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IMPACT OF THE ASSOCIATION
AGREEMENT WITH THE EUROPEAN
UNION ON THE SERVICES SECTORS IN
LEBANON

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**Study of the impact of the Euro-Mediterranean
Partnership Agreement**

**IMPACT OF THE ASSOCIATION AGREEMENT WITH THE
EUROPEAN UNION ON THE SERVICES SECTORS IN
LEBANON**

Report for the European Commission

Jean-Yves Moisseron

15 July 2000

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INTRODUCTION

This report examines the foreseeable impact of the association agreement currently being negotiated between Lebanon and the European Union on the services sectors. Before looking at the impact on the main sub-sectors as listed in the WTO's detailed classification, the methodology used is outlined together with the general background to the negotiations on services.

I. GENERAL BACKGROUND TO THE NEGOTIATIONS ON THE LIBERALISATION OF SERVICES IN LEBANON

The desire to include services in the association agreements with the European Union marks Lebanon out from the other signatory countries of the Euro-Mediterranean agreements. This is partly because Lebanon is not yet a member of the WTO. However, the general principles of the GATS agreements cannot be disregarded, for the following reasons: (see chapter VII)

- Alongside the Euro-Mediterranean agreements, Lebanon is beginning negotiations with the WTO. Legal compatibility and consistency between the provisions adopted under the Euro-Mediterranean agreements and the WTO agreements must therefore be ensured from the outset.
- The other Mediterranean countries have opted to spell out only the general principles of services liberalisation in the Euro-Mediterranean agreements while referring to their commitments under the WTO agreements. This effectively means excluding services from the Euro-Mediterranean agreements and thus not including them in the field of reciprocal concessions.
- For reasons of consistency and to preserve their mutual interests, the EU and Lebanon will probably use all the instruments available under the WTO agreements (differentiation of methods of supply, possibility of unbound commitments, exceptions to the most favoured nation clause, etc.).

II. THE IMPACT OF ASSOCIATION AGREEMENTS ON SERVICES

II. 1. The liberalisation and opening up of services is very different from that of goods.

International trade in services is not based on simple determinants, as trade in goods is. Price is the essential determinant of trade flows of goods. By contrast, the price of a service is only a small component of exchange flows. Service exports depend for example on liberalisation measures by partner or bordering countries, but also on linguistic or cultural proximity, quality standards, regulations, etc. Cross-border exchanges of services are of only minor importance. The bulk of international flows of services is carried out by people travelling, hence the importance of provisions on rights of individuals (work permits, access by foreigners to professions, restrictions on the right of access such as restrictions in equity participation, the composition of boards of directors, etc.).

Services are not uniform, substitutable goods. Economic theory falters on this subject. There is a debate as to whether international trade theories apply to services. Empirical questioning on trade in services really began 5 years ago with the GATS.

II.2. Summary of the effects of services liberalisation

The following table sets out the various factors that come into play in shaping the beneficial nature or otherwise of services liberalisation. These should be borne in mind and an attempt made to identify the current situation in order to analyse the impact of association agreements on a given services sub-sector.

Impact of association agreements	Balance of payments	Factor movements	Competition
Positive	-Services exports -Increase in factor income -Capital -Wages -FDI from abroad	-Transfers of technology connected with FDI -Transfers of know-how connected with training obtained abroad -Improvement in quality standards	-Limitation of distortions -Consumer gains -Competitiveness gains
Negative	-FDI in other countries -Imports of services		-Risk of disappearance of local providers.

II.2.1. Positive effects

II.2.1.1. Positive impact on the balance of payments.

The main advantage of services liberalisation or of integration into a preferential area is, as in the case of goods, an opportunity to **increase exports**. This occurs when a country has comparative advantages which are not capitalised on owing to barriers to entry. The removal of the barriers enables an immediate gain. For example, the liberalisation of air transport enables the most efficient companies to transport more non-resident passengers. Note also the case of the movement of persons (WTO case No 4), when certain occupations that were prohibited on the territory become permitted. This is the case of an engineer working for a foreign company on Lebanese territory; he or she must as a rule be registered in the register of engineers to be able to work, even temporarily.

In many cases, the export of services is accompanied by the development of a lasting economic presence abroad - the commercial presence defined by the WTO (case No. 2). **In this case the export of services is accompanied by foreign direct investment (FDI)**. Assuming that the investment generates income, there is an increase in the transfer of income from abroad. These transfers come from capital and labour where the FDI is accompanied by the movement of persons.

Finally, the liberalisation of services may remove obstacles to the commercial setting up of partners. FDI from abroad has an immediate beneficial effect on the balance of payments, constituting an **import of long-term capital**.

II.2.1.2. Positive impacts on transfers of technology and know-how

In regard to transfers of technology connected with FDI, there is a considerable difference between manufactured goods and services. Technology is necessary in the production of the service and the service is produced on contact with the consumer. Subsidiaries or partners must therefore incorporate know-how, technical standards and all the characteristics of services. This requires a much greater skills transfer than in trade in goods.

The liberalisation of services can encourage the acquisition of qualifications abroad, either through education and vocational training or through experience gained during a stay abroad. Efforts to harmonise standards would lead to this kind of indirect benefits of the agreements.

II.2.1.3. Positive impact on internal market regulation

Restrictions on trade in services and, more generally, on the presence of foreign providers **result in an additional cost to users of the services**.

For example, restrictions in the area of insurance limit the products offered, the quality of cover and repayments, and increase the amount of premiums. The consumer is thus affected by such protection. Many services are also factors of production. The cost of protection and the distortions that may result may thus have a high overall economic cost. This is often the case in the financial sectors of some countries in which the mobilisation of

savings is very low, partly owing to the dearth of investment instruments. These price distortions may reduce the competitiveness of Lebanese products and services and hamper export opportunities.

Where goods have been liberalised, it becomes essential to liberalise services as well. If they are factors of production and if services within the country remain expensive because of lack of liberalisation, national producers are disadvantaged in relation to foreign producers. The high cost created by the lack of liberalisation may even constitute a form of negative protection.

II.2.1.4. Other positive impacts

The liberalisation of services is accompanied by an effort to **harmonise quality standards with third countries**. Even more than for goods, differences in standards may constitute a natural obstacle to trade in services. Association agreements are thus a means to harmonise standards and align them on those of the most advanced countries. This may enable market shares to be conquered in the less developed countries, which offer an opportunity for the country.

II.2.2. Negative impacts of association agreements.

II.2.2.1. Negative impact on the balance of payments

Symmetrical effects to those mentioned above. The opening up of trade in services will boost the demand for services by foreign operators. This will result in an increase in services imports and thus a loss of foreign exchange.

In addition, previous FDI from abroad produces labour and capital income which is then repatriated to the country of origin.

II.2.2.2. Negative impact on factor movements

If association agreements lead to a recognition of qualifications, and if, as is the case for Lebanon for historical reasons, training abroad is frequent, there is a risk of speeding up the brain drain and of the most highly qualified people leaving for good.

II.2.2.3. Negative impact on local producers

Competition between local providers and foreign companies can naturally affect internal activity, especially in non-competitive sectors. There is thus a risk that local producers could disappear faced with international service providers that have a technological lead or financial strength out of all proportion to that of local providers.

III. LEGISLATIVE AND REGULATORY ASPECTS OF THE ASSOCIATION AGREEMENT AND LEBANESE LAW.

The signing of the Association Agreement will require amendments to Lebanese law on market access, the right of establishment and work by foreigners. These changes must be examined in order to assess the impact of the opening up of services. The text of the agreement must therefore be compared with current Lebanese law and proposals made on the changes to be made.

III.1. The preliminary draft of the agreement on services

When we carried out our mission the association agreement was still being discussed. The text of the proposal on services which was submitted to us is still in the form of a draft, the content of which has to be edited, defined and supplemented. Many articles are still at the drafting stage (e.g. reference is made to non-existent sections, cf. Article 11 and 12). The parts relating to services are not included in the latest complete version of the agreement proposal. The document includes hand-written notes and the numbering is provisional; in other words it is at present a preliminary document. It is structured as follows:

It contains 18 articles divided into three chapters. The first chapter concerns the right of establishment and company operations. The second covers cross-border trade between the Community and Lebanon, and the third sets out general provisions.

Article 1 affirms the principle of the Most Favoured Nation and of National Treatment (NT). It should be noted however that the EU would only be held to the MFN while Lebanon would commit itself to the principle of the MFN and NT, which probably constitutes an anomaly.

Articles 1(b), 2(A) and 2(b) refer to lists of exemptions from those two principles (Annex 1, 2 and 3) which are not yet available. This is particularly restrictive for our study, as it is the contents of those lists which would make it possible to assess the impact of the agreements. Very wide latitude indeed is given to Lebanon. If we look at the WTO commitments, current Lebanese regulations could quite easily allow a commitment by Lebanon in the GATS agreements (these agreements leave states very wide latitude on the pace of commitments). As it is clear that the commitments in the Euro-Mediterranean agreement will not be greater than those made in future WTO agreements (this is reaffirmed by Article 14 of the proposal), it is possible that the Euro-Mediterranean agreement will not lead to greater liberalisation of services in Lebanon. This is a cautious scenario which however reflects the reality of the GATS agreements for the other Mediterranean countries, where the opening up of services remains marginal.

III.2. Uncertain amendments of Lebanese law

Restrictions on services under Lebanese law mainly concern nationality conditions. Professions and the status of employee and wage-earner in many sectors are prohibited to foreigners. Similarly, severe restrictions on the proportion of Lebanese in boards of directors and the proportion of shares that must be held by Lebanese legal or natural persons in public limited liability companies constitute obstacles to the liberalisation of services.

Another form of restriction relates to the foreign staff that can be employed. For example, Lebanese law provides that a work permit may only be obtained for a foreigner if no Lebanese person can do the job.

There is a major restriction on land acquisition. The general GATS principles do not conflict with the maintenance of such provisions. However, it is chiefly the removal of this type of provision which could be attractive in terms of concessions Lebanon could grant. It appears, though, that Lebanon remains attached to these principles, as borne out by Article 5 of the proposal which remains quite restrictive in regard to the employment of foreigners. It is clear that the impact of service liberalisation will all the more be marked if these provisions are lifted. It is impossible for the moment to gauge the extent of the concessions that will be granted.

III.3 Difficulty of estimating the extent of the liberalisation of services as a result of the association agreement

We noted above that Lebanon could not undertake a greater level of commitment with the EU than that made with the GATS. This means that the concessions obtained by the EU will in any event be acquired when Lebanon is a member of the GATS. Similarly and reciprocally, once Lebanon is a member of the GATS, it will obtain in the area of services what is granted by the countries of the Union to all the other members. This means that the idea of including services in the EU agreement loses much of its relevance because of the limitations and restrictions imposed by the GATS rules.

Given all the above, we cannot construct an exact picture of the agreement's effects. It is possible that it will lead to some amendments without any real effects; it is also possible (but in our opinion, not very probable) that the main restrictions on nationality will be lifted. Our working hypothesis is rather the latter, namely a genuine opening up. Even this best-case scenario will not drastically change the Lebanese economy.

IV. SECTORAL STUDY

IV.1. Checklist of the impact of the agreement on sub-sectors

In order to describe the impact of the association agreements on services, we have identified several categories on the basis of two criteria. We saw above that services can be affected in different ways by the association agreement and more generally by the liberalisation process. We distinguish the services for which the impact of liberalisation is positive in the short or medium term, the services for which the impact is slight or non-existent, and finally those which will suffer an adverse impact.

The other criterion we have selected is that of export potential. Given the high degree of competition and the role of the private sector in services in Lebanon, the impact of the agreements will chiefly make itself felt on the balance of payments and more specifically on exports. It is probable that distortions related to the lack of competition are few in Lebanon. The liberalisation of services will have only a minor effect on this aspect.

Among the various effects of liberalisation (see table II.2.) it is thus more relevant to focus on export potential. This relates to one of the fundamental questions on the value of including services in the Euro-Mediterranean association agreements, namely whether services will compensate the foreseeable increase in deficits on trade in goods.

We distinguish services with low, medium and strong export potential. Combining these two criteria, nine categories are obtained in which services can be classified.

Services		Export potential		
		Low	Medium	Strong
Impact of agreements	Positive in short term	Retail trade; services connected with farming, hunting and forestry; to fishing, research and development; services relating to quality control, analysis and inspection of materials	Conference services;	Wholesale trade.
	Positive in medium term	Maintenance and equipment repair services; building cleaning services; packaging services	Legal services; accounting, audit and book-keeping services; engineering; urban planning and landscape architectural services; integrated engineering services; insurance and insurance-related services; Insurance brokerage services; Banking services and other financial services other than insurance	Services connected with the new economy; computer and related services Consultancy services related to the installation of computer hardware; data processing services; software implementation services; database services; multimedia design and implementation services; market research and public opinion polling services; printing and publishing; service for the placement of people abroad

	Slightly positive or no effect	Postal services; leasing; property; film projection; press agency services; energy distribution services; photography; domestic staff; courier services; Production and distribution of films and videos; refuse disposal services; entertainment services; library services; museums and other cultural services; commercial vehicle hire with driver; maintenance and repair of road transport equipment.	Telephone services; radio and television; building construction; civil engineering construction; assembly and installation; completion and finishing of buildings; franchising services; further education services; hospital services; other health services; maritime passenger transport; road passenger transport; transport by pipelines.	Hotel and restaurant services; travel agency and tourist services; tourist guide services; advertising; air transport services; tourist guide services; aircraft hire; maritime transport of goods; rental; passenger transport.
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IV.2. Services on which the agreement will have a positive impact in the short term

These are sectors which will benefit in the short term from the signing of the agreement. There are several scenarios. What alone should be considered here are the sectors which up to the present have been limited by European regulations that hamper either the export of services or the movement of persons or Lebanese foreign direct investment in Europe. **We have never met an operator who complained of conditions of access to the European market.** However, we were given many examples in regard to the Middle East where access to the market is much more restrictive. This, we believe, reflects two things. First of all, European regulations are liberal enough not to be a hindrance to Lebanese service providers wishing to operate in Europe. We should note that there are in fact many sets of European regulations. Failing an agreement with the Union and the signature of the WTO agreement, national regulations still apply, e.g. the 1977 agreement on relations with France, agreements which generally do not refer to services. Note that many Lebanese resident in Europe have dual nationality, which exempts them from restrictions on foreigners.

Secondly, the opportunities for exporting services to Europe seem very limited owing to Europe's comparative advantages in services, the disproportion between the size of the two areas and the very keen competition by European companies on their market. Consequently, a liberalisation of services will have only a slight impact on services exports to Europe.

The knock-on effect which the signing of the agreement might create constitutes a positive impact in the short term. Awareness by the public of what is involved in the agreement will in principle stimulate debate and discussions which will result in studies and reports carried out partly by local operators. Lebanon's commitment to international bodies, especially if the peace prospects materialise in the Middle East, is a sign which will speed up the arrival of foreign direct investment.

IV.2.1. Low export potential

IV.2.1.1. Retail trade

Presentation

The retail sector in Lebanon is currently suffering from the recession in Lebanon. It is one of the sectors most sensitive to the economic climate. It also appears that its situation has just crossed a critical threshold which is intensifying the effects of the economic climate. The sector is experiencing increasing operational costs:

- interest rates
- increasing customs taxes for some sectors (textile)
- income tax and social security charge
- cost of electricity
- high labour cost.

These charges, which however remain comparatively low, are accompanied by a sharp increase in competition and a decline in purchases.

- Purchasing in Europe or in the Gulf owing to frequent travel. The sale of cigarettes, for example, is more profitable in duty-free shops than in the country.

- Purchasing in Syria owing to the proximity of the Syrian border, where price differences are considerable.

- Strong decline in purchasing by tourists and traditional Arab customers, who have competing networks that are better stocked and buy in retail outlets in Dubai at much lower customs duties.

A disturbing sign is that many traders are losing their commercial exclusivity to the detriment of Gulf traders. Some former Gulf clients are becoming suppliers.

Traders estimated a 1999 turnover loss of 30%.

Retail does not offer high export potential owing to its very nature. It is aimed at the local population and means having a shop on the territory. However, this sector will benefit greatly from a decline in customs tariffs which will enable margins to be reconstituted, prices to decline and demand to increase.

Recommendations :

Operating costs should be reduced in order to cope with very keen competition from other countries. However, the sector is probably too large and dispersed in Lebanon and major restructuring will probably have to take place (reduction in number of shops, mergers). Operators in the sector will also have to review their pricing policy and give up certain "rentier" behaviour (commercial exclusivity, specialisation in one brand, high margin but low sales, etc.)

IV.2.1.2. Services connected with farming, hunting and forestry

The sector has five engineering consultancy companies for stock rearing, agricultural science and the agricultural food sector, with one predominant one employing 130 people. The association agreements may encourage agricultural development studies possibly assisted by European funding. This is a positive, immediate but fairly marginal result.

IV.2.1.3. Research and development service

Outline

In most countries the research and development sector is closely linked to the public budgets allocated to this sector via universities or research centres and to incentive policies in the military and medical fields. The private sector predominates in hospitals and universities in Lebanon. The rest of research and development is linked to the key industrial sectors. These sectors are non-existent in Lebanon.

Lebanon has no comparative advantage in this field, particularly as qualifications obtained abroad are usually applied and tend not to be geared towards basic research.

The association agreements with the European Union naturally encourage this sector in Lebanon in terms of transfers of know-how as part of technical assistance and studies linked to the preparation of the agreements. However, this remains very much on the sidelines.

Recommendations :

Given the size of the country and the limited traditions of basic research, it is more relevant to build comparative advantages in certain niches. The health sector and the new technologies sector could constitute areas of development of basic and applied research which would have positive effects in the long term on the development of service exports.

IV.2.1.4. Quality control, analysis and materials inspection services

There are about ten small companies, including two larger ones, in this sector. Quality controls will take on increasing importance for export services and for attracting FDI. Supply appears rather limited for a country like Lebanon and given the export potential.

IV.2.2. Average export potential

IV.2.2.1. Conference service

Presentation

Lebanon is traditionally a destination for conferences and exhibitions, providing an interface between the country, the diaspora and foreign partners. Lebanon has a comparative advantage in this sector, which should enable it to attain an significant position.

There are more than twenty companies specialising in conference organisation, which is quite substantial given the size of the country. The infrastructure is sufficiently well developed to meet technical requirements, including the most modern presupposed by conference organisation. Internal know-how in terms of advertising and design is a plus. The hotel infrastructure is ample for this type of event. Lebanon can thus increase its role as an interface between the industrialised countries and the Middle East. Beirut will continue to be able to offer a favourable environment (climate, trade, cultural activities and leisure, etc.) which will make it a destination of choice for both westerners and the Arab countries. However, certain Middle East countries are developing supply in this field and international competition on this market is much keener than before the war.

19 conferences and fairs were organised between October 1999 and March 2000. Most of those conferences took place in November and December. There are enough centres capable of hosting large fairs: two in Beirut, one in Tripoli and one in Zahle.

Association agreements, in so far as they will develop trade and information requirements, will have a positive impact on this sector at two levels:

- the organisation in Lebanon of services for conferences or exhibitions which will take place abroad. These exports would be to the Middle East rather than to Europe.
- organisation of conferences in Lebanon.

Recommendation

Lebanon must give impetus to this sector so as not to be caught up by countries in the region that are increasingly capable of supplying this type of service. Better structuring of the profession within professional groups would be necessary to ensure better advertising abroad and to highlight Lebanon's assets in this sector.

IV.2.3. Strong export potential

IV.2.3.1. Wholesale services

Outline

Wholesale services offer strong export potential owing to re-export activities. This is a traditional activity connected with Lebanon's geographical situation. Before the war, the bulk of goods transit to the Middle East went through Beirut port. Activity is on a much smaller scale today but nothing stops it from regaining an important position. It has the following advantages:

- Geographical situation: going via the Suez Canal and avoiding the Arab peninsula represents a cost in servicing the Middle East.
- Little competition: obstacles to transit via Israel, although some transit to Jordan is already through Israel.
- Lack of infrastructure in Syria.

There are numerous obstacles in this sector:

- Under-development of transport infrastructure for servicing the centre of the country to Syria.
- Backwardness in the general organisation of Beirut port.
- High costs of warehousing, storage and transit in the port.
- The complexity of procedures and administrative formalities for importers and exporters which bring costs up.

- The existence of informal taxes
- The slowness of procedures and long delays in getting out of the port
- A tax system unsuited to re-export.

All these obstacles mean that the potential represented by the free zones is not used. It should develop more, but on condition that the organisation of port activities be radically overhauled. Such a reform programme requires long-term programming, considerable technical assistance and the political will to carry out the reforms. However, it is clear that the income that could be generated by port activities and ancillary services are considerable. The advantage Lebanon still has in this field due to the backwardness and limited possibilities of competing ports may disappear in the medium term.

Recommendations

These concern infrastructure and regulations. It is essential to improve the infrastructure for transport to the continent. The rail service to Damascus should be a national priority, as should improving communications to Bekaa. This is an essential prerequisite for developing numerous service sectors.

The second area for improvement is, naturally, that of regulations and organisation. To regain its previous level of activity the wholesale sector must have a port that facilitates rapid and efficient transit of goods. Infrastructures must be modernised and administrative procedures for exporters must be swift. Warehousing, customs clearance and transport costs must not be high. All this merits a special study which exceeds the scope of this mission. Our recommendation would be that a study be conducted on transport policy in Lebanon.

IV.3. Services on which the agreement will have a positive impact in the medium term

Sectors that will benefit from a positive impact in the medium term are classified in this category. Several categories can be identified. First of all, services will develop as a result of the probable increase in the foreign presence on Lebanese territory following the agreements. The development of FDI and the arrival of foreign companies will boost local demand for services. In the case of the consumption of services by non-residents, there will even be an increase in exports.

The other large group of services that will benefit in the long term from the signing of the agreement and, more generally, from Lebanon's integration into the world economy, is linked to the various activities of the new economy: the development of information technology and telecommunications, and all sectors of professional services for companies, either because of the need to improve technical and production standards or because of equipment requirements or the need to align on the production methods of the industrialised countries.

IV.3.1. Low export potential

IV.3.1.1. Equipment maintenance and repair services

The sector of equipment maintenance and repair services is under developed in Lebanon. It mainly involves light maintenance, which does not require high qualifications. This is the case for car repairs. There are only one or two companies for major repairs and industrial maintenance. The bulk of activity is internal, with companies maintaining their equipment themselves.

Thus there is no export potential in this sector, although a market for complex repairs could be found in Syria.

IV.3.1.2. Building cleaning service

Development possibilities exist as some of this service is still internal, being carried out by companies themselves. The arrival of foreign companies may boost this activity. There is even a possibility of exporting this service to non-resident companies. However, these developments are quite limited.

IV.3.1.3. Packaging service

Packaging services are rather underdeveloped in Lebanon. This is due to the fact that most common consumption products are imported and packaged abroad. The packaging sector generally develops with the local production of consumer goods.

The enterprises we have identified and which are dynamic specialise in cardboard. For plastic packaging, which requires more technology and the ability to adapt to very changing design standards, Lebanese companies are not competitive except in typically Lebanese products which require special packaging (e.g. pastries). Companies make a significant turnover on export in these very specific niches but this is mainly due to consumption by the Lebanese diaspora.

However, Lebanon has comparative advantages owing to its good position in advertising, graphic art and printing. These strong points may thus be capitalised on to develop a packaging service or at least a design service for the foreign market. This potential is underexploited.

IV.3.2. Average export potential

IV.3.2.1. Legal services

Outline

There are two bars in Lebanon, one in Beirut which has 5 000 members and 1 800 trainees and one in Tripoli which has 800 members and 150 trainees. It is a fairly young population, 30% of which is made up of women. There is significant export potential which emerged during the war, when nearly 400 lawyers went abroad for fairly long periods. They practised mainly as legal advisers in consulting companies in the Arab world and in Europe, mainly in France and often in companies of the diaspora.

The profession is mainly French-speaking owing to the heritage of French law. But re-specialisation for the English-speaking world is taking place and concerns some 300 lawyers. Lebanon thus has comparative advantages in the field of legal advice, owing to the very good level of training of lawyers and their number. Foreign countries thus offer market opportunities.

Recommendations

An effort to international courts should be made. This means assistance, notably in training in English law and new international trade regulations and a mobilisation of professional groups. There is a sizeable market opportunity which Lebanese lawyers who speak several languages can capitalise on.

IV.3.2.2. Accounting services

The sector comprises 1 200 accountants, a very high number compared to the size of the country; Tunisia, for example, has only 250. There are 92 audit offices. The level of qualification is very good and many experts are trained abroad, in particular in France (with the HEC) and in the United States (with CPA).

An Association of Chartered Accountants, set up by Decree-Law in 1994, regulates the profession.

The profession is open to foreigners with the restriction of a reciprocity principle and in line with the rules on work permits, i.e. that the qualification does not exist in Lebanon. Foreigners must sit an exam on their knowledge of Lebanese law. Foreign companies must have a representative of Lebanese nationality. The firm must be a partnership registered in the Court.

Export activities are minor. This is owing to the low number of firms big enough to tackle foreign markets. 9 firms out of a total of 92 employ more than 10 people. Those that export are firms which represent large foreign firms or work with the diaspora. There are only two firms which have over 100 employees, one of which has 600 employees and subsidiaries throughout the Arab world, including the Maghreb countries.

There is strong potential in audit services. The comparative advantages are based on:

A qualification of international level

The ability to work in three languages (Arabic, French and English)

The ability to penetrate the English-speaking world

The development of the financial sector

IV.3.2.3. Book-keeping and management consulting services

Outline

The above remarks on audit activities also apply to book-keeping services. Supply is also very disparate. There are 27 chartered accountancy firms, four of which are certified. Only two of them are of a large enough size to enter foreign markets, and of those two one is associated with a large international group. Among the other firms, only three have more than 10 staff; one of those has 150 employees. The other firms comprise 3 to 5 people. In this sector too, export activities are often linked to those of the diaspora.

With such a fragmentary supply, it is difficult to penetrate foreign countries effectively. However, Lebanon could play a much more dynamic role. Accounting procedures tend to harmonise at international level. Moreover, accounting requirements are increasing in all countries. Associations with foreign groups gives an advantage in terms of renown. Recently Ernst and Young and Semaan & Gholam established a joint venture in 1997.

In terms of both auditing and accounting, the impact of the association agreement and of all the agreements that improve Lebanon's international integration will boost the development of this sector, notably owing to the need to comply with current international standards and rules.

Recommendations:

- Develop an integration policy in international networks (various circles and institutions)
- Create professional groups
- Encourage company mergers
- Develop links with international firms
- Develop a policy to penetrate the Middle East and the Arab world.

IV.3.2.4. Town planning and landscape architectural services, civil engineering services

This sector comprises 30 000 engineers and architects registered in the register of engineers and architects. 500 foreign engineers are registered, including 127 European countries. However, many foreign engineers are not registered, although registration is compulsory, and they work for foreign companies using a work permit obtained under another chapter. This is a very common way of circumventing the requirement to register. Half of the members are foreign graduates.

Foreign companies have a strong presence in internationally financed public contracts and either give the assistance to companies in the donor country or lay down qualifications conditions that *de facto* exclude most Lebanese companies. In the private sector there are much fewer foreign companies.

There are also foreign inspection offices which are made up of Lebanese and foreign engineers and architects. They operate in line with international standards.

Strong points

The number of Lebanese engineers working abroad appears to be quite high, although we do not have exact figures. This is due to a glut of engineers on the Lebanese market, where 7 000 engineers are jobless, and to the recognised competence of Lebanese engineers and architects:

The average net salaries (in USD) in the sector are:

	Beginner	Experienced
Architect	900	1200
Decorators	600	700+com

Lebanon exports engineering consultancy services. One of the key Lebanese companies on the market, Khatib et Alami, makes over 80% of its turnover abroad. It operates mainly in the Middle East. The company has subsidiaries there and 300 of its 1000 employees work abroad. Europe does not constitute an outlet for this type of company, which however has a specific advantage in the Middle East.

It is interesting to note that even for this company, the signing of association agreements with Europe is not a factor that affects activity. The company's most senior managers do not seem worried or even really affected by the Euro-Mediterranean agreements. This is a constant feature. The opening up of services is not a concern because it is less European regulations than the competitiveness of large European companies that constitute an obstacle to the penetration of Europe by Lebanese companies. By contrast, the competitive environment is keen in Lebanon and Lebanese companies do not fear the possible arrival of foreign companies.

Khatib & Alami

Khatib & Alami, a partnership established in 1963 by Mr Khatib and Zuhair Alami.

The firm currently employs more than 1 000 people: 300 in Lebanon and 700 in foreign branches (5 in the UAE, 1 in Oman, 1 in Qatar, 3 in Palestine, 5 in Saudi Arabia and 1 in Bahrain).

The firm's activities are of consultancy only; it is not involved in construction, production or the marketing of raw materials.

The firm concentrates on the 7 key fields: architecture, planning, electrical and mechanical engineering, structure, transport, environment and the GIS system.

In 1997 turnover outside Lebanon was 34.4 million dollars, together with 10% achieved on Lebanese territory - a total of 39 million dollars. The main activities abroad are: buildings (46%), transport (19%), and irrigation and sewage systems (17%).

Although activities abroad are mainly in the countries of the Persian Gulf, new markets are appearing in the African countries: Djibouti, Mauritania and Algeria. In the Gulf countries there is always demand, although it is less than in the past (owing to the reduction in public budgets and the fact that many heavy infrastructure works have already been carried out). Moreover, local firms have developed in those countries. Syria could also provide interesting opportunities.

The comparative advantages are: cheaper service and better quality compared with the main competitors from Western countries (lower salary costs, staff qualifications in line with Western standards, existence of a technical database, experience on the ground, etc.). Consequently, for many contracts a joint venture system is put in place between the firm and a large international country in order to boost the advantages of both companies.

The 3 main firms present on the Lebanese market:

Dar El Handassah, 3 000 employees, branch of a group whose general headquarters is in Cairo.

Khatib & Alami

ACE: Associated Consulting Engineers

The development of telecommunications means should increase the export opportunities for engineering and architecture services. Plans may be drawn up, pre-construction studies carried out, and costs calculated from a distance. However, these new possibilities also increase the competition and the high labour costs may be a handicap for Lebanon.

IV.3.2.5. Banking services and other financial services other than insurance

Outline

The banking sector is the leading sector in the Lebanese economy. It employs 15 000 people, i.e. 1.6% of the labour force, and constitutes 5% of national production. After the destruction caused by the war the sector built up again quite quickly. Consolidated assets increased six-fold between 1990 and 1998. It will gradually regain its position on international markets and a role in the region, though probably on a lesser scale than in the past.

The Lebanese banking system is in good shape owing to its rigorous management and a know-how based on long practice and competences in keeping with international standards. The rules of banking controls and prudential management are in line with international practices. This stability showed in the Asian crisis which did not have significant effects on capital flows, unlike many emerging countries.

In addition to the control policy, the Bank of Lebanon and the association of Lebanese banks are making a considerable effort to modernise and adjust their legislation. Recent measures were taken to introduce banking by Internet. A merger policy has been implemented to encourage concentrations and increase the critical size of banks.

Banking activities are undergoing rapid growth, far ahead of that of the GDP even in the recent slowdown linked to the recession.

Consolidated balance sheet of commercial banks (millions of dollars)

December 1997	September 1998	December 1998	September 1999
29 884	34 677	36 493	39 154

Source: Association of Lebanese banks, annual report

The Lebanese banking system has very quickly caught up in the development of electronic payment means, especially card payment services, automatic teller machines and all automated payment systems (Swift, direct debiting, etc.).

The overall legislation has guaranteed the banks extensive freedom for several years now. Operators have always been private and Lebanon has not experienced the trend to nationalise part of the banking sector since the second world war, as has been the case in many European countries.

This freedom ensures strong competition between the national and international banks which has obliged the Lebanese banks to maintain know-how and a legislative framework in keeping with international standards. The law of 3 September 1956 establishing bank secrecy moreover constitutes a comparative advantage.

A strong foreign presence

Lebanon has had an exceptionally high foreign presence for over half a century. While many foreigners left Lebanon during the 15 years of civil war, they have been coming back since peace was restored. Of the 74 banks in Lebanon, there are 16 subsidiaries of non-Lebanese banks (11 Arab and 5 foreign), 15 banks with non-Lebanese holdings (11 Arab and 4 foreign). 46 banks of a total of 676 are offshoots of foreign banks.

The foreign presence has increased in terms of the number of banks but their activity has in fact declined in relative terms. The increase in the number of foreign banks is due to their setting up again after the war.

Breakdown of the total number of banks operating in Lebanon

	1992	September 1998
Total banks registered in Lebanon	80	78
Total Lebanese commercial banks	64	55
of which Arab majority	10	11
of which non-Arab majority	5	4
Total foreign commercial banks	12	15
of which Arab majority	5	5
of which non-Arab majority	7	10
Total Lebanese merchant banks	4	8

Source: Association of Lebanese Banks, A.B.L. Dossier No 14

Proportion of foreign commercial banks and Lebanese banks with foreign majorities operating in Lebanon

	% of total assets of sector		% of total profit of sector	
	1992	1997	1992	1997
Bank with foreign majority	19.39	18.68	19.79	21.23
of which Arab majority	11.76	13.03	16.34	15.08
of which non-Arab majority	7.63	5.66	3.45	6.15
Foreign banks	22.01	13.39	38.76	9.54
Banks with foreign majority and foreign banks	41.40	32.07	58.55	30.77

Source: Association of Lebanese Banks, A.B.L. Dossier No 14

The most interesting thing shown by this table is that the proportion of foreign banks declined over the period. It is a relative proportion but this means that Lebanese banks are dynamic and reconquered the national market.

Obstacles to foreign participation

Cross-border supply

There is no restriction on individuals. Non-residents may open an account in Lebanon and carry out all operations. Similarly, the Lebanese can freely consume financial services abroad. The movement of capital is free. However, there are restrictions on the protection of the national currency. The resident banks cannot receive deposits and grant loans in Lebanese pounds to banks, financial institutions and exchange agencies in Lebanon. Moreover, non-resident banks may only buy Lebanese treasury bonds with Lebanese pounds acquired for that purpose against foreign exchange.

Consumption abroad

No restriction

Movement of natural persons

Financial services in Lebanon may be provided by resident companies only.

Commercial presence

A foreign company wishing to open a bank branch in Lebanon must be established in the country of origin in the form of a public limited company or a partnership limited by shares and be considered a commercial bank. The capital of a foreign commercial bank is USD 5 million, while it is USD 8 million for a Lebanese bank.

To set up a branch of a foreign commercial bank, a foreign bank must:

- Be a commercial bank in its country of origin
- Have a certificate from the inspection authorities of the country of origin certifying compliance with international standards in terms of prudential rules.
- Have a capital of USD 5 million, of which 25% in the Treasury account
- Have a licence granted by the Bank of Lebanon
- Attestation as to absence of relations with the State of Israel, issued by the Ministry of Finance

The last two are the only rules applied to representation offices.

With the exception of the last provision, these rules are by no means restrictions on trade in services as defined by the WTO.

But the banks must also meet other requirements:

30% of the resources of a foreign commercial bank branch must be used in Lebanon.

There are no regulatory limitations on the number of agencies that a foreign bank can open. But the policy of the Bank of Lebanon is to restrict the setting up of foreign banks to a single branch in greater Beirut.

Finally, foreign banks are subject to the general rule prohibiting foreigners to acquire land rights except via a derogation from the Council of Ministers. However, this barrier to the principle of national treatment affects banks less given the rules on the fixed assets permitted for banks.

Foreign natural persons may also open commercial banks in Lebanon. They must set up as a public limited company or a partnership limited by shares. In that case the general rules apply:

Shares must be registered.

One-third of the shares must be held by Lebanese natural persons, partnerships whose members are Lebanese, Lebanese joint-stock companies all of whose shares are registered and a third of which are held by Lebanese natural persons. These arrangements in fact allow an 8/9 foreign capital holding.

The majority (at least 3) of the members of the board of directors of a public limited company must be of Lebanese nationality.

As regards real estate, public limited companies not 100% owned by Lebanese natural persons or by 100% Lebanese companies are considered foreign. In this case there is a restriction on the acquisition of land assets. The total area on Lebanese territory may not exceed 10 000 m².

These provisions apply for merchant banks and financial intermediation companies with the exception of the minimum capital, which must be USD 13 million. Of this amount, 15% must be in the Treasury for the former and LBP 2 billion for the latter.

- Holding companies have arrangements that are a little more favourable.

Authorisation and a licence from the Bank of Lebanon are not necessary.

- The capital of holding companies may be fixed in a foreign currency and their financial statements given in that currency.

The chair of the board of directors of holding companies does not need a work permit if he or she is not Lebanese and is not resident in Lebanon.

The headquarters of the holding company may be in Lebanon but the meetings of the board of directors and the general meetings (bar the annual meeting) may be held abroad.

An auditor must be Lebanese and resident in Lebanon.

The tax system is attractive: 10% income tax as against 15%.

Offshore companies

Banks, insurance companies and holdings may not have offshore company status in Lebanon.

Impact of the association agreement

Given the situation of the Lebanese banking sector, there is no fear with regard to the effects of its liberalisation. Lebanese banks may compete with foreign banks on the territory. Foreign presence will mainly take the form of associations with local banks and will ensure transfers of technology and know-how. Foreign banks may have a knock-on effect on the entire system.

- The example of the BNPI shows that the Lebanese banking system was able to capitalise indirectly on its known-how in electronic banking and it has encouraged other banks to follow its example in this market. The association agreement and involvement in the process of international integration will have only positive effects internally.

Regulations are already very liberal, much more so than in many WTO member countries and GATS signatories. This means that with minimal amendments to its rules Lebanon will meet the accession conditions.

In regard to the export of banking services, a distinction must be made between Europe and the Middle East.

In Europe the banking presence is quite small, although long-standing. It is mainly linked to the economic activity of the diaspora and is not cut out to develop further. The facilities which will be granted to the Lebanese banks set up in Europe following the signature of the association agreements will thus have only a marginal effect, connected with the development of trade between the two zones. Lebanese banks do not suffer as a result of European legislation in regard to banking, as it is very liberal.

In the Middle East area the situation is more complex. The Lebanese presence in the broad sense is much more than that constituted by the small number of branches of Lebanese banks in the area (about 10 branches for 3 banks). Many Lebanese have managerial posts in the banks of the Middle East and many financial operations are carried out on Lebanese territory.

However, Lebanon is no longer the dominant financial player in the region and will probably not regain that position in the future, even if it can play a not insignificant role and perform effectively in certain sectors or in the sub-area of Syria. This is because:

- A banking system has developed throughout the Middle East and can meet the demands of the sector.

- These banks can access international markets directly without going through Lebanon.

- They are well-developed and modern.

- They have a favourable regulatory environment, especially as regards tax.

- There are emerging financial instruments (stock exchange, etc.)

- Labour costs are lower than in Lebanon.

- Banking regulations are generally very strict in the Gulf countries concerning the right of establishment of foreigners and branches cannot therefore be developed there.

- In certain countries, e.g. in Dubai, there is a political desire to become a regional business centre.

Despite their good results, Lebanese banks are handicapped by reconstruction:

- They are still lagging behind as a result of the war

- They are handicapped by the foreclosure effect linked to the interest rates paid on government bonds which ensure comfortable returns but inhibit any desire to conquer markets and innovate.

All these considerations should not make us lose sight of the fact that Lebanon has many, probably long-term advantages based on its know-how and qualified labour force. The fact that its area of influence is better supplied by local banks and thus the competition is more complex in no way calls into question its capacity to build itself up again in these sectors. The association agreements will play a positive role in this process.

IV.3.2.6. Insurance service, insurance brokerage service

Outline

The insurance sector in Lebanon has been undergoing reshaping since the promulgation of the 1999 law governing the sector. The insurance sector is under the supervision of the Ministry of Finance. A monitoring committee was set up in 1998 in this Ministry. Its task is to ensure that the law is complied with and it has the power to revoke licences. Previously, the 1968 law was often ignored and many irregularities occurred. More than 100 companies were present on the market. The introduction of the law led to an adjustment and only the best established companies were able to remain on the market.

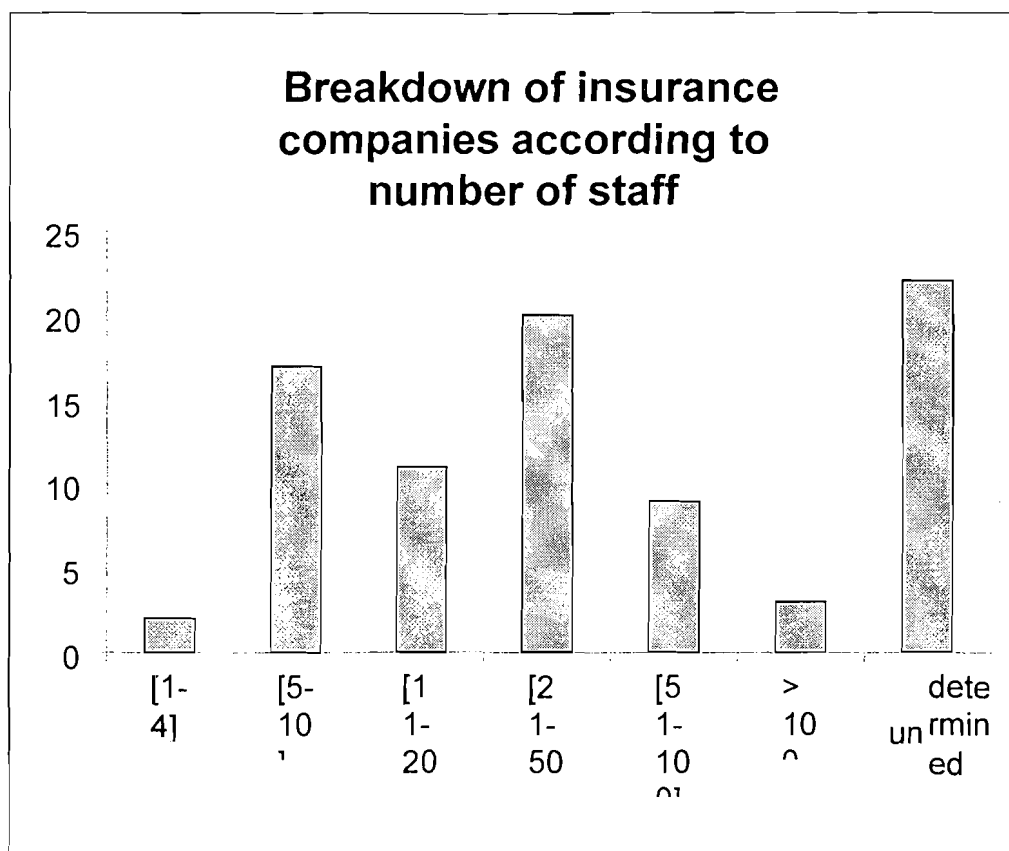
The 1999 law introduced stricter regulations mainly on the minimum capital required and the technical reserves. Discrimination according to the origin of the establishment is introduced on the amount of technical reserves. The amount of reserves required for foreign establishments is double that asked for local companies: Lebanese companies must have a minimum capital of LBP 2.25 billion, while no ceiling is set for foreign establishments.

Other bodies not registered as insurance companies carry out insurance activities, e.g. mutual insurance companies and TPAs. This procedure enables them to avoid tax and constraints (technical reserves, revenue stamps, etc.). These bodies are under the authority of the Ministry of Housing and Cooperatives, unlike the insurance companies which are under the Ministry of Finance, and the monitoring committee has no authority over them.

Increasingly, banks also offer their clients insurance products without being subject to the rules governing this sector.

The insurance market in Lebanon is very small, but there is strong potential since the rate of penetration (net premiums on GDP) was 1.85% in 1998, which puts Lebanon at the level of Jordan, Qatar and India. Similarly, the amount of net premiums per head is USD 92 in Lebanon (Canada: USD 1 500, Switzerland: USD 4 500).

Lebanon has 63 national firms and 7 foreign ones. Most of them are still family firms. However, the bulk of the market is controlled by the 15 main companies. Moreover, half of the insurance market is via brokers. The latter have no civil liability. Only a guarantee and a brokerage licence are required to operate as brokers. Greater control and better coordination are therefore necessary.



Source: monitoring committee

Breakdown of net premiums by branch and by nationality of establishment
(millions of USD)

Branch	Life	Transport	Fire	Accidents (except motor accidents)	Car	Total
Lebanese establishments	45	11.8	25.2	177.5	61.3	320.8
Foreign establishments	74.7	1.1	3.8	16.3	3.4	99.3
Foreign establishments' share	62.41%	8.53%	13.10%	8.41%	5.26%	23.64%

Source: monitoring committee

The hospital sector accounts for 55% of the insurance market in Lebanon. This share may go up to 80% for certain companies. Hence the risk of bankruptcy is not negligible since this branch is not very profitable, even loss-making.

The car sector is as yet rather underdeveloped since car insurance is not compulsory. However, it will probably become so in the near future. An indirect effect could be the reappearance of very small companies on the market that manage to meet the technical conditions (reserves in particular) thanks to this type of policy.

The life insurance sector is still not well developed and it is mainly foreign firms that have specialised in this field. Joint ventures are becoming increasingly common, mainly with European firms. There are several reasons why these firms are setting up in the Middle East:

- some sectors are not very well developed in Lebanon and there is strong development potential (mainly in life insurance and loans).
- some firms have already set up in other countries (in the Gulf and North Africa). The partnership is thus the strategy for accessing these markets.

Impact of the partnership

The insurance market is already very open since the only conditions governing the establishment of an insurance company are the amount of technical reserves and the requirement that the president of the company be resident

and in possession of a work permit. Consequently, signing of the partnership agreement should not have a major impact on competition in this sector in Lebanon.

However, Lebanon could benefit from the implementation of norms and international standards set in the EU concerning solvency margins, the level of reserves and their composition, liquidity, the training of experts and the setting up of a central pricing office.

Export potential

Several Lebanese firms are already present on foreign markets (mainly in the Arab countries) where the know-how and experience of Lebanese managers have been major assets. In certain Gulf countries Lebanon has also benefited from the advantage of arriving first on the market. However, this trend is reversing as more and more countries are putting barriers in place to discourage firms from setting up on their markets (e.g. Saudi Arabia, where a new law imposes a minimum capital requirement of USD 50 million and where at least 50% of staff must be from Saudi Arabia).

IV.3.3. Strong export potential

IV.3.3.1. Services connected with the new economy

The development of the new economy is a reality at international level. It appears that half of American growth in 1999 was the result of the new economy, not to speak of the records achieved by very young companies in terms of stock exchange values (e.g. Yahoo). This irreversible trend will have major effects on production, distribution and trade methods. It is a restructuring which offers numerous opportunities, including for developing countries. But the decisions taken today will no doubt have a major impact on the country's future situation. Hence the importance of not missing the boat.

Lebanon is developing the new economy in various sectors. The banks already offer account management services on Internet and are preparing to launch electronic banking activities (Audi, BNPI). Lebanon has numerous Internet suppliers (12) and applied software development companies. The number of homes that have computers is quite high and there is a culture and habit of on-line service.

Lebanon is even in an enviable situation owing to the size of the diaspora, which creates a constant need for communication in many fields. Lebanon is in the typical situation of countries whose language area goes beyond the national territory.

Hence the net commerce society that has just been created has rapidly developed its client base with the Lebanese diaspora who order Lebanese consumer goods. Indeed, the development of electronic commerce connects residents in Lebanon with the general diaspora and creates a much bigger potential market.

Lebanon is perfectly capable of becoming a regional digital power owing to four factors which must however be developed:

- The existence of a content producer (Internet site, digital products)
- A telecommunications infrastructure
- Dynamic media groups
- The capacity to produce software.

The above will be reinforced when products are developed that can be digitised and sold on line (music, book, information, film, video game, television, etc.)

In the short term there is a job creation potential of 15 000 to 30 000 jobs. Companies which develop in these sectors often have an immediate international strategy and can compete with European companies. This is the case of the company Intracom, which is achieving good results on the European market.

Obstacles to development of the sector are linked to:

- The size of companies
- The financing of start-ups, which require risk capital institutions and a financial market enabling efficient companies to enter the market.
- The involvement of public operators in telecommunications and the media together with private initiative.

-The development of the sector is hindered by the inadequate implementation of the law on intellectual property. The 1999 law undeniably constitutes progress. It follows the arrival of Microsoft, which encouraged the authorities to implement the law. Software piracy, a frequent occurrence, has declined slightly. But much remains to be done in introducing a control procedure and possibly judicial proceedings.

-According to many companies the cost of communications is quite high. A pricing policy for companies could be devised.

-No customs agreement between Lebanon and the countries that import Lebanese computer products. Companies complain about excessive customs duties, sometimes on products distributed free or on software training documents.

It also takes an unduly long time to obtain authorisations from general security for software.

-University courses have no link with companies. Training is sometimes not technical enough, though computer scientists tend to have a good general education which is a good starting point for learning techniques on the job.

-The main problem is the inadequacy of the telecommunications infrastructure. While it is easy to get a telephone line and an Internet connection, high-speed lines - essential for many of the companies in the sector - are expensive and take quite a long time to obtain. However, there seem to be enough of such lines. Moreover, individual services which are technically feasible and have high added value (variable speeds, reinforced security) are not provided by the public operator.

-There is no national server (hub). Internet access providers must connect to foreign servers even for local communications. This slows down data transfer and is the reason the import of data transfer services.

Impact of the association agreement

The new economy is changing the main way in which services are supplied at national level. While forms 2 and 3 (according to the WTO definitions) dominate at present, forms 1 and 4 will probably dominate in the future. The new economy will enable trade in all products that can be digitised via the Internet network. Services that require the presence of the supplier and the consumer will decline. It is already possible to sell music, software, books and games on the Internet. But education, health, company consulting, data processing, civil engineering and architectural services will also be concerned. It will be extremely difficult to regulate trade in such services and to protect local markets via provisions hindering freedom of trade.

The association agreement is not and will not be an important determinant in the development of exchangeable service activities via the Internet. The importance of the agreement lies upstream in that it will help facilitate Lebanon's international integration.

Recommendations

Encourage risk capital

Support for innovative companies.

Technology watch system (cf. the "exchanger" in France)

Development of infrastructure networks (high-speed networks)

Development of professional groups and associations (e.g. in France, GESTE, Groupement des Editeurs de Service en Ligne or ACSEL).

Improve infrastructure, costs and services for high speed.

It is essential that Lebanon have its own national server.

Variable speed and security services must be improved.

Costs (of access and pricing) of high-speed services must be reduced.

More generally, a genuine industrial policy must be introduced to make Lebanon a regional digital power able to take advantage of its good position in the next few decades vis à vis bordering countries. Devising such a policy, which involves various institutions of the country, exceeds the scope of this mission. One of the recommendations of the mission would therefore be that a specific study be carried out on the sector.

IV.3.3.2. Computer and ancillary services

There has been very dynamic development of companies involved in computer services in Lebanon. 95% of these companies operate in hardware and software sales (95%), but there are also software development, engineering consultancy and some data processing companies. We estimate that there are about 200 people working in computer companies and 600 working in various types of companies in the sector.

There are about 250 companies in total but about 100 of those appear and disappear every year.

The total turnover for the sector is USD 45 ms.

Salaries differ greatly depending on qualifications. On average they are as follows:

Beginner	Experienced	Highly experienced
800	1500	2600

IV.3.3.3. Consultancy services for computer hardware installation

Consultancy services for computer hardware installation are provided either by consultancy companies specialising in complex installations, or by computer hardware sales companies that have more or less developed consultancy departments. Lebanon should encourage the emergence of consultancy companies separate from hardware vendors in order to extend their activities in bordering countries, especially Syria. It is unlikely however that Lebanese consultancy companies could develop a market in Europe in this sector. Association agreements with Europe will encourage the use of technical standards and qualifications in line with international standards.

IV.3.3.4. Data processing services

The data input and data processing sectors should be differentiated here. Data input suffers from two handicaps in Lebanon: relatively high salary costs compared with other developing countries (such as India) which specialise in this kind of activity; and the fact that computer input is ceasing to be done within companies when the level of activity is high enough for sub-contracting to entail a saving. From this viewpoint Lebanon is handicapped by its size. However, it could develop processing activities such as statistics processing thanks to its highly qualified labour force.

IV.3.3.5. Database services

Database services are not very well developed in Lebanon. This is mainly due to the size of the country, its recent history, the inadequacy of industrialisation strategies and the low level of commercial competition. However, such services could be developed further if they incorporated information on bordering countries. Foreign investors could thus find the information they need on the region and this would strengthen Lebanon's position in the Middle East.

IV.3.3.6. Multimedia design and implementation services

This is a sector which is expanding at international level. Traditions and know-how in the area of publications and graphic art could be put to good use in the creation and design of educational and cultural programmes. Take, for example, the archaeological heritage or even the activities of religious groups. Lebanon has the necessary competences to carry out these activities.

IV.3.3.7. Software implementation services

There are two types of software: specialised software for the medical field or financial institutions, for example, and general software, such as for company management or the general public.

Lebanon has comparative advantages in these two fields based on its capacity to adapt, and the technical capacities of the labour force. The Middle East, the Maghreb countries and even Europe may constitute good markets, especially for adapting software into Arabic. However it is a very competitive market where other countries have better comparative advantages in terms of labour costs. The association agreements will improve the technical standards and qualifications which would enable Lebanon to specialise in certain types of specialised software.

IV.3.3.8. Market research and public opinion polling

Outline

There are four big companies in this sector: Stat-ipsos, Reachmass, Panarabresearch and Taylornelson-sofres. There are some small companies in certain niches but their activity is limited. There are two main activities in this sector - one is the media (audience measurement) and the other is conventional market research. The market is progressing slowly owing to the economic crisis, which is affecting research budgets. Also there is not yet a culture in local companies of conducting economic studies prior to projects. It is therefore international companies that constitute the main market outside press groups.

There is no professional association in the sector in Lebanon sufficiently consensual to propose audience measurement studies that would be perceived as objective. This has repercussions on the firms involved because it is often audience measurement that leads to other market research activities. In addition, companies do not have adequate databases.

Recommendation

Involve the National Audiovisual Council in organising an association bringing all operators together to regulate activity and provide an audience measurement research base accepted by all.

IV.3.3.9. Printing and publishing

Outline

There are about 600 publishers in Lebanon, most of which are also printing houses. There are few specialist publishers and some publish not only in Arabic but also in French and English.

There is a strong comparative advantage in the publishing of works of Arabic cultural heritage which are published or re-published and exported throughout the Arab world.

Lebanon is mainly an importer of books from Europe, mainly from France and Great Britain.

Lebanon has a technological lead and know-how in publishing in the region. However, Egypt is a major competitor and technological development is tending to reduce Lebanon's lead.

Less than 10 companies have a catalogue of more than 500 titles.

Number of titles	+500	200-500	100-200	0-100
Number of companies	<10	100	300	190

There is a total of 10 000 people working in publishing and printing. 70% of publishers carry out export activities. They account for 80% of production. Translations account for 15% but it is an activity sector which is expanding rapidly. Iraq was a major client of Lebanese publishing companies and it would still be an important potential market if the situation in the region improves.

Obstacles to the development of the sector are: the fragmentation of printing houses, which are not large enough to optimise the use of increasingly expensive machines, and the difficulty of gaining access to long-term financing. Also the labour force is still not sufficiently qualified.

The new niche of CD-ROM is still relatively undeveloped, even if it represents strong potential for the future. One of the obstacles to its development is the implementation of legislation on property rights, which does not yet seem to offer enough protection. This sector is lagging behind Egypt.

The sector is open to foreign participation and there are associations between Lebanese and foreign publishers.

Recommendations

Restructure the sector, encouraging mergers.

Set up in digital publishing (CD-ROM, Internet, etc.)

Improve regulations on intellectual protection and its implementation

Implement policies in ongoing training to keep up with technological development

Improve the financing opportunities for publishing houses.

IV.3.3.10. Services for the placement of staff abroad

The Lebanese have an excellent reputation for being reliable and competent in most Middle Eastern and Maghreb countries. There is a tradition of expatriation and working abroad in many areas - engineering, architecture, banking, trade and advertising. The widespread knowledge of French, English and Arabic enables qualified Lebanese workers to find jobs easily in the Middle East. Placement services thus offer development potential.

IV.4. Services on which the agreement will have little or no impact

Many determinants of the production of services have no connection with the signing of international agreements. This is all the more true if the country concerned is developed and liberal in regard to services. That is why for many services, strictly speaking the impact of the association agreement will be low or non-existent. This is the experience in all the Mediterranean countries. To be more specific, the association agreement has a positive impact in so far as it helps integrate the country in question into the world economy, but it appears impossible to distinguish what results from the signing of the agreement and what results from the overall policy of integration into the world economy.

Many service export operations are directed at non-residents on the territory, especially tourists or activities connected with the installation of foreign companies. For example, the export of health services is linked to care given to tourists in Lebanon. The consumption of services by tourists thus has a positive effect on services exports but the effect of the signing of the association agreement is nil in the development of tourism. There is strong development of tourism in Tunisia, for example, but it was prior to the signing of the association agreements, which have not greatly changed the situation.

The development of information technology and telecommunication techniques is stimulating trade in services far more than could the creation of large regional groups. With identical regulations, all countries are experiencing an extremely rapid development of what is dubbed the new economy. The new possibilities are the result of a revolution similar to the previous industrial revolutions, where services will have a dominant role and international trade in services will develop more quickly than trade in goods.

IV.4.1. Low export potential

These are services that do not seem to have export prospects, either because supply in the country is low or non-existent, or because Lebanon does not have comparative advantages for these services which could be developed even in the medium term, or indeed because of the very nature of the service.

IV.4.1.1. Postal services

Since July 1998 postal services have been supplied by a Canadian company which has obtained a concession for 12 years. It has undertaken to invest a minimum of USD 50 million and to train the 979 employees. The state receives 40% of the income generated by ordinary post.

Libanpost has 44 offices, 14 postal agencies, 82 stamp sales outlets and 87 letterboxes (January 2000).

There are 8 courier companies belonging to foreign company networks (DHL, Aramex).

The sector is thus very competitive with a high rate of penetration by foreign companies. The association agreement will have no impact on the sector.

IV.4.1.2. Leasing service

The leasing service is generally a local activity carried out by banks or certain major names. It takes on an important dimension in car purchasing. It also exists in the industrial sector. As it is a response to the borrower's risks, it loses much of its attractiveness on export owing to the difficulty of getting guarantees.

An international extension of this type of activity requires significant legal integration between partner countries. This will not be the case for Lebanon in the foreseeable future.

IV.4.1.3. Real estate service

Exports of real estate services consist mainly in sales by Lebanese estate agencies to non-residents in Lebanon. Given the restrictions on the acquisition of real estate in Lebanon by foreigners, and owing to the characteristics of that market, the association agreement will have only a marginal impact. This impact will be directly linked to the development of foreign direct investment.

IV.4.1.4. Film projection services

The export of film projection services is linked to cinema attendance by non-residents and to the setting up of Lebanese cinemas abroad. Activity is thus directly linked to tourism development. Lebanese cinema chains do not seem to have sufficient capital to develop abroad, unless perhaps in Syria. The association agreement will have only a marginal effect on this sector.

IV.4.1.5. Press agency services

The Lebanese press is of very high quality in relation to international standards and compared with its neighbours. However, the exportable supply is directly linked to the development of information demand from other countries. But there is keen competition between the major international press agencies present in the region.

IV.4.1.6. Photography services

A distinction should be made between equipment-related services, i.e. the development and processing of films for the production of photos, and services related to artistic creation, i.e. the shots. As for all artistic endeavour, the comparative advantages are based on the artist's reputation. The costs of photographic development are linked to the cost of the capital used in this sector (development machine, chemical products) and are relatively standard internationally. The association agreements will thus have no impact on this sector.

IV.4.1.7. Domestic employees

This sector has 60 000 people, 20 000 of whom are in an irregular situation. It is organised by 250 placement agencies, each of which is each limited by a quota of a maximum of 175 people per year.

The activities of this sector generate USD 90 million outside Lebanon each year.

The cost per domestic employee is:

USD 1 500 to 2 500 expenses, and plane ticket

Residence permit LBP 250 000

Work permit LBP 610 000

Insurance plus medical examination.

Salaries, 100 to 400 dollars depending on origin and qualification.

Average cost 200 to 500 dollars per month.

It is clear that the association agreement will have no impact on this sector.

IV.4.1.8. Refuse collection

Two companies dominate the market, Sukleen and Sukomi. They are part of the SUKKAR Ingeniering group set up in 1966. Sukleen employs 3 000 workers plus 1 700 other staff. It was established in 1994. Sukomi deals in waste processing and employs 95 people.

IV.4.1.9. Entertainment services, library, museum and other cultural services

The export potential of this sector in Lebanon is mainly linked to consumption by non-residents, especially tourists. There are few export possibilities for entertainment or cultural services. The signing of the association agreements could to some extent encourage the development of this sector via cultural assistance programmes.

IV.4.1.10. Hire of chauffeur-driven commercial vehicles

This activity is by its very nature unsuited to exportation. The signature of the association agreements will not affect the sector.

IV.4.1.11. Maintenance and repair of road transport equipment.

As above.

IV.4.2. Average export potential

IV.4.2.1. Telephone services

Fixed telephony

Fixed telephony is managed by a public company, OGERO.

The rate of penetration is only 15%. This means that the use of fixed telephones is well below its potential and comparable countries. The installation of lines has gone from 400 to 200 dollars for a line (600 dollars for an international line), but the subscription is LBP 20 000 or more than 13 dollars per month. These high prices explain the enthusiasm for mobile phones. However, the low development of fixed telephony is an obstacle to internet development.

GSM

Lebanon holds a world record in the use of mobile phones. The usage rate is 750 mn/month/subscriber compared with a world average of 300mn/month.

The cellular system has had major success since its introduction in 1995. The sector is shared by two operators, LIBANCELL and France Telecom Mobile. They have obtained a BOT-type concession contract of 10 years (which can be extended to 12) from the Ministry of Telecommunications.

There is a problem because the number of subscribers provided for has been exceeded and the government wishes to renegotiate the contract, with the result that there is a black market for the sale of GSM lines as a result of the shortage of lines.

Insofar as telephone services will carry out many transfers of data in the near future, pending systems of transfer by cable or satellite, telephone services will experience strong growth notably in international exchanges. Exports as well as imports of telephone services will increase. The impetus of the development of new services is much more decisive than the effects of the association agreement.

IV.4.2.2. Radio and television

The radio and television sector is expanding fast but regulation is required to give it structure and enable it to find export outlets. The market in the Arab-speaking world is potentially large but there is strong competition. The main problem of Lebanese television lies in the number of stations (now six with three more due to open) in

relation to the number of viewers. LBC exports its programmes via cable but the volume is still small. The Lebanese television stations are too small to produce quality programmes or exportable films.

IV.4.2.3. Building, civil engineering structures, assembly and installation, completion and finishing of buildings

Presentation

Firms have to register with and be classified by the trade association and the government.

Number of firms

Building	1112
Water	276
Electricity	78
Roads	834
Total	2300

Source: trade association

Value of contracts between November 1998 and July 1999

Up to USD 1 million	26%
Between USD 1 et 5 million	31%
Between USD 5 et 10 million	15%
Between USD 10 et 20 million	12%
Over USD 20 million	16%

Source: trade association

18% of the companies in the sector are publicly quoted, 34% are limited companies and the rest are family-run businesses.

Lebanon is a big exporter of building and related services in the Gulf, and indeed most heavy infrastructure in the Gulf countries is built by Lebanese firms.

The post-peace reconstruction phase has taken up a lot of local energy: the ten-year "Horizon 2000" plan earmarks USD 12 billion for the building of public infrastructure. This ambitious plan is designed to restore confidence in the country, facilitate foreign investment and help the economy recover.

One of the problems arising from the public works programme is that many projects are financed with external financing and the conditions attached either stipulate the use of firms from the donor country or lay down qualifications that *de facto* exclude local firms. Local firms also have problems getting financing because of the guarantees required by banks.

The foreign firms that obtain contracts usually subcontract the actual works to local firms; there are no foreign firms operating in this sector in Lebanon.

Lebanon faces fierce competition on Middle East markets from Asian firms. Middle Eastern countries have already had basic infrastructure built and no longer have such big budgets as in the past. Competition is coming from Asia. All this means that, although there are no figures on the foreign activities of this sector, it appears to be declining.

Recommendations

The classification of firms should be reviewed because it no longer corresponds to reality. This inappropriate classification automatically excludes some firms since contracts are awarded to the biggest firms.

The qualifications specified in international invitations to tender should be adjusted to the actual situation in Lebanon so that local firms can play a more effective role in reconstruction.

Consortia should also be encouraged to facilitate participation in tenders (the biggest firm in Lebanon has only 50 employees).

IV.4.2.4. Franchising

There are a few Lebanese brand names that are sufficiently well known to be franchised abroad but most activity in this sector lies in the acquisition of exclusive rights to franchises of international brands and their commercial exploitation throughout the Middle East. Note, however, that the fortunes of franchising are directly linked to the state of commerce and, as noted earlier, this sector is facing increasing competition from commercial operators in the Gulf, which enjoy a better environment.

IV.4.2.5. Further education services

Lebanon has a highly developed further education system and a number of universities such as the American University and Saint-Joseph have an international reputation. These institutions have helped to form the elite of the Middle East and still receive a good number of foreign students. This counts as a significant export of education services. The signing of the Association Agreement will not have much effect on this, though it might improve the recognition of diplomas and encourage joint training programmes.

IV.4.2.6. Hospital and other health services

The estimated health budget stands at USD 900 million; 50% goes on hospitals, 15% for medical consultations and 25% for drugs.

Lebanon has a good level of qualified personnel, both doctors and dentists: it has one doctor per 474 inhabitants against 1600 in Tunisia and 1500 on average in the MENA region. Nurses are in short supply because of the more attractive conditions and salaries they can obtain in the Gulf countries.

Health staff numbers in 1998

Doctors	8461
Dentists	3801
Nurses	4336
Chemists	3713

Source: Bank of Lebanon

National rates	Lebanon	Syria	Jordan	Israel
Doctors	2.11	0.74	1.14	2.58
Dentists	0.94	0.23	0.38	0.63
Nurses	1.08	1.14	0.95	5.84
Chemists	0.93	0.27	0.29	0.55

Source: Bank of Lebanon

Many doctors and dentists qualified abroad.

Qualifications of doctors

	Doctors	Dentists
Qualification obtained in Lebanon	34%	30%
Qualification obtained in Eastern Europe	24%	28%
Qualification obtained in Western Europe or the US	16%	12%
Qualification obtained in the Arab countries	10%	9%
Other	16%	21%

Source: Bank of Lebanon

Hospitals

Lebanon has a good provision of hospitals and beds.

There are 16 public hospitals (1650 beds) and 158 private hospitals (11185 beds). As a comparison, Tunisia has only 70 hospitals with 2000 beds. The private sector is thus dominant.

There are 152 specialist establishments.

The main problems encountered are:

- the high price of care;
- the lack of transparency in billing for care;
- imbalance between general practice and specialised medicine: there is a lack of GPs, especially in rural areas;
- uneven levels of qualification;
- the distribution of health care is organised badly;
- Lebanon has too many hospitals and is over-equipped. For example, there are 46 scanners, a considerable number which means that the investment is not recouped.

Health service exports fall into two categories:

- care given to tourists during their short stays;
- care given to foreigners who come to be treated in Lebanon (mainly nationals of Middle East countries).

The association agreement will have a negligible effect on the sector.

IV.4.2.7. Maritime passenger transport

The sector is very weak and concerned about 14000 people in 1998. This is because of the geographical situation of Lebanon, which is far from the European coasts and not well placed for the transport of passengers by sea. It seems, however, that the figure is particularly low (in comparison with Israel, for example) and that certain targets could be reached (cruising or new lines). There has been very strong growth in relation to 1997 and it is hoped that the delay in developing its potential can be overcome.

IV.4.2.8. Road passenger transport

The export potential of this sector lies in the services offered to non-residents. Road transport is generally organised by the hotels and tour operators which offer tours. But some transport is also carried out by the usual transport services (taxi and buses). Most transport is with private and collective taxis and minibuses. Exports in this sector depend primarily on the development of tourism.

IV.4.2.9. Road haulage

Road haulage could expand in future if harbour and road infrastructure, above all the Beirut-Damas link were improved. The bulk of activity is, however, internal: companies carry out the transport of the goods they handle themselves. The export potential of this service remains low, therefore and will not be influenced significantly by the signing of the association agreements with the European Union.

IV.4.2.10. Pipelines

Transport by pipeline ceased in 1982. There are, however, two gas pipelines, one from Iraq, the other from Saudi Arabia. The first could possibly be brought back into operation and so earn fees. But its reopening depends on developments in Iraq and the improvement of port infrastructure. The sector is unaffected by the signing of the association agreement with Europe.

IV.4.3. High potential for exports

IV.4.3.1. Tourism; hotel trade and catering

Before the war Lebanon was a much appreciated tourist destination concerning primarily the region of Beirut and attracting mainly business tourism. These markets are still present in Lebanon but there are other potential targets.

- Cultural tourism (target: Europeans)
- Leisure tourism - Lebanon is the only country in the Middle East able to offer winter sports holidays (a market of Lebanese emigrants, expatriates and the Western expatriates residing in the Arab countries) and mountains (aimed at Kuwait and Saudi Arabia).
- Sports tourism (e.g. rallies)
- Religious tourism (southern Lebanon - Cana, old monasteries, St. Charbel, etc.)
- Educational tourism (American University, Arab university, etc., with students from Arab, African, and even European countries)

In September 1999 there were 196 hotels with 10743 rooms. Hotel capacity is geographically unbalanced with 82% of rooms concentrated in Beirut and the Mount-Lebanon area. The three categories, top, average and economy are fairly equally represented. But the average number of rooms per hotel increases when moving to the top-of-the-range (international category - 5 stars).

Three- or four-star establishments for cultural tours are in short supply in Beirut and especially hard to find in the other tourist areas of the country.

New hotels are being built: in the short-term the focus is mainly at the upper end of the scale (2 500 to 3 000 rooms in the pipeline). The Phoenicia hotel opened in March 1999 and offers 414 rooms, 46 suites and seven conference rooms).

Occupancy rate in 1998 for 4 and 5 star hotels

Quarter	1	2	3	4
5 star	46%	73%	83%	67%
4 star	45%	58%	77%	41%

There are other types of accommodation (furnished, beach complexes, etc.) which account for a significant accommodation capacity. This type of accommodation played a role before the war and attracted family tourism.

Tourist revenue has been rising since 1996.

	1996	1997	1998
Tourist revenue	\$715 million	\$1,000 million	\$1,280 millions
No Lebanese	424 000	558 000	632 000
Departures	1 471 million	1 504 million	1 65 million
Arrivals	1 284 million	1 352 millions	1 477 million
Balance	186 000	152 000	173 000

Recommendations

Efforts should aim to:

- redistribute activities outside the capital (tourist attractions have to be created);
- expand tourism in the Lebanon-Syria-Jordan area;
- develop and safeguard tourist potential, in particular the environment of historic sites.

The tourism sector is the leading service export sector. Lebanon has much to offer but is disabled by regional insecurity. The conflict that persisted with Israel until recently made it impossible to diversify tourism. It is probable that the tourism sector will experience strong growth with a return to peace. This growth must, however, be accompanied by a development policy such as the one currently being prepared by the Ministry of Tourism. In the absence of peace, the association agreement with the European Union will barely have any effect on the development of the sector.

The foreign presence in the sector mainly takes the form of franchising of the major international groups and the participation of the Arab capital in construction and hotel renovation. The facilities granted by the European Union in terms of right of establishment are unlikely to have much impact on the foreign presence.

IV.4.3.2. Advertising

The sector has a long tradition in Lebanon. It developed from the end of the 19th century and made advances between the two wars with the development of daily newspapers and the cinema. In 1959, with the beginning of commercial television in Lebanon, the sector underwent new development. Advertising was the single source of income for television and led to the setting-up of advertising agencies.

In 1961, the opening of the second television network offered new outlets. In the 1970s the pan-Arab press expanded and attracted to Lebanon companies wanting to develop advertising for the Arab world.

During the war almost the whole sector moved to Dubai, which became the new centre of advertising in the Middle East. However, links with Lebanon remained strong.

There are 70 syndicated and a hundred non-syndicated advertising agencies. About fifteen agencies are subsidiaries of major international groups. Partnerships in the form of joint-ventures with international groups are widespread. The foreign groups use Lebanese know-how to develop their strategy throughout the Middle East. In this sector, Lebanon is an intermediary.

The advertising market accounts for USD 105 million; 50% of it through television.

Estimate of advertising expenditure in the media in 1999

Media	IPSOS estimate	ArabAd estimate	Ratio
TV	240	56	4.3
Press	61.5	28.5	2.2
Radio	27	6	4.3
Hoardings	25	12	2.1
Cinema	8.5	2.5	3.4
Total	362	105	3.5

Dailies: USD 15.5 million; magazines 3.5 million; monthly magazines 8.5 million; others 1 million.

Trends in advertising expenditure by media

Media	1994	1995	1996	1997	1998	1999
TV	44	52	49	52	55	56
Press	21	30	30	36	34	28.5
Radio	6	6	6.5	7	6	6
Hoardings	5.5	4		3	7.5	12
Cinema	1.5	2	2.5	2	2.5	2.5
Total	78	94	88	100	105	105

Source: ArabAd-IpsosStat

The advertising market is much more developed in Lebanon than elsewhere in the region. It has always been stimulated by the principle of commercial exclusivity entailed by the distribution of brand names. The export potential is high because many activities concern the whole Middle East. The sector is tightly integrated into all the international networks. The association agreement will not have any significant impact on the sector.

IV.4.3.3. Travel agencies and tourist services

The sector is well developed in Lebanon and offers tours in addition to traditional activities. Lebanese tour operators are plugged into international networks and benefit from the *all-sellers* system, under which a product can be supplied anywhere in the world. The foreign presence is reflected by grouped requests. Activity is very largely dependent on the development of tourism. It is not the quality of the products which is holding them back but the slow tourism market and other heavy expenses.

IV.4.3.4. Air transport and air transport services

The sector is the subject of a long-term programme (the Horizon 2000 plan) which provided for the rehabilitation of Beirut international airport and all air transport infrastructure. The ambitious targets of this plan were not reached, the total number of passengers in 1998 standing at 2 million instead of the 6 million envisaged. The positioning policy on transit was a total failure (64 000 in 1998 against 534 000 in 1974). The number of flights was 48 000 in 1974 and reached only 25 000 in 1998, despite an increase of 5 000 flights in 1995.

These forecasting errors led to excess investment which forced the airport to resort to high billing in relation to competing airports. The airlines serving the region transit little through Beirut and limit their stay in the airport. The activities of catering, repairing and maintaining planes are therefore disadvantaged, though they are export-driven sectors enjoying high growth throughout the world.

The freight sector has been stable for a few years. The development of air freight is also directly connected to the development of tourism.

IV.4.3.5. Aircraft leasing

Aircraft leasing services are underdeveloped owing to the absence of mass tourism that would generate leasing by travel agencies. This sector is independent of the association agreement with the European Union but has a connection with the development of tourism.

V. WHY THE POSITIVE ASPECTS OF SERVICE LIBERALISATION OVERRIDE THE NEGATIVE ASPECTS IN LEBANON

In examining these subsectors, it appeared that none of them were threatened by more liberalisation or increased competition from international service providers. The impact of the association agreement and any liberalisation of services in Lebanon has, overall, been beneficial for reasons which were frequently cited during our meetings.

V.1. Lebanon has comparative service advantages

Human resources in Lebanon are favourable to the development of services: a high degree of literacy, a skilled labour force, a culture close to Western culture, a tradition of openness to the outside world, a capacity to adapt to a changing environment, a strategic position between Europe and the Arab world, a capacity to handle several business cultures (Anglo-Saxon, French-speaking, Arabic). This gives an obvious advantage for business advice services, construction and engineering in the Arab world.

This potential could be exploited with the development of computerised information and communication services. But high wages constitute a handicap for the development of labour-intensive services.

V.2. Lebanon is a developed, liberal country and already open to services

In services, as elsewhere, the private sector has been dominant in Lebanon for a long time, more than many European countries in sectors such as health, education and telecommunications. Service providers are used to competition, even if it is limited by strong market segmentation. The service sector is well developed in Lebanon (especially Beirut) and is on a level comparable with that of industrialised countries. Lebanon is therefore very different from most Arab countries, where the service sector is not only not very competitive but in many cases practically non-existent. Lebanon will not suffer from an opening-up of services because operators are used to competition and can adapt to it. There is already a significant foreign presence. Services are already open and the service providers can cope. The liberal character of the services sector in Lebanon is therefore a decisive argument in favour of additional liberalisation.

V.3. Lebanon is an intermediary between the industrialised countries and the Middle East

Lebanon is an intermediary, geographically and economically, between the industrialised countries and the Middle East. Its services are generally much more developed than its neighbours. Service providers wanting to establish themselves in Lebanon find qualified manpower and on-the-spot knowledge of the region which is often essential to them. Foreign firms also set up there because of the geographical situation of Lebanon, which serves as a bridgehead for the markets of the Middle East. The presence of foreign firms helps to promote Lebanon's service exports to third countries. Direct foreign investment can thus have a very beneficial role. Foreign companies bring their technical expertise and their financial muscle to top up the skills of Lebanese companies, so enabling them to develop service exports to other countries in the region.

V.4. Foreign firms complement the sector rather than compete

The existence of qualified manpower and good infrastructure means that foreign firms either come to engage in beneficial joint ventures or to work in fields not covered or little covered by locals. Thus, liberalisation of the banking sector may lead to the arrival of foreign banks but they will offer advisory services that the local banks cannot. Another example is credit insurance, which is only a minor activity but one exploited by Belgian companies. Foreign firms tend to complement rather than compete with local service providers.

V.5. Trade in services is less fluid and more complex than trade in goods

Compared with goods, services are generally less easily exchanged since they require the proximity of the producer and the consumer and are not storable. Many services depend on cultural proximity, compliance with quality standards, know-how or compliance with regulations, which can be much more restrictive than changes in prices. The importance of economies of scale should not be overlooked. Lebanon is a small country and this can discourage foreign service providers. In contrast, many services (first WTO case) are more easily traded because they are invisible or they are inadequately regulated. All digital services (music, software, etc.) or those

transmitted in digital form (advice, telecommunications, data entries, health information, etc.) already escape regulation because they can circulate freely on the Web.

All this goes to show that the effect of liberalisation of services is not directly comparable to tariff dismantling on goods. The effects on the balance of payments or on local producers are therefore less obvious and less automatic. They are more difficult to measure.

V.6. The Lebanese diaspora is decisive for services exports in Lebanon

Many Lebanese service exports are attributable to the existence of a diaspora. This fact emerged during the discussions and is confirmed by analysis. Services rendered abroad are primarily to Lebanese companies abroad. Software exports began as a response to the needs of the Lebanese diaspora, which called on Lebanese computer companies. Banking in Europe and the United States is almost entirely geared towards the diaspora and the funding needs of Lebanese trading activities. Similarly engineering, business and management advice services are linked to Lebanese companies. The Lebanese diaspora is therefore decisive for export potential.

VI. LEBANON'S REGIONAL AGREEMENTS

The regional agreements entered into by Lebanon are primarily trade and cooperation agreements. Services are not mentioned explicitly in these agreements, which mostly concern trade in goods.

VI.1. Cooperation agreement with Syria

Mentions of services include:

Health

There are provisions for exchanges of knowledge and expertise in the context of training and campaigns against endemic diseases, a policy of harmonising pharmaceutical standards and facilities for supplies in the event of a natural disaster.

Provisions are made for the free movement of people and the right of establishment and the adoption of national treatment and the principle of reciprocity. More is to be done to harmonise the laws on social security. In the transport sector, taxis and buses will be able to carry out the crossborder transport of passengers freely.

Agreements are therefore extremely limited when it comes to service liberalisation. It is particularly unfavourable for Lebanon in that the closeness of Damascus is a decisive factor for the penetration of Lebanese operators. There was therefore a real opportunity in this agreement for Lebanon to limit its negative impact on agriculture.

V.2. Free trade agreement between the Arab countries

To our knowledge (but the mission did not obtain the translation of the Arab text), there is no specific mention of services.

VII. COMPARISON WITH THE AGREEMENTS OPENING UP SERVICES IN EGYPT AND TUNISIA

Here we shall briefly set out a comparative summary of the measures to open up services in these two countries. We shall first mention the terms of the Euro-Med agreements, which refer to the WTO agreement, and then the two countries' undertakings

VII.1. Provisions on services in the Euro-Med association agreements

As we mentioned earlier, the association agreements between the EU and the Mediterranean countries refer to services. In the case of Tunisia "*each of the Parties shall reaffirm its obligations under the GATS, particularly the obligation to grant reciprocal most-favoured-nation treatment*" (Article 32) and the association agreement includes "*the right of establishment of one Party's firms on the territory of the other and liberalisation of the provision of services by one Party's firms to consumers of services in the other*" Article 31). The agreement between Egypt and the European Union will probably have the same provisions.¹ The application of these principles is subject to certain reservations, however.

¹ According to the draft we have seen, in Title III on the rights of establishment and the supply of services.

For Tunisia, the practical application of the articles on services will be defined by the Association Council within five years of the entry into force of the agreement. Reservations concerning the most-favoured-nation principle refer to the General Agreement on Trade in Services (GATS) within the WTO.

The negotiations between Tunisia and the European Union on liberalisation of services are therefore circumscribed by the decisions the two partners take within the WTO.

This applies to all the signatory countries of the Barcelona process agreements which are also members of the WTO.

VII.2. Liberalisation of services under GATS

In addition to most-favoured-nation treatment and national treatment, GATS lays down a number of fundamental principles and uniform rules for the presentation of the obligations that each country proposes. Among the general principles is transparency of regulations and accessibility of information for foreign companies and governments. Moreover, regulations have to be "objective and reasonable". Parties have to give other members the possibility of negotiating arrangements comparable to those they signed with another member concerning the recognition of qualifications. International payments and transfers do not have to be an obstacle to the liberalisation of a service for which a government has entered into an obligation. The liberalisation process is progressive, i.e. countries have the option of extending liberalisation gradually by increasing their specific commitments.

The commitments entered into by a country are indicated in the schedules of specific commitments, which specify the degree of market opening and any possible limitations of the national treatment. When commitments are binding the country can modify them only after renegotiation (leading to compensation) and this a guarantee for foreign service providers and investors. Schedules are submitted in a uniform format to allow international comparisons.² They comprise four columns. In the first the sector is specified according to the WTO classification. The second column indicates the conditions of market access, the third the restrictions on national treatment and the fourth is optional and gives any further details. In each of the columns the method of supply is given (see below) for which the provision is taken. Lastly, commitments are divided into two subgroups. First there are the horizontal commitments, which indicate the restrictions applicable to all the sectors on the schedule. For example, Egypt specifies that in the case of services on its schedule the staff recruited by foreign companies must be at least 90% Egyptian. This measure concerns all the sectors on the schedule, not other sectors for which the country did not make commitments.

The sectoral commitments are specific to individual sector and subsectors. Note that an absence of restrictions on the schedule of the sectoral commitments does not mean there are no restrictions in this sector, since horizontal restrictions may apply. The absence of restrictions is indicated by the mention "none" in the schedule. Commitments are normally bound but may not be if the government wants to keep some leeway to take measures contrary to its commitments. In this case, the mention "unbound" is entered.

The World Trade Organisation distinguishes between four types of international service provision.

1) Crossborder supply: the possibility for non-resident service suppliers to supply services cross-border into the Member's territory.

2) Consumption abroad: the freedom for the Member's residents to purchase services in the territory of another Member.

3) Commercial presence: the opportunities for foreign service suppliers to establish, operate or expand a commercial presence in the Member's territory, such as a branch, agency, or wholly-owned subsidiary

4) Presence of natural persons: the possibilities offered for the entry and temporary stay of foreign individuals in the Member's territory in order to supply a service

² See the guide for reading the schedules of specific commitments and the schedules of exemptions to national treatment drawn up by the WTO. We present simplified extracts of the schedules entered by Tunisia and Egypt.

VII.3. Egypt's and Tunisia's schedules of commitments

We will mention here only the schedules of horizontal commitments. The schedules of sectoral commitments are voluminous and rather complex. They are also added to in the course of negotiations and of country's commitments in the liberalisation process. The horizontal commitments give an overall idea.

VII.3.1. Tunisia

Summarised presentation of the Tunisia's horizontal commitments³

Sector or subsector	Limitations on market access	Limitations on national treatment
Foreign investment	3) ⁴ Investments in services, other than financial services, are not limited.	3) Approval is given any participation exceeding 50 per cent of the equity of the company except wholly export-oriented firms
Movement of personnel	4) Unbound, except in the following cases: enterprises that are wholly export-oriented may recruit four managerial and supervisory staff of foreign nationality, pursuant to the relevant Tunisian legislation	4) Conditions of stay for foreigners: - employment contract endorsed by the competent authorities
Exercise of commercial activities	3), 4) Natural or legal persons who do not possess Tunisian nationality may engage directly or indirectly in a commercial activity only under the conditions established by the relevant Tunisian legislation (Decree Law No. 61-14 of 30 August 1961 and texts governing the various commercial activities) The criteria for issuing a trader's licence are as follows: <ul style="list-style-type: none">- To foreigners whose spouse possesses Tunisian nationality- When the person of foreign nationality is a native resident in Tunisia for several years- When the proposed activities will generate technology transfer and jobs and/or may help to promote exports in the services sector	3), 4) Natural and legal foreign persons have to have a trader's licence. Legal persons possess Tunisian nationality where they: a) Are established in accordance with the laws in force and have their registered place of business in Tunisia; b) At least 50 per cent of their share capital must consist of registered securities held by Tunisian natural or legal persons c) A majority of their board of directors or management or supervisory board must be natural or legal persons of Tunisian nationality d) Their chairman, managing director or manager must be natural persons of Tunisian nationality. Unless there is a derogation, foreigners are barred from acting as buildings manager, commission agent, broker, sales representative, consignee, general representative, sales representative, commercial traveller, commercial representative (unbound).
Exchange controls	1), 2) Foreign payments are unrestricted in the case of: Current transactions undertaken in conformity with the legislation governing such transactions The real net proceeds of the transfer or disposal of capital invested by means of the importation of foreign currency	
Acquisition of land	3), 4) None, except agricultural land but foreigners can obtain long-term leases for up to 40 years renewable.	3), 4) Administrative authorisation for acquisition of land and other real estate by foreign investors.

³ This is not an official schedule: the format has been altered and the contents summarised. Reference has to be made to the schedule for more detailed analysis.

⁴ These numbers refer to the methods of supply laid down by GATS: 1) Crossborder supply
2) Consumption abroad, 3) Commercial presence, 4) Presence of natural persons.

Source: World Trade Organisation, GATS/SC/87, 26 February 1998.

Tunisia's sectoral commitments concern financial services, tourism and telecommunications.

The restrictions on market access and national treatment for financial services mainly concern nationality; minimum capital, the need to obtain the approval of the Ministry of Finance, the need to set up a company under Tunisian law, and the obligation to have a Tunisian representative. For example, dealing in securities or portfolio management is reserved to Tunisians. However, the commercial presence of foreign insurance and banking suppliers is not subject to conditions regarding capital holdings but only, as required by the horizontal commitments, to approval if the capital held exceeds 50%.

In the tourism and travel sector Tunisia does not impose restrictions on the commercial presence of foreigners in the hotel and catering trade. For the travel agencies, only consumption abroad is unlimited. Tunisia has committed itself to a phased lifting of the limitations concerning access to telecommunications markets by 2003. In 1999, according to the agreement, limitations ceased on telexes and data packets. As from this year, sectors such as mobile telephony, radio messaging and teleconferences are liberalised. From 2003, liberalisation will touch local distribution and the possibility of foreign participation of up to 10% in Tunisia's telecom is even provided for. There are however limitations in this sector: equity has to be majority Tunisian and operators are obliged to serve certain areas, in particular rural areas, and provide distress telecommunications systems.

VII.3.2. Egypt

Summarised presentation of Egypt's horizontal commitments⁵

Sector or subsector	Limitations on market access	Limitations on national treatment
I. HORIZONTAL COMMITMENTS: ALL SECTORS INCLUDED IN THIS SCHEDULE		
	3) None	<p>) <u>Acquisition of land:</u></p> <p>Authorisation is required for the acquisition of land and/or real estate property. Applications in this respect are considered on the basis of the evaluation of the specific projects for which the acquisition is requested and in accordance with the national policy objectives.</p> <p>- Acquisition of land and/or real estate property in free zone areas is unbound</p>
	<p>4) <u>The entry and temporary stay of natural persons</u></p> <p>According to the labour code (Law No. 137/1981) and its executive regulations, the number of foreign personnel necessary to the supply of services in any entity, regardless of number of its branches, shall not exceed 10 per cent of the total number of personnel employed therein, unless otherwise specified in a sectoral entry of this schedule.</p>	4) None

Source: World Trade Organisation, GATS/SC/30

⁵ This is not an official schedule: the format has been altered and the contents summarised. Reference has to be made to the schedule for more detailed analysis.

We can see that Egypt's schedule of horizontal commitments is shorter. That does not mean that Egypt is less advanced in the process of liberalising services. Many limitations can be entered in the sectoral commitments. It is therefore important to refer to this second schedule.

Note, however, that both schedules are evidence of the concern to preserve employment at local level by limiting the number of foreigners who can be recruited by foreign companies. This measure is also designed to ensure that foreign direct investment connected with mode of supply 3 are accompanied by transfers of know-how. The Egyptian schedules of commitments specify many subsectors where training must be given by foreign companies.

Egyptian sectoral commitments concern four sectors: construction and related engineering services, tourism, the financial sector and transport. The number of sectors concerned is therefore larger than in the case of Tunisia.

In the first sector only joint enterprises can operate but foreign capital cannot have a majority holding. In tourism, which appears quite free of limitations, it should be noted that approvals for most activities are given on the basis of economic needs, which can be a market regulation but also constitute discretionary power on the part of the authorities delivering approval. Foreign holdings are limited in the Sinai region. Market access rules and limitations on national treatment are quite similar and fairly liberal in the case of both countries.

In the financial sectors Egypt was initially less open than Tunisia. Foreign insurance companies could operate only in the free zones and in convertible currencies. Foreign holdings in joint insurance enterprises was limited to 49% and a third of the contracts had to be reinsured with an Egyptian company. These restrictions have been made much more flexible. Insurance companies still have to obtain approval on the basis of the country's economic needs but there is no longer any ban on operating on the national territory outside the free zones. These conditions will gradually cease to be more strict than in Tunisia where, despite the ban on concluding contracts with non-resident companies, foreign suppliers can establish subsidiary companies in Tunisia subject to the condition of minimum capital and legal status. In banking matters Egypt has opened up more since the limitations on the capital holdings of foreign banks have been scrapped. They are subject of course to approval by the Egyptian Central Bank once their holding exceeds 10%.

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