

TRADE EFFICIENCY PROJECT
M71/WB

Republic of Lebanon
Office of the Minister of State for Administrative Reform
Center for Public Sector Projects and Studies
(C.P.S.P.S.)

الجمهورية اللبنانية
مكتب وزير الدولة لشؤون التنمية الإدارية
مركز مشاريع ودراسات القطاع العام

The Lebanon Trade
Process Analysis Final
Report: Version Three

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الوزارة لشؤون التنمية الإدارية
تطاع العام

مكتب وزير
مركز مشاريع ودراسات

Trade Efficiency Project
World Bank Ministry of Economy and
Trade - Office of the R... of ...
Paul Kimberly and Associates
1998

S. K. S. S.

5	Trade Efficiency System Functional Specification Report
6	Trade Efficiency System Functional Specification Report - Response to AHSR Comm
3	Trade Efficiency System Recommendations

GLOSSARY

ASYCUDA	Automated System for Customs Data and Management (NAJM)
ATM	Automatic Teller Machine
BCCI	Beirut Chamber of Commerce and Industry
BDL	Bank of Lebanon
BDV	Brussels Definition of (Customs) Value
BIS	Bank of International Settlements
BOL	Bill Of Lading
Bolero	Bill Of Lading Electronic Registry Organisation
BOT	Build, Operate, Transfer
CAP	Common Agricultural Policy
CDR	Council for Development and Reconstruction
CH	Container Handler
COC	Certificate Of Compliance
COO	Certificate Of Origin
CSC	Computer Sciences Corporation
DD	Direct Debit
DEC	Digital Equipment Corporation
DOS	Disk Operating System
DG	Director General
DLT	Delivery Lead Time
EAN	European Article Numbering (Association)
EC	Electronic Commerce
ECR	Efficient Consumer Response
EDI	Electronic Data Interchange
EDS	Electronic Data Systems Corporation
EFT	Electronic Funds Transfer
EFTPOS	Electronic Funds Transfer at Point Of Sale
EIB	European Investment Bank
ELC	Electronic Letter of Credit
ESCWA	(UN) Economic and Social Commission for Western Asia
EU	European Union
EUR.1	European Union COO
FAS	Free Alongside Ship
FCL	Full Container Load
FEDI	Financial Electronic Data Interchange
FF	Freight Forwarder
FFR	French Franc
FX	Foreign Exchange
GATT	General Agreement on Tariffs and Trade
GDM	German Deutsche Mark
GEIS	General Electric Information Systems Corporation
GSP	General System of Preferences
HE	His/Her Excellency
HOD	Head Of Department
HS	Harmonised System (of Customs tariffs)
IBM	International Business Machines Corporation

ID	Identity
IDAL	Industrial Development Authority of Lebanon
IDD	International Direct Dialling
IMF	International Monetary Fund
ISDN	Integrated Services Distribution Network
ISO	International Standards Organisation
IT	Information Technology
JIT	Just In Time (Inventory Control)
LBP	Lebanese Pounds
LCL	Less than full Container Load
LIBNOR	Lebanese Standards Association
LOC	Letter Of Credit
MICR	Magnetic Ink Character Recognition
MIS	Management Information Systems
MENA	Middle East North Africa
MFA	Multi Fibre Agreement
MFN	Most Favoured Nation
MOA	Ministry Of Agriculture
MOET	Ministry Of Economy and Trade
MOF	Ministry Of Finance
MOFA	Ministry of Foreign Affairs
MOH	Ministry Of Health
MOI	Ministry Of Industry
MOIP	Ministry Of Industry and Petroleum
MOJ	Ministry Of Justice
MOL	Ministry Of Labour
MOT	Ministry Of Transport
MPT	Ministry Of Posts and Telecommunications
NAJM	See ASYCUDA
NTB	Non Tariff Barriers
OIC	Officer In Charge
OMSAR	Office of the Minister of State for Administrative Reform
OP	Order Point
OQ	Order Quantity
OTC	Over The Counter (Pharmaceuticals)
p.c.	personal computer
pka	public key authority
PO	Purchase Order
PSI	Pre Shipment Inspection
PWC	Price Waterhouse Coopers (Consultants)
QR	Quick Response
RTGS	Real Time Gross Settlement
SAD	Single Administrative Document
SEAL	Secure Electronic Authority License
SET	Secure Electronic Transaction
SITPRO	Simplification of International Trade Procedures
SME	Small and Medium Enterprise
SS	Safety Stock
SWIFT	System for the Worldwide Interchange of Financial Transactions
TCU	Technical Cooperation Unit

TIC	Trade Information Centre
TOR	Terms of Reference
TT	Telegraphic Transfer
UCC	Universal Code Council
UK	United Kingdom (of Great Britain)
UKP	UK Pound
UNCTAD	UN Conference on Trade and Development
UNDP	UN Development Programme
UNEDIFACT	UN EDI For Administration Commerce and Transportation
USD	US Dollar
USM	\$US Million
WAN	Wide Area Network
WTO	World Trade Organisation

USEFUL WEB SITES**Lebanon Web Sites**

Ministry of the Environment:	www.moe.gov.lb
Ministry of Public Works:	www.public-works.gov.lb
Ministry of Posts and Telecommunications:	www.mpt.gov.lb
Ministry of Tourism:	www.lebanon-tourism.gov.lb
Prime Minister's Office:	www.rafik-hariri.org
Ministry of Agriculture:	www.agriculture.gov.lb
Ministry of Public Health:	www.public-health.gov.lb
OMSAR:	www.omsar.gov.lb
Central Administration of Statistics:	www.cas.gov.lb
Ministry of Economy and Trade:	www.economy.gov.lb
Trade Information Centre:	www.economy.gov.lb/tic

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Executive Summary

This phase of the Trade Efficiency Project was dedicated to a trade process and regulatory review. This report is the deliverable for Phase Two, the Trade Process Analysis Report. The next phase is the recommendation phase. Thereafter, the specification for a Trade Information Service completes the assignment.

The Lebanese import process comprises between 19-21 discrete steps; the value add process 5 steps and the export process between 10-17 steps.

The time taken to import goods through the green channel process is between 5-11 days; red channel, 8-17 days. To export takes between 5-7 days.

The cost penalties imposed by these delays can be as much as 5% of domestic consumer prices, possibly more. One example shows that the difference between a 5 day import and a 12 day import can add 50% onto the retail price of a consumer product, if it is imported each month. Monthly imports are the norm. See Diagram 5, p.52.

Reasons include a complex interaction of manual (paper) systems between:

- The importer/exporter
- The trade professionals, including Customs brokers, freight forwarders and shipping agents.
- Technical control agencies, including Ministries, Beirut Chamber of Commerce and Lebanese embassies overseas.
- Customs
- The port and the container handlers.

Apart from NAJM (Customs computer system), there are very few computer systems used in the whole process. No computer systems interact with each other for the purpose of Lebanese trade processes, at the moment.

Traditional Customs and port processes, lengthy and non-integrated technical controls and the demands of physical inspections at the port/Customs all contribute to unnecessary delays and costs.

And then there is the problem of corruption. Informal costs (bribes) average \$350-\$450 per container, for both imports and exports.

These all combine to make Lebanese trade uncompetitive. Modern port and Customs administrations now average 2 days or less for the complete import and export process. And corruption has been virtually eliminated from the majority of the world's ports and Customs.

This report makes no judgement on people nor organisations. The facts speak for themselves.

Dramatic overall improvement is possible, but it will take investment and the will.

In the case of technical controls, pre-competitive and pre transaction information, improvement is quite possible. It will use a range of quite simple ideas, and some automation. The principles involve transparency, where contact is kept to the minimum. It will reduce time and expense (to traders) to a minimum. It will maximise the data and information available, using traditional and contemporary solutions. Above all, it will consider a new method of organising technical control and trade information, possibly using a self-funding, or part-funding agency called a Trade Information Service.

Phase three comprises detailed recommendations. It will be completed and submitted before the end of October, 1998.

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1 Introduction

This project can have extremely important ramifications for Lebanese international trade. It can lead to a much reduced time to import and export goods, through the formalities and the facilities of the port and Customs. It can lead to significantly reduced costs for international traders, increased revenues for the Government and reduced consumer prices.

As a consequence, although the contracted final project deliverable for this project is a specification for a Trade Information System, it is apparent that a much wider scope of final recommendations will be necessary. The report's sections on trade process analysis and on weaknesses in current systems make that abundantly clear.

This report is the second of four deliverables in the Trade Efficiency project. It is intended to reflect the current status in Lebanese trade processes. It is also intended to identify and to analyse any weaknesses in these systems, prior to Phase Three. Phase Three is to make recommendations on how to improve processes; Phase Four (the final deliverable) is to specify a Trade Information System.

1.1 TOR: Trade Process and Regulation Review

To reiterate the TOR (Terms of Reference) relating to this phase of the Trade Efficiency Project, Phase Two:

This project is aimed at producing an all-embracing review of current trade activities in the area of regulation, monitoring, promotion and process agencies and bodies. It seeks to identify all relevant bodies, their responsibilities and activities; to identify any duplicated efforts, gaps in the process, barriers to efficiencies, incompatibilities with desired standards and required record keeping requirements and declarations.

The objectives for this phase are:

- 1. A review of the licences, certification, prohibitions, restrictions and other controls or regulations imposed on goods imported into, exported from, in transit, or re-exported from Lebanon. It includes the listing of all relevant authorities, and;*
- 2. The provision of practical recommendations for improvement, such as procedures streamlining.*

The work plan for this phase will involve follow up data gathering from the pre-assignment activities. An information flow for imports, exports, in-transit and re-exports will be documented. Variations for each commodity type will be identified. Controlling and reporting authorities, all regulatory, compliance, reporting, tax and duty bodies will be identified. This process will be undertaken for both the public sector and the private sector activities, for those commodity groups which comprise the bulk of traded goods and information.

The next phase (Phase Three) will be to analyse the information gathered, once complete, and then to reduce the information down to a critical path, whereby the optimum process and procedures are identified, consistent with the overall objectives of the project, including automating and part-automating processes where feasible. Duplicated, unnecessary and non-contributory processes will be identified. Additional controls will also be suggested, where they may add to the process. An analysis of the likely impact of such a restructured process will be documented.

A full written analysis will be produced, after appropriate consultation, together with flow charts. The report will include separate sections for imports, exports and re-exports, as necessary. The analysis will include all of the items described in the TOR together with relevant details on the private sector aspects of the process. This understanding is likely to contribute greatly to the private sector's adoption of any recommendations. Forced compliance will not work; a mutually co-operative adoption will be quicker and more effective in the long term, and more conducive to further improvements.

Deliverable: The Lebanon Trade Process Analysis Report

The following, additional comments were inserted into the TOR as a result of subsequent OMSAR enquiries.

The major and key players in a trade efficiency project in both the public and the private sector, in terms of institutions and organisations are, in summary:

- Government departments, particularly Customs, Trade, Treasury/Finance/Excise, and Taxation and Transport. Any other departments or agencies having influence over trade, import and export, and the movement of goods, including legislation.
- Peak industry bodies, including chambers of commerce, customs brokers, freight forwarders, freight and carrier companies, shipping and transportation companies, port operators, container handlers, stevedoring operations, trade publishers.
- IT companies including the majors such as IBM, EDS, CSC, Compaq, DEC, Unisys, Microsoft. And then there are the software developers and support companies, especially for documentation applications.

- *The major traders, multinationals, importers and exporters, and government trading organisations.*

It may be useful to consider organising a forum for interested parties and to brief them on the status of the project as it matures. We may well obtain valuable input in this way, and develop outcomes that will not come as a surprise to key players. Experience shows that Customs departments are not generally the best organisation to transmit information about change, nor to seek information from people. Informed third parties carry comparatively little baggage and can be seen as friendly neutrals.

1.2 Style

It is important to make a comment about style at this stage. Every organisation has its own way of working, methods which have been developed and refined over periods of years in some cases. In the case of Lebanon, a long period of war and an even longer period of Ottoman and then French régimes have led to a convoluted system of administration. This is exaggerated by the Lebanese international trade community's outdated "Spanish Practises" as well as the regional community's traditional mistrust of anyone outside their sect, district, family, friends, or circle of contacts. This is often referred to as the "Lebanese way". As we will see, this has had a catastrophic impact on trade in the country.

Any criticism of the trade processes contained in this report is made in what is intended to be an objective, professional, and constructive fashion. They are made in order to lead to improvements which will help everybody in the country. It is inevitable that some people may take some of what is written personally, but there is genuinely no intention to offend anyone by what is written here. If offence is caused, then we apologise. But we have documented what we believe to be the truth.

A further comment on style. In over 150 interviews we have amassed an enormous amount of information, much of it conflicting with other sources. So we have to take what we consider to be the best evidence, supported by the majority view. This is particularly true of the cases where we quote estimates of time and expense, within the context of the trade process. Where there are wide discrepancies, we quote a range of values.

Finally, events are changing the trade process every day. What was true in July may not be true in September. Where possible, changes being brought about by this dynamism are noted and their impacts identified.

1.3 Methodology and Approach

The methodology of obtaining all of the information required to produce this report and evaluation was essentially through personal, face to face interviews. We started with the public sector and then moved to peak industry bodies, and finally to private sector firms.

We spent a considerable amount of time with Customs at the port and at the airport; with the port authority and the container handlers. We also spent time with trade professionals, such as customs brokers, freight forwarders and with shipping agents. A wide range of meetings were held with ministries and with public sector agencies.

As indicated in the first report, the private sector was further fragmented into five sectors: fresh produce and the agro-food sector, industrial equipment, textiles and apparel, pharmaceuticals and information technology. So that, in addition to a broad based view of the private sector, we also obtained sectoral information.

In addition to private sector interviews we also sent out around 150 questionnaires with the help of the Lebanese Associations of Industrialists, the Lebanese Association of Merchants and the Beirut Chamber of Commerce. We held follow up meetings to validate their input. These meetings are still being held, as this report is being written.

Please Note: Questionnaires were completed and submitted to us on the basis of complete confidentiality. We do not quote directly from any response, except where we have been authorised, in writing, to do so.

The complete list of meetings and contacts from July 14th to September 30th is contained in the Appendix to this report. A full list of documents consulted is also contained in the Appendix.

1.4 The Players in the Lebanese Trade Process

The trade process is an integrated series of activities which involves five groups of organisations.

1. The first is the *importer/exporter*. In the case of an importer who needs to import materials to rework and to add value, this is regarded as a re-exporter. Goods in transit between two ports, both outside Lebanon, and free trade zones complete this first group.
2. The second group comes under the heading of “*technical controls*”. Restrictions and prohibitions are issued and monitored by various *Lebanese Government Ministries*. Consular invoices (legal invoices) are issued by *Lebanese embassies* overseas, or by their nominees. As we will see later, the term “legal” in this case, and in some others, is a dubious semantic device. Other organisations in this group include *Chambers of Commerce and Industry*, who have the national monopoly on issuing Certificates of Origin (COO), and in endorsing (legalising!) some others, as required by foreign importers.
3. The third group comprises the “*trade professionals*”. This term describes the people whose profession it is to complete and to process the documents necessary to import or to export goods into, and out of Lebanon. This includes the *shipping agent*, who is employed by, or

represents, one of the shipping lines who carry goods to and from Lebanon (by sea or air).

Freight forwarders are also included in this group. Their job is to pack goods into containers and manage the good's transport all the way through to the deck of a container ship, in the case of exports. Or from the ship to the importer's premises in the reverse case. In Lebanon, their duties also include processing goods through the container handling and port procedures.

The third of the trade professionals is the *customs broker*. His job is to complete the required customs documentation, necessary to clear them through the Customs import/export procedures.

The activities of groups two and three are often known as the "*formalities*".

4. The fourth group is contained within one organisation, Lebanese Customs. The duties of Customs are much wider than just the clearance of goods through the points of import/export. Due to the legacies of war they often undertake security and policing activities, for example. They are, in addition, generally the first line of border patrol, but only at recognised points of entry. Because of their importance to the national economy, Customs are part of the Ministry of Finance. This is not always the case in other countries.
5. The fifth group comprises the ports. They handle the sea and air traffic, and the physical port infrastructure at the docks and terminals. In the case of the port of Beirut, a second organisation will soon be appointed to handle all container storage and movement within the port. At present it is handled by the port authority.

These five groups interact in a dynamic fashion to enable trade to flow. The efficiency with which they interact determines the trade efficiency of the nation. Documenting and analysing their processes and interactions is the purpose of this report.

1.5 Overview of The Lebanese Trade Process

The following illustration, *Diagram 1: The Lebanese Import-Value Add-Export Process* is intended to show the major steps in the process. It may look complicated but it is actually a dramatic over-simplification of the actual processes.

The diagram is intended to illustrate the steps that an importer goes through, from the arrival of the goods through to the Customs release, port processes and eventual delivery to the importer's premises. The types of documents and technical controls necessary for formalities are illustrated, but obviously not in detail at this stage. The term "informal processes" is used in connection with Customs and port operations. It should more accurately be mentioned in connection with virtually all technical controls, as well as Customs and port

activities. We will return to the theme of “informal processes” from time-to-time throughout the report.

The manufacturer/value adder is then illustrated. It shows how he receives imported goods, and how he inter operates with domestic supply chains in order to buy local materials and services in the process of converting or adding value to an import. The materials to be converted may be anything from raw materials to elaborately transformed manufactures.

The manufacturer then negotiates an order, or engages in pre-competitive activity, prior to soliciting overseas orders. This may involve obtaining trade information; more likely, it means negotiations with an existing trading partner. Pre-competitive activity could also include participation in trade shows, and/or in export promotion activities, and/or in incentive financing programmes.

The manufacturer may sell his products to an intermediary in Lebanon, such as a merchant or a trading company. There are examples of this in the agro-food example we use. Or he may export direct. Either way, he normally uses trade professionals for the purpose of expediting the exports through the formalities and through the transportation/storage and shipping phase. Occasionally, exporters manage this process themselves, if they have the in-house expertise.

And so the diagram flows through to the overseas shipping process, after which the importer obtains payment, to complete the cycle.

Imports and exports are not always part of the contiguous cycle that we have illustrated here. Many imports come into the country and are consumed in Lebanon. Some are part consumed in Lebanon and part exported, either via the ports, or, surprisingly frequently, across the Syrian borders for Syrian, or a third country consumption. But all exports, except for trans-shipments, require some local value add. Trans-shipments merely wait at the port for onwards shipping. They may wait in the free port, for the purposes of a “duty free” trans -shipment, or they may be imported and then re-exported, after claiming a tax “draw-back”, or repayment of import duties.

Each of these stages is treated in some detail in the following sections of the report. Table 1 treats the process in tabular manner.

Table 1: Steps in the Trade Process

(a) The Importer

Step	Process
1	Pre competitive activities
2	Order/LOC/Documentation
3	Controls
4	Customs processes
5	Container handling
6	Port processes
7	Transport
8	Receive goods
9	Pay/approve LOC

(b) The Value Adder/Manufacturer

1	Pre competitive activity
2	Negotiate order details
3	Lodge LOC
4	Execute order/value add
5	Pack goods into container

(c) The Exporter

6	Obtain COO/Eur. 1/Form A
7	Technical controls
8	Customs clearance
9	Container handling processes
10	Port processes
11	Transport to overseas buyer
12	LOC approval
13	Obtain payment

1.6 Report Organisation

This introduction is preceded by a glossary, a list of useful web sites and an Executive Summary. Then follows a section on Lebanese trade statistics.

The main structure for the report surrounds the five groups of participants in the trade process, identified earlier in this introductory section. In addition, there are sections on international trade groupings, with an analysis of their possible impact on Lebanon's trade processes. These include the World Trade Organisation (WTO), the European Union (EU), Arab Free Trade Zone and the Generalised System of Preferences (GSP).

Other sections are dedicated to “informal processes”, or corruption, from both the public and the private sector, and the insidious role it has assumed in Lebanese trade.

The summary contains an analysis and identification of weaknesses in the Lebanese trade processes. It contains international comparisons, illustrates what is possible and prepares the way for the recommendations from Phase Three of this project.

The Appendix is fairly substantial. It is organised in that fashion in order to avoid making the body of the report too long to read. It also includes a list of contacts, meetings, documents and publications read and referenced, a section on legal issues to be considered, a list of trade documents and some papers of general interest.

2 Trade Statistics

Before addressing the details of the process it may be useful to set the process in context with the scale of national trade. The following figures are taken from MOET 1997 statistics. See *Appendix 1* for further details.

Table 2: Lebanese Trade Statistics by HS Code, Imports, 1997

#	Brief Description	Value \$USM	Share %	Rank
1	Live animals; animal products.	391.357	5.25	10
2	Vegetable products.	472.285	6.33	9
3	Animal or vegetable , oils, waxes, fats.	60.851	0.82	18
4	Prepared foodstuffs, beverages, spirits, vinegar, tobacco.	564.917	7.58	6
5	Mineral products.	717.389	9.62	3
6	Chemical products.	536.376	7.19	7
7	Plastics and rubber articles.	269.198	3.61	11
8	Hides, leather products.	30.608	0.41	19
9	Wood, cork, straw, plait. Materials.	107.386	1.44	16
10	Wood pulp, paper/board articles.	190.229	2.55	12
11	Textiles.	484.064	6.49	8
12	Footwear, headgear, misc.	66.006	0.89	17
13	Stone, plaster, cement, glass, ceramics.	175.528	2.35	13
14	Pearls, semi-precious stones, precious metals, jewellery, coins.	578.239	7.75	5
15	Base metals and products.	605.748	8.12	4
16	Machinery, mech.equipment, TV.	1,153.421	15.47	1
17	Vehicles, aircraft, vessels.	744.408	9.98	2
18	Optical, photographic, surgical, medical instruments, clocks, etc.	145.373	1.95	15
19	Arms and ammunition.	6.720	0.09	20
20	Misc. manufactured articles	153.763	2.06	14
21	Works of art	2.705	0.04	21
	TOTALS	7,456.574	100	

Source: TIC, MOET

Table 3: Lebanese Trade Statistics by HS Code, Exports, 1997

#	Brief Description	Value \$USM	Share %	Rank
1	Live animals; animal products.	5.994	0.93	16
2	Vegetable products.	50.862	7.92	7
3	Animal or vegetable , oils, waxes, fats.	8.130	1.27	15
4	Prepared foodstuffs, beverages, spirits, vinegar, tobacco.	64.063	9.97	6
5	Mineral products.	4.964	0.77	18
6	Chemical products.	69.633	10.84	2
7	Plastics and rubber articles.	16.651	2.59	12
8	Hides, leather products.	8.314	1.29	14
9	Wood, cork, straw, plait. Materials.	1.305	0.20	19
10	Wood pulp, paper/board articles.	49.630	7.73	8
11	Textiles.	78.402	12.21	1
12	Footwear, headgear, misc.	19.474	3.03	11
13	Stone, plaster, cement, glass, ceramics.	19.485	3.03	10
14	Pearls, semi-precious stones, precious metals, jewellery, coins.	67.331	10.48	4
15	Base metals and products.	67.514	10.51	3
16	Machinery, mech.equipment, TV.	66.875	10.41	5
17	Vehicles, aircraft, vessels.	25.961	4.04	9
18	Optical, photographic, surgical, medical instruments, clocks, etc.	4.968	0.77	17
19	Arms and ammunition.	0.141	0.02	21
20	Misc. manufactured articles	12.320	1.92	13
21	Works of art	0.267	0.04	20
	TOTALS	642.281	100	

Source: TIC, MOET

Table 4: Lebanon's Major Trading Partners 1997, Imports

#	Country	Imports \$USM	% Share
1	Italy	986.801	13.23
2	France	709.092	9.51
3	USA	684.741	9.18
4	Germany	648.167	8.69
5	Switzerland	493.449	6.62
6	United Kingdom	326.937	4.38
7	Syria	325.853	4.37
8	Japan	302.147	4.05
9	China	237.939	3.19
10	Spain	180.272	2.42
11	Turkey	153.626	2.06
12	Belgium	143.449	1.49
13	Ukraine	142.266	1.91
14	Greece	133.048	1.78
15	The Netherlands	131.071	1.76
16	Saudi Arabia	122.741	1.65
17	Taiwan	94.831	1.27
18	Sweden	92.808	1.24
19	Russian Federation	88.682	1.19
20	North Korea	83.919	1.13
	Other Countries	1,374.733	18.44
	TOTAL IMPORTS	7.457	100

Source: TIC, MOET

Table 5: Lebanon's Major Trading Partners 1997, Exports

#	Country	Exports \$USM	% Share
1	Saudi Arabia	96.915	15.09
2	UAE	57.708	8.98
3	France	45.941	7.15
4	USA	38.569	6.01
5	Syria	37.623	5.86
6	Kuwait	28.748	4.48
7	Turkey	26.622	4.14
8	Jordan	24.839	3.87
9	Italy	21.262	3.31
10	United Kingdom	19.836	3.09
11	The Netherlands	17.831	2.71
12	Egypt	16.305	2.54
13	Switzerland	15.734	2.45
14	Bahrain	15.387	2.40
15	Libya	13.941	2.17
16	Germany	13.895	2.16
17	Belgium	8.631	1.34
18	Cyprus	8.240	1.28
19	Qatar	6.898	1.07
20	Spain	6.185	0.96
	Other Countries	121.621	18.94
	TOTAL EXPORTS	642.281	100

Source: TIC, MOET

2.1 Comments

From this very brief selection of statistics we can see what we already know: imports far outstrip exports. It is also possible to assume that some imports, such as cigarettes, and some domestic agricultural products, find their way across the Syrian borders. They are probably undeclared. Similarly, it is also possible that there is a reciprocal form of unofficial trade in the opposite direction. There is probably a serious loss of revenue due to this informal trade.

Of the exports, textiles, jewellery and mechanical equipment-much presumably sent overseas for repair, for subsequent reimport-are the principal contributors. There is no recording of IT exports-nor imports. TIC MOET have further information available.

The statistics indicate that there is no particular strategic direction given to any sector. Since textiles are an important source of export revenue, and since textiles will be under threat from the WTO rules, it may be time to consider coordinated initiatives for this sector.

3 Technical Controls

The topic of technical, or Government controls is now being widely debated. In Lebanon, these are known as “Prohibitions and Restrictions”. Major trade forums, cynically in some cases, now categorise these forms of control as Non Tariff Barriers (NTB). These international bodies, each with their own agenda, are all promoting a version of “free trade”, either totally or for certain ranges of products and services, and for certain regions. They include GATT, the WTO, the EU and its partnership programmes and various other free trade areas, such as the Arab Free Trade Area. The Generalised System of Preferences (GSP) is another export control scheme, whereby some developed countries encourage tariff-free imports from developing countries. It is also due to be phased out by the WTO.

Note: Although the WTO has superseded GATT, many of the initiatives and regulations are still referred to as “The GATT”.

3.1 International Trade Agreements

The following is an introduction to existing and planned trade arrangements with other countries. Lebanon is a participant in the General System of Preferences and has ambitions to accede to both the EU and the WTO trading arrangements. In addition, Lebanon has a number of bilateral and multilateral trade agreements in place with other nations. All of these initiatives are dynamic, and subject to rapid change and development.

This section comprises a very brief overview of the current status of those trading organisations, and their potential to affect Lebanon’s trading processes, especially in the areas of NTBs, or technical controls (Restrictions and Prohibitions. See later sections). Should any further, detailed evaluation be seen to be necessary then it is suggested that an economist from MOET is delegated to provide a detailed report.

Starting with the WTO, or the World Trade Organisation: it is not an organisation for free trade as commonly believed. It is an organisation aiming for fair trade. The WTO permits tariffs and, in limited circumstances, other forms of protection. It is more accurate to say that the WTO is a set of rules designed to obtain open, fair and undistorted competition. Rules on non-discrimination are designed to secure fair conditions of trade. So too are those on dumping and subsidies.

The General Agreement on Tariffs and Trade (the WTO predecessor) also recognises regional trading agreements, in which trading groups seek to reduce tariffs and barriers to trade. The GATT acknowledges such groupings as a contribution to freer trade, although GATT advocates MFN status (Most Favoured Nation), as the normal arrangement between members. Therefore it lays down quite strict criteria for regional trade groupings and their access to WTO member’s trade. These rules are intended to facilitate trade among the countries within a trade grouping without raising the barriers against non-

members of that group. Regional groupings are seen, by WTO, as complementing the multilateral trading system, not threatening it.

See Appendix 8, Lebanese Trade Agreements.

Therefore, whether the grouping is a Customs union or a free trade area, duties and barriers to all trade within the group are required to be removed. In a free trade area, each member maintains its own external trade policy towards non-members. In both cases, duties or regulations towards non-members are required to be no more restricted than applied before the group was established.

The European Union (EU) has a complementary policy toward the WTO, as a large free trade area. Quite simply, the member states of the EU are bound-as a bloc-to the agreements of the WTO. These include mercantile trade, services and intellectual property provisions of the WTO.

See Appendix 9, WTO.

The Arab free trade area agreements, due to come into full force very soon, pose some challenges to the trade process. The proposal is that existing tariffs may be used for trade between any two member countries unless the new tariff regime is chosen, by the trader. Since the agreement on the Arab free trade area is to eliminate tariffs between member nations over a period of years, there is bound to be a time when the new tariff is cheaper than the existing tariff. The agreement on tariff reductions sees a reduction by 50% (reducing balance formula) until harmonisation is reached. Reducing balance means that a tariff of 100% reduces to 50% next year and 25% the following year, and so on. Of course, using this formula means that nothing ever reaches 0%; the amount becomes asymptotal, or "tending to zero". Note: The recent Arab Customs Union conference in Lebanon promoted the above formula. It is understood that there are also, currently, differing interpretations.

The Generalised System of Pretences (GSP) is a system operated by the wealthier countries, whereby they try to encourage the development of trade by allowing zero tariff imports for a range of HS coded goods. The GSP was introduced in the 1950s and is seen to have generally outlived its usefulness, and that the WTO will modernise it and replace it. The same is true of the MFA, or Multi Fibre Agreement, which sought to apply textile and apparel quotas to exporting countries, particularly developing countries. North America and Europe had their own MFA.

Once again, the MFA is seen to have outlived its usefulness. It will be replaced by open competition under WTO rules.

The implications for Lebanon are quite serious. Current trade is partially protected and small. But there are certain sectors, such as textiles, that are under threat already. Similarly, the range of prohibitions and restrictions is very difficult to defend when seen in the light of a fair-leading to open-trading world. In addition, the new sets of regulations arising from the EU, WTO and

the Arab free trade area will pose new challenges for traders and Customs alike. They will further complicate what is already a fiercely complex set of procedures.

3.2 Technical Controls and Free/Fair Trade

At every stage in our project we have encountered officials who truly believe that Lebanon is a beacon for free trade; a light in the darkness of protectionism, if you will forgive the literal analogy. In fact, nothing could be further from the truth. Lebanon has managed to self-impose shackles to free trade that defy comparison with almost any other developed or emerging economy. And Lebanon has achieved this through the continuation of the previous Ottoman and French administration's practises of technical controls. Until very recently, this was compounded by byzantine Customs practises. But now Customs are embarked on a process of technology-driven procedures reform.

Technical controls may come from the private sector in an attempt to simplify acceptance of goods as being from a valid origin, for example. These forms include the Certificate of Origin. More later. Other forms of control include pre-export, physical inspection. This is an attempt to verify the origin, quality and contents of goods at the point of origin, as opposed to the point of consumption. This is known as PSI, or pre-shipment inspection. A variation on this theme is the acceptance of self-regulating companies' products based on their history and reputation. Look at the damage Perrier suffered in the US when flawed products were discovered. Self regulation by reputable companies falls within the area of risk management rather than total inspection, and is surely to be encouraged. Qualification for ISO 9000 is an indicator to the likely effectiveness of self regulation.

Consular Invoices (Legal Invoices) are another attempt to control the quality of goods at source rather than destination. But in this case, where an importing country's embassy or legation, or even a local Chamber of Commerce validate an invoice, there is no point to the process. They are supposed to reassure the importing country that the source of supply is, indeed, as stated on the invoice. However, most of these institutions are not competent to judge the quality, source, function or any other aspect of the goods. They rarely see the goods, even when paid to confirm the source.

This practise is generally strictly for revenue raising, with almost no attempt to add value to the process nor to help the importer and exporter. Consular Invoices are the most blatant form of NTBs.

3.3 Internal Controls

Internal controls within Lebanon are administered by the responsible Ministry. They may issue and administer a range of prohibitions, restrictions, licences, certificates, etc. for specific purposes. These purposes include:

- Fraud prevention

- Drug and alcohol control
- Anti-dumping
- Conformity with treaties and international obligations
- Preservation of Lebanon's trading reputation
- Hygiene
- Sanitation: Health and welfare
- Animal health and welfare
- Industry protection
- Consumer protection
- Revenue enhancement
- Quarantine
- Standards/Quality control, etc.

Each of these controls are unquestionably in the public interest. But their range and complexity, together with the multiple application of controls provides severe inhibitions to Lebanese trade. As we will see later, desirable though the vast majority of these controls might be, they impose a heavy burden in terms of time and costs to the trader. Similarly, they require the trade professional to have an encyclopaedic knowledge of the regulations, which change dynamically. The only complete and up to date source of regulations is maintained by Customs. It is known as "Restrictions and Prohibitions". Updates and changes are published in The Official Gazette. Each Ministry is able to publish its own additions or amendments, without any reference to the wider interest of trade efficiency. Note: Even the Restrictions and Prohibitions document has its deficiencies. Certain Ministries still issue new instructions without reference to Customs or the Council of Ministers.

3.4 Prohibitions and Restrictions

There are 79-repeat 79-types of controls for Lebanese trade. Each control may be applied to hundreds of items within a certain category (generally a range of HS numbers from the Harmonised System {HS} of Tariffs). *Appendix 3: Prohibited Merchandise* and *Appendix 4: MOET Mandatory Certifications*, provides more detail.

Controlling agencies and types of controls include:

Council of Ministers and the Industry Institute: Visas and Certificates proving the Lebanese provenance of manufactured goods.

Ministry of Interior: Pre-licences for imports; Visa and Certification for some printed materials; Agreement and post-agreement for control of drugs.

Ministry of Finance: Alcohol transport permit; monopoly goods; alcohol certificate.

Ministry of Finance (Customs): Alcohol certificate

Ministry of Finance (Regie des tabacs): Passage permit

Ministry of Finance (BCCI: Indirect taxes): Transport permit

Ministry of Finance (BCCI: Indirect taxes): Transport permit, alcohol

Ministry of Defence: Pre-Licence and permit, army controlled products (arms, ammunition, etc.)

Ministry of Health: Licence, Visa/Certification, pre-permit and licences, medical equipment, drugs, pharmaceuticals, OTC pharmaceuticals.

Ministry of Health (Office of the Minister, Department of Sanitary Engineering, Department of Quarantine, Drug Unit, Department of Medicine (import/export), Department of Pharmaceutical Inspection). These issue a range of pre-permits, licences, visas/certifications, plus special approvals, such as a "purification" licence.

Ministry of Labour (Syndicate of Pharmacists): Invoice certification

Ministry of Labour (Syndicate of Pharmacists plus doctors): Invoice certification.

Ministry of Agriculture: Range of products; Licences, visas/certification, sanitary certificate, agricultural sanitary certificates, agricultural calendar, packing requirements.

Ministry of Agriculture (Office of the Minister): range of products; Licences, pre-licence, agricultural sanitary certificate, certificate of origin.

Ministry of Agriculture (Office of the Minister, OIC): Range of products; Licences, pre-licences, pre-permits, specialisation certificates, agricultural sanitary certificates, certificate of origin.

Ministry of Agriculture (Director General): Licence.

Ministry of Agriculture (Department of Animal Health): Licence, visa/certification.

Ministry of Agriculture (Department of Animal Health Protection): Prohibited merchandise, sanitary certificate, visa, certificate of origin.

Ministry of Agriculture (Department of Agricultural Health Protection): Visa/certification, analysis and production certificates, export conformance certificate, agricultural sanitary certificate, laboratory inspection certificate, pre-visa.

Ministry of Agriculture (Farming Unit): Visa/certification.

Ministry of Agriculture (Silk Office): Pre permit.

Ministry of Economy and Trade: Licence.

Ministry of Economy and Trade (Office of the Minister or Director General): Licence.

Ministry of Economy and Trade (Office of the Director General): Licence.

Ministry of Economy and Trade (Technical research Centre-Pricing Policy): visa/certification.

Ministry of Economy and Trade (Consumer Protection): Visa/certification.

Ministry of Economy and Trade (Fraud Prevention Unit): Visa/certificate.

Ministry of Economy and Trade (after approvals by: Minister of Information, MPT, Council of Ministers, Army, Minister of Interior, Ministry of Health).

Various products: Permit, pre-licence, licence.

Ministry of Posts and Telecommunications: Permit, pre-visa.

Ministry of Posts and Telecommunications (Office of the Minister): Pre-permit.

Ministry of Tourism/General Directorate for Antiquities: Licence.

Ministry of Petroleum: Licence.

Ministry of Petroleum (General Directorate for Petroleum): Licence.

Ministry of Industry: Licence, pre-licence, visa/certification, passage permit.

Ministry of Industry (General Directorate for Industry): Licence.

Ministry of the Environment: Visa/certification.

Each of these agencies issues the relevant controls according to its mandate. Exports as well as imports need controls, for example Certificates of Origin are issued by MOI. Similarly visas and certificates are issued to prove (and approve) provenance for Lebanese exports, as are “industrial attestations”.

It is not proposed to provide any more detail on this topic in the body of this report. The Analysis section will make clear the reasons. In addition, regulations are changing daily. For example, in July 1997, the Prime Minister issued a memo requesting a rationalisation of the range of controls. This followed a series of complaints and investigations regarding the time taken to clear imports and exports, and the costs involved. Since Customs are legally bound to scrutinise documentary evidence of a trader’s compliance with all of the regulations of Restrictions and Prohibitions, they have to be most careful with their document examination and the follow up physical inspections.

Additionally, it is necessary for an importer or and exporter to visit each issuing agency (Ministry) personally, in order to obtain an approved technical control document. Ministries are generally only open for half of the private sector’s working day, from 8/8.30 AM until 11.00 AM-2.00 PM, depending on the Ministry, the day and the season!

And each approval requires stamps, several signatures and costs money!

In practise, many companies send messengers, but they cost money and transport expenses too.

Appendix 5 illustrates the Customs tariff range by HS Chapter, or the first two characters of the HS code. The HS code was introduced to provide an international standard for classifying goods for Customs duties and procedures. It has become known as the Brussels tariff nomenclature, or système harmonise (HS). Over the years, as trade has developed and as world trade has become globalised, extension codes have been created. These add more precision to definitions and tariff selection. The added range also adds to the complexity and range of controls necessary for international trade. Lebanese Customs regularly process declarations comprising over 1,000 different HS sub-codes.

Appendix 8 illustrates the first part of a Customs initiative to create a computer-based system on NAJM. It is intended to display (much of this still has to be translated from Arabic):

<i>HS Chapter</i>	First two characters of HS Code. Brief description of category of items.
<i>HS Code</i>	Full HS Code (six characters). Full description of items.
<i>HS Code Extension</i>	An EU extension to the HS code system, enabling a finer degree of definition and description.

Note: The US codes now go to 10+2 characters.

<i>Tariff rate</i>	Range for Chapter
<i>Tariff rate</i>	For specific HS Code
<i>Tariff rate</i>	For specific HS Code plus extension code.
<i>Control code</i>	Controlling agency or Ministry.
<i>Control type</i>	Type of prohibition or restriction.
<i>Decree reference</i>	The decree number, Ministry and date.

This file will provide everything that the Lebanese importer and exporter needs to know about controls and tariffs. For a deeper understanding of the decree it is necessary to refer to a catalogue of Official Gazettes, or records at Customs and individual Ministries. However, there is now a CDROM available, with good search facilities. It contains all of Lebanon's laws and decrees, in full text. The source is the Official Gazette. They are soon to begin trials of an Internet based web update service, between their three monthly releases of new CDROM publication.

Appendix 9, Al-Char'eh, contains a quotation for copies of this product which is available commercially. Note: There is also another product available, developed for the Ministry of Justice. Some regard it as a superior source of information.

3.5 Government Processes

For completeness, we include examples of the process by which approvals for technical controls are handled in some Ministries. These processes are representative for all. Nevertheless, there are some inconsistencies in the process and considerable differences in the expectations of both the trader and the officials.

From the preceding notes it will be apparent that there are many Government departments involved in Prohibitions and Restrictions; 79 different controls, at least 44 different Ministries and agencies, plus several private sector agencies. In addition, from Customs records, there are at least 1,000 HS codes and sub-codes processed each year. As QR and other rapid replenishment systems are introduced into the global trade networks, declarations are expected to increase at around 20% per annum, and so will HS code varieties.

There is also a bewildering potential for combinations and permutations of pre-licences, licences, certificates, visas and so on. The only constant is the Ministry of Finance's involvement in payments, for stamps, for approvals and for taxes.

The following examples are included as being somewhat representative of the process of receiving applications and issuing approvals for technical controls. There is some commonality between Ministry's processes, but there is no guarantee as to continuity or consistency. The following should be seen as a guide from those departments that have given some thought to their processes, with trade facilitation in mind.

3.5.1 Ministry of Economy and Trade: Internal Processes

Two processes are illustrated from the MOET; Certificates, typically for retail consumer products and pre-licences for sugar, wheat, olive oil and flour products. In addition, this section will discuss the potential for PSI and the Certificate of Conformance (COC).

Price Control and Fraud. The issue of the certificate authorising import of food and consumer products submitted to MOET is a simple matter. It is merely a case of attending the Ministry, completing a form, stamping the form by an officer of the Ministry and obtaining two signatures. The time taken within the Ministry is seldom more than 30 minutes per certificate; it takes only a few minutes, once an accurate completed form is presented, to approve and sign the document.

The end-to-end time for a messenger to obtain importer instructions, obtain a letter of authority, travel to and from the Ministry-including negotiating the horrendous traffic in Hamra-and then to obtain the licence, is a different matter. Interviews tell us that it takes the better part of a working day (Ministry day) to complete this simple transaction. And the MOET, along with the Ministry of Industry, is rated the best of the Ministries in a satisfaction survey we undertook!

Traders who have fallen foul of the consumer protection group are scrutinised more closely, as are defaulters for other reasons.

When the goods arrive at Customs, the trader completes the SAD (SAD is the Single-or Simple-Administrative Document, a single declaration form which replaces 27 different forms previously used for Customs clearance). The Customs agent checks for accuracy of declaration, and that the proper documents accompany the declaration. These include:

- International Invoice
- Bill of Lading
- Packing List
- Delivery Order
- Certificate of Origin

- Veterinary or Sanitary Certificate, as appropriate
- The ID of the importer

If the Customs agent notes that a MOET approval is required for import he contacts the Ministry.

Note: Any Government Technical Control is displayed by the Customs declaration system (NAJM, a derivative of UNCTAD's ASYCUDA system. See the Section on Customs). A control requirement automatically routes the declaration into the red channel. All red channel selections require a mandatory goods inspection. 70% of Customs declarations currently require red channel processes. That means that 240,000 declarations require physical inspection at Customs, at the moment. A further point to bear in mind is that some Ministries are trying very hard to reduce the number of controls, spurred on by Customs. So these proportions are subject to change.

Thereafter, assuming that the Ministry require an examination of the documentation, the Customs agent and the importer attend the MOET. Generally, the MOET simply approve the import by signing the SAD on the reverse of the declaration and allowing Customs agent to authorise the importer to take possession of the goods (*laissez passez*).

Variations on this process may include releasing the goods to another Ministry, e.g. The Ministry of Agriculture if the goods are milk products. Additionally, MOET may wish to, or may ask Customs to, physically examine goods before they are released. They will check against Invoice details, Bill of Lading, Delivery Orders and Cargo Manifest. These are all paper documents, except the original of the SAD.

One other variation is that the MOET may allow the importer to take possession of the goods but will require a laboratory test of the goods before they are allowed to be sold to consumers.

Generally, the MOET sign the SAD on the rear of the form and then release the goods.

Note: The Prime Minister's directive on Restrictions and Prohibitions included instruction to ministries and government agencies involved with technical controls to provide officers at points of entry/exit to personally perform the required validations. A further requirement was that authorisations would be made on commercial invoices, not on SADs. Both "requests" are "honoured as much in the breach, as in their observance".

This is among the simplest and best organised of Ministry procedures. It is enforced for consumer protection, pricing policies, technical research and controls and for statistical inputs. Nevertheless, MOET approve 35 SADs each day, or around 1,000 per month.

See *Appendix 4* for goods requiring mandatory certification from MOET. See also *Appendix 10, Certification Requirements*. Appendix 10 is taken from a

recent NAJM analysis. Note that it does not reflect the MOET certificate volumes, as reported here. The consensus explanation is that the figure in Appendix 10 represents actual physical inspections, as opposed to a simple document scrutiny. This contradiction cast some doubt over interpretation of these figures. It is included for completeness.

One interpretation of Appendix 10 suggests that there are over 200,000 physical inspections each year. The majority of these means opening and unpacking containers, inspecting and then repacking the container, with an average delay in Customs and the port of seven days for this process. It may stretch out to 30 days. This illustrates the direct impact of controls on the progress of goods through the clearance and transport process.

Some further comments: Where cases of fraud are encountered Customs is empowered to impose a fine of 10% ad valorem. 50% goes to Ministry of Finance, 50% to Customs.

Further, where MOET are looking for brand name compliance and protection, NAJM cannot help. The HS codes currently used do not show enough definition for brand names.

Market Protection: In the case of some strategic local industries, such as wheat and sugar beet (also olives, olive oil, some chemicals and fertilisers) there is a licencing process. The purpose is the protection of the local market and local producers. Please note comments on WTO in an earlier section. These types of controls are going to become progressively more difficult to maintain in future.

The MOET pre licences wheat and sugar beet. Note: Some other Ministries' pre licencing is for statistical purposes only; that is not the case with MOET.

Please Note: As requested by the Prime Minister in July 1997, all technical controls are under review; changes may occur any-and every-day. See Addendum to Appendix for an example of MOET recent updates to requirements.

The process is that an official request is sent to MOET; it may also be hand delivered. MOET look for official letter heading and importer details. They also look for details of the shipment, e.g. weight, quantities, method and date of transport .

MOET add a 1000LBP stamp, then date and sign the letter.

Then the Invoice for the goods is presented, together with the approval letter, for signature by the Director General.

The licence request is then registered, upon payment of a 10,000 LBP stamp. Two signatures and four copies of the licence are issued. A payment order is raised for the Ministry of Finance.

Note: stamps are not issued by any other Ministry than the MOF. The stamps are "Fiscal Stamps". Fiscal stamps have now been replaced by postage stamps in most countries.

Three copies of the licence are then taken by the trader to the MOF, who registers the licence and charges 25,000LBP and 0.1% of invoice value as a licence fee. MOF issue a receipt.

The trader then goes back to MOET, with the receipt. MOET then raise the formal Licence form, charge 10,000 LBP (stamps) and sign it. Copies are sent to Customs (1,000 LBP) and a copy retained by the trader (1,000 LBP).

The trader then takes the approved licence, inserts it into a Customs envelope addressed to the Higher Council for Customs, stamps and seals it

HCC then send the licence to the port, awaiting arrival of goods-if they have not yet arrived.

This process is the same for imports and exports. MOET expect to issue about 85-100 licences for export in 1998 and 125-150 licences for import.

General Comments on Ministerial Technical Controls

The costs to the trader for this exercise, varying of course with invoice value, totals 13,000 LBP in stamps and 34,000 LBP in taxes. It can take one day to complete the process, but the reality is that it takes three days. Traders tell us that a three (3) day assignment for a messenger costs US\$25 per day, plus expenses (meals, transport). For some Ministries and some processes there may also be a "donation" of "gifts", in gratitude for speedy expedition.

There is a specific section in this report about "informal costs". This report does not make judgements on the practice of bribery, or whatever other name it is known by. The fact is that it represents an added cost for traders. Failure to observe the local custom can result in delayed approvals, objections, denied approvals, lost documents, people who are "too busy to see you today", etc. The practice is not restricted to the public sector, as we shall see.

Apocryphal stories abound. However, since it is mainly messengers who perform the tasks of obtaining licences, the typical gift is quite small, around \$US20. There are tales, supported by more than one source, of Ministry employees expecting \$US100 for licence approvals. A published letter from the Merchants Association in 1997 supports many of these apocryphal stories.

Traders seem to budget around \$US150 on average for the cost of obtaining control documents. Delays in receiving or sending goods are, of course, much higher. Later sections cover the total costs of the import/export process.

Pre Shipment Inspection. In an effort to reduce delays and costs to traders resulting from inspections at the port, some countries have adopted a PSI

approach. The PSI company, whose activities are recognised by the WTO and the EU, performs the following tasks.

They may type test or sample, and then test, in the country of supply. They may provide the test/laboratory facilities, or an accredited test facility in the country of supply may be contracted to do the job. Test reports are issued for the exporter to present as part of his Customs declaration process.

The PSI will then complete PSI certification to agreed standards with the importing country, and issue a Certificate of Conformity (COC).

Goods are then presented to Lebanese Customs for approval. The PSI may take a random sample, pre declaration. Or, if a COC has not earlier been issued, they may then perform their certification procedures.

Note: This work may take place within a Lebanese Customs bonded area, or in a free trade zone.

Customs perform their routines, and normally treat the goods as a green channel declaration, therefore not subject to physical inspection.

MOET, as the PSI contractor in this case, will then undertake their normal random checks in the domestic retail market.

If properly managed, the PSI and COC process can significantly reduce time taken at the importing country's Customs. It can also make the Ministry in charge of consumer protection (as one example) much more efficient. It could also eliminate the need for consular Invoices ("legalised invoices").

However, PSI is not cheap. It displaces costs, it does not remove them. A rate of up to 0.8% of the value of goods is typically quoted, although they may vary due to individual negotiations. The costs can alternatively be borne by the exporter. In this case, it would be naïve to believe that the exporter, no matter what he might say to the contrary, will not add these costs to his prices. This has been confirmed by interviews with PSIs (overseas) and with several exporters to Lebanon (also overseas).

3.5.2 Ministry of Industry

The MOI has an efficient and well regarded department involved in issuing import and export licences, and associated "Industrial Attestations". The numbers they process are quite small; export licences very few indeed; import licences around 10 per day. They have an active programme to comply with the Prime Minister's request to eliminate all controls.

The trader's letter of request must be accompanied by a statement from the Ministry of Labour to prove that the manufacturer is up to date on his employee social security payments. This statement is valid for six months, is usually a fax copy, and is not often investigated. Note: Not all Ministries

implement this practice, which is a questionable device bearing in mind the technology available today. More in the evaluation sections of the report.

The trader then attends the MOI and completes an application form. The process and documents required are the same, in general, as MOET licences. The application is signed over three 1000LBP stamps by the trader/importer, the Head Of Department of Technical Affairs and the Chief of Cabinet Services.

The licence is then issued and a payment order raised.

Payment is made at MOF. 25,000 LBP and 0.1% of invoice value.

The receipt is taken back to the MOI, following which the licence is signed-once again over 1,000 LBP stamps-by MOI, the trader and Customs, after processing.

The Customs process is the same as described for MOET licences.

Other MOI Controls. The MOI have to endorse ("Legalise") a Certificate of Origin (COO), if the manufacturer is exporting for the first time. They also have to attach an "Industrial Attestation" which confirms that the manufacturer is approved to manufacture, or add value to the category of goods declared on the COO. The COO is initiated by the Beirut Chamber of Commerce and Industry (BCCI). See later sections.

The endorsed COO and Industrial Attestation have a life of 12 months.

All Arab countries request endorsed COOs at the moment. The arrangements under the free trade agreement have not yet been agreed. Sometimes the commercial invoice has to be legalised, depending on the specific bilateral trade agreement.

The MOI can also issue and endorse EUR.1, the EU COO necessary for export to European countries and where goods may circulate throughout the EU.

MOI endorse about 20 COO and EUR.1 per day.

They have to make judgements on rules of origin for endorsed COO, Forms A (GSP) and EUR.1. In general, 50% of the value of the goods must originate in Lebanon to qualify as a Lebanese sourced product. Some countries will accept 40%. WTO merely say that "substantial transformation" must have taken place in the country stated as the originator.

MOI also issue the COO known as the Form A, for the GSP. Once again, they have to verify origin. For textiles and apparel, the goods need a visa, specifying origin, to go with the Form A.

3.6 Beirut Chamber of Commerce and Industry

The process is as follows:

The messenger or exporter take their invoice to the BCCI.

1. BCCI check invoice details. Is the applicant a registered member of the BCCI? *Note: Paradoxically, if he is, he is effectively the employer of the person issuing the COO.*
2. Check signature for authenticity against a signature on file.
3. Check the SAD as authentic and original.
4. Check source against rules of origin.
5. Look up from file if the manufacturer has an attestation showing his approval to manufacture such goods.
6. Raise COO, allocate serial number.
7. Fill in goods description, consignor, consignee, mode of transport, origin of goods.
8. "Legalise" invoice.
9. Sign and stamp COO
10. Add serial number of COO to the back of the invoice.

Two signatures are required, the Director general and his deputy.

For multiple copies, each is produced as an original, stamped and signed.

Costs: 0.1% of invoice value with a minimum of 25,000LBP and a maximum of 200,000LBP.

In 1997 there were 11,835 Lebanese COO issued. In 1998 there will be a little over 12,000. Growth is very slow.

One final point. Although the BCCI should be the last place where "gifts" are required, it is still not uncommon that amounts of around \$US20 change hands at the time of application. This is unacceptable for three main reasons. Firstly, the system is organised so that applications are treated in a sequential order, as applied for, with a time/date stamp. Secondly, the process is part of a service to the members of the BCCI. It is simply untenable that members should have to pay extra to the people, who they already pay through their membership fees, just to do the job they are already paid for. Thirdly, all of this takes place in public, where every COO department professional can be seen at all times.

More later.

4 The Importer/Exporter

It may be considered that this section is out of sequence. It is probably a question of preference. Much of what has been discussed so far concerns the trader (the importer/exporter) in the pre-transaction stage.

It can be argued that there are three stages to the trade process: the precompetitive stage; the pre transaction stage, and the transaction stage.

The Pre Competitive Stage: This is the stage where the trader is finding out about potential trading partners (customers and suppliers) and the process he needs to go through to import or to export his goods. As mentioned in the first report, most experienced and successful traders rarely need to go through this pre competitive stage. They know their customers, their suppliers and the process. But things change and the prudent trader should be in a constant state of research and preparation.

At the moment, the source for this pre competitive information is either the TIC at MOET or the research centre at the BCCI. The types of information needed by the trader include:

- Potential suppliers or customers, by country and city.
- Their specific needs.
- Currency, payment, terms of payment details.
- Any financing, incentive opportunities?
- Volumes, quantities, packaging and quality needs.
- Methods and costs of transport.
- Freight rates; shipping schedules.

Pre Transaction Stage: Once a potential partner has been established and contact made, Government controls and importing country requirements need to be established, as already discussed at length. In addition, details on payment terms (account, LOC, Promissory Note) need to be discussed and agreed.

As these types of negotiations are in progress, probably with several potential partners simultaneously, then local value add/manufacturing needs to take place. This involves obtaining quotations, negotiations for goods and services, obtaining funding for export orders, in advance of receipt of the LOC if possible. Agreed orders are then confirmed with purchase orders (PO), and amended as necessary as work in progress matures. Invoices and statements are received from domestic suppliers or sent to customers. Payment by cheque, on account or by other acceptable means takes place progressively.

Goods are delivered with a supplier's packing slip and advice of delivery note. The carrier also requires consignment notes, manifests and proof of delivery notes. There are numerous other documents in use for specific domestic industries. They are not of primary importance to this report because they relate to local, domestic practises.

Payment processes also vary from international trade. There is not such a great need for reassurance because this part of the trade is local and the supplier/customer is almost certainly a trusted trading partner. Hence on account, 30 day terms are quite normal. Banks use credit notes and debit notes between themselves to advise inter bank payment/settlement processes. Suppliers/customers send cheques and a remittance with each, in order to help reconcile order details with payment details for accounts payable/receivable and general ledger purposes.

The Transaction Stage: This where the overseas transaction takes place and goods move from one country to another. The vital international trade documents include:

Commercial Invoice. It must contain all necessary commercial information, in French or English. It must show the value of goods as Free Alongside Ship (f.a.s.). Prices of each item must be detailed. It must contain brand marks/labels (marks), numbers, weights, and a full and accurate description of the goods. The International or Commercial Invoice must also bear a statement confirming that the goods did not originate in Israel, before "legalisation" may occur.

Certificate of Origin. A COO Is needed in Lebanon. Variations on the COO (EUR.1, GSP Form A) are needed for other countries.

Bill of Lading. A ships master's receipt of transfer of the goods into his care. It should correspond with the invoice and show whether freight is pre paid or moneys (payment) to be collected.

Packing List. A list of packages loaded into the container, showing serial numbers and contents, where feasible.

Insurance Certificate. As requested by importer.

Cargo Manifest. A consolidated list of containers loaded at each port of transit, and unloaded. This should represent the total of all bills of lading and packing lists. It is used by Customs and container handlers/shipping agents to account for all containers (loaded and discharged). The accounting by Customs is known as manifest acquittal.

(Container) Bay Plan. A detailed listing of where each container is located on board the ship. Some bay plans are now in use for container handling operations in container yards.

Letter of Credit (LOC): there are various types of LOC. They all perform the function of reassuring the exporter that the importer pledges to pay for the goods ordered on transfer of title of the goods. A LOC may be used as security against bank-funding for a trader in good standing with his bank. In many cases, this is not possible. In which case the exporter funds the complete transaction from his own financial resources or negotiates free issue of raw materials pending payment.

Developing countries often initiate export credit guarantees or matching grant schemes, or use other incentives to help exporters who cannot otherwise obtain funding, or whose assets are not sufficient to cover the costs of meeting an export order.

Bill of Exchange: Used in conjunction with LOCs to obtain payment against a completed LOC, after ownership of the goods has been transferred to the buyer.

Customs Declaration, or SAD: this form has to be completed for every import and export transaction.

Delivery Order: A freight forwarder's instructions from the importer or exporter to collect and deliver specific goods from a specific location to a designated third party.

See Appendix 19 for a sample SAD in English translation.

This is not an exclusive list. But it does help provide an insight into the documents that need to be understood and completed by the trader. UNCTAD claim that over 14% of the costs of global trade is now taken up by administration. It is not hard to believe after reading the sections on Government controls and trader documentation. In order to get close to being competitive, processes need to be simplified, and automated where possible.

5 Customs Processes

As will be seen from the previous and accompanying diagrams, Customs processes involve all of the players in the trade process. It is not possible to treat either them, or the port, as a stand alone operation within the context of trade efficiency. This section begins with a few general remarks about Customs and then looks at the process that the declarant (the Lebanese importer/exporter) faces, in order to move goods into and out of the country.

5.1 Lebanese Customs

Customs employ 500 civilian staff and around 1,500 military personnel.

Customs is organised into three regions, each headed by a Customs Director, who report to the Customs Director-General. The D-G reports to the Higher Council for Customs (HCC). The regions are:

- Beirut, which includes the port, the airport, Sidon and Tyre.
- The Bekaa.
- The Northern Region.

The Customs Directorate is supervised by the Higher Council (HC), under the authority of the Minister of Finance. The HC may issue decrees related to tariffs, codes and conventions, subject to cabinet ratification within five (5) days.

5.2 ASYCUDA and NAJM

Customs have installed the UNCTAD ASYCUDA/NAJM for the computer processing of Customs declarations. The project was initiated in 1994; the project implementation team was formed in 1995.

ASYCUDA (Automated System for Customs Data and management) was installed under the Lebanese title "NAJM" in the pilot site in the port of Beirut in September 1997, following the adoption of the Harmonised System of tariffs in January 1996. An Arabic version of the Single Administrative document (EU-SAD) was introduced in January 1997.

The tariff reform of 1995 was the catalyst for NAJM implementation. This reform included:

- Consolidation of all duties into a single ad valorem structure;
- Removal of the artificial Customs exchange rate (the "Customs dollar");
- Tariff simplification.

NAJM has the objectives of increasing efficiency in the Customs clearing system, improving revenue control and the production of reliable national trade statistics. The nation's dependence on Customs revenue is still around 55% of the national revenue total, hence the importance of this function.

Prior to NAJM there were around 23 different, non standard, Customs declaration forms, requiring up to 43 signatures for clearance. NAJM has reduced this to two signatures for green channel acceptance.

The number of Customs tax rates have been reduced from 74 to 14.

In addition to simplifying the variables, NAJM has introduced the concept of the green channel and the red channel for Customs clearances. NAJM will select goods for inspection following data entry of a correct (clean) SAD. Selection is made based on a trader's (declarant's) history with Customs, the type of goods, source and destination of the goods and other factors designed to measure and manage risk. Risk of losing revenue through under declarations and fraud, security risks, risks of drug imports, pricing (dumping) issues and so on. Various Ministries cooperate with Customs in the area of technical controls to manage this process and to gather statistics.

If the green channel is selected then goods are available for release, after payment of taxes. If red is chosen, then a physical inspection is necessary. This has reduced average clearance times down from six days to three days.

The NAJM system processes 85% of Lebanon's external trade. It has now been installed at Beirut airport (August 1998) and there are plans to install it at Saida, Tripoli and Masnaa. NAJM now handles 400 clearances a day at the port and 300 a day at the airport. Only a fairly small value of international trade comes through the airport, much of it in low value courier bags.

30% of port declarations (increasing) are selected for the green channel; 290 declarations (i.e. the goods) are inspected daily. There is an average of 2.6 items per declaration. Note: there are regular differences in the proportions selected for green channel/red channel. It may be 40% or more this month. In the month declarations were reviewed for this study it was 30%.

5.3 Importer's Processes

See *Diagram 2: Lebanese Import Processes, the Port and Container Handling*. We will refer only to the Customs component of the process in this section. The port and container handling is covered by Section 6.

The importer is informed by the shipping agent that his goods are either on the way, or have arrived at the port. The importer (or his Customs broker) would normally have received the Invoice (legalised), Bills Of Lading, Packing List, COO, etc. by courier, or by airmail, although they may accompany the goods. The shipping agent has sent Cargo Manifest details by fax or messenger. The declarant also has a copy of the delivery order. So now the importer, or his broker, have to complete the import declaration and present it to Customs along with the necessary trade documents and the technical control documents, such as pre-licence, licence, certificate, etc.

The container arrives at the port, and is placed into storage awaiting Custom's instructions. Customs has a copy (on paper) of the Cargo Manifest, and receives information from the port of the container's location.

The declarant completes his (typed) SAD and submits it to Customs. He is given a ticket bearing a sequential number. All declarations are processed in sequence. SAD priority is determined by the computer. It cannot be changed. Customs personnel data enter the SAD and fist store the data, pending correction of any errors. 85% of all errors at this stage are the fault of the declarant, not of Customs.

The SAD is corrected, retrieved from storage and printed out for the declarant to sign. This is then considered to be a "legal" declaration. At this stage the other documents are presented to a Customs officer for examination.

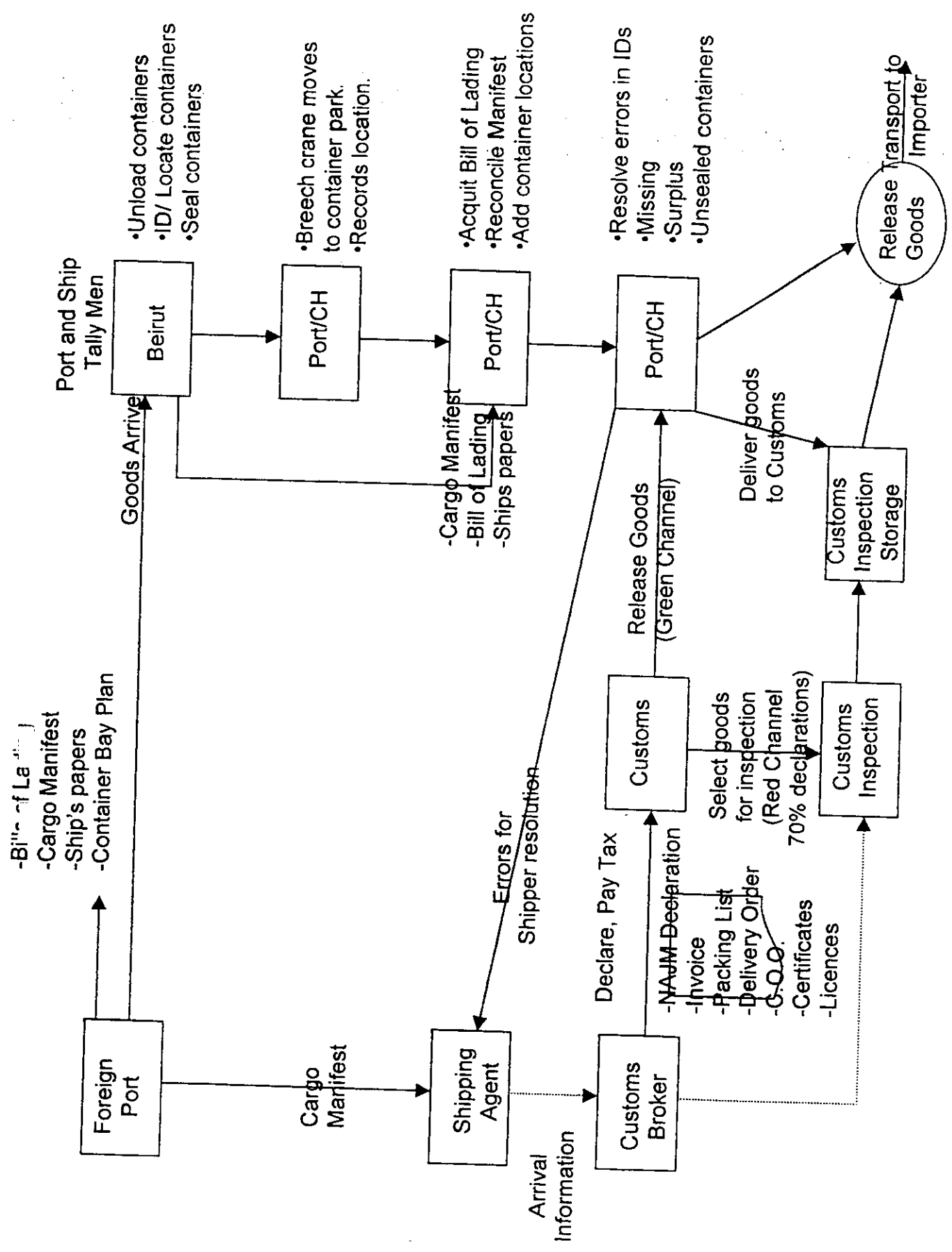


Diagram 2: Lebanese Import Processes, the Port and Container Handling

The declarant is then given a ticket bearing a sequential number and goes to the acceptance section. When the Customs officer displays the ticket number on a screen in the acceptance section, the documents are examined for accuracy and completeness. The submission is made in a colour coded folder; green for import, blue for export, dark blue for re-exports and orange for transit.

If the officer is satisfied with the initial document scrutiny, he then presses a key on his computer keyboard, asking NAJM to assess the tax and make a selection based on the normal selectivity criteria, discussed briefly earlier in this section. The declarant receives a receipt with an ID number for declaration and goods identification purposes.

If the declaration is accepted, then the declarant is given a yellow printed form complete with assessment details. He must then pay the assessment and obtain a receipt before taking collection of the goods. If the goods are selected to go to the red channel, then he is given a draft assessment and the details registered but not processed by NAJM.

The declarant must then go to the storage shed where the goods are held. Pending goods release he is notified that there is to be an inspection. Customs learn of the details through a fibre optic link to their NAJM system at the port. The declarant attends the shed at an agreed time, with Customs. He may be accompanied by the freight forwarder, since he may need to pack and unpack the goods.

The container is unsealed; goods unpacked; inspection takes place.

The assessment is completed and the declarant takes transfer of ownership, after taxes are paid (and after port, container handling, shipping, and harbour dues are paid).

If there are disputes about the amount of the assessment, there are two options. The first is to appeal to the HCC who meet twice a week to settle disputes of this sort. The second is to request an independent valuation, which often results in assessment by a competitor! Some cases go to law or to arbitration. Note that the Brussels Definition of Value (BDV) is currently applied although there is an intention to move toward the GATT rules in the future.

A little more detail about dispute/fine procedures:

A. Dispute does not concern origin, value, description or quality.

If the trader/broker accepts the fine, the case is settled as soon as the fine is ratified by Customs. If the trader/ broker rejects the proposed fine then he may lodge an appeal.

B. If the dispute concerns origin, value, description or quality.

If the trader/broker accepts the fine the case is settled as soon as the fine is ratified by Customs. If the trader/broker rejects the proposed fine he has to go to arbitration. A committee of three arbiters is selected; one by the trader/broker; one by the chief of the Customs office concerned, the third by the HC.

If an error or a deliberate attempt at undervaluation is suspected of the declarant, then there is a fine to be paid. The normal fine is 10% of the taxes payable. However, the trader's record is taken into account. The table of potential fines is:

Table 6: Customs Penalties

	Deliberate?	Don't Know?	Accident?
Discoverable by Customs?	M-H	M	L
Not discoverable by Customs?	H	M	L-M

Note: H=High, M=Medium, L=Low.

Appendix 21, Customs Fines, shows that the average fine for 1998 is, so far, 1.27 times the assessed lost revenue to Customs.

Income received from penalties is shared (the Reward System):

50% to Government.

16% to the detecting officer/s.

5% to their line manager.

19% to a Customs fund, disbursed to all Customs personnel on a six monthly basis.

10% to a Customs cooperative.

There is a 500,000LBP ceiling for detecting officers, 250,000LBP to the officers assisting and 100,000LBP to military Customs personnel.

5.4 Exporter's Process

The export process is much the same as the import process, except that, of course, it is in reverse order.

See *Diagram 3: Lebanese Exporter's Processes*.

Clearly there are some differences. For example, an exporter often builds a mock up of a container on his own premises and rehearses loading his goods into the mock container. The purpose of this apparently strange procedure is so that he can get the optimum number of packages into a container and work out a method of packaging so that, if he has to unload the container for a physical inspection, then he can reload it in the same sequence and be sure that his Packing Slips are still accurate. This means that the Bill of Lading remains accurate and the Cargo Manifest. Hence no fines accrue at Customs.

The container is sealed by the freight forwarder, when he actually packs the container prior to delivery to the port. If the container has to be unsealed for an inspection then the resealing is witnessed at a sealing ceremony, and the packing list signed by two witnesses.

The goods are delivered to the container yard at the port. The location noted and then the SAD process is initiated. The SAD is accompanied by a COO (EUR.1, GSP COO Form A, Certified Invoices, etc.), Invoice, Packing List and certificates, such as Sanitation Certificates or licences covering the MFA for textiles.

The number of exports is about 8-9% that of imports; the number of technical controls obviously less, since it is normally treaty obligations and matters of national reputation that determine the controls on exports.

The remainder of the process is the same as for imports, except that they are largely in reverse order.

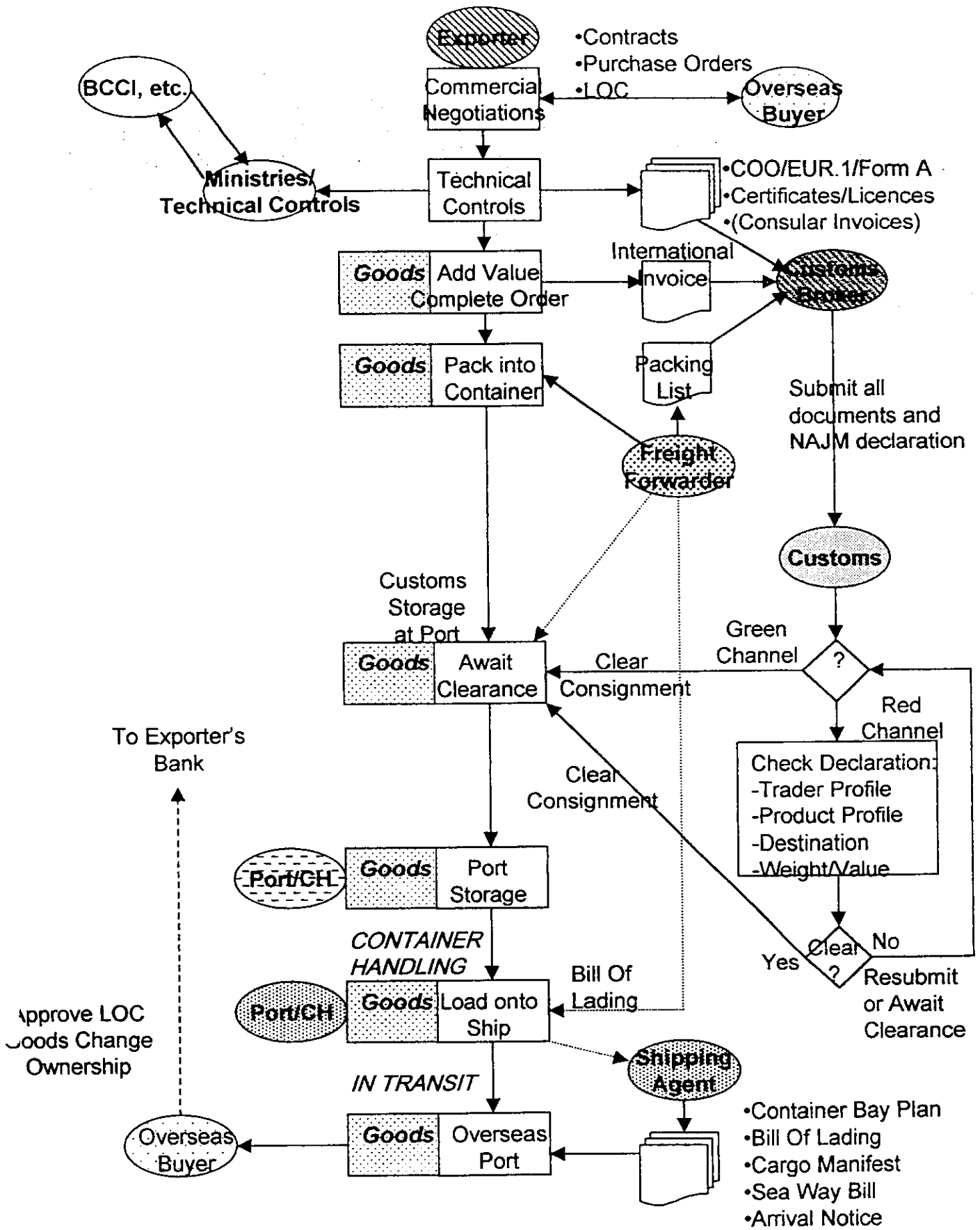


Diagram 3: Lebanese Exporter's Processes

5.5 Transit and Temporary Imports

Transit volumes through the port of Beirut have declined from 225 per annum in 1993 to an estimated 60 in 1998.

For Customs control purposes, which is the only significant difference in the process, transit traffic is divided into three types:

- Local transit
- International transit
- Temporary imports (re-exports)

A deposit of 110% of duty is required for a temporary import, which is paid back on export. On import, the SAD (manual input) is submitted to Customs who process it manually at the moment. At export, a SAD is submitted to NAJM. Misvaluation or fines may total 10% of goods value.

Traders are dissatisfied with this process; many would rather pay a fine than wait for the NAJM process to handle re-exports. However, since there are so few, it is difficult to be sure of the facts of the matter.

Manual records are maintained for transit consignments. A guarantee of 20 million LBP is required for each transit declaration. Repayment is authorised upon receipt of a Customs attestation from the office of exit. The attestation is actually a modified bill of lading. The allowed time for temporary storage is three months, after which fines are levied on the principal (capital value of goods). The brigade (Customs military personnel) maintain the manual record systems.

There are actually four types of transit:

- Through transit
- Inward transit
- Interior transit
- Outward transit

Through transit is where goods pass from one country to another. Inward transit, the movement of goods to an inland point of clearance. Interior transit covers the movement of goods between inland Customs offices. Outward transit covers the movement of goods from an inland point to the point of export.

This regime only applies where export taxes are applied, or where domestically produced goods are transferred duty/tax free from point of manufacture to point of export.

NAJM processes already cover transit processes, but the process is largely manual at the moment.

5.6 Summary

From a trader's point of view the Customs process is a long drawn out and frustrating experience. NAJM is helping at the front end of the process but it still has only reduced the clearance process by two-three days. But that is a significant achievement.

The Analysis/Summary section of this report will detail the times taken through Customs and the port, the costs and the reasons for the current inefficiencies, NAJM notwithstanding.

The next section looks at the activities of the port and the container handlers.

5.7 **Addendum Inserted Following Review.**

Road Borders

The special needs and problems with road border entry points were not covered in the main report in sufficient detail. The following is a summary of the main points discovered during a visit to Masnaa.

When a vehicle arrives at the Lebanese Customs entry point, the driver must complete a Declaration of Entry. This is a handwritten document. It conforms to the Arab agreement for transport and transit. In addition to driver and vehicle details, a COO, manifest, transit COO (i.e. a source history), invoices, etc. are required. If no legalised invoice is presented then a fine of 110% of the value of goods may be applied, up to 1 Million LBP.

Product details, numbers of packages, weight, costs, importer, source and destination are also noted. There is no NAJM and no computer systems at the border. However, the regulations for all ports, road and sea, are identical. There are, however, additional agreements with Arab countries dealing with transit and the transferring of goods between countries which must be applied. Trade preference agreements need to be supported by a "legalised" invoice and a special COO. Customs say that they need a reliable power system before they can install NAJM. However, on the other side of the border, Syrian security operate computers!

By the time the entry declaration is completed there is a complete geographical record of the goods movements, from source to Masnaa.

Masnaa is apparently the busiest of Lebanon's road borders. It currently handles:

7,282 imports of trucks and refrigerated trucks. (July-September 1998)
1,208 exports in the same period.

Assuming that this period is typical then that equates to 84 import declarations a day and 16 exports, a total of 100 per day. The annual average is probably less than that figure, allowing for seasonality.

The truck originally enters the truck/container park operated by Customs. The driver's passport is checked, as is his annual permit to drive the route. He is given an entry form.

A documentary examination then takes place, followed by a physical inspection. A freight forwarder represents the trader during these examinations.

There is a virtually 100% physical inspection process. An observer may be present during these examinations.

If additional technical controls are required, then the driver awaits the results of sample analysis, which may take up to 15 days. There is no laboratory at the border. Other technical controls may also cause delays.

If there are no problems then a typical clearance time is three (3) hours.

Normal Customs border hours are 8 AM to 2 PM, according to Masnaa Customs officials. It is the view of Beirut Customs that working hours are 8AM to 12Am and 3PM to 6PM (for goods); for passengers there is a 24 hour operation.

There were about 18 temporary admissions each month; there are an average of four (4) per month for re-export.

Volumes for road transport are fairly small but the process is time consuming and costly to traders. There is no automation, and frequent, often lengthy delays. The capacity for handling growth in volumes is questionable. Up until now, there has not even been a weighbridge in operation. A weighbridge is under construction but it appears that it will only be used in exceptional circumstances.

Statistical data is passed to the Customs system on a regular basis.

The opportunities for informal costs are legion.

The Port and Container Handlers

The port of Beirut is a very active port, bearing in mind the population of Lebanon. It carries more container traffic than Tunis, which has three times Lebanon's population.

The port of Lebanon is owned and managed by a trust, based on the aftermath of the war, following which it was not possible for the Government to invest all that was necessary to reconstruct and modernise. The trust is allowed to make a profit (25% of revenue) under its deeds of trust.

6.1 Port Plans

The port is now entering its second phase of reconstruction and development. Reconstruction of new harbour facilities and storage facilities is almost complete. Administration processes are next on the agenda, with an ambitious plan to make the port a "paperless port" by 2000.

An important part of these plans is the intention to contract out the container handling side of the business in 1999. The Analysis section contains some comments on this plan.

The port also intends to install a wide range of new port software by the end of 1999, probably from the UNCTAD suite. This could comprise the following:

ACIS (Advanced Cargo Information System), including

- Port Tracker
- Manifest Module (Electronic Cargo Manifest to UN/EDIFACT standards)
- Harbour Master module
- Cargo Handling module
- Cargo Storage module
- Gate Management module

They are awaiting a final report and recommendation from UNCTAD to confirm these opinions.

In order to place this information in context, the following traffic information is included. The basic figures given here are a composite of extrapolated figures for 1998, some figures based on 1997 actuals, and even some based on 1996 actuals. While the port keeps accurate figures for its own purposes, it can be slightly difficult to drill down for more detailed logistical data.

6.2 Port Statistics

In total, the port will handle 5,500,000 tons of merchandise in 1998. This represents about 85% of the merchandise trade of Lebanon. At the same time

it will handle 2,750 ships (not all container ships), spread equally, by month. There appears to be no high or low season for the port.

The container handling facility will handle 150,000 containers in 1998. 140,000 FCL imports; 14,000 FCL exports.

The last year for which full information was available showed the following distribution of containers:

5,393	empty containers in the container park
10,085	empty containers in storage
86,274	processed through the port of Beirut (and Customs)
414	in transit through the port and Customs
<u>102,166</u>	Total

In addition, there were:

88,509	empty containers exported
10,323	full containers exported

Since these figures were for 1996, it is reasonable to assume, for approximate analysis purposes, that the port will export about 95,000 empty containers and 14-15,000 full containers in 1998.

The port estimate that it takes eight (8) days to clear containers out of the port, and a further three (3) through Customs.

The port has also developed a new tariff which includes 15 days storage (free), independent of the class of goods. Previously, the port distinguished between types of goods and length of storage for its tariff.

6.3 Port Processes

Diagrams 1,2 and 3, seen in previous sections, refer in some measure to the port processes. See also the charts in Section 8: Analysis: Summary.

For import purposes the process begins with an Arrival Notice being received from an incoming vessel. A management meeting decides on the berth number and the resources to be allocated.

When the ship arrives, ships papers, including the cargo manifest are handed over to the Shipping Agent. He passes a copy to Customs. In the meantime, tally men-on the ship and on the dock-check the containers as they are disembarked. Each container number is noted, inaccurate numbers, missing container seals and any other relevant findings are reported to container yard management.

Note: To reiterate an earlier point. The port is, at the moment, operating as the port and the container handling yard. This will soon be split into two separate operations.

The tally men's figures are reported to yard management, who update their (manual) records. Sometime later, perhaps two to three days on average, the port's copy of the Manifest is sent by Customs (or by the Shipping Agent) to the container yard management.

By this time the containers have been uplifted from the dock and placed in one of several container storage yards, stacked in lots of up to three containers high, in yards holding about 1,000 containers each.

Container locations are recorded in manual systems, along with the cargo manifest, the details of the ship and date of arrival.

If the port is informed by Customs that goods can be released, then the materials handling department locate the containers and load them onto the freight forwarder's transport, by arrangement. If, on the other hand, they are informed that the goods are to be physically inspected, then they move the containers to a Customs storage shed, where they await the arrival of Customs officers and the importer/freight forwarder.

Once the goods have been cleared and assessed, and the taxes paid, the goods are repacked into the container. Port and harbour dues, container yard dues are then paid, receipt and clearances obtained, then the goods may leave the yard. They are still subject to, however, random and arbitrary demands for inspection by the Lebanese Army, especially at the gate.

6.4 Summary

The port is well aware of its shortcomings. It is still in decline and is losing customers because of poor transit arrangements, its physical facilities and from Custom's interactions with the port. Its plans for technical improvements will help immeasurably but it still has to resolve its issues with port. More in *Section 8: Analysis: Summary*.

6.5 **Addendum inserted following Review.**

Port Operations

Temporary export declarations average around six (6) per month. Re-export declarations are around 200 per month. The re-export regime relates to mostly to goods on which no Customs duties have been paid on importation, except for a small deposit.

There are a number of different warehouse types operated in Lebanon. They include:

- Customs bonded warehouses;
- Trader operated warehouses;
- Special warehouses;
- Fuel oil warehouses;

Industrial warehouses.

Additionally, there is a duty free shop at the airport, two free zones (in the ports of Beirut and Tripoli) with a further four (4) planned.

Warehouse operations are performed manually at the moment. Since there is only an average of five (5) import declarations for warehousing a day there is no real urgency to prioritise automation of the warehouse regimes. Nevertheless the NAJM programs are ready for implementation.

Goods are declared manually on a SAD and entered into a stock control register, maintained by the warehouse control team. No taxes are paid at importation. A banker's guarantee is given by the importer to Customs as insurance against future duties and taxes. Goods for home consumption ^{or} re-export after warehousing are declared to NAJM in the normal fashion.

The use of "**virtual warehouses**" is for high value and highly taxed items, such as new motor vehicles. They are designed to delay payment of taxes until the goods are sold, where possible. The warehouse is operated by the trader, and is subject to detailed Customs checks to confirm stock levels.

The maximum length of storage is for one year, after which the goods must be entered for home use or be re-exported.

Industrial warehouses are used for imported goods intended for use in a Lebanese manufacturing process. The finished product will be entered for home use, or be re-exported. This is generally designed for value added operations in the free zone. Currently there are several industries making use of this facility, including:

- Electrical assembly;
- Footwear (repackaging only);
- Foodstuffs
- Garments;
- Jewellery.

Others, including the carpet trade are planned. There is a highly competitive tariff in operation.

Customs hold samples of goods manufactured in these warehouses; they also calculate wastage levels and estimate the probable outputs from imported inputs. Records are maintained manually.

Transit operations are currently running at very low volumes; there has been a fall from 225 in 1993 to about 60 in 1997/8. The reasons include competition and the low productivity/high price combination of existing port and Customs processes. There are new plans for trans-shipments and free zones, which will be dealt with later in this section. The objective of trans-shipment is to offload and to reload within 24 hours. A new tariff was introduced by the port in September 1998, as an incentive for shippers and freight forwarders. It

includes 15 days storage and a much simplified tariff. This tariff will only be in operation until the new container handler contract becomes operational.

The new laws and tariffs are included as an addendum to the Appendix.

Transit consignment records are manual. They contain details of serial number, transport method, trader details, number of packages, descriptions and weight of goods, value, authorised period of travel, etc. Note: Port of Beirut to the airport is allowed two (2) hours transit time.

A guarantee of 20 million LBP is required for each transit declaration. Acquittal is authorised on receipt of a Customs attestation (an annotated Bill of Lading). There is a time limit of three months, after which fines are applied on the guarantee.

Transit goods are generally accompanied by a member of the Customs brigade.

Problems With The Transit Regime

There are significant problems with the transit regime, especially in the free zone area. Customs comments are that under the Lebanese regime trans-shipment and transit are operated as two different regimes. Trans-shipment is applicable on foreign goods whose Customs duties are, as yet, unpaid. These goods may be re-exported directly to a foreign country or be transferred to another ship departing for any other port, domestic or foreign. This regime requires a special kind of declaration, known as a D11 (or akhtrma; article 246).

Article 167 of the Customs code says that the transit regime covers the transfer of goods of a foreign origin, in certain specified cases. These include:

1. From a country outside Lebanon to a third country, while transiting the country. This is only for land transit, not by sea.
2. Goods transferred from a Customs office, free zone or warehouse at the border to another Customs office, warehouse or free zone inside Lebanon.

The following comments are taken from a recent letter sent by the Association of Merchants to the Port Authority.

The letter requested the restoration of true free port operations throughout Lebanon. The economies of operating through a free zone rather than through 90 day LOC facilities are significant, and would reduce trader's costs significantly. They claim that in Beirut there is no true area for free zone operations. The zone is fragmented and distributed all over the port. Customs make very little differentiation between normal trade and free zone trade as a result. Free zone warehousing is non-existent.

Note: Customs comments: The free zone is a bonded area within the port of Beirut. It has a special area for goods inspection declared to NAJM. The area is under special Customs regulations that help define the difference between normal trade and a free zone. The most important of which is that Customs have no jurisdiction over goods within the free zone.

Note: There is clearly a disparity of views between the regulations and the actual operation of the free zone, many of which are subjective.

Special permits are required to import and re-export containers. Customs generally require a B15 declaration, costing \$500 on average (this is a total, including Customs taxes and Broker's charges). This is called a special or temporary permit. The same is true for bulk products. There is no allocated area for repacking bulk imports. Goods cannot be repacked unless they are declared under another regime. See comments on time to repack.

When containers arrive they require an observer/escort from the ship to the free zone area. The trader and freight forwarder are at the mercy of this escort; his goodwill usually costs money.

Once the container reaches the free zone it needs (Customs) permission to enter. A container passes through 10 different people from the ship to the free zone. In order to enter the free zone goods must have an original invoice and a Bill of Lading.

The area for pre export inspection is a long way from the free zone. Once again, escorts, costs and time are involved. There are no permanent employees for inspection. The trader has to "find" one!

And finally, goods are not allowed to be repacked into their container until the ship in which they are due to leave actually arrives. Since ships only spend about 10 hours at the port, this often means that it is impossible to pack and load in time. Catch 22 in operation! And this is in addition to the costs of storing the goods in the free zone awaiting permission to repack.

Port Plans

The container handling contract was let to Dubai Free Port during the week commencing October 18th 1998. It will come into operation in 2000. Thereafter, subject to current negotiations between the port and the Higher Council, Customs will operate outside the gates of the port. The new authority will pass goods into Customs control within 24 hours. They will operate an EDI based electronic cargo manifest and a bay planning system. The Recommendations Report will cover this in more detail.

Thereafter, Free Zones will operate as true free zones, outside the jurisdiction of Customs. The port will provide Customs with appropriate statistical data.

Permits will be provided at the airport and land entry point for the free zone. The \$500 permit will no longer be required.

Much of the need for including this section was seen to be for an understanding of the future operation of the port and free zones. As previously mentioned, current volumes are such that this trade regime is currently not too significant to the trade process. But if plans mature as intended then that will change.

The Trade Professionals

The final key component in international trade is what we have chosen to call the trade professional. This group of people includes:

- Customs Brokers
- Freight Forwarders
- Shipping Agents

Their jobs are, for fees, to complete all formalities and transport arrangements which bridge the gap between importers and exporters.

The Customs brokers interact with the trade control authorities, such as Ministries, the Chamber of Commerce, overseas Lebanese embassies and private sector agencies who help the ministries with technical controls. It is their job to know all of the regulations and processes necessary to clear goods through the system. In some cases they, or the trader, use messengers for this process, or at least the travel and waiting part of the work. The broker has to prepare all of the necessary Customs paperwork so as to get the declaration through NAJM quickly and without extra expense.

Brokers are paid to clear the goods strongly influences the profitability-or not-of export and import transactions.

Freight forwarders handle the transport component, the packing and the transport documentation needs of the importer/exporter. They are called on to pack-and unpack containers. Their efforts need to take into account the vagaries of the Lebanese road system and the peculiarities of the port and Customs, so as to get the goods to the client-or his client-efficiently, on time, within budget.

Shipping agents are the shipping line's representatives, in Lebanon. They interact with their overseas shipping and logistics operations to ensure that goods are on board, are accurately identified, that the paperwork is complete and legible, and available as soon as the ship docks.

Shipping agents are the bridge between the Customs and the port/container handling facility. They also handle the ship booking and capacity planning. In some cases, they can also create an accurate bay plan, to ease the unloading and reloading tasks. They also have to reconcile ships manifests to ensure that all containers that arrive and depart are accurately represented on the Bills of Lading and the Manifest. Where errors are detected, they are allowed time-often as much as seven to eight days-to investigate and correct the errors. Errors include lost and missing containers, incorrectly numbered-or missing/part missing numbers-on containers. They also have to negotiate with the ships master and the port when missing seals are observed on incoming/outgoing vessels.

This incredibly complex mixture of systems and responsibilities, based on practices that are hundreds of years old, is bound to seize up when today's

speed of transport, of logistics requirements and market volatilities are taken into account. As a consequence, much of the inefficiencies derive from this group. Their traditional methods of getting around problems is now leading to even bigger problems.

The total number of professionals in Lebanon is probably of the order of 1,500 to 2,000 people. In Beirut alone there are at least 1,200 people, not including messengers and direct importer/exporters, who fall into the category of trade professionals.

6 Analysis: Summary

This report set out to examine and to analyse each of the principal participants in the Lebanese trade process. It will be evident to the reader, by now, that each of the trade participant operates in a systems vacuum, completely separate from the others. Computer systems are not common in the process. Where they are used they are used purely for in-house purposes. They offer very little help to other trading partners or authorities in the sequential process of import and export.

8.1 Process Summary

The following charts contain a step by step summary of what happens to the importer, the value adder, and to the exporter in the Lebanese trade process. See Glossary at pp2-4 for a fuller description of acronyms used in this section.

Please read the next three sections in conjunction with Diagrams 1, 2 and 3 (pps 16, 44 and 48). Note: day zero (0) is the day that the import (or export) process is deemed to begin. Any day with a minus (-) figure presumes pre-transaction activity.

Table 7: The Import Process

#	Trade Partner	Process	Day (from)	Day (to)	Comments
1	Importer	Pre competitive: research.	-	-	
2	Importer	Pre transaction: Negotiate Order; Research.	-	-	
3	Importer	Agree contract: Receive LOC. Endorse by bank. Receive Invoice.	-	0	
4	Shipping Agent	Receive: BOL, Packing List, COO, Legalised Invoice.	-4	0	Assume this happens before goods arrive.
5	Importer/ Messenger	Obtain Technical Controls. Ministries, MOF. Private sector controls.	-4	0	Assume done before goods arrive.
6	Shipper/ Port	Receive Arrival Notice. Select and notify berth.	-1	0	Telex/fax.
7	Shipping Agent	Receive Cargo Manifest, Delivery Order.	0	3	All paper.
8	Port/ Container	Ship arrives. Unload containers.	0	3	Tally Men on ship and

	Handler	Tally. Check container. ID/Seal Intact?			dock.
9	Container Handler	Move Container to Storage Yard. Record Change of Location. Inform Freight Forwarder	0	3	Paper Systems
10	Shipping Agent/ Customs/ Container Handler	Manifest to Customs, Container Handlers. Reconcile Errors. Match location to Manifest.	2	8	Shipping Agent allowed time to enter and correct Manifest details.
11	Container Handler/ Customs	Complete reconciliation of containers/locations.	3	8	May take considerably longer.
12	Customs Broker/ Importer/ Customs	Submit SAD. Register declaration.	3	8	
13	Customs Broker/ Importer/ Customs	Clean SAD. Sign. NAJM selection. Green channel or Red channel.	3	10	Green channel.
14	Customs	Green channel selected by NAJM. Issue tax assessment.	3	10	Green channel.
15	Customs Broker/ Importer/ Customs	Pay taxes. Obtain receipt, Goods Release Order.	4	11	Green channel.
16	Freight Forwarder/ Importer/ Customs Broker	Go to port. Locate containers. ID containers. Submit Delivery Order and clearance. Take possession of goods.	4	11	Green channel.
17	Freight Forwarder/ Importer/ Customs Broker	Pay Port and Harbour Dues. Pay Container Handler Fees. Obtain Receipts, Releases.	4	11	Green channel.
18	Freight forwarder	Collect goods. Load onto truck.	5	11	Green channel.
19	Freight	Deliver goods to	5	18	Green

	forwarder	importer.			channel.
OR	OR	OR	OR	OR	OR
13	Customs Broker/ Importer/ Customs	Clean SAD. Sign. NAJM selection. Red channel. Physical inspection. (70% Declarations).	3	12	Red channel.
14	Customs Broker	Inform Port. Inform Broker/Importer. Register SAD.	3	12	Red channel.
15	Container Handler/ Customs	Move Goods to Storage Shed. Amend Location Records. Inform Customs/ Freight Forwarder/Importer.	6	15	Red channel.
16	Customs Broker/ Freight Forwarder/ Customs.	Attend Storage Shed. Physical Inspection. Issue Assessment.	8	17	Red channel.
17	Freight Forwarder/ Broker/ Customs	Pay taxes. Obtain release.	8	17	Red channel.
18	Freight forwarder/ Customs broker/ Importer.	Pay Port, Harbour, Container Handler fees.	8	17	Red channel
19	Freight forwarder.	Collect goods.	8	17	Red channel.
20	Freight forwarder.	Deliver goods to importer.	9	18	Red channel.
21	Importer.	Approve LOC. Pay supplier	21	120	Terms vary.

Table 8: The Value Adder

The following chart-The Value Adder- summarises the activities of a local manufacturer who imports goods, or buys them from an importer, and adds value to them by transforming them into a different product, a higher functionality product, or uses them as a component in a sophisticated assembly. Please note that the day numbering sequence on this chart may, or may not follow on from the importer sequence. It depends on the industry, commercial arrangements, export efforts, experience, and many other factors.

#	Trade Partner	Process	Day (from)	Day (to)	Comments
1	Manufacturer/ value adder.	Receive goods from import process. Storage.	-45	-15	Depending on supply and reorder cycle (i.e. industry).
2	Manufacturer/ value adder.	Management decisions. Decisions on production, stock, timing. Develop sales and manufacturing plans.	-45	-15	Depending on supply and reorder cycle (i.e. industry).
3	Manufacturer/ value adder.	Buy local goods and services. Transform, add value to imported goods.	-90	-5	Depends on sophistication of product, cycle times to complete and export efforts.
4	Manufacturer/ value adder.	Find buyers. Negotiate contract terms, delivery details.	-90	-5	Depends on industry, export efforts, etc.

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Chart 9: The Exporter

This third chart summarises the activities of the exporter. He may have bought the goods from a local supplier, specifically for export purposes, or he may actually be the manufacturer. Note that it is assumed that the exporter has bought his goods from the value adder in the previous chart, just for the purposes of explanation. It is not meant to follow specific cases.

#	Trade Partner	Process	Day (from)	Day (to)	Comments
0	Exporter	Receive order, contract terms, LOC, etc. Assume average of 4 days to receive and plan order for export.	-8	-4	
1	Exporter	Obtain technical controls. Obtain licences, certificates Obtain C.O.O., Eur.1 or Form A	-4	0	
2	Exporter	Submit LOC/ finance request to bank. Initiate approval process. Attach C.O.O., copies as required by importer.	-8	-2	
3	Freight Forwarder	Book container space by fax with shipping agent.	-4	-1	
4	Freight Forwarder	Pack goods into container. Obtain Packing List.	-4	0	
5	Customs Broker	Raise: <ul style="list-style-type: none"> ▪ NAJM declaration ▪ P.O. ▪ Invoice ▪ Packing List ▪ Delivery Note ▪ C.O.O./Eur.1/ ▪ Form A. ▪ Obtain legalised invoices where needed 	-4	0	
6	Freight Forwarder	Deliver goods to port.	-4	0	
7	Customs Broker	Declare export to Customs, NAJM and SAD. SAD registered.	0	1	

8	Customs	Assess tax, select channel	1	1	
9	Customs	Select Green Channel	1	1	Green Channel
10	Customs Broker	Pay taxes, fees. Obtain release of goods.	1	2	Green Channel
	OR	OR	OR	OR	
8	Customs	Assess tax, select channel	1	1	Red Channel
9	Customs	Select Red Channel	1	1	Red Channel
10	Customs/ Freight Forwarder	Inform Port/Exporter. Note goods location.	1	3	Red Channel
11	Customs.	Physical Inspection..	2	5	Red Channel
12	Customs	Complete assessment	5	5	Red Channel
13	Customs Broker	Pay taxes, fees. Obtain release of goods.	5	6	Red Channel
14	Container Handler/ Port/ Shipping Agent	Load goods onto ship. Complete Cargo Manifest, Bill of Lading, Ship's papers.	5	7	
15	Shipper	Transit to destination. depending on destination and itinerary.	6	15	
16	Buyer	Buyer received goods at his premises.	8	18	
17	Buyer/Seller	Exporter gets paid! depending on LOC, finance type and approval processes.	21	120	

8.2 Interpretation

From the diagrams it can be seen that the range of days for a green channel importer is 5-11, for a red channel importer it is 8-17 and for an exporter it is 5-7. See also *Table 12: Times Taken in the Trade Process*, later in this section. These were independently obtained via a questionnaire exercise.

Diagram 4: The Lebanese International Trade Flow on the following page, graphically illustrates the relatively small time that it takes to add value when compared to storage, shipping and administration. A garment, for example only takes a few minutes to make, yet may take over one year to reach the buyer, after the order is placed. In this case the cost equations necessary in order to calculate profit-even a cost break even-is very complex.

Diagram 5: Impact of Customs and Port Delays on Stock Investment and Product Pricing takes another look at the problem of time in the international supply chain. These two cases are hypothetical. They are chosen to illustrate the difference in inventory holding and order costs resulting from variations in delivery lead times caused by delays in port and Customs processes. The examples illustrate a delivery lead time (DLT) of five (5) days and one of 12 days. Both are at the lower end of expectations, by both the port and traders.

By following the two cases illustrated, it is possible to calculate the direct effect of delays in the inventory holding necessary to keep customers satisfied with a constant supply of goods. It shows how a seven day delay of goods coming through the port and Customs can lead to a 33% increase in investment in stock. After mark up, this could add 50% to the price of the product in the retail stores.

This calculation depends entirely on the cycle time of the product. If the product is seasonal, the seller could miss the market completely for the loss of a few days. If it is a regular seller, then the increase of 33% on costs could kill competitive advantage, especially for a re-exporter or value adder.

On the other hand, if there is only one or two exports a year, it might not make too much difference. However, there is overwhelming evidence that the majority of Lebanese importing and exporting is carried out by companies who transact international business at least once a month, on 20-30 day cycles. This makes them particularly sensitive to delays and excessive stock investments.

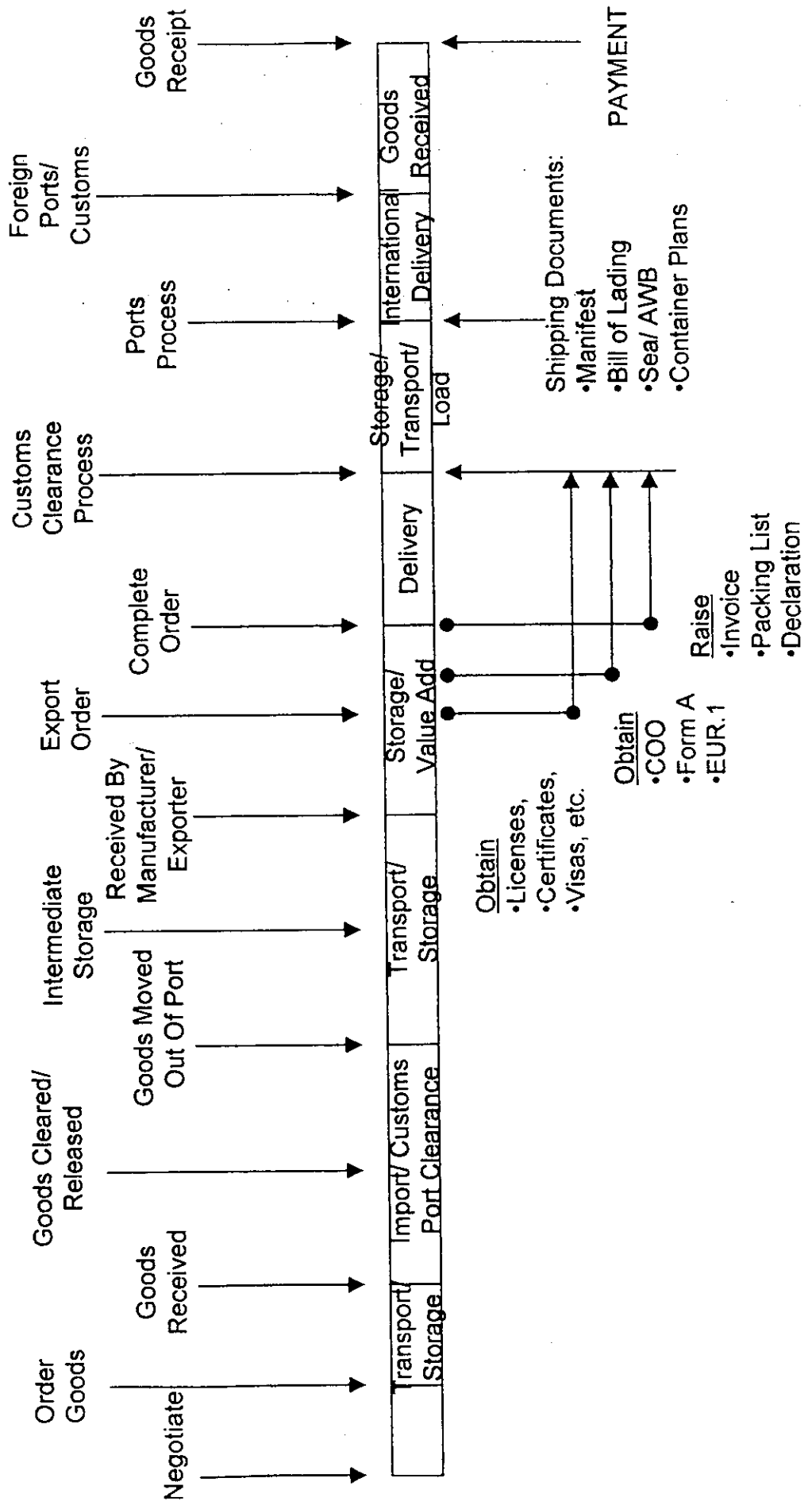
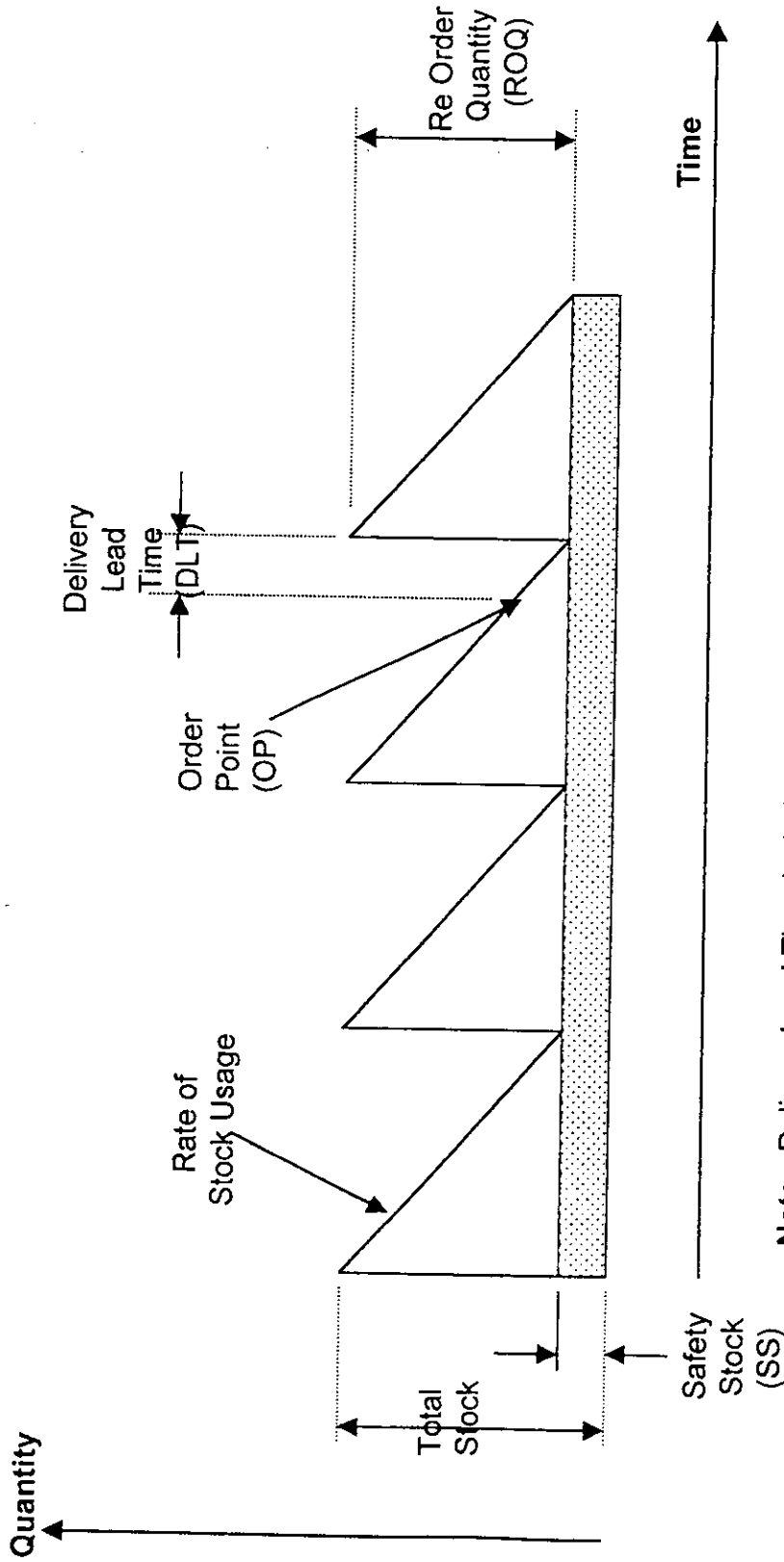


Diagram 4: Value Add: Import/Export Cycle



Note: Delivery Lead Time includes Order, Delivery, and Port and Customs formalities.

- Case 1:** ROQ=30 days, DLT=5 days, SS=3 days (60% of ROQ) Usage=30 days, OP=5days usage remaining
Monthly Stock Investment=ROQ+SS=33 days
- Case 2:** ROQ=30 days, DLT=12 days, SS=7.2 days
 Usage=30 days, OP=12 days usage remaining
Monthly Stock Investment=ROQ+SS=42 days

Diagram 5: Impact of Customs and Port Delays on Stock Investment and Product Pricing

8.3 Delays: Some Explanations

Such consistent and extreme delays are no accident. And the figures are no exaggeration. They have been confirmed many times over. If anything, they are on the low side of the times experienced.

There are numerous examples, but they come down to a few simple reasons.

The first reason is that each player (Ministry, BCCI, Port, Customs, Trade Professional, Importer and Exporter) operate "islands" of systems. Their systems are in-house systems. On their own, they are probably quite efficient. For example it may only take 5 minutes to obtain a certificate from MOET. But it can take half a day to get there, to wait, to go to the MOF to pay the tax, and then to try to get to another Ministry. On average, it takes around three days to obtain all the technical controls required for an international transaction.

And not all of the controls are necessary. Many are merely in place for the sake of statistics. Others are for fairly trivial reasons; some for quite indefensible reasons. Customs are trying very hard to reduce the number and variety of controls. Some others are trying to implement the Prime Minister's requests for reductions and simplification, from his letter of July 1997.

The second reason is that the systems all revolve around and depend upon paper. Paper for the forms, for the signatures, for the stamps and for the payment process.

Paper is fast becoming obsolete in modern business systems, for each of these purposes. There are now well established technology options, which reduce the time to transact business from hours or days, down to seconds. And they require no personal visits or face to face negotiations, as demanded by Lebanon's current technical controls.

Even the SAD is still in a paper format, although Customs will soon (during 1999) be introducing an EDI (electronic input) option for advanced traders.

A third reason concerns traditional systems in both the port and in Customs, post NAJM. Physical inspections are the problem. The sheer volume of inspections, the Customs "gatekeeper" mindset, the implications of unpacking containers to count and inspect the goods, and other traditional Customs processes are guarantees of delays.

The Custom's tradition is complemented (in a negative fashion) by the port's present administration systems. The process of obtaining a paper cargo manifest and of delivering it to Customs; of recording-and correcting-all container locations against manifest details, and then informing the port takes an unnecessary length of time. It is absolutely certain to cause significant delays, in virtually every case. It can take 5-8 days to obtain a reconciled manifest at Customs and the port, from a shipping agent and container handler yard managers. Often much longer.

And all of these delays clog up valuable capital resources at the port and at Customs and add extra costs to traders and consumers alike.

And this brings us to *the fourth reason*, the worst aspect of the whole serpentine mixture of systems. Because the process provides literally dozens of opportunities for manual intervention, for assistance or hindrance, for threats, blackmail and outright intimidation. There are officials who abuse their office; there are also those who use the threat of “national security” as a reason-or a threat-to open and to inspect, and sometimes to despoil goods. This informal method of supplementing incomes at the expense of the trader and the consumer-and the Government-thrives.

Bribery and corruption is not new to port and Customs process. It has thrived-and has been eliminated-in most countries in the world. The practice has four elements, all aimed at obtaining extra money for a service, for which the officer is already being paid.

There is the “goodwill” aspect, where the trader gives “gifts” to ensure continued good services. There is also the implied withholding of services (e.g. *I am very busy, or I am going home now!*). And then there is the blackmail aspect (*pay me some money or I will make things very difficult for you!*). And finally, there is the physical intimidation, coupled with the threat of throwing goods onto the floor, and possibly breaking or despoiling them. The military personnel at the port/Customs gate are well known for this practice.

These practices have insinuated every aspect of Lebanese trade. From the Ministry who accept gifts for speedy approvals, to the Chamber of Commerce who charge the people who pay their wages for the privilege of doing the job they are already paid for, to the blackmail and threats at the port and at Customs. This is a cancer that must be removed, else the anarchy that is now evident will see the end of competitiveness for Lebanon’s external trade.

And finally, it is evident that these practises are rampant, not only at the technical control-granting agencies, and at the port and at Customs, but also among the trade professionals themselves.

The solution to these problems will need to be radical. Nothing short of a strong, determined and co-ordinated effort will succeed.

8.4 Industry Specific Comments

During the project we visited and interviewed five specific industries. They were chosen as being representative of the widest variety of Lebanese industries. They were:

Agro food, pharmaceuticals, textiles and apparel, industrial equipment and computer software.

Most of the lessons we learned from these sectors have already been incorporated into the notes of this project, in previous sections. However, there are a few specific lessons.

The first is that the total minimum costs of exports (see following tables) amount to US\$2,500. Assuming that an exporter makes a 50% margin, these figures mean that it is impossible to export goods by sea, in containers, if the invoice value is less than US\$5,000. If the trader wants to make a profit, that is.

This has catastrophic consequences for SMEs in Lebanon. The very sector that should be driving employment, growth and the diversification of exports is essentially prohibited from international trade for reasons of process costs.

The second lesson was that industries that participate in QR supply chains, such as apparel, are severely penalised by the system. A typical textile/apparel sub contractor would receive materials on day one, add value on days two and three and then re-export on day three or four.

Because of the system of exporting and importing in Beirut, these times are not possible.

The costs and time delays of Consular Invoices (legal invoices) were another particular lesson. In one case, delays in receiving a legal invoice severely threatened a trader's working relationships with his major supplier. A supplier, by the way, that is crucial to much of Lebanese industry.

And finally, computer software exports are totally unaffected by Customs and port practices. This young and dynamic industry simply ignores them. Exports are made over the Internet or other networks. Imports are often made in the personal baggage of their suppliers, due to the unreasonable and uninformed behaviour of Customs officers. While this is not yet a large industry, it is capable of growing to a US\$ billion industry within five years, if properly managed and nurtured.

8.5 Freight Costs

Table10: Sea Freight Rates to Beirut, September 1998

Port	Country	Rate 20'	Rate 40'
Santos	Brazil	US\$1700/1900	US\$3100/3300
Buenos Aires	Argentina	US\$1700/1900	US\$3100/3300
Hong Kong	China	US\$1100/1200	US\$2200/2300
Singapore	Singapore	US\$1100/1200	US\$2200/2300
Pusan	Korea	US\$1250/1350	US\$2450/2500
Bombay	India	US\$1250/1350	US\$2450/2500
Shanghai	China	US\$1550/1600	US\$2950/3100
Piraeus	Greece	US\$150/200	US\$300/350
Constanza	Romania	US\$500/600	US\$800/900

Istanbul	Turkey	US\$400/450	US\$750/800
Felixstowe	UK	£425/450	£800/850
Antwerp	Belgium	DM1100/1200	DM1900/2100
Rotterdam	Holland	DM1100/1200	DM1900/2100
Limassol	Cyprus	US\$150	US\$280
Marseilles	France	US\$750	US\$1300

Table 11: Sea Freight Rates from Beirut, September 1998

Port	Country	20'	40'
Marsin	Turkey	US\$350	US\$650
Marseilles	France	US\$300	US\$550
Ravenna	Italy	US\$385	US\$640
Felixstowe	UK	£300	£500

8.6 Cost Summaries

Costs for Importers and exporters comprise a complex mix of known, formal costs and a range of unpredictable and informal costs. As an example, the following charts illustrate the range of costs and time taken for a typical import and export. Some assumptions have had to be made. For the sake of ease of calculation, we have used a 40FCL container, goods invoice value of US\$20,000.

Based on Port container figures and trade (see pps 19-20, p50), and assuming that 50% of trade by value is containerised (an arguable proposition, naturally) then we see the following:

Average 1998 export container value: US\$26,800

Average 1998 import container value: US\$28,570

Hence an average of US\$20,000 appears to be reasonable.

Costs fall into several main areas:

Firstly, the costs of obtaining technical controls. These comprise: messenger time, costs of stamps, formal costs of controls from the public sector and the "informal" costs of controls.

Note: "Informal" is a euphemism for under the counter payments, gifts, bribes, blackmail and corruption-and any other appropriate epithet.

Then there are the formal costs involved with domestic transportation, with Customs, with the port, with international transportation and with the trade professionals. There are also "informal" costs associated with the port, with Customs-in its several guises, uniform and non-uniform-and with the trade professionals.

8.7 Formal Costs

Freight: see *Tables 10 and 11*.

Customs tariffs: see *Appendix 5*.

Container hire is usually built into export costs only. They are typically US\$1500. For the sake of consistency container hire/rental has been omitted from these tables.

Transport Costs

Road transport, assuming Beirut area. Range US\$50-100, say	US\$75
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Customs Costs

Stamps	US\$50	
Fines (50\$-600) say	US\$100	
Overtime	US\$30	Note: Now abolished.

Port and Container Handler Costs

Port Costs, 1% of goods value	US\$100	Note: Old tariff
Container handler costs (US\$100-400)	US\$200	

Trade Professional Costs

Delivery Note (FF)	US\$30
Correction Letter (FF)	US\$30
Messenger Costs	US\$100
Customs Agents (US\$100-400), say	US\$250
Technical Controls, legalising invoices, Stamps, MOF, etc.	US\$100

8.8 Informal Costs

Customs (US\$150-250), say	US\$175
Port (US\$100-150), say	US\$125
Customs Agent's "Miscellaneous" Range US\$50-200, say	US\$125
Controls	US\$50

Sub Totals

Transport Costs	US\$75
Customs Costs	US\$180
Port and Container Handler Costs	US\$300
Trade Professionals Costs	US\$510
Informal Costs	US\$475
TOTALS	US\$1240

The same costs apply both to importers and to exporters, except for container rentals. In general, these costs do not tell anyone too much. Except that informal costs are \$475 per container; that they are shared between the Ministries, BCCI, the port and Customs. Customs agents also receive their share, through their "Miscellaneous" non-receipted costs.

8.9 Delays

Time is another important factor. From our interviews and from the questionnaires we received, the following were the average delays:

Table 12: Times Taken in the Trade Process

Activity	Importers (days)	Exporters (days)
Technical Controls	2-4	2-4
Customs Clearance	3-6	1-2
Port/CH Processes	5-10	1-2
Road Transport	1-5	1-5
Best Port/Customs	5	1
Average	8	2-3

Technical Controls	2-4 days
Customs Clearance	3-6 days
Port Processes	5-10 days
Road Transport	1-5 days

Technical controls are not necessarily to be added on as a sequential figure. Provided that the importer's/exporter's documents have arrived from their trading partner, then that can be achieved off the critical path. It is a different matter if the papers have not arrived in time.

However, the figures do show that there is an irreducible minimum of between 8-16 days to obtain imports and 2-6 days for exports.

8.10 User Satisfaction Survey

The trading community is now desensitised to the host of problems that they have to face on a daily basis. They have become willing to pay almost

anything, just to obtain-or to release-their goods. Extra costs are now a budgetted burden. They expect to have to pay them, both formal and informal.

Systems-induced delays are another matter. They create an extra layer of costs that the whole nation has to bear. They result in higher prices in the stores and for services. The net result is a high cost-low wage economy.

These feelings may be reflected in a User Satisfaction Survey, undertaken during September 1998, as part of the questionnaire process. Interviews and questionnaires totalled around 50 responses. Note that 1 is the lowest measure of satisfaction and 10 is the highest. Marks of between 5-7 are "average".

Agency	Satisfaction/10	Ranking
Port/Container handlers	3.3	=7
Customs	3.3	=7
NAJM	?	?
Customs Brokers	5.8	=1
MOET	5.3	5
MOI	5.5	=3
MOL (Social Security)	2	=9
MOA	4.7	6
MOH	2	=9
MOD	5.5	=3
BCCI	5.8	=1
Lebanese overseas embassies	1	10

8.11 Conclusion

The delays and extra costs, bribery and complex procedures need not be endured. There are solutions. Modern Customs and port administrations routinely see import and export times of less than two days.

The problem surrounding technical controls, where each require a personal visit to a different part of Beirut, is quite straightforward to solve.

The range of technical controls, payment and signature processes are all capable of being dramatically improved, and at some time in the future, automated.

The technical capabilities and knowledge of trade procedures, access to updated information for the trader, the trade professional and the researcher all have economic and practical potential for improvement.

And finally, the problems of helping SMEs into international trade, and of economically steering them through the process, is possible, and vital to the economic health of the nation.

Phase Three of this project will concentrate on the recommendations for a Trade Information System, as specified in the original TOR. The more general problems of trade may be the subject of a separate project.

All of the solutions alluded to are available, and can be implemented in a fairly short time. It is the will and the commitment of Lebanon that will make the difference.

“Knowing is not enough; we must apply. Willing is not enough; we must do.”

8.12 Addendum Inserted Following Review.

Comments on the Lebanese Trade Legal System

Lebanese law is based on Ottoman, French, canonic and a growing body of contemporary legislation. The effect of this historical mix is dramatic when it comes to trade.

The philosophy of much of the law that concerns technical controls is based on the traditional regional mistrust between the public sector and the private sector. Further, it is also based on mistrust of neighbours and of trading partners. Each of the technical controls attempts, by legislation, to place a limit on a trader's freedom of action by requiring a host of signatures, outdated fiscal stamps and complex processes. So that, in the end, the costs of compliance become a significant proportion of the value of trade. Which in turn leads to higher costs, delays and dissatisfaction.

By inserting the public sector into the trade cycle, the process has become bureaucratized. And bureaucrats are not normally commercially sensitive.

Before the German federation came into being, Wurttemberg had a legal code that said, “if it is not expressly permitted by the law, then it is forbidden”. And that has been the result at Customs. An over-diligent application of the regulations results in a regime where money has to change hands before the transaction may move to its next phase.

The most important factor of trade law is the ability, by Ministers and their advisors, to issue new decrees without consultation with traders, sometimes without consultation with Customs, the Higher Council or even fellow Ministers. This still goes on, in spite of Prime Ministerial directives to the contrary. It is possible to estimate that there are over 11 million combinations and permutations of technical controls which may require to be observed at the moment, although there is an ongoing effort by many ministries to rationalise their own controls. There are 49 agencies who can issue controls, 79 different types of controls, over 1000 HS sub codes concerned and an average of three controls per declaration.

The real difference between this regime and a modern trading nation is that nations now operate on trust of their trading partners. The major traders are locked into a dynamic and fast moving supply chain. There is no time in

modern trade for systems based on physical examinations and paper documentation. The Phase Three Recommendations Report will contain explicit proposals for change, and for the methods by which they are to be changed. However, it must already be clear that the present system of issuing decrees must be rationalised. The present numbers and types of controls must be rationalised. Checks and controls on the issuing and maintenance of controls must be put in place. Controls must have time limits; systems of self regulation must replace many existing controls. Alternative methods of data gathering for statistics must be introduced.

There is no point to reviewing each of the existing controls. For one thing, until a different system of issuing controls is introduced, it will never be possible to be up to date. For another, the volume is too vast. There is another way; Phase Three will discuss it.

Additionally, the requirements of analysis and testing can be met by self regulatory mechanisms, aided by technology. The Recommendations Report will also discuss these measures.

Customs Law, regulations regarding the port, container handlers, and free zones are already being reviewed, all with the intention of simplifying processes and making trade easier. Nevertheless, a major review will still be required after any new trade law is enacted. Other laws will need codifying, such as the replacement of paper with electronics, of electronic signatures and payments. Much of the new law, and replacement trade law will comprise umbrella legislation, in which all existing decrees are annulled, together with a methodology for replacing them with technical controls in keeping with a modernised system of trade administration.

One glaring example of an unnecessary, expensive and time consuming control is the Consular Invoice. It adds no value, it causes price increases and delay and it damages the reputation of Lebanon as a trading nation. The amount of revenue it generates is not significant at the national level. It must be revoked.

In summary, any system of technical controls which produces delays in the clearance of goods into and out of the entry/exit points of a trading nation is wrong. Pre-clearance, post event auditing, self regulation and risk management are the techniques that are now in current usage elsewhere, and must be deployed in Lebanon.

International Best Practise

Many nations are now operating systems in which goods are available for collection as soon as they arrive at the port, or certainly on the same day. They achieve this by checking technical controls, which are sent, in advance, over networks-computer-to-computer by EDI methods. These controls, and declarations are checked and approved-or rejected-prior to goods arrival at the ports.

Bays and container handling facilities are booked and scheduled electronically, ahead of time. Container handling is automatic; containers are uplifted from the dockside or deck with modern container handling equipment. This equipment identifies the container by electronic, or bar code variant, means. It also automatically notifies computers of the locations of containers and transmits that data to both the port and to Customs, who electronically acquit it against the electronic cargo manifest.

If goods are selected for physical inspection, either by Customs or for technical control purposes, then they are inspected at a post event audit, on the importer's (or the exporter's premises). Physical inspections may also utilise new scanning technology, which is proving to be faster and more effective than traditional methods.

The principles of transparency and of non contact between traders, the port and Customs is implicit in modern systems. Everything which can be is removed from the critical path of trade, such that transport is the only activity which determines import and export times.

Technical controls are also aided by computers and networks. All controls are issued by, and recording on computers. When a declaration is received by Customs (electronically) it routes the details to the controlling agency's computers. They check against their risk management models (trader history, product type, exporter, exporting country, trade agreement, etc) and are immediately able to make a red/green decision. Laboratory analysis data is made available by importer or exporter, electronically, in advance of goods arrival.

Electronic trade law is now quite well developed. There is now a globally recognised system of electronic trade law, from the UN agency UNICITRAL.

There are many fewer trade professionals needed in these systems. SMEs are catered for by special trade facilitation companies, who also operate the technology and networks. Soon, digital signatures will complete the automation process; all payments are already made electronically, or debited to regular trader's accounts.

Systems such as this are operating in the major European ports, in the three British terminals, in many North American ports, in Australia, New Zealand, Hong Kong, Singapore, Taiwan-even, to some extent, in China, Malaysia, the Philippines, and in Mauritius.

It is no longer rocket science. And the new infrastructure pays for itself very quickly, and many times over.

The Recommendations section will detail the proposals by which Lebanon can join the club of modern, automated trading nations.

Inhibitors to Best Practise

It is important that this section is read in conjunction with the main report, especially section 8.

Inhibitors

To summarise the negative aspects of the Lebanese trade process, those aspects which act contrary to the best interests of the country in general and trade in particular:

- Importers and exporters are indoctrinated with the current process; they are unable to see that there is a better way. They accept what appears to be the inevitable and pay money to oil the wheels of trade. Their industry representative bodies, without approving-or possibly even without knowing-are sometimes party to this cycle of "paying for expediting". They have become part of the problem. Their additional costs are passed on to unwitting consumers; their increased costs have already seriously damaged what remains of the export industry, and the trade infrastructure, such as the port.
- Technical controls, issued by the public and the private sector, comprise a bizarre body of ancient law and fragmented regulations which inserts itself into the critical path of trade, at both the import and the export end of the cycle. The results are delays, extra costs to traders and consumers alike, and non competitive industries.

It is not possible to micro manage this system; it must be replaced.

- Trade professionals have also inserted themselves into the trade process. Many of them have developed a vested interest in delays and extra regulations, in order to obtain more money for the job of navigating the system. Many of the trade professionals are unqualified by international standards; there are too many of them. They generally offer no industry-specific expertise. Their skills are only in Customs and trade regulations. They need to be trained properly, to offer value adding expertise, to offer transparency and full accountability in their business dealings with their clients.
- Customs have made a good start with NAJM, but only for green line transactions. The lack of transparency thereafter takes time, costs money and real friction. They are over staffed for a modern administration-and they know it!

The real problem with Customs is their mindset. They are indoctrinated with Customs law and generally make unreasonable demands that the law is always explicitly adhered to. Common sense does not appear to be part of the normal Customs officer's armoury. The trader is seen as an adversary and a victim. He should be seen as the client. Once again, there are practical and well established principles which will help move Customs

into contemporary best practise. The adoption of EDI, post event auditing, new technology equipment and minimal physical inspections based on modern risk management techniques will all be treated in the Recommendations Report.

- The port and container handlers, in combination with embedded port-Customs practises, combine to produce unacceptable delays, logistical costs, bribery costs and genuine ill will between the traders, the port employees and management and the general public. Frequent letters, printed in the press, help to desensitise people to the depth of the problems there.

The basic causes include lack of automation, particularly IT systems, poor labour practises, the operation of a Customs-port mafia with the intention of making as much money out of the process as possible, and a general helpless feeling that nothing can change matters. The actions of the trade professionals does not always discourage these practises.

But things are changing. A modern container handling company now has the contract to operate the port container operations. It will re-equip and install the latest IT and EDI systems, which will inter operate with Customs. The Free Zones will be revived, and the free ports will be able to attract transit and trans shipment trade again.

As the report points out, these separate groups of problems have been allowed to develop because they were treated as separate. The solution lies in taking a holistic view, as the recommendations will describe, in which all components are treated as part of the complete, door-to-door, reformed trade process.

ADDENDUM

The following sections were added after the Trade Efficiency committee review meeting, on Saturday October 24th. At the request of the committee, the following topics are to be added to the final report:

1. A further discussion of port operations with special reference to trans-shipment and free port operations.
2. A review of road border clearance processes.
3. A discussion of the legal climate with reference to existing trade laws.
4. A consolidated summary of trade inhibitors.
5. An introductory section on international best practise.

This section is to be read in conjunction with the main body of the report. It is to be treated as additional to the main report, not supplanting any portion of it. The main report itself has been amended as a result of detailed comments received at the review meeting.

الجمهورية اللبنانية
مكتب وزير الدولة لشؤون التنمية الإدارية
مركز مشاريع ودراسات القطاع العام

1 Port Operations

Temporary export declarations average around six (6) per month. Re-export declarations are around 200 per month. The re-export regime relates to mostly to goods on which no Customs duties have been paid on importation, except for a small deposit.

There are a number of different warehouse types operated in Lebanon. They include:

- Customs bonded warehouses;
- Trader operated warehouses;
- Special warehouses;
- Fuel oil warehouses;
- Industrial warehouses.

Additionally, there is a duty free shop at the airport, two free ports (Beirut and Tripoli) with a further four (4) planned.

Warehouse operations are performed manually at the moment. Since there is only an average of five (5) import declarations for warehousing a day there is no real urgency to prioritise automation of the warehouse regimes.

Goods are declared manually on a SAD and entered into a stock control register, maintained by the warehouse control team. No taxes are paid at importation. A banker's guarantee is given by the importer to Customs as insurance against future duties and taxes. Goods for home consumption of re-export after warehousing are declared to NAJM in the normal fashion.

The use of "**virtual warehouses**" is for high value and highly taxed items, such as new motor vehicles. They are designed to delay payment of taxes until the goods are sold, where possible. The warehouse is operated by the trader, and is subject to detailed Customs checks to confirm stock levels.

The maximum length of storage is for one year, after which the goods must be entered for home use or be re-exported.

Industrial warehouses are used for imported goods intended for use in a Lebanese manufacturing process. The finished product will be entered for home use, or be re-exported. This is generally designed for value added operations in the free zone. Currently there are several industries making use of this facility, including:

- Electrical assembly;
- Footwear (repackaging only);
- Foodstuffs
- Garments;
- Jewellery.

Others, including carpet manufacture are planned. There is a highly competitive tariff in operation.

Customs hold samples of goods manufactured in these warehouses; they also calculate wastage levels and estimate the probable outputs from imported inputs. Records are maintained manually.

Transit operations are currently running at very low volumes; there has been a fall from 225 in 1993 to about 60 in 1997/8. The reasons include competition and the low productivity/high price combination of existing port and Customs processes. There are new plans for trans-shipments and free zones, which will be dealt with later in this section. The objective of trans-shipment is to offload and to reload within 24 hours. A new tariff has been introduced by the port, as an incentive for shippers and freight forwarders. It includes 15 days storage and a much simplified tariff. This tariff will only be in operation until the new container handler contract becomes operational.

The new laws and tariffs are included as an addendum to the Appendix.

Transit consignment records are manual. They contain details of serial number, transport method, trader details, number of packages, descriptions and weight of goods, value, authorised period of travel, etc. Note: Port of Beirut to the airport is allowed two (2) hours transit time.

A guarantee of 20 million LBP is required for each transit declaration. Acquittal is authorised on receipt of a Customs attestation (an annotated Bill of Lading). There is a time limit of three months, after which fines are applied on the guarantee.

Transit goods are generally accompanied by a member of the Customs brigade.

1.1 Problems With The Transit Regime

There are significant problems with the transit regime, especially in the free port area. The following comments are taken from a letter from the Association of Merchants to the Port Authority.

The letter requested the restoration of true free port operations throughout Lebanon. The economies of operating through a free zone rather than through 90 day LOC facilities are significant, and would reduce trader's costs significantly. They claim that in Beirut there is no true area for free zone operations. The zone is fragmented and distributed all over the port. Customs make very little differentiation between normal trade and free zone trade as a result. Free zone warehousing is non-existent.

Special permits are required to import and re-export containers. Customs generally require a manifest, a B15, costing \$500. This is called a special or temporary permit. The same is true for bulk products. There is no allocated area for repacking bulk imports.

2 Road Borders

The special needs and problems with road border entry points were not covered in the main report in sufficient detail. The following is a summary of the main points discovered during a visit to Masnaa.

When a vehicle arrives at the Lebanese Customs entry point, the driver must complete a Declaration of Entry. This is a handwritten document. It conforms to the Arab agreement for transport and transit. In addition to driver and vehicle details, a COO, manifest, transit COO (i.e. a source history), invoices, etc. are required. If no legalised invoice is presented then a fine of 110% of the value of goods may be applied, up to 1 Million LBP.

Product details, numbers of packages, weight, costs, importer, source and destination are also noted. There is no NAJM and no computer systems at the border. Customs say that they need a reliable power system before they can install NAJM. However, on the other side of the border, Syrian security operate computers!

By the time the entry declaration is completed there is a complete geographical record of the goods movements, from source to Masnaa.

Masnaa is apparently the busiest of Lebanon's road borders. It currently handles:

7,282 imports of trucks and refrigerated trucks. (July-September 1998)
1,208 exports in the same period.

Assuming that this period is typical then that equates to 84 import declarations a day and 16 exports, a total of 100 per day. The annual average is probably less than that figure, allowing for seasonality.

The truck originally enters the truck/container park operated by Customs. The driver's passport is checked, as is his annual permit to drive the route. He is given an entry form.

A documentary examination then takes place, followed by a physical inspection. A freight forwarder represents the trader during these examinations.

There is a virtually 100% physical inspection process. An observer may be present during these examinations.

If additional technical controls are required, then the driver awaits the results of sample analysis, which may take up to 15 days. There is no laboratory at the border. Other technical controls may also cause delays.

If there are no problems then a typical clearance time is three (3) hours.

Normal Customs border hours are 8 AM to 2 PM.

3 Comments on the Lebanese Trade Legal System

Lebanese law is based on Ottoman, French, canonic and a growing body of contemporary legislation. The effect of this historical mix is dramatic when it comes to trade.

The philosophy of much of the law that concerns technical controls is based on the traditional regional mistrust between the public sector and the private sector. Further, it is also based on mistrust of neighbours and of trading partners. Each of the technical controls attempts, by legislation, to place a limit on a trader's freedom of action by requiring a host of signatures, outdated fiscal stamps and complex processes. So that, in the end, the costs of compliance become a significant proportion of the value of trade. Which in turn leads to higher costs, delays and dissatisfaction.

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4.2 International Best Practise

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4 Inhibitors; Best Practise

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4.1 Inhibitors

To summarise the negative aspects of the Lebanese trade process, those aspects which act contrary to the best interests of the country in general and trade in particular:

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