market. Lebanon's public and private education institutions have deteriorated and are struggling to maintain basic standards. No policy framework or national strategy exists for many parts of the educational systems. Initial steps have been undertaken to prepare a strategic plan for the primary and secondary sectors, as well as for VET.. Institutional capacity to support policy development, engage in strategic or operational planning or to provide effective administration is inadequate at all levels of the education system.

Lebanon's total **health care** expenditure amounts to about 12% of GDP, with expenditure by the Ministry of Public Health accounting for about 1.1% of GDP. About 3% of the Government budget is allotted to public health.

3.1.5. Sustainable development

As regards **sustainable development**, the Ministry of Environment has initiated a Capacity 21 programme since 1994. An Inter-Ministerial Committee for Sustainable Development began work in 1998 to take stock of related issues but Lebanon has not yet adopted a strategy on sustainable development. A national Action Programme is however under preparation.

3.2. Structural reforms and progress towards a functioning and competitive market economy

3.2.1. State involvement in the economy and privatisation

Despite some progress since the beginning of the 1990s, **state involvement** in the economy remains rather significant and constrains private sector development. Government expenditures as a share of GDP amounted on average to 36% in the past three years, by a wide margin above the average for upper middle income countries. The outgoing government's structural reform priority was raising € 5 billion in 2003 and 2004 by privatising (and securitising) a number of utility companies, including telecoms, electricity, water and transport. The 2000 Privatization law sets the framework for the privatization of state-owned enterprises, establishing a Higher Council and providing the proceeds from privatization to be applied towards debt repayment.

In 2004, progress in **privatisation** has been slow and the government fell short of its Paris II commitments. Controversies occurred between proponents and opponents of privatisation within the Council of Ministers and, as a consequence, the agreed 2004 budget excluded returns from privatisation and securitization. As well as the stalled telecom privatisation, the sale of the Water Company, Electricité du Liban and Ports have been put on hold. Potential privatisations are further complicated by the low degree of interest from foreign investors, for reasons including the controversial cancellation of the Libancell and Cellis contracts by the government three years prior to their end, the deduction of 40% from the telecom revenues of any new owner, a high degree of corruption and shortcomings in infrastructure and political stability.

3.2.2. Regulatory framework and private sector development

The government continues to influence a broad range of prices, either directly or through its state-owned enterprises. The legal basis for controlling prices is the law on the sale of goods and services which allows the Ministry of Economy to influence the price-setting process

through various channels. Key relevant institutions are the Consumer Protection Department as well as the Technical Centre for Price Control, which are both within the Ministry of Economy and Trade. In addition to that, other State organisations (the Ministries of Energy, Tourism, Telecommunications) play a role in the fixing of prices of certain products and services falling under areas of their responsibility and are also, in theory, charged with the control of conformity. Therefore, in practice, an effective **price control mechanism** is in place for the majority of important goods and services.

There is no specific **competition** law in Lebanon, although the government is currently preparing a competition law aiming at regulating anti-competitive business practices and the establishment of a domestic regulatory body. Certain elements of competition policy are regulated by Decree Laws from 1943 and 1983 which prohibit and set sanctions for any conglomeration or collusion limiting competition and leading to an artificial increase in prices.

Monopolies exist in the fields of casino gambling, passenger air transport, trade in tobacco and tobacco products, basic telecommunications, and regular postal services. Lebanon does not have a specific law on natural monopolies.

In the field of **state aid**, a number of different laws and decrees create a legal framework for the granting of various types of investment incentives, aimed at developing certain geographical areas (mainly rural), new products, and SMEs. These measures include tax exemptions, interest rate subsidies and loan guarantees. Two authorities are in charge of granting state aids to SMEs, the Central Bank and *Kafalat*, a body which guarantees bank loans to SMEs. The Commission for the Control of Banks is responsible for the monitoring of execution of decrees concerning interest rate subsidies. There does not, however, appear to be a uniform state aid surveillance or control regime comparable with that of the EU.

Recent assessments of the local business environment by the World Bank and the European Commission (MED BEST initiative) points out some areas which compare favourably with regional peers, but also identifies specific regulations and policies that discourage entrepreneurial activity. On the positive side, it appears relatively smooth for businesses to secure property rights and to access short-term credit, though at high interest rates, both in a regional and OECD context. However, indicators for 2004 show shortcomings with regard to the excessive costs of starting a business, time-consuming procedures to enforce commercial contracts and a low degree of investor protection as a consequence of non-transparent disclosure of ownership and information. Regarding labour market regulation, Lebanon's flexible working-hour arrangements stand out positively in the region, although high dismissal costs still burden businesses. Corruption is also an obstacle for doing business.

3.2.3. *Financial sector*

The financial sector is bank-focused and generally acknowledged to be exceptionally large and relatively stable. As of February 2004, the sector consisted of 53 active commercial banks and 10 specialized medium and long-term credit banks, 28 financial institutions, eight financial intermediaries and three leasing companies. Foreign banks were also well represented. The financial intermediation level equivalent to around 240-250% of GDP reflects the large size of the banking sector. Reliance on a large deposit base to finance these deficits has contributed to financial stability but has also exposed the country's risks due to the short maturity of bank deposits. However, the development of capital markets on the basis

of appropriate legal and institutional structures and sound macroeconomic situation may open access to additional resources of longer-term financing.

In 2002, bank profitability fell with the reduction of banks' holdings of T-bills and, in early 2003, in the context of Paris II and government debt restructuring, commercial banks had to subscribe to 0% government papers but were able to partly compensate these operations also by increasing margins. Non-performing loans are a concern, also in light of relatively low provisioning level. In Q2 2004, they stood at around 16% of total loans, while reserve coverage stood at 53% of doubtful loans in 2003. Previously identified weaknesses in banking prudential supervision have been remedied through an overhaul of prudential regulation. Tighter controls on money laundering were implemented and, in mid-2002, Lebanon was removed from the Financial Action Task Force (FATF) list of non-cooperating countries.

The Central Bank supervises and regulates the banking system. From March 1995, commercial banks were required to meet a minimum capital adequacy ratio of 8% in line with the Basle Accord. During the past three years, banks' capital has increased substantially and by the end of 2001, the average capital adequacy ratio of commercial banks was approximately 16.18%. Banks are obliged to draw up financial statements and auditors must publish a consolidated and checked annual state of the bank accounts. The Banking Control Commission (BCC) performs its supervisory functions as an independent body, with a separate budget. It verifies and evaluates financial statements submitted by banks and financial institutions, and monitors the implementation by these institutions of the provisions of the Code of Money and Credit and Central Bank regulations. It carries out its examination procedures both on and off-site. The Higher Banking Council (HBC) assumes the role of a supreme banking court whose decisions and rulings are final, including the imposition of sanctions on banks and financial institutions that violate banking regulations.

The insurance market is regulated by the 1968 Insurance Law, which set up a specialised Insurance Department with supervisory responsibilities at the Ministry of Economy. Amendments to this law, in 1999, include an increase in the minimum capital requirement, the introduction of a solvency margin of 10% of gross premiums and an increase in the minimum technical provisions required per line of business. Newly licensed companies must specialize in either life or general insurance. Directors and general managers of an insurance company must be "fit and proper" and have proven record of professional knowledge.

As regards **Securities Markets**, the Beirut Stock Exchange was created in 1920 by the French mandate authorities in order to privatize public utilities, railways, telecommunications and the post office. It is regulated by the 1983 Regulations of the Beirut Stock Exchange, as amended in 1985 and 1995. In August 1994, the Government set up the Beirut Stock Exchange Committee to supervise and manage the reopening of the Exchange. The Committee runs the Stock Exchange's affairs, protects the interest of investors, monitors the activities of the issuing companies and oversees the proper functioning of its operations.

3.2.4. Relations with the IFIs and other donors

Lebanon has no formal arrangement with the **IMF**, although Fund surveillance has continued in the context of regular Article IV consultations and the Paris II donors' conference. The IMF is actively engaged with the Lebanese authorities, to provide advice on dealing with fiscal and other issues. Technical assistance has also been provided in the financial sector and statistical areas. In addition, the IMF established its Middle East Regional Technical Assistance Center (METAC) in Beirut in October 2004, to provide targeted capacity-building,

including technical assistance, advice and training, to countries in the region with a view to assist macroeconomic stability and to advancing policy-making institutions. The Government of Lebanon will provide significant support for the Center's activities.

The World Bank is currently updating its 1997 Country Assistance Strategy (CAS), its key document for analytical work, lending operations and technical assistance. The current World Bank strategy is aimed at improving growth performance and the fiscal situation and, more recently, at enhancing poverty focus. The portfolio includes around US\$350 million in commitments, consisting of projects in the areas, *inter alia*, of municipal development, education, infrastructure and revenue enhancement.

3.3. Trade-related issues, market and regulatory reform

Lebanon is a predominantly importing country characterized by substantial trade deficits, which are largely offset by net foreign income earnings, including capital inflows, remittances from the diaspora and service earnings from tourism, banking and insurance. Deficits in the trade balance neared an average of €5 billion during 2001-2003. Bilateral trade with the enlarged EU, mostly industrial, neared €4 billion in 2003, overwhelmingly accounted for by EU exports of machinery and transport equipment, chemicals, manufactured products and foodstuffs. The EU is Lebanon's principal trading partner (50% of overall trade), followed by the Syria, US and China.

Lebanon is one of the founding members of the GATT in 1945, but withdrew in 1949. It is in the process of **accession to the WTO**, where it has had observer status since it applied in 1999. Lebanon submitted a foreign trade memorandum in May 2001, accompanied by a series of internal regulatory reform measures, such as the new customs law which reduces tariff rates and establishes automated customs clearing procedures. Lebanon submitted a market access offer in June 2004. A third Working Party meeting on accession took place in July 2004, at which Lebanon restated its commitment to eliminate all measures incompatible with WTO rules and to bring its trade regime into full conformity with the WTO upon accession. The next Working Party meeting is likely to take place during the first half of 2005. In preparation, Lebanon is working on the necessary documentation, including an updated Legislative Action Plan and revising its market access offer.

Lebanon has signed several bilateral liberalisation agreements, which partly contain general provisions on services. The service sector is key to the economy, accounting for nearly 70% of GDP. Major sub-sectors are commerce, tourism and financial services.

The **Interim Agreement with the EU** on trade and trade-related provisions establishes conditions for progressive and reciprocal liberalisation of trade in goods with a view to establishing a bilateral FTA, and includes relevant provisions on customs cooperation, competition and protection of intellectual, industrial and commercial property. As a result, since 1 March 2003, Lebanese industrial and most agricultural products (within the limits of tariff quotas) enjoy free access to the EU market. The progressive elimination of tariffs on imports to Lebanon will occur between 2008 and 2015.

Lebanon is party to a number of **trade agreements** with neighbouring countries. It is a signatory to the Greater Arab FTA, under the Arab League, launched in 1997 and due to abolish tariffs and reduce non-tariff barriers in intra-Arab trade over a transitional period of 7 years. Lebanon is consistently abiding by its tariff dismantling obligations under this regional liberalization endeavour. Lebanon also signed bilateral free trade agreements with Syria (in

force since 1999), Egypt (since 1999), Kuwait (since 2000) and the United Arab Emirates (since 2001). Negotiations started to conclude similar agreements with Bahrain, Jordan and Saudi Arabia and are still ongoing. Trade cooperation agreements containing some preferential provisions exist between Lebanon and certain Arab countries, such as Iraq, Jordan, Saudi Arabia and Sudan.

Laws governing **veterinary and phytosanitary** issues are, generally, in place but require updating. Further challenges include the need to ensure monitoring throughout the entire food chain; introduction of the risk assessment concept and better handling of emergencies; to enhance registration and approval of establishments; to establish an independence food authority; to improve enforcement. Food inspection services and laboratories (partially equipped) should be strengthened. Enhancing coordination among actors and avoiding overlapping would benefit food safety in the country. Lebanese legislation and standards on food safety, veterinary and plant health are converging towards international standards including those of Codex Alimentarius and the International Office for Epizootics (IOE). A general food safety law is in preparation. Lebanon is a member of the Food and Agriculture Organisation (FAO), the World Health Organisation (WHO), Codex Alimentarius Commission, International Office for Epizootics (IOE) and a signatory to the International Plant Protection Convention (IPPC).

The Lebanese Higher Council of Customs and the Directorate General of **Customs** are part of the Ministry of Finance. A complete modernisation plan of the Customs Administration was launched in 1993. Since 1996 Lebanon applies the Harmonised System for the classification of goods. Since 1997, a Single Customs Declaration form, based on the Single Administrative Document (SAD), is used for all customs procedures. The 1954 Customs Code was repealed by a new code in force since December 2000 which adopted new customs procedures, and introduced the concepts of trade facilitation and the automation and simplification of customs procedures, as well as WTO compatible customs valuation methods. It also allowed for the simplification of means of payment of the customs duties via banking guarantees and fiduciary accounts and included incentives to create free zones and customs warehouses. Moreover, it gave competence to the High Council of the customs to enact new standards as regards customs and new customs tariffs and set up a Special Arbitration Commission, which is in charge of dispute settlement between the operators and the customs administration.

The automation process of customs procedures was done via the NAJIM and NOOR projects. NAJIM is a computerised customs declaration processing system based on UNCTAD's ASYCUDA system. Agreed users can lodge their declaration into the NAJIM system via the computerised NOOR system. These projects facilitate and simplify customs operations; the duration required for customs clearance was lowered by ten days to approximately three days. Currently, 75% and rising of customs operations go through the green channel, with clearance within a few hours.. Lebanese Customs are working on the upgrading of the NAJIM system via the completion of the implementation of ASYCUDA ++ functions. Further activities concern the development of risk analysis and Customs Intelligence tools, as well as the rolling-out of the existing systems to the whole customs territory. Through the LITE project (Lebanon International Trade Exchange) the Customs administration provides customs and trade-related information in Arabic, French and English, including the national tariff to the public via internet. Concerning customs fees, a stamp duty is applicable to all customs declaration except for export. In July 2003, Lebanon, as a partner to the Barcelona Process, endorsed the new Protocol on rules of origin allowing the extension of the Pan-European system of cumulation of origin to the Barcelona Partners. The next stage aims at amending the origin protocol in the relevant Euro-Mediterranean Agreement in order to insert the changes

necessary for the application of diagonal cumulation. This could help foster economic integration and allow for a better use of complementarities and economics of scale in the Euro-Mediterranean area.

The Director General of Finance, under the Ministry of Finance, is in charge of **taxation** in Lebanon. The MoF adopted a comprehensive and integrated reform programme covering taxation with the aim to increase revenue, modernize the tax administration, improve services for the taxpayers and prepare for the General Income Tax. Currently, Lebanon has no unified and complete taxation laws which reflect the government's tax policy. The tax system is based on direct and indirect taxes fixed by a number of laws, Orders in Council and other application decrees. The annual budget law can modify tax rates.

The general principles which govern **income tax** are fixed in a 1959 Order in Council, since modified several times. Natural or legal persons are subject to income tax. The law lays down three imposition arrangements, i.e. on the basis of real profits, on the basis of flat-rate profits ("fixed amount") and on the basis of expected profits. Each taxpayer has the right to ask for imposition on the basis of real profits.

Companies are subject to a 15% tax rate on profits. All interests, dividends and arrears are subject to a 10% rate. Special provision and exemption apply to holding companies and offshore companies. The 2001 new Investment Development Law, which divides the country's territory in three investment zones, also provides for tax exemptions. A system of excise duties is applied.

VAT was introduced from 1 February 2002, replacing several existing taxes. It applies to both national and imported products, at a single rate of 10%. The law foresees exemptions for several categories of goods, and set up several refund schemes including for tourists and foreign businesses. A VAT Directorate was created within the Directorate General of Finance. A large taxpayer office, including insurance companies and financial institutions has been set up in the framework of the tax reform. Since 1997, a new integrated automated system was created to provide for a taxpayer identification database and a unique personal identification number. A new tax roll unit in charge of registration for tax purposes was set up in 2003. Concerning administrative capacity, the Institute of Finance, within the MoF, is responsible for training, human resources development and improvement of communication with the public. Lebanon has signed double taxation treaties with five Member States, only three of which have already entered into force.

The Lebanese system of **technical regulations, standards and conformity assessment procedures** concerning the movement of goods is based on 1962 legislation governing standard-making in the voluntary and mandatory sphere. Technical regulations on products are issued by a number of regulatory Ministries (Industry, Agriculture, Telecommunications, Transport, Health, Environment, Economy and Trade - the latter with a co-ordinating role) through decisions and decrees adopted by the Council of Ministers. Ministries are involved in enforcement, market surveillance and inspections. The current approach is that of product-specific standards, usually in line with international standards. They can be voluntary or made mandatory by regulatory ministries, thus converted into technical regulations by decree. Some of these could be stricter than international standards. As a rule, mandatory standards equally apply to domestic and imported products, while the latter are subject to a visa delivery attesting their conformity with technical regulations for the sake of import clearance.

The Lebanese Standards Institution (LIBNOR) is the body in charge of standard-making and acts as enquiry point for measurements, standards and technical regulations. In 2004 a law was adopted establishing the Lebanese Accreditation Council (COLIBAC), a financially and administratively independent body directly supervised by the Ministry of Industry. Legal metrology is covered by the Department of weights and measures in the Ministry of Economy and Trade, while industrial metrology is covered by the Industrial Research Institute, which also provides quality or conformity certificates.

The main legal instrument for the protection of **intellectual and industrial property rights** in Lebanon is the 1924 Laws and Systems of Commercial and Industrial Property which covers patents, industrial designs, trademarks, copyrights, and unfair competition. The Government has recently undertaken a broad reform program to comply with the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) and extend protection to newer kinds of intellectual property, such as semiconductors and plant varieties. Specific laws on intellectual property have been enacted, including new copyright and patent laws that replaced the relevant provisions of the 1924 Law. The new patent law deals with patents, layout designs, plant varieties. Trademarks are protected under the 1924 Law, as well as the Paris Convention and the Madrid Agreement, and other related laws such as the Customs Law, the Criminal Law and the Law on Fraud Control, which included provisions on the enforcement of trademark rights. Some concerns remain regarding the level of protection of patents and data protection, as well as enforcement on piracy and counterfeiting.

The Ministry of Economy and Trade is responsible for overseeing the revision of existing laws as well as the development of new intellectual property laws. The Intellectual Property Protection Office, under the Ministry of Economy and Trade, is responsible for the protection of rights of literary, artistic, and industrial property. Customs are responsible for enforcement of intellectual property rights at the border. The IPPO and the police are empowered to act *ex officio* in cases related to infringement. Civil remedies for infringement intellectual property include fines, seizure, destruction of infringing materials, and publication of rulings. A new law consolidating existing legislation on trademarks and geographical indications into one specific law and modernizing the provisions of the 1924 Law is expected to be adopted by the Council of Ministers in the near future.

The Central Administration of **Statistics** (ACS), with only 90 employees, under the direct control of the Council of Ministers, is officially in charge of the collection and of the coordination of statistics. In practice the ACS faces serious difficulties in coordinating statistical production within the Lebanese Statistical System. This results mainly from its current weak capacity in terms of technical and human resources, specially a lack of qualified statisticians. Statistical production is very limited, with severe gaps e.g. the notable absence of national accounts in conformity with international standards and the latest population census dates from 1932.

The Central Bank's department for statistics and economic research produces its own statistics, including on balance of payments, notwithstanding its limitations in terms of information sources. It also compiles macro-economic estimates for monetary policy and, more in general, for economic policy purposes.

Due to the reform and computerisation of the customs administration, with the introduction of a customs declaration processing system based on ASYCUDA in 1998, foreign trade statistics are of a good quality and based on international requirements. The Customs Calculation

Centre (CID) compiles and circulates statistics. The Bank of Lebanon and the ACS also use the customs data for their publications.

While ACS does not have a unit in charge of environmental statistics, there are several institutions involved in this area, such as the Ministries of Environment, Health and Agriculture, the National Centre for Remote Sensing, the National Centre for Scientific Research and the National Centre of Marine Research.

The Court of Audit (CoA) is the institution in charge of supervising public expenditure. The Court is an independent body attached to the Office of the Prime Minister. It carries out both administrative pre-audit and post-audit controls, and jurisdictional controls over the activities of civil servants and can provide its opinion on financial issues to the Ministry of Finance upon request. The CoA is a member of the International Organisation of Supreme Audit Institutions (INTOSAI).

As regards public procurement, Government procurement practices are regulated by a 1959 Decree, amended in 1962 and 1963, which governs procurement by all State entities, including Municipalities, public institutions, and independent utilities, with the exception of the Ministry of National Defence, the Internal Security Forces, and the General Security Body. In addition, a 1963 General Accountancy Law outlined government procurement methods; another 1959 Decree established the Administration of Tenders and the Criminal Code also set out penalties for violations of procurement legislation. In addition to these general provisions, a number of State entities have specific legislation and rules governing their procurement activities. The Administration of Tenders consists of a Tendering Bureau and Tendering Committees, established to conduct and monitor specific procurement operations. A firm suspecting a lack of transparency in the award of a contract has a right to judicial recourse. Public tendering is open to all candidates and advertised in the Official Gazette and three local daily newspapers. Restricted tendering is limited to a certain category of candidates depending on the nature of the work, services or products required. A new Public Procurement law is expected to be prepared in the coming months.

Foreign bidders are not prohibited from participating in government procurement and benefit from equal treatment as national bidders but invitations to tender can include specific clauses restricting foreign employment for the execution of the project or participation to Lebanese nationals, or requiring the existence of a contract between the foreign firm and a Lebanese participant.

As regards **provision of services and right of establishment**, Lebanon's industrial policy is aimed at promoting investment and increasing competitiveness of industrial and agricultural products. A 2001 Law on Promotion of Investment was enacted to promote investment opportunities and encourage investments in the fields of industry, tourism, agriculture, agro-industries, marine resources, media technology, and information technology. It established a "One-Stop-Shop" service at the Investment Development Authority of Lebanon (IDAL) to facilitate procedures and better assist investors. However, these measures have had limited impact so far on competitiveness and administrative procedures for doing business are still too lengthy and burdensome. There are no special financial provisions for, or constraints on, foreign investors except that certain restrictions exist on foreign ownership of banks and companies involved in media activity, land ownership and the employment of foreign labour. Lebanon's membership in the Multilateral Investment Guarantee Agency is a means of reinforcing confidence among potential foreign investors. In addition, the National Institute for the Guarantee of Investment makes insurance coverage available to investors, in the form

of compensation, for losses resulting from non-commercial risks. Commercial and Civil companies must register at the Civil Companies Register at the Court of First Instance. Foreign companies can operate in Lebanon either as a branch or as a representative office, both of which must register and obtain a license in order to operate.

In October 2004, Lebanon adopted the Euro-Mediterranean Charter for Enterprise, by which it committed to improving conditions for doing business on the basis of the Charter principles. The ambition of the Charter is to create an environment conducive to investment and enterprise development as well as to define common strategies and projects, both at national and regional level.

Services (including trade and construction) account for approximately 70% of GDP of the Lebanese economy. Around 76% of the total workforce is employed in the service sector according to 1997 statistics. Trade, construction, tourism, telecommunications, and financial services are the most prominent services.

With very few exceptions, Lebanon provides equal treatment to foreign and domestic service suppliers, once established in Lebanon. A limited number of existing measures are inconsistent with MFN treatment.

As for market access, there are limitations on the number of shares which foreigners can own in banks, brokerage firms, leasing companies, companies managing mutual funds, and financial institutions established as joint stock companies. Foreign participation is also limited in maritime agencies. In addition, many jobs and professions are reserved for Lebanese.

Many services are subject to licensing, registration, or declaration.

3.4. Transport, energy, information society, environment, research and innovation, people-to-people issues

The Ministry of Public Works and **Transport** is currently being reorganized with a view to strengthening policy development and sector oversight. A transport policy is in the process of being developed. There are plans to split the Ministry's Directorate General for Land and Maritime Transport into two separate authorities. An autonomous Civil Aviation Authority will be established as a pure regulator replacing the Directorate-General of Civil Aviation.

In the **road sector**, the road freight and passenger operations are nearly completely deregulated with almost no oversight of operators' activities. Traffic control is lacking and road safety is a serious issue of concern. Lebanon is party to a very limited number of international conventions in the sector. As there are no **railways**, road is the dominant mode of internal transport, both in passenger and freight operations. Inter-modal transport is hampered by missing port-hinterland connections and a lack of adequate facilities. Lebanon has implemented a series of plans for the rebuilding and significant infrastructure development.

Air transport falls currently within the competence of the Directorate-General for Civil Aviation (DGAC) attached to the Ministry of the Public Works and Transport. A Civil Aviation Bill passed in December 2002 has separated the regulatory authority from operations. An autonomous Civil Aviation Authority will be established as a pure regulator, replacing the Directorate-General of Civil Aviation. The recently refurbished Beirut International Airport is operated by the Directorate-General of Civil Aviation. A 2002 law

foresees the creation of a government-owned Beirut International Airport Corporation responsible for airport operations and air traffic management services. Lebanon has announced an “open skies” policy including 5th freedom rights without reciprocity and has recently negotiated a horizontal aviation agreement with the Community, amending bilateral air services agreements between Lebanon and EU Member States. The country has recently also expressed interest to launch negotiations with the European Commission on a Euro-Mediterranean aviation agreement.

Maritime transport is the most important mode for external trade and most goods are traded via Beirut port. All four ports (Beirut, Saïda, Tripoli and Tyre) are managed by public entities. At present the Beirut Port Authority (GEPB) shares responsibilities inside the port with a number of other public entities, but ambiguities in the attributed tasks and duties lead to inefficiency. Plans for a major port reform process are currently under consideration in order to increase the efficiency of the ports. Lebanon has no maritime authority, and insufficient flag state control has resulted in the Lebanese fleet being classified in the “very high risk” category on the black list of the Paris Memorandum of Understanding. Port state control is also ineffective. In the field of maritime security, Lebanon is not yet compliant with the ISPS Code.

In **satellite navigation**, Lebanon participates in information exchanges on GALILEO and EGNOS, with a view to participating in a regional cooperation project.

Lebanon is almost fully dependent on external **energy** sources, in particular for oil products. However, research suggests sizeable offshore oil and gas reserves. The growing energy needs may impact increasingly on the high energy import bill of about US\$1 billion *per annum* and thus on the country’s economy. Lebanon can develop towards a transit country, including for the EU. Lebanon’s energy sector orientations include diversification and development of own resources; enhancement of competition including progressive cost coverage of tariffs; more private participation; better efficiency and improvement of regional network interconnections. A long term energy strategy is under development.

The major decision to introduce natural gas in the economy will increase supply security, reduce the energy bill and improve the environment. A governmental document ‘The role of natural gas in Electricité de Liban (EdL) Power Plants’ sets out the strategic objectives to this effect and calls, *inter alia*, for competition and private participation. The “GASYLE I” pipeline should supply shortly certain power plants with Syrian gas. Development of GASYLE II, an offshore pipeline connecting coastal power plants, should be completed by the end of 2006. Lebanon is, with Egypt, Jordan and Syria, a partner of the Arab Natural Gas Pipeline which will bring Egyptian and Syrian gas to the region. In this context, the four countries signed in December 2003 a Euro-Med Declaration of Intent on Euro-Mashrek cooperation in the field of natural gas, which foresees the development of a regional Gas Master Plan. The Arab gas pipeline could, at a later stage, be connected to Cyprus and Turkey. Gas from Iraq, but also from other countries in the Middle East region, might also play a role in the Lebanese economy. These perspectives are essential for Lebanon’s and the EU’s security of supply.

The vertically-integrated and state-owned monopoly EdL owns and operates generation, transmission and distribution assets. Private generators and distributors supply 20% of electricity needs and Syrian imports 10%. The electricity sector, including EdL is, despite substantial government subsidies, in a very difficult financial situation as a result of low cash collection, high technical and non-technical (theft) network losses, organisational

inefficiencies and infrastructure/network damage from the civil war. EdL's privatisation remains on the agenda, but rather for the longer term due to its financial position. Power outages are recurring. Improving performance and further rehabilitation of infrastructure/networks require significant financial effort, but are crucial for the economy and for a successful introduction of natural gas (to be consumed by EdL). The 2002 Law of Electricity Sector Organisation sets a legal basis for restructuring and aims to establish a regulator. EdL sets electricity prices, after approval of the Ministry of Energy and Water. A joint electricity interconnection project is ongoing with Egypt, Iraq, Jordan, Syria, Turkey which, once realised, will contribute to the establishment of a Mediterranean electricity ring.

The Zahrani and Tripoli refineries were closed due to the civil war, but the sites are operational as import terminals and oil storage. Development of the oil sector is under study, including the viability for the operation of a refinery. Crude oil could be imported from Saudi-Arabia through the reopening of pipelines and from Iraq through Syria. The oil products sector could benefit from enhancement of competition. Lebanon aims at increasing the share of renewable energy sources (hydro, solar and wind) in the country's energy balance to up to 10% by 2015. The Ministry of Energy and Mineral resources and the National Energy Research Centre are the key bodies in the area of energy efficiency and renewables. A comprehensive energy efficiency policy is lacking.

In the field of **Information Society**, the Ministry of Economy and Trade is responsible for e-commerce policy and strategy. The Ministry of Telecommunications is responsible for telecommunications policy. Although the establishment of the Telecommunications Regulatory Authority (TRA) is foreseen by the telecommunication law of July 2002, but its actual creation depends on two enabling decrees; only one of them has been adopted in December 2004.

In light of this law, the Government of Lebanon has adopted a telecommunications policy that aims at the liberalisation of the sector, the adoption of a comprehensive regulatory framework and the establishment of the new TRA. Lebanon intends to proceed with the partial privatization of the future fixed public telecommunications operator Liban Telecom (at present the state administration OGERO). Liban Telecom will keep the monopoly for up to five years from its creation.

In the market for mobile telephony, there are two GSM operators owned by the Government, whose assets have been transferred to two management companies. These management companies were awarded four-year contracts with the perspective of auctioning the two mobile networks.

Internet penetration rate is at about 11.7%, corresponding to 500,000 users (Sept. 2004). Of the nine licensed Internet Service Providers, three companies are planning to launch a mix of highspeed wireless/cable data services. However, high access fees discourage wider internet use .

Regarding the **audiovisual sector**, Lebanon has six television and 37 radio stations of which the Government owns one of each. Lebanon has a rich, diverse and longstanding cultural heritage from a variety of civilizations. Cultural assets are affected by the civil war but also by environmental pollution. Lebanon hosts a range of cultural events, festivals and exhibitions. A general cultural strategy, effective legislation, sufficient administrative capacity and resources to preserve and manage sites are lacking. Lebanon's cultural heritage, which has a potential to contribute to economic growth including at local level, is a good basis for enhanced

exchanges. Lebanon cooperates in the EuroMed Audiovisual and EuroMed Heritage programmes.

Lebanon has drawn up an overall **environment** strategy at the ministerial level, which has however not been adopted by the Government. It is based on the principles of balanced regional development, prevention of pollution, polluter pays and integration of environment considerations into other sectors. It aims at drawing up environment legislation as well as plans and programmes, strengthening and decentralising administrative capacities, establishing of partnerships, providing information as well as public awareness-raising. In addition, the Government has adopted a specific strategy for South Lebanon which aims at repairing war damage as well as protecting public health and promoting sustainable use of natural resources. A National Environmental Action Plan is under preparation.

The Ministry of Environment was established in 1993, and was supposed to have been reorganised on the basis of 1997 legislation. New legislation was again drafted in 1999 in order to review the role of the Ministry, but this has not yet been adopted either. An agreement was signed in 1997 to establish a National Council for Environment to prepare recommendations on environmental management, not yet established, to be chaired by the Minister of Environment, with participation by other Ministries and representatives of civil society. A number of other Ministries and organisations are involved in environment matters, such as the Ministries of Public Health, Energy and Water, Public Works and Transport, Agriculture, the Council for Development and Reconstruction, the Higher Council for Urban Planning and the National Council for Scientific Research.

In 1988 an environment protection law was adopted, followed in 2002 by a National Code of the environment which defines the basis and norms for environmental protection – notably for water, soil, use of chemicals and resource management – as well as institutional, administrative and technical aspects. However, implementation of the code requires additional legislation to be adopted. The Ministry of Environment has prepared a draft environmental impact assessment decree. An environmental education and awareness plan has been established. A Life Third Countries programme provides for a project on strategic environmental assessment and land use planning in Lebanon.

Lebanon has adopted some sector-specific legislation on air quality, water quality, waste management, quarries, land and soil, forests, hunting and pesticides. Concerning industrial pollution, there are some national standards on environmental quality and for risk management.

A National Biodiversity Strategy and Action Plan is in place since 1998. Although there is no overall national strategy on waste management, municipal waste management in the Greater Beirut area is undertaken in accordance with the 1997 Emergency Plan for Waste Management. Some regional projects on municipal waste issues have been launched in recent years. The Ministry of Environment has drawn up specific decisions concerning certain companies dealing with hazardous industrial waste, which include guidelines on the treatment of this type of waste. There are no specific policies and programmes regarding access to drinking water. Waste water treatment is of great concern, and a number of waste water treatment plants have been built.

Lebanon benefits from Community support under MEDA, SMAP and LIFE-Third Countries programmes. It has ratified most of the relevant international and regional environment conventions to which it is party, with the exception of amendments to Barcelona Convention

and its Land-Based Sources and Dumping Protocols. Lebanon has not signed the new Emergency Protocol or the Specially Protected Areas and Biodiversity Protocol. While Lebanon has signed the UN Framework Convention on Climate Change, it is not a signatory to the Kyoto Protocol.

Research and Innovation activities in Lebanon are modest. Lebanon has a small but diverse and multicultural science & technology community based on six universities (five of which have science and technology faculties pursuing research activities), five national research centres and an expanding number of research laboratories attached to government ministries. Research and innovation amongst private sector manufacturing companies remains limited although it is expected that developing technopoles and incubators encouraging joint industry-university research projects will increase private sector contribution and participation.

The National Council for Scientific Research (CNRS) promotes and oversees research and related activities in Lebanon. The CNRS maintains Research Centres, funds individual research projects, sponsors various task forces, and is engaged in continuous scientific programmes. In 2003, the CNRS funded 97 projects implemented by its own Research Centres, Lebanese academic and research institutions for an amount of LBP 782.7 million (€405,000). At regional and international level, Lebanon is fully involved in the activities of several organisations such as ALESCO (Arab League), the "Francophonie Association" and the Euro-Mediterranean Monitoring Committee for R&D Co-operation (MoCo).

Lebanon is an active player in the EU-Med partnership in science and technology: some 23 Lebanese entities were involved in 13 research contracts of the INCO-MED research programme under the 5th Framework Programme (1998-2002). In 2003 and 2004, Lebanese scientific teams participated in more than 60 proposals submitted to the FP6 first calls and 18 of these proposals were selected to be funded. These research projects mainly address priority issues set up for the Med Countries in the specific measures for international cooperation, such as integrated management of limited water resources, water technologies, renewable energies, cultural heritage and health.

Historically, Lebanon has a variety of public and private educational institutions with secular and religious systems including of Western origin. **Education** and training, particularly in the public area, suffered from the civil war including as a result of brain-drain, but is catching up to its previous high level. Schooling is compulsory at primary level and free for children aged up to 15 years (intermediate level). The higher education system is decentralised and gives great autonomy to the institutions. More than 140,000 students are enrolled in higher education institutions: half of them in the sole public university and the other half in over 42 private institutions. The higher education sector suffers from a lack of unified of graduation system, accreditation system and independent evaluation procedures for diplomas. There is a general need to further improve the sector by raising efficiency and quality, by addressing organisational weaknesses, by ensuring sufficient funds including for equipment and buildings and by better matching vocational training with labour market demands. The Ministry is currently engaged in establishing a reform process which is supposed to emphasize quality assurance and convergence of accreditation systems. These reforms are being prepared in line with the developments of the Bologna process. A vocational educational training strategic framework is being implemented and a Vocational Education Training development plan is under preparation. Further enhancing educational reform will be key to reducing poverty, increasing employment opportunities, raising enrolment rates at intermediate level and beyond, limiting drop-outs in particular at public schools, and enhancing literacy in certain regions. Lebanon participates in the Tempus programme the

modernisation of higher education, through bottom-up exchange projects and structural measures that aim at reinforcing local reform capacities. Lebanon also participates in the Euro-Med Youth Programme which enhances cooperation in the field of non-formal education for young people through, in particular, multilateral youth exchanges, trans-national European voluntary service as well as training for youth workers and capacity building for youth NGO's. Current visa requirements and procedures create certain difficulties for youth mobility.

Lebanon's **public health** situation has gradually recovered from the civil war and faces new challenges such as health risks resulting from urban air pollution and changing lifestyles. The Ministry for Public Health is charged with managing national health care, prevention and laboratory activities. It operates through headquarters in Beirut and four regional public health services (North Lebanon, South Lebanon, Mount Lebanon, and Bekaa). Of the roughly 150 hospitals spread around the country only a fraction are public institutions. The commercial orientation of healthcare institutions hails to the pre-war situation in Lebanon when the then-modern health-care system and medical institutions made Beirut the health care centre of the Middle East. During the post-war 1990s, the unregulated purchase of hospital care by the government and by public insurance schemes led to major inefficiencies and distortions in the healthcare system, resulting in growing pressure for reform.

Lebanon has a national medical insurance programme financed through contributions from employers, employees and the general budget. Patients top-up the difference in cash. With a culture of secondary care concentrated in often high-tech private healthcare institutions, the administration emphasises Primary Health Care Programmes focusing on general practitioners reaching out to the public. 98% of the population (urban 99%, rural 97%) have access to primary health care and 94% have access to safe drinking water. Lebanon has a high rate of immunisation, but only about half of the vaccines are financed by the Government. An inter-ministerial working group is having incremental success in modernising the registration and distribution system of pharmaceuticals, with the aim of making medicines more affordable. Many drugs, including antibiotics, can be purchased at pharmacies without prescription.

Lebanon has launched an HIV/AIDS prevention programme against the background of a gradual spread of this disease to some hundred registered cases; data on risk groups is still incomplete. Lebanon benefits from health-care programmes funded by a number of EU Member States, the WHO and other donors. Numerous projects are implemented through NGOs, with the Palestinian population living in camps representing a special segment of their activity. Non-communicable modern-day diseases such as diabetes, hypertension, high cholesterol, obesity or cardiovascular problems prompted the authorities to launch a Non-Communicable Disease Programme in 1997. The authorities are currently establishing databases on these risk factors and conducting information campaigns to make the population aware of the dangers of smoking etc.