

# **Phase Three Recommendations**

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

## **THE REPUBLIC OF LEBANON**

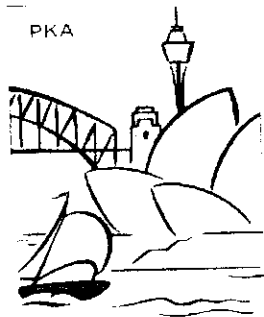
Republic of Lebanon  
Office of the Minister of State for Administrative Reform  
Center for Public Sector Projects and Studies  
(C.P.S.P.S.)



### **TRADE EFFICIENCY PROJECT M71/WB**

**Recommendations Report Summary Produced as  
Preparation for a Ministerial Debriefing Session**

***Presented February 9th 1999 By;***



***Paul Kimberley and Associates***

***PO Box 729, Crows Nest, Sydney  
NSW 2065, Australia***

***Telephone: (612) 9908 2863***

***Facsimile: (612) 9904 1673***

***Mobile Phone: (61[0]419) 437 485***

***Email: pka@magna.com.au***

## **Executive Summary**

A Trade Efficiency project, funded by the World Bank, sponsored by MOET and under contract supervision by OMSAR has been in progress in Lebanon since July 1998. It is due for completion in February/ March 1999.

This introductory section summarises a report comprising over 140 pages. Its recommendations are extremely broad in their implications; they cover several Ministries sphere of operations and mandates, in addition to impacting virtually the whole of the Lebanese trading community, the port, Customs, harbour operations, trade professionals and Chambers of Commerce and other peak industry bodies. It also indirectly impacts upon the trade finance sector, insurance, transport and logistics operations.

This trade efficiency project has taken a very detailed and wide ranging look at the Lebanese trade process; it concludes that the only viable method of improving matters to the extent that it will have a significant impact upon the Lebanese economy, and its future as a trading nation, is to propose a wide ranging trade process reform programme. This programme will utilise current and new technologies and re-engineered processes based upon world best practises.

This summary briefly describes the problems caused by the current trade process in Lebanon, and the main reasons for these problems. It will then describe the principles underpinning a proposed trade process reform programme. It will conclude with summarised proposals for a technology assisted system for future trade processes, together with anticipated benefits for Government, trade and the consumer.

The project will be completed with a full debrief for Ministers and selected invitees, hopefully in February 1999.

### **Introduction**

Repeated international experience has shown that is not possible to cure the ills of any national trade system by tackling the problems in a piecemeal fashion. The solution demands a holistic, door-to-door, or end-to-end approach. Therefore each of the participants in the process have been taken into consideration. These include:

- The importer/exporter, i.e. the trader or the merchant;
- The trade professionals, or trade process intermediaries (Customs brokers, freight forwarders and shipping agents);
- Ministries and agencies, from the public and the private sector, who manage the prohibition and restrictions regime (generically known as technical controls);
- Customs;
- Container handling and cargo handling authorities, and;
- The ports.

## Current Trade Processes

Dissatisfaction with the current trade process system is widespread. It can take up to 17 days to import goods into the country (5-11 days green channel, 8-17 days red channel); it typically takes 7 days to export goods (5-7 days range). The costs of these delays means that some traders may have to mark up goods by up to 50% (in addition to gross trading margins) just to cover the costs of importing or exporting goods (typically SMEs). Additionally, there are the famous "informal costs" of trading in Lebanon. These informal costs represent between \$350-\$450 per container in extra costs, for importers and exporters.

These costs and associated data have been confirmed during this Trade Efficiency project, which has undertaken over 100 interviews, analysed over 150 completed questionnaires from members of various peak industry bodies, and feedback from two debriefing sessions in front of a combined audience of over 100 traders. These are in addition to debriefs with each of the agencies and peak industry bodies involved in international trade.

The time taken, and these additional costs, make Lebanese exports uncompetitive. They have caused the port to become uncompetitive and free zones (Freeports) to be ineffective so far. Both sectors are losing customers. Additional costs are passed on to the trader and the consumer alike. This has contributed to the Lebanese paradox; a low wage, high cost economy.

## The Causes

The trade system we are faced with today is the result of Ottoman and the French systems of administration. Very little has changed in the Lebanese system over the last 20-30 years, while, at the same time, developed (and some lesser-developed) countries have been deploying new technology and re-engineered systems in order to create internationally competitive trading systems.

The problems start with the traders, who are so indoctrinated with current practises that they have almost given up questioning them; they just pay money to facilitate trade, and pass the costs on to their customers.

Technical controls are the province of Ministries, Government agencies and private sector agencies, such as the Chambers of Commerce. There are 49 agencies who can issue prohibitions and restrictions to importers **and** exporters (pre-licences, licences, visas, certificates, etc.). They also have a range of "legalising" duties, such as endorsing Certificates of Origin and commercial invoices. In addition, they operate technical controls at the point of import and export. There are 79 discrete types of controls covering over 1,000 HS sub codes (Customs commodity classifications). Each trade transaction takes an average of 3 technical controls. The total possible combination of technical controls, which ultimately have to be managed by Customs, comes to over 11 million!

And then we have the trade professionals; Customs brokers, shipping agents and freight forwarders. They are also part of the problem. It is in their interests to ensure that the

current complexities remain in place; without them, they could not claim expertise, nor justify the money which changes hands, and for which they obtain no receipts for their clients.

Customs have now made a good start with NAJM, but it is only a start. Once goods are selected for red channel, hence physical inspection, then old practises come into play. There is a well known tariff for bribes in the Customs areas, at the port and elsewhere. And there is a mindset that the trader is their adversary, not their client. The trader presents Customs staff with almost endless opportunities for delay, for administration difficulties and for payment to make those difficulties disappear. The trade professionals are active participants in this game in which there are only two losers: the traders and the Lebanese consumer.

The port and container handlers are also contributors to the overall inefficiencies. The port's ancient, paper based systems, mean that a manifest cannot be discharged in less than 8 days. That means that even Customs often do not know where containers have been stored for up to 8 days. The only way to find out is for a trade professional to ask for help to "find" the container. These practises have made the Free Zone ineffective and have almost killed the trans-shipment trade. Much is expected of the new container handler operators but they can only improve part of the process.

Each of these groups of people have combined to insert themselves into a complex trade organism, which feeds on traders and the community alike. The process is sequential; there is a well established set of steps necessary to import and export, up to 40 in number. And they are currently unavoidable.

During the course of this project it was estimated that informal costs-bribery, in all of its forms-added a total of around \$45 annually million to trader's costs. Delays cause extra trader costs in the range \$100-\$250 million. Costs of obtaining technical controls costs another \$10-\$15 million. The multiplier effect of these costs on consumer prices means that each man, woman and child in Lebanon may be penalised by as much as \$50-\$150 each year.

### **Summary report Objectives**

The purpose of this report is to summarise and explain a series of recommendations concerning the complete Lebanese trade process, from an importer's buying process through to receipt of goods at his premises. It also takes the same view of the exporting process. Direct recommendations are made concerning traders, trade professionals, the port, container handlers, Customs and all of the agencies involved in trade controls. Indirect recommendations, or comments, are made concerning trade finance, insurance, SMEs, logistics and transportation.

The recommendations and comments are subject to a number of sub recommendations, which concern more detailed, manageable steps. An overview action plan is included immediately prior to the summary to this document.

However, the true objective is to present an overall vision for the future of Lebanese trade; a vision that is understandable, achievable and desirable.

## **Specific Problems to be Solved by Reengineering and Trade Process Reform**

The first and major problems to be solved are to reduce the time and the number of steps in the trade process. That will lead to cost reductions for traders.

The second set of problems to be solved is to eliminate the informal tax regime, and the opportunity for informal payments, throughout the complete system.

In order to make both of these possible it is necessary to automate Government technical controls, to integrate approvals and to reduce to the absolute minimum the time taken to obtain approvals and clearances. And to make sure that the complete technical control process takes place off line and off the critical path, thereby introducing no delays into the system whatever.

That leads to the need to reduce red channel physical inspections to the irreducible minimum. Even under the existing systems Customs have hopes of a 70% green channel ratio. A design level target for this reformed system is 95% green channel, 5% red channel, on a consistent basis. A long term target should be 98%-99%!

It will be necessary to make sure that the technology for such targets and techniques is in place by the time that it is needed, and that it is available to all players in the trade process, equally and economically. The technical standards need to be to world best practise, to use universally approved standards and, naturally, to be year 2000 compliant.

Technical support and expertise will be necessary; legal support will also be necessary to ensure harmonisation of practise with legal requirements. The level and type of technical support will include marketing, technical and implementation skills, development and standards/ electronic commerce message mapping skills. Industry participants will ensure cooperation and compliance with contemporary practises by the banking and finance sectors, insurance sectors, road, sea and air traffic scheduling and practises. Support groups on specific industries, and specific topics such as QR, ECR and JIT, together with bar coding and automatic ID systems will also be needed.

And most importantly, education and training for all players, regularly tested and updated, will be vital. Education and training will be the bedrock upon which self regulation, and trust, will develop.

There are numerous other groups of specific problems to solve; these are treated in the main Recommendations report.

## **How to Change the System: Principles of Redesign**

There are some well accepted principles for the reform of national trade systems. Following a meticulously planned and executed migration from existing methods to best practise, over a period of years, the basic systems redesign principles include:

- Transparency;

- Process simplification, including the elimination of all but essential Government technical controls;
- Speed of transaction processing;
- Pre-clearance and pre-approvals of declarations and technical controls;
- Post event auditing, for physical inspections, where deemed to be absolutely necessary;
- A strict evaluation of the function of Customs clearance processes, followed by a re-engineering of Customs processes based on technology;
- Risk management by both Customs and technical control agencies, resulting in the absolute minimum of physical inspections;
- The adoption of information technology, and particularly electronic commerce techniques, to facilitate these re-engineered processes;
- The development of an appropriate legal and implementation infrastructure.

To add a little more detail to these, apparently, academic principles:

- Systems design must bear in mind the paramount importance of removing all activities, except the physical operations of transport and logistics, from the critical path of trade flows. Everything else can be done before the event by pre-clearances or pre-approvals, or after the event, on a client's (not adversary's) premises, or through the adoption of contemporary risk management techniques.
- Contact between traders, government officials, Customs and the port must be replaced with "electronic contacts". This includes replacing paper Customs declarations and other formalities with electronic (EDI, or Electronic Data Interchange) declarations. Ultimately this will eliminate the need for any face to face transactions.
- Another pre-requisite for transparency is to ultimately replace all paper forms used in (remaining) technical controls, all signatures, all stamps and cash payments with electronic lodgment and electronic payment methods.
- Green channel approvals should have a design level of 95%, increasing to 99% over time. Physical inspections should utilise new technologies, automated inspection methods and post event auditing (pre-event, if necessary, for exports). This will result in a significant reduction of Custom's workload, in re-engineering Customs work flow, and ultimately in labour force down sizing. It will, necessarily, involve Customs in retraining and re-education in order to change prevalent attitudes from that of adversarial relations and mistrust to those of trusted trading partners, or client relationships. Customs will become a "traffic cop, risk management" agency, as opposed to a "gatekeeper, policeman". Note: This re-education task will need to be extended to all players in the trade process. Attitudes evolve; they cannot be imposed.
- Government controls, where they have been proven-and accepted by Customs and others-to be necessary, and to be compliant with emerging and accepted international trade treaties and the laws of international trade, will similarly need to be simplified and offered electronically. As these systems evolve in Lebanon, they will use Electronic Data Interchange (EDI), Electronic Commerce (EC) and electronic

payment methods. In time, they will also use electronic (digital) signatures. In the meantime, appropriate legal agreements (trading partner agreements, or TPA) will compensate for the absence of a written signature. All remaining technical controls will be issued from a multi-agency, single location bureau. This bureau will also be the base for a commercially operated trade information service offering pre-competitive trade information, trade clearance services for SMEs, trade development and trade promotion services. It might also become the basis for an export development/promotion service.

- Collection and delivery of goods will have a design level of 48 hours for imports and 36 hours for exports.
- Customs will operate outside the physical boundaries of the port. The Freeports (Free Zone) will operate as was intended, outside the Customs regime and influence.
- The port and container handling operation will need to make goods available for inspection and clearance within 24 hours of arrival at the port (and airport) facilities. It will be necessary to introduce an Electronic Cargo Manifest, Electronic Bay Planning/Location and harmonised exchange of electronic information between traders, trade professionals, the shippers, the port, the container handlers and Customs. These will be based on the UN approved electronic messages contained in the UN/EDIFACT (EDI for Administration, Commerce and Transportation) standards, already used by the developed countries, and many developing countries. They currently account for well over 75% of total global trade. All cargo information and all Customs clearances will involve pre-arrival (and pre-departure) processing of trade control information. Note: The Port of Dubai, the contractor for the Port of Beirut, is already compliant with the majority of these practises.

### **Indirect Issues in Lebanese Trade Efficiency**

The report only makes direct recommendations on those issues that the public sector and the Government can directly influence. There are some other issues that are of importance to the development of trade and to logistics efficiencies that the Government can only indirectly influence. These include the banking sector and trade finance, although the Government may institute initiatives for SME trade financing. Similar comments apply to trade insurance. In addition, the transport and logistics infrastructure has an impact on trade efficiency. The report makes comments on these issues but not direct recommendations. It suggests a vehicle by which these issues may be aligned and improved to assist trade flows.

But the major emphasis of this project, and the resulting recommendations is on the management of information and trade information processing systems. Goods can travel to the other side of the world in less than 24 hours today, but what use is that if the documentation takes another five to seven days to arrive, and before Customs can start their work? Improve the management of information and the indirect factors will fall into place, out of commercial self interest.

## Main Recommendations

The main recommendations contained in the Recommendations report are listed here. It should be noted that the report also contains a detailed look at the steps involved, and the work plan, by which the reformed system will evolve from present systems.

- To re-engineer existing trade processes based on the electronic exchange of information between all players in the trade process.
- To convert Customs from a "policing" organisation to a "risk management, trade facilitation" organisation.
- To introduce electronic container scanners to a Customs inspection regime that is located, exclusively, outside all port's operations.
- To introduce, and to enforce, transparency and the shortest critical path of trade flows between transport and logistics, traders and their clients.
- To set operational standards for the port, Customs, the container handling operation and logistics operators, which will ensure 48 hour collections for imports and 36 hour deliveries for exports. This performance standard will stipulate the standards, the methods and the frequency/timeliness of electronic information exchanges.
- To replace all existing technical control processes with a single, centralised, multi agency bureau, including Ministry of Finance payment operations. This bureau may also involve the Chamber of Commerce. It will operate to commercial hours and to competitive, private sector standards. This bureau will also ideally merge MIOET and Chamber of Commerce information services to provide a wider range of value added services, for which traders will pay fees. This bureau will become the one-stop shop for all technical controls. In the longer term there will be no necessity to visit the bureau; all technical controls will be issued electronically. The bureau is known as the Trade Information Service (TIS) throughout the remainder of this report.
- To introduce, and to enforce, a regime of post event auditing for technical control agencies, together with a system self regulation for reliable trading partners and of risk management for others. This recommendation is aimed at, together with Customs recommendations, removing the need for physical inspections (except in extreme circumstances) and reducing clearance times down ever further, to hours, even minutes, as the best world practise now dictates.
- To introduce a Customs training institute, for Customs personnel training and education, for retraining and for training and certification of trade professionals. After an initial period of grace, non-certified trade professionals will not be allowed to submit Customs declarations, nor to operate on behalf of traders, without Customs training institute certification.
- To establish an umbrella organisation for the implementation and management of this programme of recommendations. This vehicle for trade process reform, modelled on many similar organisations around the world, code named LibanFac (Liban Trade



Facilitation), will, ultimately, be owned and operated by the private sector. But it will almost certainly require Government funding to begin with. Its revenues will come from the operation of the technology and services that make electronic exchange of trade information feasible and practical. Additionally, traders are already sympathetic with the idea that LibaFac may charge a trade facilitation fee of \$100 for each trade declaration in order to pay for the technology and set up costs. Naturally, these fees will reduce with competition and volume growth. This facilitation fee is contingent upon clearance times being reduced to design levels and the elimination of "informal taxes". At 1998 volumes this represents a revenue stream of \$40 million. It can be expected that declaration volumes will increase at a rate of 10%-20% each year, in line with global trends. Since total establishment costs and the costs of technology should be in the order of \$10-\$15 million, there appears to be a strong financial incentive to progress this project, not forgetting the national benefits which will also accrue from its success.

In conclusion, there are a number of activities undertaken by LibanFac in pursuit of its mandate.

- For example, the executive of LibanFac will be measured against a "trade efficiency index (TEI)". The TEI will include such factors as the average time it takes to clear goods through Customs and trade processes through to client's premises each month, compared to pre agreed targets.
- LibanFac will also have a number of special interest groups (SIG). The first will be the Legal Issues Group. They will be charged with overseeing the simplification and rationalisation of existing technical controls, with methods by which technical controls are promulgated and their effectiveness measured, as well as their compliance with treaties and with international law. For example, it will be recommended that this group, with appropriate approvals from the Council of Ministers, or similar authority, declare that all technical approvals will be annulled, from a given date. All agencies then have a period of grace during which they re justify their requirements for particular technical controls. They are then matched against the ability to provide similar, or improved controls and information by other methods. This should result in a much simplified regime for technical controls. After the given date, Customs will not operate any technical controls unless it has the imprimatur of this group. The Legal Issues Group will also develop a new Electronic Trade and Customs Law based on the UN model, UNCITRAL and contemporary precedents.
- LibanFac will also operate other SIG, mostly based on volunteer members together with appropriate public sector representation, on such issues as electronic banking, insurance, transport and logistics, trade facilitation and industry specific issues, such as QR (Quick Response), JIT (Just In Time inventory control), ECR (Efficient Consumer Response), codes and message development.
- LibanFac will manage the technology, including computers, networks, support and technical personnel, administration and billing, marketing, promotion and liaison with standards and international groups doing similar work. It may also manage a Government Intranet, or the gateway to Government systems which automates

technical controls approvals. It may also adopt the role of manager of the Trade Information Service Bureau, described earlier in this recommendations section.

- LibanFac will require an internationally experienced executive to initiate the programme of trade process reform.

### **Detailed Recommendations/ Action Plan**

There are a number of immediate recommendations which cover the follow up to the presentation of this report, leading up to the commencement of implementation planning. They will be discussed and agreed in detail during the debrief sessions due to follow on from the presentation of this summary report, as a digest of the main recommendations report already reviewed by the trade efficiency committee.

The following are the key steps to be elaborated on during the implementation planning phase. Their priorities, dates and other decisions will be the subject of the work of the implementation plan, which is estimated to take 6-12 months. Hence no dates are placed against these recommendation details at this stage.

#### **Trader Recommendations:**

1. *That five traders are recruited as pilots for the first phase of the trade process reform programme. That their first trading partner is Customs, with the CUSDEC message set, supported by DTI.*
2. *That the second trader message is the international invoice.*
3. *That the first five traders complete the implementation of all five major messages, with Customs, before any other traders or groups of participants are admitted to the pilot programme.*
4. *That the roll out of the LibanFac programme next encompasses 50 traders, thereafter 200-500 traders.*
5. *That UN/EDIFACT is adopted as the message standard and that Lebanon, through LibanFac, becomes an active member of the UN/EDIFACT process.*
6. *That a suitable vehicle is established or chosen to enable (non-technical) communications between the pilot traders and Customs/ LibanFac, for example the Chamber of Commerce*
7. *That trader's professional representative organisations (e.g. Chambers of Commerce, Industrialists, Merchants, SME organisations, etc.) become stakeholders in LibanFac.*
8. *That, as soon as possible, TIS becomes a participant in the pilot in order to develop clearance facilities for SMEs.*

9. *That the training courses to be developed/commissioned by Customs include special modules for traders.*
10. *That, through LibanFac, traders participate in the design of re-engineered work practises with Customs, trade professionals, the port and container handlers, and the technical controls agencies.*
11. *That traders participate in the development of a Lebanese Trading Partner Agreement (TPA) with the LibanFac stakeholders. That this work also covers the general legal trading requirements of an electronic trading environment and the background for a revised technical controls agency.*

*Trade Professional Recommendations:*

1. *That the Customs training institute establishes a syllabus and a curriculum for the training and certification of trade professionals. That this training regime encourages an industry and functional rationalisation. That the syllabus includes sections on overseas/foreign trading partners' systems, their cultures, the English language, business practises, new supply chain management and IT based practises, specific messages needed for clearances, basic computer awareness and skills, keyboard skills, legal aspects of new procedures, technical controls, risk management, audit and control processes.*
2. *That the trade professional's industry organisation becomes an active member in systems development, in piloting new applications and results evaluation. That they become stakeholders in LibanFac.*
3. *That Customs and trading partners actively encourage knowledge sharing and skills enhancements through this course, study tours, conferences, seminars and workshops.*
4. *That participants actively co-operate in order to enhance the status of this course until it becomes a tertiary standard, first for Lebanon and then for the region, thereby potentially generating export revenues.*
5. *That, through LibanFac, trade professionals participate in the design of re-engineered work practises with Customs, traders, the port and container handlers, and the technical controls agencies.*
6. *That trade professionals participate in the development of a Lebanese Trading Partner Agreement (TPA) with the LibanFac stakeholders. That this work also covers the general legal trading requirements of an electronic trading environment and the background for a revised technical controls agency.*
7. *That at a second phase, trade professionals participate directly in the EC/EDI message exchange with traders, Customs and the port/container handlers.*

Customs Recommendations:

1. That Customs set up a professional working group, similar to, or based on the NAJM project team. That this team investigate, confirm and refine, and finalise recommendations based on the recommendations contained in this report. That they employ appropriate external professional advice and help to transparently and successfully conclude this work. That this work also includes a component to identify legal constraints and to make practical recommendations for changes to the legal and regulatory code for facilitating legislation for an electronic commerce-based Customs system, as described within this report and to be specified in detail by the Customs working party.
2. That Customs instigate a consulting project to redesign work practises, to rebalance work loads and flows, and to redesign staffing requirements based on the recommendations in this report, specifically electronic commerce based trading, physical inspection and risk management. Extra components to include interfacing with other participants in the trade process, and the Training Institute.
3. That Customs implement container scanning processes, outside the port gates.
4. That Customs processes all take place outside the port gates; that procedures for trans-shipment and free port Customs procedures are re-evaluated in the light of new practises and the requirements for speed, elimination of informal taxes, logistics, infrastructure efficiency, and national competitiveness.
5. That Customs implement an EC/EDI software module to facilitate paperless communications with traders, trade professionals, TIS (technical controls), the port, the harbour and container handlers.
6. That Customs implement a risk management regime, based on a software upgrade/ addition to NAJM, pre- and post-event auditing and an automated technical controls regime (TIS).
7. That Customs implement a Customs Training Institute for the education, training, retraining and certification of Customs officers, traders, trade professionals and other affected professionals directly involved with the trade process, and with trade process reform. That an export revenue potential component be built into the feasibility plan for this project.
8. That performance management indices (TEI) are established: for internal monitoring of staff effectiveness and external comparisons against goals; for technical interfacing with TIS, with Government Intranet and gateway services, with LibanFac, and particularly with the port and container handling computer systems.
9. That Customs become a founding stakeholder in LibanFac, that they become an integral part of the consultative process on interface standards, on EC standards, on TPA and legal issues, new payment processes, and on other associated working party topics initiated by the LibanFac organisation.

Port, Harbour and Container Handlers Recommendations:

1. That the port implement the ACS system from UNCTAD for ship-to-trader control and tracking.
2. That the port and the container handling authority agree performance standards concerning the electronic exchange of information and of timing requirements between Customs and themselves.
3. That the container handling authority implement the electronic cargo manifest and the bay plan message sets.
4. That the container handling authority implements the interface as requested between Customs systems and their own proprietary systems.
5. That, where feasible, container handling computer systems and port computer systems are electronically "opened" to traders and trade professionals, as part of the open information exchange demanded by modern trade processes.
6. That the port and harbour and the container handler become stakeholders in Libanfac and play their full part in the working party/committee work required by LibanFac's mandate.
7. That any statistics input required by the Lebanese Government is reported by way of TIS/ the Government Intranet.
8. That the port, harbour and container handler authorities contribute toward syllabus and course development for the Customs Training Institute.
9. That the port, harbour and container handlers help amend any facilitating legislation affecting their operations under an electronic commerce regime. That they participate in the wider work concerning the Lebanese legal and regulatory environment, and the changes to be made to facilitate the new electronic commerce based regime.

Technical Controls Recommendations:

1. That a separate organisation is established for the granting and approval of all technical controls, called the Trade Information Service (TIS).
2. That the organisation comprises staff (or the functions) of all of the Ministries and agencies involved in the technical control regime, optimally including private sector agencies.
3. That the organisation operates to commercial standards of service and hours of work.
4. That the MOF also set up a payment facility at TIS.

5. *That the TIS occupies separate, specific-function premises, conveniently located for traders and trade professionals, with adequate parking facilities.*
6. *That all technical controls are reviewed by a multi-agency working party in order to rationalise and then to minimise Lebanese technical controls.*
7. *That the process for issuing technical controls, and the legal basis for technical controls is reviewed and overhauled, with the objective of tightly controlling a much smaller-and diminishing number-of technical controls in future.*
8. *That future technical controls may only be issued following the approval of the TIS working party; that Customs will not apply technical controls without the prior approval of the working party.*
9. *Following an audit, and a dramatic reduction in the number and variety of technical controls, a common format, common application, common payment and approval procedure is developed and adopted by TIS.*
10. *That the new procedures include automated applications and approvals, and payments.*
11. *That a system of automated technical control approvals for both red and green channels is developed and applied.*
12. *That the process of technical controls approvals integrates automated risk management and pre-and post event auditing.*
13. *That the TIS becomes the basis for an automated technical information centre.*
14. *That a range of membership options is developed, together with a range of services for members and the general public. This will also include a Customs declaration and clearance service for smaller organisations.*
15. *That the technology base of the TIS enables remote applications and services, ultimately to be offered as a "virtual service".*
16. *That TIS ultimately becomes a self-funding, commercially operated organisation, with equity spread between the public and the private sector.*

Implementation Authority Recommendations:

1. *That a decision in principle is made to establish a LibanFac organisation.*
2. *That LibanFac becomes the focal point and overall project manager for the trade process reform programme.*
3. *That LibanFac implement the first five EC/EDI messages as part of the trade process community effort.*

4. *That LibanFac integrates with TIS and with Customs risk management operations.*
5. *That a follow up Implementation Planning project is defined and commissioned.*
6. *Prior to the acceptance of that plan, that LibanFac, or an acceptable alternative name is registered.*
7. *That the function, organisation and business plan for LibanFac is developed.*
8. *That informed opinions are canvassed on the ownership of LibanFac, for the short term and the long term.*
9. *That an initial board of directors is appointed, as described in this section.*
10. *That a search is initiated for a suitable CEO.*
11. *That the functions of LibanFac are integrated into the overall trade process reform implementation plan.*
12. *That the technology be subjected to an RFI, requesting information on technology outsourcing, contracting and outright purchase.*
13. *That the local telecommunication companies are included in the RFI process, as are the local technology companies, where appropriate.*
14. *That a search is undertaken for potential local employees and assignees.*
15. *That funding is agreed and allocated for the first three years of operation, to be reviewed annually.*
16. *That the implementation plan is put into action as soon as practical, using mid 1999 as the initial target.*

### **Associated Suggestions for Further Work**

The following are not direct recommendations, since they are generally of a stand alone nature and not specifically discussed during the project. Their importance became clear as an integrated approach was developed. In addition to these projects, it will be already apparent that the Customs Reengineering Study and a Trade Efficiency Implementation Plan are required additional projects, to be timed and integrated within the itemised recommendations.

*Transport and Distribution Suggestion: In conjunction with the road haulage industry, the Ministry of Transport and the EC/EDI Association (LibanFac) commission a study of the transport and distribution industry and infrastructure with a view to making recommendations to reduce costs and time involved in delivering goods from terminals to importers, and from exporters to terminals.*

*SMEs and Trade Development Finance Suggestion: That the Ministry of Industry, Economy and Trade, together with the Ministry of Finance and with the participation of a range of SME traders and the appropriate SIG commission a study into the potential for export guarantee and other trade development funds for the growth of Lebanese international trade.*

*Suggestion: That the MOIET, the MOT and the MOF jointly commission a study, perhaps with the participation of the Chambers of Commerce, aimed at examining incentives, tariff options and delivery options for Lebanese SMEs. This project to have a measurable deliverable, e.g. for an investment of \$X we can create an extra \$Y of exports.*

### **Immediate Actions**

What must be done to make these recommendations come to life? It is not possible to anticipate what the outcome of the debriefing sessions might be, so it is unrealistic to plan out activities too far into the future, although the Recommendations Report did articulate a seven year plan. However, that needs to be properly detailed during the course of an implementation plan, following the debrief.

In sequence, the short term actions are:

1. Trade Efficiency Committee approve the recommendations and organise a Ministerial debrief session. This should take place, ideally by late February or early March 1999.
2. The debrief will workshop the recommendations and select priority actions and set times, allocate responsibilities and resources.
3. It is assumed that these will need to be endorsed by a number of agencies.
4. Resulting from this approval and review, the recommendations then need to be redrafted to reflect decisions and other agreed actions.
5. Project management must be selected and recruited, and need to sign off on the plan.
6. A series of reference visits is then recommended to take place prior to a formalised national plan being approved.
7. Following this action a TOR for a full implementation plan should be produced, advertised and the contract awarded.
8. During the delivery of the implementation plan, each of the suggested steps from the Recommendations report will be reviewed, revised, augmented, etc.

The implementation plan will then follow a similar acceptance process, and the project may then begin in earnest.



It is suggested that the time from debrief to commencement of implementation planning should be no more than three months. The implementation plan may take six months, but some aspect may be implemented on a fast track, for example container scanners.

Other projects, such as a Customs reengineering study and trade efficiency impact statement may overlap the implementation plan.

## **Summary**

This report is the culmination of a six to seven month project. It ultimately covered a much wider range of the topic of trade efficiency than was originally planned. And that was because, due to conditions almost unique to Lebanon, the only approach to improve Lebanese trade efficiency is to take a top down, comprehensive view of all participants in Lebanese trade, and then to redesign a system that integrates a whole series of improvements. These improvements, including the reengineering of Customs and technical controls systems, when taken together, create a multiplier effect. It is only in this comprehensive and integrated approach that the requisite improvements are possible.

Improvements are vital. The costs of clearances, informal costs, the costs of delays and the scale of delays are a seriously debilitating factor for the national economy. They have helped create a low wage, high cost economy; an economy where bribery is seen almost to be a right when it comes to international trade processes; an economy where SMEs find it almost impossible to export; an economy soon to come under even greater competitive pressures from new WTO agreements, from EU partnerships, from regional trade agreements and the requirements of Customs authorities by the WCO.

The trade process system is ripe for reform. The timing could not be better. Indeed, much later and it could be too late. And reform is inevitable; it will come voluntarily or through compulsion. The only variable is timing. The longer the delay, the more painful, disruptive and expensive the reforms will need to be.

The process involves five groups of organisations: traders, trade professionals, Customs, the port, harbour and container handling authority, and the public and private sector agencies involved in technical controls. Customs have made a good start with the NAJM system; the new container handler is well experienced in the necessary techniques. So there is something to work with.

The system in which each of these organisations interact and exchange information is almost entirely paper based. These paper systems could bear some refinement, as evidenced by the standardisation recommendations for technical controls. But it needs to adopt IT techniques in general and EC/EDI in particular if it is to approach world best practise. In addition, it needs to implement an upgraded NAJM system, implement a computer based risk management system, for both technical controls and Customs clearances. New technology container scanning equipment is also recommended as part of the Customs reengineering process. In addition, the principles of transparency in dealing with clients (not adversaries), of pre-clearance, of pre- and post-event audit, of 95% or more green channel selections and a system based on a client service relationship between the public sector and their private sector clients needs to be

fostered. A Customs training institute will help achieve that goal, by ensuring that everyone in the reengineered and reformed system receives professional training, and in the case of trade professionals, certification.

The technology makes great use of IT systems. It also involves installing a "whole of Government Intranet" for assisting in automating technical control applications, issuing and approvals, in information sharing between Government departments, Statistics and other agencies. Systems for risk management will be developed by Customs, and by a new inter departmental agency called the Trade Information Service (TIS), which also provides a range of trade information and data base services, transaction processing and trade promotion/trade development services. A system that harmonises information exchange between the container handling authority and Customs is also recommended.

The results of this reform and reengineering will include clearances and release to traders in less than 48 hours; the elimination of "informal taxes" at the port and Customs, a fully functional Free Port and growth in trans shipment, SME's business and regional trade.

Trade process performance will be monitored by the application of a range of trade efficiency indices (TEI).

In addition to proposals surrounding the recommended new systems, three consulting projects are proposed: (1) for implementation and business planning for TIS; (2) for the introduction of a new agency, LibanFac, charged with the operation of the technology of the trade process reform project, project management and support. And (3) a fundamental review of customs work practises, and the impact of the trade process reform systems, including rebalancing of Customs workloads.

Additional suggestions are made regarding projects in the transport/logistics sector and in the trade development/export finance guarantee area.

The capital costs of the technology and associated activities will be in the region \$10-\$15 million. Revenues generated by the two new agencies will begin to repay that amount within three years and show profits within four to five years. In addition, a special trade facilitation levy, of \$100 per clearance transaction, will yield \$30-\$40 million p.a. within four to five years. The projects will pay for themselves; will make a profit, and perhaps a capital gain for the Government, within five years. And this is in addition to the cost savings and efficiencies that it will provide for Lebanon's international trade.

The project will enhance Lebanon's skill base, provide well paid employment for its talented young people, and may even create a whole new industry in itself, since Lebanon will be the first in the region to adopt such an efficient system of trading through trade process reform.

The next step is to review the report, then to debrief senior figures in the Government. Thereafter an inspection tour of countries who have adopted similar measures is recommended. The next step after that is to commission an implementation plan for LibanFac, a business plan and implementation plan for TIS and a reengineering, revised work processes study for Customs.

The project can be implemented by stages, the first being operational in less than 12 months. The business and technology cases are indisputable. The national benefits even more so. The only inhibitors are caution, compromise and delay.

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