Impact statement of the Euro-Mediterranean partnership agreement

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

Provisional partial report

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SYNOPSIS

INTRODUCTION

This report measures the foreseeable effects of the impact of the association agreement being negotiated between Lebanon and the European Union on the service sectors. Before presenting the impact on the majority of the sub sectors defined according to the detailed classification of the WTO, used methodology is exposed as well as the general framework of the negotiation on the services.

I. GENERAL FRAMEWORK OF THE NEGOTIATION OF THE LIBERALISATION OF THE SERVICES IN LEBANON

The will to include the services in the association agreements with the European Union is specific to Lebanon compared with other signatory countries of the Euro-Med agreements. That is explained partly owing to the fact that Lebanon is not yet member of the WTO. It is impossible however to disregard the general principles of the agreements of the GATS for the following reasons: (see detail on the comparative chapter VII)

- parallel to the Euro-Med agreements, Lebanon begins its negotiation with the WTO. It is therefore necessary to guarantee as of now legal compatibility and consistency between the provisions which will be taken under the Euro-Med agreements and the WTO agreements.
- the other Mediterranean countries chose to point out only the general principles of the liberalisation of the services in the Euro-Med agreement while referring to their engagements in the WTO agreements. This amounts to excluding the services from the Euro-Med agreements and therefore not to include them in the fields of the reciprocal concessions.
- for reasons of consistency but also to uphold their mutual interests, the EU and Lebanon will probably use all the instruments available under the WTO agreements (differentiation of the methods of supply, possibility of non consolidated engagements, exceptions to the MFN - clause of the most favoured nation, etc).

II. NATURE OF THE IMPACT OF THE ASSOCIATION AGREEMENTS ON THE SERVICES

II. 1. Liberalisation and opening of the services are very different from the processes running in the case of financial assets or commodities .

International service trade does not answer determinants which are simple like the assets. For the assets, the price is the essential determinant of exchange flow, whereas the price of service on the contrary is only a tiny component of trade flows. Service exports depend for example on the liberalisation measures of the partner or bordering countries, but also of linguistic or cultural proximity, of the quality standards, of regulation... The cross-border exchange of services is of only a minor importance The main part of international service flows is carried out through travel by persons. [illegible] access to the professions for the foreigners, the limitations to the right of access take on, such as the limitations in the equity holding, the membership of the Board of Directors.

Services are not homogeneous, substitutable assets. The economic theory is stammering on this topic. There is an ongoing debate on whether the theories of international trade are applicable to services. The empirical questioning on the exchanges of service really started 5 years ago with the GATS.

II.2. Synthesis of the effects of service liberalisation

In the following table, the various elements which influence the beneficial character or not of service liberalisation are identified. It is important to have this diagram in mind and to try to identify in which hypothetical case one is to analyse the impact of the association agreements on a given service sub sector.

Impact of the association agreements	Balance of payments	Factor movements	Competition
Positive	-Export of services - Increase in factors of production productivity - Capital - Wages - DIE from foreign countries	-? Technology transfers connected with the DIE - Transfers of know-how connected with training acquired abroad - Improvement of quality standards	- Limitation of distortions - Earnings for the consumer - Earnings as regards competitiveness
Negative	-? DIE towards foreigners - Service imports		-? Risk of disappearance for local people benefits.

DIE : means Direct Investment of Enterprises

II.2.1. Positive effects

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

The first advantage of service or integration liberalisation into a Preference Area is as in the case of the assets, an opportunity **to increase exports.** That occurs when there exist in the country, comparative advantages which are not exploited owing to barriers of entry. The lifting of the barriers allows for an immediate gain. For example, the liberalisation of air transport enables the most effective companies to transport more non-resident passengers. The case of persons' movement must be added (n°4 cases of the OMC) when certain trades which were prohibited on the territory become permitted. It is the case of an engineer working for a foreign company on the Lebanese territory. It has normally to be specified in the engineers' order (?) to be able to carry out a very specific activity temporarily.

In very numerous cases, service export is accompanied by the development of a durable economic presence on the foreign territory. This involves the commercial presence according to the definition of the WTO. (n°2 cases). **Service export is accompanied in this case by foreign direct investments (IDE).** These investments, on the assumption that they made it possible to identify incomes induce an increase in income transfers from foreign countries. These transfers derive from capital and labour if the DIE are accompanied by immigrating individuals.

Lastly, service liberalisation can raise obstacles to the commercial installation of partner. The DIE from foreign countries have an immediate beneficial effect on the balance of payments, as this involves **imports of long-term capital.**

II.2.1.2. Positive impact on the technology and know-how transfers

As regards technology transfers connected with the IDE, there is a marked enough difference between the manufactured goods and the services. Indeed, technology is necessary in service production and it is carried out in contact with the consumer. The subsidiary companies where partners have therefore to integrate know-how, the technical standards and all the service characteristics. That supposes therefore a much more important transfer of skills and know-how than in the trade of goods.

Service liberalisation can encourage the acquisitions of qualification abroad either within the framework of teaching and vocational training or within the framework of the experience acquired during a stay abroad. The efforts of harmonisation of the standards are an argument favourable to this type of indirect profit of the agreements.

II.2.1.3. Positive impact on the regulation of the internal market

The limitations in terms of exchange of services and more generally the restrictions on the presence of the foreign people receiving benefits **result in an additional cost to the users of these services.** Thus, for example, the restrictions in terms of insurance, limit the offered products, the quality of the covers and of refunding, increase the amount of the premiums. The consumer is therefore affected by these protections. In addition, numerous services are production inputs . The cost of protection and the distortions which can result from it result therefore in a high overall economic cost. It often is the case in the financial sectors of certain countries where the mobilisation of the saving is very insufficient partly because of the lack of adequate placement instruments. These price distortions can reduce the competitiveness of Lebanese goods and services and block the possibilities of exports.

In addition, **in a context of liberalisation of the assets, it becomes essential also to liberalise the services.** If they are inputs in production and if the services inside the country remain expensive owing to a lack of liberalisation, then national producers are handicapped relative to foreign producers. The excess cost generated by the lack of liberalisation can even represent a negative effective protection.

II.2.1.4. Other positive impact

Service liberalisation is accompanied by an effort **to harmonise the quality standards with third countries.** Even more than for the assets, the standard difference can be a natural obstacle to the exchange of services. The association agreements are therefore a means of harmonising the standards and of putting them at the level of the economically most advanced countries . This setting to the standards makes it then possible to conquer market shares in less advanced countries which constitute an outlet for the country.

II.2.2. Negative impact of the association agreements.

II.2.2.1. Negative impact on the balance of payments

This involves symmetrical effects with those that we mentioned previously. The opening of service trade will encourage the request from services sent to foreign operators. That results in an increase in service imports and therefore a loss of currencies.
In addition, the foreign DIE carried out previously produce capital earnings which are then repatriated in the country of origin.

II.2.2.2. Negative impact on the factor movements

If the association agreements lead to a recognition of diplomas, and if, as it is the case for Lebanon for historical reasons, the training stays abroad are frequent, there is a risk of acceleration of the brain drain and of the final departures of the most qualified ones.

II.2.2.3. Negative impact on the local producers

Competition of local people receiving benefits with foreign companies can naturally affect the internal activity, in particular in the non competitive sectors. There can therefore be a risk of the local producers' disappearance towards international providers service having a technological advance or a credit worth without common measure with the local people receiving benefits.

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

The signing of the association agreement will involve amendments of the Lebanese law in the fields of access to the market, of the right of establishment, of the provisions concerning migrant workers. It is necessary to examine these changes to measure the impact of the opening of the services. The text of the agreement with the current Lebanese law must therefore be confronted by formulating hypotheses on the changes which will occur.

III.1. The pre-project of agreement on the services

At the time of our mission, the association agreement still was under discussion. The text of the proposal on the services which was submitted to us still is in the form of a project the contents of which have to be altered, defined and to be supplemented. Many articles are indeed still in an outline state (reference to titles which return with nothing, cf. Article 11 and 12 is made for example). The parts relating to the services are not moreover included in the last complete version of the proposal for agreement. The document comprises handwritten annotations and the numbering is provisional, namely it is for the moment only a preliminary document. It is characterised by the following points:

It includes 18 articles divided into three chapters. The first concerns the right of establishment and of operations of the companies, the second chapter concerns cross-border trade between the Community and Lebanon. The third states general provisions.

Article 1 states the principle of the Most Favoured Nation (MFN) and that of the National Treatment (TN). It must be noted however that the EU would be held only in the MFN while Lebanon would start on the principle of the MFN and of the TN, which probably constitutes an anomaly.

Articles 1.b), 2. A) and 2. b) contain lists of exemptions with these two principles (Annex 1, 2, 3) which are not yet available by now. This is particularly restrictive for our study because it is the contents of these lists which would have allowed us to measure the impact of the agreements. A very significant latitude is indeed opened for Lebanon. If one refers to the WTO engagements, current Lebanese regulations could completely make provision for an engagement of Lebanon in the agreements of the GATS (these agreements leave a very large latitude to the States on the rhythm of the engagements). As it is clear that the engagements in the Euro-Med agreement will not be higher than those concluded in future WTO agreements (it is moreover what Article 14 of the proposal reaffirms), it is possible that the Euro-Med agreement does not lead to greater liberalisation of the Lebanon services. This involves a minimalist scenario which corresponds however to the reality of the agreements of the GATS for the other Mediterranean countries for which the opening of the services remains marginal.

III.2. Dubious amendments of the Lebanese law

The Lebanese restrictions of the law on the services cover primarily the conditions of nationality. Professions, the employee's statute, the employees' statute in very numerous sectors are prohibited to foreigners. Similarly, strong restrictions on the share of Lebanese in the Boards of Directors, the share of the actions which have to be held by legal or physical Lebanese entities in the public limited liability companies constitute obstacles to service liberalisation.
Another form of the restrictions relates to the foreign personnel which can be employed. The Lebanese law anticipates for example that a work permit can be obtained for a foreigner only if no Lebanese can occupy the post.
An important restriction relates to the land acquisition. The general principles of the GATS are not contradictory with the maintenance of such provisions. However, it is mainly the lifting of this type of provision which could constitute an interest in terms of concessions that Lebanon could grant. It seems however that Lebanon remains attached to these principles as the detail of Article 5 of the proposal which remains rather restrictive on the employment of the foreigners testifies moreover. But it is clear that the impact of service liberalisation will all the more be marked as these provisions will be raised. It is impossible for the moment to have an idea of the extent of the concessions which will be granted.

III.3 Difficulty of considering the extent of service liberalisation induced by the association agreement

We stated previously that Lebanon could not subscribe an engagement level with the EU higher than that which will be defined with the GATS. That means that the concessions obtained by the EU will be acquired in any event when Lebanon is member of the GATS. Similarly and reciprocally, as soon as Lebanon is member of the GATS, it will obtain as regards services what is conceded by the countries of the Union to all the other members. It is to say that the idea of including the services in the HAVE agreement loses much of its relevance because of the limitations and because of the terminals that the rules of the GATS necessitate.

All the elements that we have just evoked do not enable us to build a precise set of hypotheses. It is possible that the agreement leads to some modifications without genuine effects as it is possible (but in our opinion, not very probable) that the principal nationality restrictions are raised. Our working hypothesis is rather the latter case, namely a genuine opening movement. Even this maximalist scenario, the Lebanese economy will not upset.

IV. SECTORAL STUDY

IV.1. Grid of reading of the impact of the agreement on the subsectors

To describe the impact of the association agreements on the services, we distinguished several categories according to two criteria. We saw previously that services can more generally be assigned in various manners by the association agreement and by the liberalisation process. We distinguish the services for which the impact of liberalisation is positive, in the short or medium term, the services for which the impact is low or zero, and finally if the impact is negative.
The other distinction criterion that we retained is that of the export potential. Indeed, in view of the high degree of competition and in view of the place of the private sector in the services in Lebanon the impact of the agreements will be felt mainly on the balance of payments and more exactly on exports. It is probable that the distortions relating to the lack of competition are low in Lebanon. Service liberalisation will have only a minor effect on this aspect.
Among the various effects of liberalisation (See II.2 table.) it is therefore more relevant to devote attention to the export potential which also answers one fundamental question concerning the interest to include the services in the association agreements Euro-Med, namely if services will make it possible to compensate for the foreseeable increase in the deficits on asset trade.
We distinguish services with weak, average, and extreme potential for export. Crossing these two criteria, one obtains new categories which enable us to classify the services.

Services		Potential for export		
		Weak	Average	Extreme
Impact of the agreements	positive with TC	Retail trade; Ancillary services to agriculture, to hunting and forestry; fishing, Research-development; Supervising authorities of quality, analysis and inspection of the materials	Congress services;	Wholesale trade.

	Positive with CMT	Maintenance and repair services of equipment; Building, cleaning; Preparation and packing services	Legal Services; Accounting services, audit and book-keeping ; Engineering; Urban development and landscape architecture; Integrated engineering services; Insurance and services related to insurance; Insurance broking services; Banking services and other financial services other than insurance	Services connected with the new economy Computer services and related services Consultation as regards installation of computer equipment; Data processing services; Software construction services; Basic data services; Creation and realisation services on multimedia supports; Market research and survey; Impression and publications; Persons' employment office abroad
	Slightly positive or no	Postal services; Leasing; Property; Film projection; Press agency services; Ancillary services to the distribution of energy; Photography; Servant; Mail services; Production and distribution of films and video; Garbage collection; Show services; ; Library services; Museums and other cultural services; Commercial vehicle hiring with driver; Maintenance and repair of the means of road transport.	Telephone services; radio and television; construction of building; construction of work of civil engineering; facility and assembly laying work; work of completion and of completion of the buildings; Franchising services; Higher education services; Wards; other human health Services; passengers' maritime carriage; passenger's road carriage; transport by control;	Hotel trade and catering services; Tourist travel agency and organisation services; Tourist guide services; Publicity; Air transport services; Aircraft hiring; Maritime carriage of goods; Hiring; Passenger transport,

IV.2. Services for which the agreement will have a short-term positive impact

This involves sectors which will benefit in the short run from the signing of the agreement. Several hypothetical cases may arise. Those which should only be considered here arethe sectors which are until now limited by European regulation which would block either service export, or persons' movements, or foreign direct investments Lebanese in the direction of Europe. In fact, **we never met an operator who complained about the conditions of access on the European market.** On the other hand, numerous examples were quoted to us in the direction of the Middle East where access to the market is much more restrictive. This reflects in our opinion two aspects. Firstly, European regulation is sufficiently liberal not to be an obstacle to the Lebanese service providers wanting to exert in Europe. It must be noted in this regard that the multiple European regulations should rather be referred to. In the absence of agreement with the Union and in the absence of signing of the WTO agreement, it still is the national regulations which apply. For example, the agreement of 1977 for the relations with France (the commercial agreement of 1977 also concerns the former EEC), agreements which do not evoke generally services. Let us add that many Lebanese residents in Europe have a double nationality which make them free of the restrictions on the foreigners.
Secondly, the possibilities of service exports in the direction of Europe seem very limited owing to the comparative advantages of Europe on the services, owing to disproportion between the size of both trade partners, of the very strong competition that the European companies exert themselves on their market. Consequently service liberalisation will have only a weak effect on service exports in the direction of Europe.
What constitutes a short-term positive impact, is the knock-on and notice effect that the signing of the agreement can induce. The awareness of the issues of the agreement within the company will normally cause debates, interrogations which will result in studies and expert opinions which will partly

be assumed by local operators. The engagement of Lebanon in the international organisations, especially if peace prospects engage in the Middle East is a sign which will accelerate the arrival of foreign direct investments.

IV.2.1. Low potential to the export

IV.2.1.1. Retail trade

Presentation

The sector of retail trade suffers currently in Lebanon of the economic crisis. It is indeed one of the sectors most sensitive to the economic situation. It also seems that its situation has just passed a critical point which amplifies the effects of the economic situation. The sector suffers from rising running cost:
- interest rate
- customs taxes sometimes increasing (textile)
- income tax and Social Security charge
- electricity price
- high cost of labour.

These charges which remain however comparatively weak are accompanied by a sharp increase in competition and by a fall in the purchases.
- Purchase in Europe or in the Gulf because of the frequency of the trips. For example, cigar sale is more advantageous in the shops duty-free than on the territory.
- Purchases in Syria because of the proximity of the Syrian border where the price divergences are considerable.
- Sharp drop in purchases from tourists and from traditional Arab customers who have competing networks which are stocked better, and which buy to the detail to Dubai with much lower customs duties.

Worrying sign, many tradesmen lose their commercial exclusiveness to the detriment of tradesmen of the Gulf. Some former customers of the gulf become suppliers.
Tradesmen consider their loss of turnover at 30% in 1999.

The retail trade does not provide any high potential on exports owing to the nature even of its activity. It addresses itself to the local population. It supposes an installation on the territory in the form of a shop. This sector will however strongly benefit from the fall in the customs tariffs which will make it possible to reconstitute the commercial margins and to lower the prices and therefore to increase demand.

Recommendations :
This involves lowering the running costs in order to cope with a very competitive environment facingother countries. It is probable however that this sector is hypertrophied in Lebanon and that important restructuring will have to be engaged (reduction of the number of shops, concentration). The agents of the sector will also have to re-examine their pricing policy and often to give up shareholder behaviour (commercial exclusiveness, specialisation on a mark, high margin but weak sale etc)

IV.2.1.2. Ancillary services to agriculture, to hunting and to forestry

The sector comprises five consulting companies in engineering for the livestock-farming, agronomy and the agri-foodstuff, including a chief characteristic with manpower of 130 employees. The association agreements can promote studies as regards agricultural development with the possible participation of European financing. This involves a positive, immediate but rather marginal repercussion.

IV.2.1.3. Research-development service

Presentation

The Research and Development sector is in the majority of the countries closely connected with the public budgets devoted to this sector via universities and centres of research, and with incentive policies in the military and medical fields. Lebanon is marked by a predominance of the private sector in hospitals and universities. The remainder of Research and Development is connected with the top industrial sectors. But these sectors are non-existent in Lebanon.
Lebanon does not have comparative advantage in this field the more so as the qualifications acquired abroad are generally applied and little are directed towards fundamental research.
The association agreements with the European Union encourage naturally this sector in Lebanon in terms of transfers of know-how within the framework of technical assistance and within the framework of the studies connected with the preparations of the agreements. That remains however very marginal.

Recommendations :
In view of the size of the country and in view of the weakness of the traditions of the basic research, it is more relevant to build comparative advantages over certain niches. The sector of health but also that of the new technologies could constitute development zones for theoretical and applied research which would have long-term positive repercussions on the development of service exports.

IV.2.1.4. Supervising authority of quality, analysis and inspection of the materials

Ten of small enterprises of which most important ones occupy this sector. The quality controls will assume an increasing importance for service export and to attract an IDE. The offer seems limited enough for a country like Lebanon and in view of the potential for exports.

IV.2.2. Average potential for exports

IV.2.2.1. Congress service

Presentation

Lebanon is traditionally a congress and exhibition country which allows the interface between the country, the foreign Diaspora and the partners. Lebanon has a comparative advantage over this sector, which should enable it to find an important place.

There exists more than twenty companies specialised in the organisation of congresses, which is rather important with respect to the size of the country. The infrastructure is developed sufficiently to meet the technical needs including the most modern ones than supposes the organisation of congresses. Know-how in terms of publicity and of design is more. The hotel infrastructure is largely sufficient for this type of event. Lebanon can therefore increase its role of interface between the industrialised countries and the Middle East. Beirut will continue being able to give a favourable environment (climate, trade, cultural activities and leisure, etc.) which will make a choice destination of it both for the Western and for the Arab countries. It must however be noted that certain countries of the Middle East develop an offer in this field and that international competition on this market is much more alive than before the war.
19 congresses and fair were organised between October 1999 and March 2000. The majority of these congresses took place in November and December. The centres able to hold important fairs are in sufficient number: three centres in Beirut, one in Tripoli and one in Zahle.
The association agreements insofar as they will develop the trade, the information requirements will have a positive impact on this sector at two levels:

- the organisation in Lebanon of congress or exhibition services which will take place abroad. It probably is in the direction of the Middle East more than towards Europe that these exports will be able to be deployed.

- the organisation of congresses in Lebanon.

Recommendation

Lebanon has to instigate this sector in order not to allow oneself to be catched up by countries of the region which are increasingly able to provide this type of service. Better structuring of the profession within professional bodies would be necessary to ensure better publicity abroad and to emphasise the assets of Lebanon in this sector.

IV.2.3. High potential to the export

IV.2.3.1. Wholesale trade services

Presentation

The wholesale trade services constitute a high export potential owing to the activities of re-exportation. This involves a traditional activity connected with the geographical situation of Lebanon. The port of Beirut ensured before the war one large share of the transit of goods throughout the Middle East. This activity is however very reduced today but nothing is opposed to having it find an important place. It benefits from the following advantages:

- Geographical situation: The passage by the Suez Canal and the skirting of the Arabic peninsula represents a cost for the servicing of the Middle East.
- Weak competition: Obstacles to transit by Israel, although a share of transit in the direction of Jordan is already carried out by Israel
- Absence of infrastructure in Syria.

The obstacles raised on this sector are multiple:

- The weak development of the transport infrastructures to ensure the service road in the centre of the country towards Syria.
- The delay in the general organisation of the port of Beirut
- The high storing, storage, transit costs in the port.
- The complexity of the procedures and of the administrative steps for the importers and the exporters who increase the costs
- The existence of informal taxes
- The slowness of the procedures and the important port exit deadlines
- A tax system unsuited to re-exportation

All these obstacles result in the absence of use of the potential that represents the free zones. It should develop more but provided that organisation of the harbour activities is reformed . Such a reform programme implies long-term programming, significant technical assistance and political will to undertake reforms. It is clear however that incomes which could be generated by the harbour activities as well as all the activities of additional services are considerable. The advantages still available to Lebanon in this field owing to the delay and owing to the poor possibilities of the competing ports are likely to disappear in the medium term.

Recommendations

They relate to the infrastructure and to the regulations. It is fundamental to improve the transport infrastructures towards the continent. The railway service road towards Damas should be national priority as well as the improvement of the transportation routes towards the Bekaa Valley. It is a *sine qua non* to develop very numerous service sectors.

The second aspect is naturally lawful and organisational. To go back to its activity level, the sector of wholesale trade has to have a port allowing rapid and effective transit of goods. Infrastructures have to be modernised, the rapid administrative procedures for the exporters. The storage costs, customs clearance, of transport do not have to be raised. All this deserves an individual study which goes beyond the capacities of this mission. Our recommendation would be to carry out a study on the transport policy in Lebanon.

IV.3. Services for which the agreement will have a medium-term positive impact

In this category the sectors which will benefit from a medium-term positive impact are classified. Several categories must be distinguished. First of all the services which will develop because of the awaited impact of the agreements on the increase in the foreign presence on the Lebanese territory. The development of DIE and the arrival of foreign companies will stimulate the local request for services. In the case of service consumption by the non-residents, this even involves an increase in exports.
The other major group of services which will benefit in the long term from the signing of the agreement but more generally from the insertion of Lebanon in the world economy is connected with all the activities of the new economy: on the one hand to the development of information technology and telecommunications, on the other hand in all the professional service sectors in the companies, either owing to the need to improve the technical and owing to production standards, or owing to equipment or owing to the need to be brought into line with the production methods of the industrialised countries.

IV.3.1. Low potential to the export

IV.3.1.1. Maintenance and repair services of equipment

The sector of maintenance and repair services of equipment is very little developed in Lebanon. It concerns especially slight maintenance not requiring very high qualifications. It is the case of motor repairs. For the large repairs and industrial maintenance, there is only one or two companies. The essence of the activity is internalised in the companies which ensure themselves the maintenance of their equipment.
There does not exist therefore for this sector export potential even if an outlet could possibly be found towards Syria for complex repairs.

IV.3.1.2. Service of building cleaning

The possibilities of development exist because a share of this service is still internalised within the companies. The arrival of foreign companies can stimulate this activity. There even is a possibility of export of this service in the benefits within the non resident companies. But these developments are rather limited.

IV.3.1.3. Packing service

The activities of packing are rather little developed in Lebanon. That is due to the fact that the majority of the products for human consumption current are imported and are packed abroad. The sector of packing develops in general with the local production of consumer goods.
The companies that we located and which are dynamic are specialised in paperboard. For plastic packaging which require more technology and capacity to adapt to a very variable design, Lebanese companies are not competitive except on typically Lebanese products for human consumption which require special packaging (for example, Oriental pastries). In these very individual niches, companies carry out an important turnover on exports but mainly owing to the consumption of the Lebanese of the Diaspora.
It must however be pointed out that Lebanon has comparative advantages owing to its good place as regards advertising, as regards graphic art, and as regards printing. These strong points can therefore be made profitable to develop an offer of packing service or at least in the design, in the direction of the foreign countries. This potential is not exploited enough.

IV.3.2. Average potential to the export

IV.3.2.1. Legal Services

Presentation

There exists in Lebanon two orders of the lawyers, one in Beirut which brings together 5000 members and 1800 trainees and that of Tripoli which in account 800 and 150 trainees. This involves a rather young population, feminised at 30%. There is an important export potential which appeared during the war. Almost 400 lawyers then left abroad for rather long durations. They exerted mainly as legal advisers in companies of advice in the Arab world and in Europe, mainly in France and often in companies of the Diaspora.
The profession is mainly French-speaking owing to the heritage of the French law. But a specialisation towards the English-speaking world is achieving itself and concerns almost 300 lawyers. Lebanon has therefore comparative advantages in the field of the legal council. First owing to the very good training of the lawyers and because of their abundance. The foreign countries constitute therefore an outlet.

Recommendations

A positioning effort in the international arbitration organisations should be made. That passes through support, in particular undergoing training towards the English-speaking law and towards the new international commercial regulations and mobilisation of the professional bodies.
There is an important outlet that the Lebanese lawyers understanding several languages can exploit.

IV.3.2.2. Services countable

The sector comprises 1200 chartered accountants, which is very high in relation to the size of the country. As a comparison, a country as Tunisia counts only 250 of it. There are 92 audit cabinets. The qualification is very good and training numerous experts are carried out, in particular in France with HEC, CPA in the United States abroad.
The profession is framed by an order, the Chartered accountants' Order, created by Order in Council in 1994. This order defines the framework of exercise of the chartered accountants.
The trade is open to foreigners with the restriction of a principle of reciprocity and in accordance with regulation on work permits, namely that the qualification does not exist in Lebanon. Foreigners have in addition to pass an examination on their knowledge of the Lebanese laws. Moreover, the foreign companies have to have a Lebanese nationality representative. It necessarily is a partnership recorded in the Court.
The activities of export are weak. That is due to the weak number of sufficient size cabinets to approach the foreign markets. The audit cabinets the manpower of which exceeds 10 employees amount to 9 out of a total of 92. Those which export are the cabinets which represent the large foreign cabinets or which work with the Diaspora. There are only two cabinets which exceed 100employees, one of which comprises 600 employees and which has subsidiary companies in the Arab world including the Maghreb.

There is a high potential as regards audit service export. The comparative advantages hold with:

An international level qualification
Capacity to work in three languages (Arabic, French, English)
Capacity to penetrate the English-speaking world
The development of the financial sector

IV.3.2.3. Service of book-keeping, council in management

Presentation

The previous remarks concerning the activities of audit apply to the services of book-keeping. The offer is also very disparate. One located 27 cabinets of accountant-expert including four certified. Only two of them have a size enabling them to position on the foreign markets, the more so as one is associated with a major international group. Among the other companies three others only have a number of employees higher than 10 including a cabinet having alone 150 employees. The remainder of the cabinets counts from 3 to 5 persons. In this sector also, the activities of export are often connected with those of the Diaspora.
With such a heterogeneous offer, it is however difficult to penetrate the foreign countries effectively. However there still, Lebanon could play a much more dynamic role. The accounting procedures tend indeed to harmonise themselves at the international level. Moreover, the needs in accountancy increase in all the countries. The associations with the foreign groups give an advantage in terms of notoriety. Recently Ernst and Young and Semaan and Gholam audit Office created a joint-venture in 1997.

Both as regards audit and accountancy, the impact of the association agreement but also of all the agreements which improve the international insertion of Lebanon will encourage the development of this sector, in particular owing to the need to conform to the standards and to the international rules in force.

Recommendations :

- To develop an integration policy in the international networks (circles and various institutions)
- To create professional bodies
- To encourage the mergers of undertakings
- To develop the association with the international cabinets
- To develop a penetration policy in the Middle East and the Arab world.

IV.3.2.4. Urban development and landscape architecture, engineering Service

The sector counts 30,000 engineers and architects entered on the order of the engineers and of the architects.
500 foreign engineers are registered including 127 of the European countries. But many foreign engineers are not registered really although this registration is obligatory and practises for the account of foreign companies but with a work permit obtained under another chapter. It is a very widespread means to divert the obligation of registration to the order.
Half the members are graduates from foreign countries.
The foreign companies are very present in the public contracts with international financing which conditions the assistance to companies of the donor country or which establish conditions of candidature which exclude in fact the majority of the Lebanese companies. In the private sector however, foreign companies are much less present.
There are in addition foreign control offices which are composed of engineers and architects, both Lebanese and foreigners. They develop their activities in the agreement with the international standards.

The strong points

The Lebanese number of working engineers abroad would be important enough, although we do not have precise figure. This is connected with the excess of offer for engineers on the Lebanese market where 7000 engineers are unemployed and with the recognised skills of the Lebanese engineers and architects.
The average disposable incomes (in USD per month) in the branch are approximately of:

	Initial	Confirmed
Architect	900	1200
Decorators	600	700+com

Lebanon exports advisory services in engineering. One of the chief Lebanese companies characteristic of the market, Khatib and Alami, carries out more than 80% of its turnover abroad. Its

activities are deployed mainly in the Middle East. This company has there subsidiary companies and 300 of its 1000 employees work abroad. Europe is not an outlet for this type of company which lays out contrary to an advantage specific to the Middle East.
It is interesting to note that even for this company, the signing of the association agreements with Europe is not a piece of data which affects the activity . The most senior officials for this company do not seem worried or even really concerned with the Euro-Med agreements. A constant is found there. The opening of the services is not concern because it is less European regulation than the competitiveness of the major European companies which constitutes an obstacle to the penetration of the Lebanese companies in Europe. On the contrary, the competitive environment is high in Lebanon and the Lebanese companies do not fear the possible arrival of foreign companies.

Khatib & Alami

Khatib & Alami, a firm created in 1963 in partnership by M Khatib and Zuhair Alami.
The firm employs currently more than 1000 persons: 300 in Lebanon and 700 in the foreign branches (5 in the UAE, 1 in Oman, 1 in Qatar, 3 in Palestine, 5 in Saudi Arabia and 1 in Bahrein).
The activities of the firm are only of consulting; it is not at all involved in the activities of construction, of production and of raw material or equipment marketing.
This firm concentrates in 7 principal fields; architecture, planning, electric and mechanical engineering, structure, transport, environment and GIS system.
In 1997, the turnover carried out from Lebanon amounted to 34.4 million dollars to which 10% must be added carried out on the Lebanese territory i.e. on the whole 39 million dollars. The principal activities abroad are: buildings (46%), transport (19%), and the systems of irrigation and of sewers (17%).
Although the activity abroad is mainly located in the Gulf States Persian, of new outlets appear in the African countries: Djibouti, Mauritania and Algeria. In the Gulf States, there always is a request but has a less rate that in the past (reduction in the public budgets, numerous work fraught with infrastructures already completed). Moreover, in these countries of the local firms developed. Syria could also provide interesting opportunities.
The comparative advantages are: a less expensive benefit and better quality in relation to the principal competing firms which come from the Western countries (lower labour costs, qualifications to the Western personnel standards, existence of a technical database, experience of the ground, etc.). Consequently, for numerous contracts, a joint-venture system between the firm and a large international company are set up in order to strengthen the advantages specific to both companies.

The 3 principal firms present on the Lebanese market are :
Dar El Handassah, 3 000 employees, branch of a group with headquarters in Cairo.
Khatib & Alami
ACE: Associated Consulting Engineers

The development of telecommunication means should make it possible to increase the advisability of engineering and architecture service export. Indeed, the realisation of plans, the preliminary studies to construction, the calculation of the costs can be carried out remotely, it must be noted however that these new possibilities also increase competition and that the high costs of the manpower can be a handicap for Lebanon.

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

Presentation

The banking sector is the headlight sector of the Lebanese economy. It employs 15,000 persons i.e. 1.6% of the working population partly of 5% in national production. After the destruction caused by the war, the sector is rebuilding rather quickly. The consolidated assets were multiplied by 6 between 1990 and 1998. It will gradually find its place on the international markets and a role in the region but probably on a more reduced scale than in the past.

The Lebanese banking system is in good health owing to the rigour of management, of know-how resting on a long practice and competences in conformity with the international standards. The banking and management control rules safety are in conformity with the international practices. This

stability appeared at the time of the Asian crisis which did not have very marked effects on capital flows in contrast to numerous emergent countries.
In addition to the control policy, the Bank of Lebanon and the Lebanese Bank association produce a great effort to modernise and adapt legislation. Recent measures were taken to set up banks operating through the Internet. A merger policy was implemented to encourage the concentrations and to increase the critical size of the banking establishments.

The activity of the banks experiences rapid growth, much higher than that of the very GDP during the recent period of deceleration connected with the recession.

Balance of the commercial banks (million USD)

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

Source: Association of the Banks of Lebanon, annual report

The Lebanese banking system filled very quickly its delay in the development of means of electronic payments, in particular the payment services by card, the Automatic Teller machines but also all the means of automated payments (Swift automatic Levy, etc.).

Legislation forms a whole which has been guaranteeing broad freedom in the banks for several decades. Operators have always been deprived and Lebanon did not know any tendency to the nationalisation of a part of the banking sector after the second world war as in numerous countries European.
This freedom ensures strong competition between the national and international banks which compelled the Lebanese banks to maintain know-how and a legislative framework in conformity with the international standards. The law of September 3, 1956 establishing banking secrecy constitutes in addition a comparative advantage.

A strong foreign presence

Lebanon has known an exceptionally high foreign presence since more than half a century. If a large number of foreigners left Lebanon during the 15 years of civil war, they have been returning since the peace. Among the 74 banks which exist in Lebanon, there are 16 subsidiary companies of non Lebanese banks (11 Arab and 5 foreign), 15 non-Lebanese banks with participation (11 Arab and 4 foreign). There are finally 46 agencies out of a total of 676 which are the foreign bank emanation.
The foreign presence was strengthened in the number of banks but we will see that their activity was rather reduced in relative share. The increase in the number of foreign banks corresponds to a reinstalment after the war.

Decomposition of the total number of banks performing in Lebanon

	1992	September 1998
Total banks registered on Lebanon	80	78
Lebanese commercial bank total	64	55
which majority Arab	10	11
which majority non Arab	5	4
Commercial bank total foreign	12	15
which majority Arab	5	5
which majority non Arab	7	10
Lebanese merchant bank total	4	8

Source, Association of the Banks of Lebanon, File of the A.B.L. n°14

Share of the foreign commercial banks and the foreign Lebanese with majority banks performing in Lebanon

	% of the active total of the sector		% of the profit total of the sector	
	1992	**1997**	**1992**	**1997**
Bq with foreign majority	19.39	18.68	19.79	21.23
which Arab majority	11.76	13.03	16.34	15.08
which non Arab majority	7.63	5.66	3.45	6.15

Foreign banks	22.01	13.39	38.76	9.54
Banks with foreign majority and foreign banks	41.40	32.07	58.55	30.77

Source, Association of the Banks of Lebanon, File of the A.B.L. n°14

The most interesting learning in this table is that the share of the foreign banks was rather reduced for the period. This share is relative, but that means that the Lebanese banks are dynamic and conquer again the national market.

The obstacles to the foreign participation

Cross-border supply

There is no restriction concerning the individuals. Non-residents can open an account to Lebanon and carry out all banking operations. Similarly, the Lebanese can freely consume financial services abroad :there is complete freedom of capital movement. However, there are restrictions concerning the protection of the national currency. The resident banks cannot receive deposits and grant appropriations in Lebanese Pounds to banks, financial institutions and non-resident exchange brokers in Lebanon. Moreover, the purchases of Lebanese Treasury bills by the non-resident banks can be carried out only by Lebanese Pounds acquired for this purpose against foreign currencies.

Consumption abroad

No restriction

Movement of natural persons

The financial services in Lebanon can be provided only by resident companies.

Commercial presence

A foreign company wanting to open a banking branch to Lebanon has to be formed in the country of origin in the form of a public limited liability company or in mixed liability company by action and to be regarded as a commercial bank. The appropriation to the capital of a foreign commercial branch is 5 million USD, while it is 8 million USD for a Lebanese bank.

For the creation of a foreign commercial bank branch a foreign bank has:
- To be a commercial bank in its country of origin
- To have a certificate of the supervisory authorities of the country of origin on the upholding of the international standards in terms of safety rules.
- To have an appropriation in capital of 5 million USD including 25% to the account of the Treasury
- To have a licence granted by the Bank of Lebanon
- Certificate of non-relation with the state of Israel delivered by the Ministry for Economic Affairs

These last two regulations are only applied to the representation offices.
Except for the last provision, these rules by no means are limitations of the exchange of services according to the definitions of the WTO.

But banks have also subject themselves to other obligations:

30% of the resources of a foreign commercial bank branch have to be used in Lebanon.
There are no regulatory limitations concerning the number of agencies that a foreign bank can open. But the policy of the Bank of Lebanon is to limit the installation of the foreign banks to only one agency in r greater Beirut.
Lastly, the foreign banks are subject to general regulation on the ban for the foreigners, on acquiring land rights except exemption of the Council of Ministers. However, this obstacle to the principle of the national treatment concerns less the banks because of the regulation concerning immobilisations allowed the banks.

The foreign physical persons have in addition the possibility of opening commercial banks to Lebanon. The obligation is made to them to adopt as a legal form the Public limited liability company or the limited partnership with share capital. General regulation applies in this case:
Actions have to be personal
1/3 of the shares have to be held by Lebanese physical persons, partnerships of which all the members are Lebanese, Lebanese companies with share capital of which all the actions are personal and a third party of which is held by Lebanese physical persons. These arrangements actually allow a participation of the foreign capital amounting to 8/9.
The majority of the members of the Board of Directors of a public limited liability company (at least 3) have to be composed of Lebanese nationals.

In property matters, the public limited liability companies which are not held at 100% by Lebanese natural persons or by companies at 100% Lebanese are considered foreign. There exists in this case a limitation as regards acquisition of landed property. Total surface throughout the Lebanese territory cannot exceed 10,000 m2

These provisions apply for the merchant banks and the financial intermediation companies except for the minimum capital which has to be 13 million USD including 15% blocked to the Treasury for the first and of 2 LL billions for the second.

The Holding companies have a slightly more favourable arrangement.
The authorisation and licence regulations granted by the BDL are not necessary
The capital of the holding companies can be fixed in foreign currency and their financial statements formulated in this currency
The president of the Board of Directors of the holding companies does not need a work permit if he is a non-Lebanese non-resident in Lebanon
The seat of the Holding has to be in Lebanon but the meetings of the Board of Directors and general meetings (except the annual meeting) can be held abroad
A controller of the accounts has to be Lebanese and resident in Lebanon
The tax system is inciting 10% of the income tax against 15%.

Companies on Offshore oil rigs
Banks, insurance or Holdings cannot have this statute in Lebanon.

Impact of the association agreement

In view of the situation of the Lebanese banking sector, there is no fear regarding the effects of its liberalisation. The Lebanese Banks can compete with the foreign banks on the territory. The foreign presence will be done primarily in the form of association with local banks and will bring technology and know-how transfers. The foreign banks can have a knock-on effect on the system.
The example of the BNPI shows that the Lebanese banking system could profit indirectly from its know-how as regards electronic banking and pushed other banks to follow its example on this market.
The association agreement and the engagement in the international insertion process will have only positive effects at the internal level.
Regulation is already very liberal, much more than in numerous Member States of the WTO and signatory of the GATS agreements. That means that with tiny changes in its regulation, Lebanon satisfies the conditions of adhesion.
As regards banking service export, Europe and the Middle East must be distinguished.
In Europe, the banking presence is rather weak, though old. It is mainly connected with the economic activity of the Diaspora and does not have vocation to develop more. The facilities which will be made to the Lebanese banks installed in Europe following the signing of the association agreements will have therefore only a marginal effect, connected with the development of trade between the two areas. The Lebanese banks do not suffer from European legislation in banking matters. They are very liberal.
On the area of the Middle East, the situation is more complex. The Lebanese presence in the broad sense exceeds a great deal what arises from the limited number of branches of the Lebanese banks in the area (ten of branches for 3 banks). Indeed, a great deal of Lebanese occupy direction posts in the banks of the Middle East and numerous financial transactions operate themselves on the Lebanese territory.

However, Lebanon is no longer the dominant regional monetary marketing the region and it probably will not find this place again in the future even if Lebanon can play a considerable role and be powerful on certain sectors or in the sub field of Syria. This is due to several elements:

- A banking system developed throughout the Middle East and it is able to answer the demands of the sector.
- These banks can directly resort to the international markets without passing through Lebanon
- They are developed and modern
- They have a favourable regulatory environment, in particular on the question of tax
- There are emergent financial tools (grants, allocations for educations, etc)
- The costs of labour are weaker than in Lebanon.
- Banking regulation is in general very strict in the Gulf States concerning the right of establishment of the foreigners and does not make it possible therefore to develop branches.
- There exists in certain countries, in Dubai, political will to become a regional business district.

The Lebanese banks despite their good results are disabled by rebuilding:
- They suffer from the delay taken during the war
- They are disabled by the effect of eviction connected with the poured interest rates on the Treasury Bills which ensure comfortable remunerations but inhibit any will to conquer markets and to make changes.

All these considerations do not have to have lost from sight, that Lebanon has very many and probably durable advantages connected with its know-how, to the qualification of the manpower. The fact that its influence area is provided better by local banks and therefore that the competition is more complex does not give in any way in question its capacity again to develop on these sectors. The association agreements will play a positive role in this process.

IV.3.2.6. Insurance service, insurance broking service

Presentation

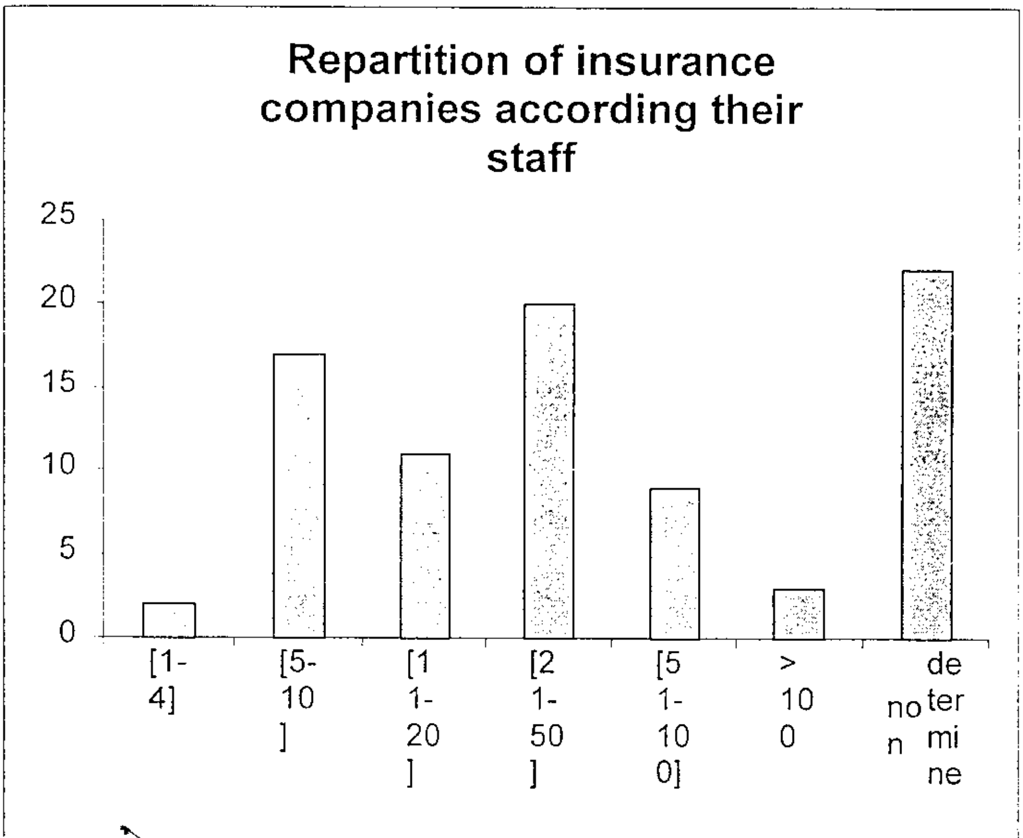
The insurance sector in Lebanon has been in reconfiguration phase since the promulgation of the law of 1999 governing this sector. The insurance sector is under the Official Authority of the Ministry for Economic Affairs. In addition, an Audit Board was created in 1998 within this ministry. It has for responsibility of taking care of the good respect of the law and has the power to withdraw the licences. Previously the law of 1968 was very little respected and numerous irregularities occurred. More than 100 companies were present on the market. The adoption of this law had as a consequence an adjustment and only the best established companies could remain on the market.

The law of 1999 established more strict regulation covering mainly the necessary minimum capital and the technical reserves. Discrimination according to the origin of the establishment is established on the amount of the technical reserves. Indeed, the required amount of the reserves for the foreign establishments is the double of that requested for the local companies. That is justified by the fact that the Lebanese companies have to have a minimum capital of 2.25 billion LL while no floor is fixed for the foreign establishments.

Other organisms, not recorded as insurance companies, carry out an activity of insurance. This involves in particular the mutual cases and the TPA (?). This method enables them to avoid taxation and is not subject the same constraints (technical reserves, revenue stamps, etc.). These organisms are under the authority of the Ministry of the Housing and of the Cooperatives, contrary to the insurance companies which depend on the Ministry for Economic Affairs and the Audit Board does not have authority on them.
Increasingly, banks offer insurance products to their customers without being subjected either to the regulation governing this sector.

The market of insurance in Lebanon is very small but there is a high potential since the penetration rate (net premiums on GDP) is 1.85% in 1998 what places Lebanon at the level of Jordan, the Qatar and India. Similarly, the amount of the net premiums per capita is of USD 92 in Lebanon (Canada: USD 1500, Switzerland: USD 4500).

Lebanon comprises 63 national firms and 7 foreign firms. The majority still are family companies. However, the essence of the market in value is checked by the first 15 companies. In addition, half of the market of insurance is carried out via brokers. But the latter are not responsible under civil law. Only a guarantee and a licence of broking are required to carry out this activity. Greater control and better coordination are therefore necessary.



source: Audit Board

Distribution of the net premiums by branches and by nationality of the establishment
(million USD)

Branch	Life	Transport	Fire	Accidents except engines	Car	**Total**
Establishments Lebanese	45	11.8	25.2	177.5	61.3	320.8
Foreign establishments	74.7	1.1	3.8	16.3	3.4	99.3
Share of the foreign establishments	62.41%	8.53%	13.10%	8.41%	5.26%	23.64%

Source: Audit Board

The hospitalisation branch accounts for 55% of the market of insurance in Lebanon. This share can reach up to 80% for certain companies. Consequently, the risk of bankruptcy is not negligible since this branch is not very advantageous or even overdrawn.
The car insurance branch is very slightly developed since this insurance is not compulsory. It is however probable that it will become so in the immediate future. An indirect effect could be the reappearance of very small companies on the market succeeding in meeting the technical conditions (reserves in private individuals) thanks to this type of police force.

The life branch is still little developed and it is mainly the foreign firms which specialise in this field. Joint-ventures develop increasingly; mainly with European firms. Several factors explain the establishment of these firms in the Middle East:

- certain branches are developed little in Lebanon and a high development potential exists (life branches and appropriations mainly)
- certain firms are already established in other countries (Gulf and North Africa). The partnership is then the strategy to reach these markets.

Impact of the partnership

The market of insurance is already very open since the only conditions governing the establishment of an insurance company are the amount of the technical reserves and that the president of the company has to be resident and have a work permit. Consequently, the signing of the partnership agreement should not have a major impact on competition in this sector in Lebanon.
On the other hand, Lebanon could benefit from the use of the standards and international standards defined within the EU concerning the solvency margins, the level of the reserves and their composition, liquidity, the experts' training and the setting up of a central tariffing office.

Potential on exports

Several Lebanese firms are already present on the external markets (mainly in the Arab countries) where know-how and the experience of the frameworks Lebanese were major assets. Moreover in certain Gulf States, Lebanon benefited from the advantage of the first arrival on the market. However, this tendency changes because more these countries barriers set up to limit the installation of firms on their markets (example of the Saudi Arabia where a new law necessitates a minimum capital of USD 50 million and at least 50% of Saudis on the total staff complement).

IV.3.3. High potential to the export

IV.3.3.1. Services connected with the new economy

The development of the new economy is reality at the international level. Without even evoking the records reached by very young companies in terms of development stock exchange, (one thinks naturally of Yahoo), the new economy would explain half of American growth in 1999. This is to say that this irreversible movement will have considerable effects on the methods of production, of distribution, of exchange,... It involves recombining which gives multiple opportunities including for the developing countries. But the decisions taken surely will have today a decisive impact on the positioning of the countries in the future. Whence the importance of not missing this unique opportunity.
Lebanon is engaged in the development of the new economy in various sectors. Banks already propose account management services by Internet and are on the point of launching activities of electronic bank (Audi, BNPI). Lebanon has numerous Internet suppliers (12) and companies of development of applied software. The rate of the households' equipment in desk computers is rather good and there is culture and a practice of the on-line service.
Lebanon even is in an enviable situation owing to the importance of the Diaspora which creates a constant need for communication in numerous fields. Lebanon is in the typical situation of countries for which the linguistic surface does not correspond to the national territory.
Thus, the Company E-*commerce*, which has just created, could develop quickly its customers with the Lebanese of the Diaspora who place an order for Lebanese consumption products. In point of fact, the development of electronics connects the residents to Lebanon with the whole of the Diaspora and created trade a much more important potential market.
Lebanon is perfectly able to become a regional numerical power owing to the existence of four elements which will have however to be developed:

- The existence of content producer (Internet, digital products site)
- A telecommunication infrastructure
- Groups of dynamic media
- Capacity to produce software.

These elements will be strengthened when products will develop to be digitised and sold on-line (music, book, information, film, video game, television etc)

There is in the short run a potential of job creation from 15,000 to 30,000 jobs. The companies which develop in these sectors often, immediately have an international strategy and can measure themselves in the European companies. It is the case of the company *Intracom* which obtains good results on the European market.

The obstacles to the development of the sector are connected with:

- The size of the companies
- The financing of the start-up which suppose venture capital institutions and a financial market allowing the marketing of the powerful companies.
- The public operators' engagement in telecommunications, the media, in addition to the private initiative.
- The development of the sector is blocked by the weak application of the law concerning the intellectual property. The law of 1999 is undeniably a progress. It follows the Microsoft arrival which urged the authorities to implement this law. A part of the piracy of current software decreased slightly. But it remains possibly to make much more in the adoption of control and legal proceeding procedure.
- The cost of the communications is according to many companies rather high. A company-specific invoicing policy could be developed.
- Lack of customs convention between Lebanon and the countries which import Lebanese computer production. Companies complain about too high customs duties sometimes on products distributed free of charge or on documents of training in software.
The slowness of obtaining the authorisations to general safety for software must be added.

- University training is missing connection with the companies. Training is sometimes insufficient at the technical level but computer experts have rather good general training which is a good starting point for the learning *in situ* of the techniques used.
- The major problem is involved in the insufficiency of the infrastructure of telecommunications. If it is easy to obtain a telephone line and Internet connection, the lines with high flows which are imperatives for many companies of the sector are expensive, rather long to obtain. They seem however to be in sufficient number. In addition, technically realizable individual services and with high value added (variable flows, strengthened safety) are not ensured by the public operator.
- There is no national server (hub). The Internet access suppliers have therefore to connect themselves to foreign servers including for local calls. This slows down the transfer of data and induces import of services of transfers of data.

Impact of the association agreement

The new economy will modify the dominant method of supply of the services at the international level. If indeed these are forms 2 and 3 (according to the WTO definitions) which dominate currently, it is probable that forms 1 and 4 go dominated in the future. The new economy will allow the trade of all the products likely to be digitised via the Internet network. The provision of services which supposes the presence of the supplier and of the consumer will have a decreasing share. It is already possible to sell music, software, books and games on the Internet. But the education, health, council in companies, data, engineering, architecture processing services will also be concerned. But it will be extremely difficult to regulate the trade of such services and to protect the local markets by provisions blocking the freedom of trade.
The association agreement is not and will not be an important determinant in the exchangeable development of the activities of services thanks to the Internet network. The interest of the agreement is upstream like one of the elements contributing to the international insertion of Lebanon.

Recommendations

To encourage the venture capital
Support for the innovative companies.
Technological surveillance system (Cf. the exchanger in France)
Development of the network infrastructures (networks with high flow)

Development of the and of associations professional bodies (for example in France, GESTURE, Grouping of the on-line Service or ACSEL Editors,.
To improve the infrastructure, the costs and the services concerning the high flow.
It is essential that Lebanon obtains its own national server.
The variable and security flow services have to be improved.
The costs (of access and communications) of the high-flow have to decrease.
More generally, a genuine industrial policy has to be set up to make Lebanon a regional numerical power able to draw advantage of its favourable position in the coming decades with respect to the neighbouring countries. The definition of such a policy which engages various institutions of the country exceeds the framework of this mission. One of the recommendations of the mission would be therefore to undertake a specific study on the sector.

IV.3.3.2. Computer services and related services

Very dynamic development of the companies has been observed in Lebanon for several years the activity of which is connected with computer services. This involves mainly sale companies of hardware and of software (95%), but also of development of software, of council in engineering, thus some data processing companies. According to our estimates, there would be virtually 2000 persons concerned working in the computer companies and 600 operating in the sector but within various companies.
The number of companies amounts approximately to 250 but it is considered that hundreds created and disappear each year.
Overall turnover of the sector would amount to 45 million USD.
Wages are very variable according to the qualification. It amounts on average to (in USD per month ?)

Initial	Experimented	Confirmed
800	1500	2600

IV.3.3.3. Consultation services as regards installation of computer equipment

The consultation services as regards installation of computer equipment are carried out either by consultancies specialised in the complex facilities, or by the computer equipment sale companies which lay out among them more or less developed department a council. Lebanon has in this field an interest in encouraging the emergence of separate consultancies of the equipment salesmen, in order to be able to extend its activities in the countries bordering, in particular in Syria. It is not very probable however that the Lebanese companies of council could develop a market in Europe on this sector. The association agreements with Europe will encourage the use of technical standards and of qualification to the international standards.

IV.3.3.4. The data processing services

The data collection and the data processing must be distinguished in these sectors. The data acquisition suffers in Lebanon, from two disabilities: on the one hand the relatively high labourcosts compared to the other developing countries such as India which specialised on this type of activity. In addition, the computer input ceases being internalised in the companies when the activity level is sufficient so that its subcontracting generates an economy. Lebanon is handicapped by its size from this point of view. Lebanon could however develop activities of treatment like statistical use owing to the high qualifications of its manpower.

IV.3.3.5. Basic data services

The basic data services are not very developed in Lebanon. That is due primarily to the size of the country, to its recent history, to the weakness of the industrialisation strategies, as well as weakness of competition in commercial matters. These services could however be developed to a broader dimension if they incorporated the data concerning the neighbouring countries. The foreign investors could thus find the information which they need on the region and that would strengthen the place of Lebanon within the Middle East.

IV.3.3.6. Creation and realisation services on multimedia supports

This involves a sector in full expansion at the international level. The traditions and know-how as regards publications but also as regards graphic art could find there a new field of activity in the creation and the educational and cultural programme creation. Let us quote for example the archaeological inheritance or even the activities of the religious groupings. Lebanon has the skills necessary for the carrying out of these activities.

IV.3.3.7. Software construction services

One can distinguish two types of software, the software specialised with destination for example of the medical field or of the financial institutions, and little specialised software, like management software for the companies or software general public.
Lebanon has comparative advantages in these two fields connected with the capacities of adaptation and with the technical capabilities of manpower. The Middle East but also the Maghreb, and possibly Europe, can constitute promising markets in particular in the adaptation of software to the Arabic language. One is however on a very competitive market where other countries have better comparative advantages in terms of manpower costs. The association agreements will contribute however to the improvement of the technical standards and of the qualifications which would enable Lebanon to specialise in certain types of specialised software.

IV.3.3.8. Market research and survey.

Presentation

There are four large companies on this sector: Stat-ipsos, Reachmass, Panarabresearch, Taylornelson-Sofres. There are some small enterprises present on activity niches but which have a reduced activity. The activity of this sector is divided into two major parts, one is concerned with the media (mediametrics) and the others with traditional market analysis. The market progresses slowly, because of the economic crisis which affects mainly the research budgets. Moreover, the local companies do not have yet the culture of the economic survey preliminary to the projects. It is therefore the international companies which constitute the principal market apart from the groups of press.

There does not exist in Lebanon a professional association on the sector and sufficiently consensual to propose media metric studies which escape the suspicions of partiality. This has effects on the involved firms because it often is the media metrics which involves the other activities of market and of survey. Companies also suffer from a basic insufficiency of data.

Recommendation

To involve the national Council of the Audiovisual sector in the organisation of an association bringing together all the actors to control the activity and to provide a media metric study base accepted by all.

IV.3.3.9. Printing and publishing

Presentation

There are virtually 600 editors in Lebanon who also are for the majority printers. There are few specialised editors and some publish not only in Arabic but also in French or in English.
There is a strong comparative advantage in the publication of works of the Arab cultural inheritance which are published or are republished and are exported in the Arab world.
Lebanon is mainly an importer of books from Europe, mainly of France and of Great Britain.
Lebanon has a technological advance and know-how in the edition on the region. However, Egypt is a serious competitor and the technological development tends to reduce the advance of Lebanon.
Less than 10 companies have a catalogue of more than 500 titles.

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

The total staff complement is of 10,000 persons for the editors and the printers. 70% of the editors have an activity of export. They account for 80% of production. Translations account for 15% but this involves a sector of activity in strong growth. Iraq represented an important customer of the Lebanese edition and it would always be an important potential market if the situation of the region improves.
The obstacles to the development of the sector are connected with the atomisation of the printing which do not have the sufficient size to optimise the use of increasingly expensive machines, while access to long-term financing is difficult. The qualification of the manpower is not always sufficient.
The new gap of the CD-CROM is still relatively little developed even if that represents a large potential in the future. One of the obstacles to its development is however the implementation of legislation on the property rights which would not give sufficient protection yet. This sector is late compared to Egypt.
The sector is open to foreign participation and there are associations between foreign editors and Lebanese editors.

Recommendations

To restructure the sector by encouraging the concentrations (mergers)
To position on the edition on digital support (CD-CROM, Internet etc)
To improve regulation on intellectual protection and its application
Following policies of training further to follow the technological development
To improve the possibilities of financing for the publishers.

IV.3.3.10. Personnel employment offices abroad

The Lebanese have an excellent seriousness and competence reputation in the majority of the countries of the Middle East but also the Maghreb. There is an expatriation and activity tradition carried out abroad for numerous types of trades such as the engineers, the architects, the banking personnel, trade and advertising. The very widespread knowledge of French, of English and of Arabic allows easily the qualified Lebanese workers to find positions throughout the Middle East. The employment offices also called control services, constitute therefore a development potential.

IV.4. Services for which the agreement will have a low or zero impact

Very numerous determinants of service production do not have relationships withthe international agreement signature. And this is all the truer as the liberal service country concerned is developed. This is why for numerous services, the stricto-sensu impact of the association agreement will be low or zero. It is moreover the experiment that one draws from the measures taken in all the Mediterranean countries. To be more precise, the association agreement has a positive impact in the direction where it takes part in the insertion of the country under consideration in the world economy, but it seems impossible to distinguish what arises from the signing of the agreement and what takes part in the overall movement of the policy of insertion in the world economy.
A major part of service exports is in addition connected with the presence of non-residents on the territory in particular the tourists or the activities connected with the installation of foreign companies. For example, the export of the health services is connected with the care lavished on the tourists when those have to be looked after in Lebanon. Service consumption by the tourists has therefore a positive effect on service exports but the effect of the signing of the association agreement is so to speak

pointless in the development of tourism. One can moreover refer to the case of Tunisia which certainly experiences dynamic development of tourism but which was prior to the signing of the association agreements, agreements which did not change much to the situation.
The development of information technology and of telecommunication techniques has an effect stimulating on the exchanges of services which is without common measure with the creation of a major regional group. In identical regulation, extremely rapid development of what is noted in all the countries are called at present *the new economy.* These new possibilities reflect a revolution similar to the previous industrial revolutions in which services will hold a dominant place while the international exchange of services more quickly still develops than the trade of goods.

IV.4.1. Low potential to the export

This involves the services which do not seem to have prospects in terms of exports, either because the offer in the country is weak or non-existent, or because Lebanon does not lay out for these comparative advantage services likely to be developed even in the medium term, or still owing to service nature even.

IV.4.1.1. The postal services

Since July 1998, the postal services have been ensured by a Canadian company which obtained a 12 year concession. It committed itself to investing USD 50 million at least and to training the some 979 employees. The state recovers 40% of the incomes generated by the surface mail.
Libanpost comprises 44 offices, 14 postal agencies, 82 sale points of stamps, 87 limped in letter (January 2000).
There are in addition 8 fast mail companies belonging to networks of foreign companies (DHL, Aramex).
The sector is therefore very competitive with important penetration of the foreign companies. The association agreement will have no impact on the sector.

IV.4.1.2. Leasing service

The leasing service is in general a local activity carried out by banks or certain large marks. It takes an important dimension in the acquisition of motor vehicle. There also exists in the industrial sector. As it is a response towards the risks of the borrower, it loses much of its interest on exports, owing to the difficulty of making sure of the guarantees.
An international extension of this type of activity supposes important legal integration between partner countries. That will not be the case for Lebanon in foreseeable future ones.

IV.4.1.3. Property service

Property service exports consist primarily in the sales carried out by the Lebanese estate agencies to the non-residents in Lebanon. Given the restrictions on the acquisition of real estate on Lebanon by the foreigners, and owing to the characteristics of this market, the association agreement will have only a marginal impact. This impact will be connected directly to the development of foreign direct investments

IV.4.1.4. Film projection services

The export of film projection services is connected on the one hand to the frequentation of the movie theatres by the non-resident and on the other to the creation of Lebanese cinemas abroad. The activity is therefore partly directly connected with the development of tourism. It does not seem that the Lebanese cinema chains have the sufficient capital to develop abroad, with the exception perhaps of Syria. The association agreement will have on this sector only a marginal effect.

IV.4.1.5. Press agency services

The Lebanese press is of very high quality with respect to the international standards and compared to its neighbours. However exportable supply is directly connected with the development of the information demand which emanates from other countries. But there is strong competition between the large agencies of international press present in the region.

IV.4.1.6. Photography services

One must distinguish in the photography services, which relates to the equipment, namely development and the treatment of the films for photograph production, and what relates to the artistic creation to know the taking of sight. As for all the artistic achievements, the comparative advantages are connected with the fame of the artist. The photographic development costs are in addition directly connected with the capital cost employed in this sector (development machine, chemicals) and which is relatively uniform internationally. The association agreements will have therefore no impact on this sector.

IV.4.1.7. Servants

This sector comprises 60,000 persons including 20,000 in irregular situation. It is organiseo by 250 employment agencies, each one limited by a quota of 175 maximum persons a year
The activities of this sector generate a 90 million USD transfer outside Lebanon a year.
The cost by servants is of:
1500 with 2500 expenses USD, and plane ticket
Residence 250,000 LL permit
Work permit 610,000 LL
Insurance plus medical examination.
Wages,.100 to 400 dollars according to the origin and the qualification.
Average cost 200 to 500 dollars per month.
It is clear that the association agreement will not have impact on this sector.

IV.4.1.8. Garbage collection

Two companies dominate the Sukleen and Sukomi market. They are a member of the group SUKKAR Engineering created in 1966. Sukleen was created in 1994 and employs 3000 workmen plus 1700 persons.. Sukomi deals with the waste processing (95 persons).

IV.4.1.9. Show services, library services, museums and other cultural services

The export potential of this sector is mainly connected with Lebanon to the consumption of the non-residents and in particular tourists. The possibilities of show or cultural service export are poor. The signing of the association agreements could to a certain extent, via the cultural aid programmes encourage development of this sector.

IV.4.1.10. Commercial vehicle hiring with driver

This activity is not very likely to be developed on export owing to its own characteristics. Moreover, the signing of the association agreements will not affect the sector.

IV.4.1.11. Maintenance and repair of the means of road transport.

Same remarks as previously.

IV.4.2. Average potential to the export

IV.4.2.1. Telephone services

Fixed telephony

Fixed telephony is managed by a public-sector company, OGERO.
The penetration rate is only 15%, . meaning that the use of the fixed telephone stations is much lower than its potential and to the comparable countries. The installation of the lines passed from 400 to 200 dollars for a single circuit line (600 dollars for an international line) but the subscription reaches 20,000 LL i.e. more than 13 USD a month. These high prices explain the craze for the portable telephone. The weak development of fixed telephony is however an obstacle to the development of Internet.

GSM

Lebanon holds a world record as regards use of portable telephones. Indeed, the utilisation rate is of 750 mn/month/subscriber against 300mn/month on average in the world.
The cellular system has been very successful every since its introduction in 1995. The sector is shared by two operators: LIBANCELL and France Telecom Mobile. They obtained a 10-year type B.O.T. extensible concession contract of the to 12 years from the Ministry of Telecommunications.
A problem is in suspends because of the overshooting of the number of subscribers envisaged and of the government's will to re-negotiate the contract, so that there is a black market of GSM line sale because of the shortage of lines.

The telephone services insofar as they will ensure a major part of the transfers of data in the immediate future, while expecting from transfer systems by cables or by satellite, will benefit from strong growth in particular in the international trade. Exports but also telephone service imports will increase. The dynamics suitable for the development of the new technologies is much more determining than the effects of the association agreement.

IV.4.2.2. Radio and television

The radio and television sector experiences dynamic development but needs a regulation to be able to structure itself and gain market shares on exports. The potential market is very broad owing to the widespread use of Arabic language, but undergoes strong competition.
The essential problem of Lebanese television lies in the too high number of chains (6 in operation plus 3 new to come) in regard of the number of television viewers. LBC exports its emissions via the cable but television emission export is very weak. The Lebanese television networks have an insufficient size to produce emissions from quality or exportable telefilms.

IV.4.2.3. Construction of buildings, Construction of work of engineering civil, facility and assembly laying Work; Work of completions and of completion of the buildings

Presentation

Companies have to be recorded and "classified" by the contractors' trade union and by the administration. They are distributed in a following way.

Number of companies

Buildings	1112
Water	276
Electricity	78
Road	834
Total	2300

Source: The contractors' trade union.

Values of the contracts on figure from November 1998 to July 1999

Less than USD 1 million	26%
Between 1 and USD 5 million	31%
Between 5 and USD 10 million	15%
Between 10 and USD 20 million	12%
More than USD 20 million	16%

Source: The contractors' trade union.

The sector is composed of 18% of Lebanese public limited liability company, 34% of S.A.R.L.. Others generally are family companies.
Lebanon was a large construction service and ancillary service exporter in the Gulf. A major part of the construction of the heavy infrastructures of the Gulf States was dealt with by Lebanese contractors.
The consecutive rebuilding phase to peace mobilises a great deal of local energy. The decennial plan "Year 2000" "evaluates at 12 billion USD the envelope reserved for the rebuilding of the public infrastructure. This ambitious plan was intended to restore confidence in the country, to facilitate foreign investments and to revive the economy.
One of the mentioned problems concerning the civil engineering firms relates to the fact that numerous projects are carried out on international budgets and on the tied aid which condition the carrying out of the projects, either in companies of the donor country or who require conditions of qualification which exclude in fact the local contractors. Those encounter in addition a problem of financing owing to the guarantees requested by the banks.

The foreign presence is expressed primarily by the realisation of projects. The foreign companies which obtain markets sub-contract in general the carrying out of work as such in local companies. There are no foreign companies installed in Lebanon on this sector.
Lebanon undergoes stronger competition on the markets of the Middle East. The majority of the large basic infrastructures were carried out. These countries do not have more budgets as important as in the past and there is Asian competition. It was not possible to obtain figures on the activity carried out abroad but it seems that it is regressing.

Recommendations

The classification of the companies should be restructured. Current classification no longer corresponds to the current qualifications of the companies. In addition, inadequate classification eliminates in fact certain companies because markets are gained by the largest ones.

The qualifications required in the calls for international tenders must adapt to the Lebanese situation so as to associate the local companies more effectively with rebuilding.

The consortia must be encouraged to obtain the sufficient critical size to correspond to the calls for tenders Let us recall that the largest company in Lebanon comprises only 50 employees.

IV.4.2.4. Franchising service

There are some sufficiently known Lebanese brands to be the subject of franchising abroad. But the essence of the activity and of the possibilities of export is connected with the acquisition of international brand ? and its commercial use exemptions on the Middle East. The activity is supported by the acquisition of exclusive rights. It must be noted however that this sector is directly connected with the dynamics of the sector of trade. But as we noted, this sector is subject to an increasing competition between commercial operators of the Gulf who benefit from a better environment.

IV.4.2.5. Higher education services

Lebanon has a developed infrastructure as regards higher education. Several universities have a reputation internationally recognised as the American University as well as the Saint-Joseph University. These universities took part in the training of the elites of the Middle East and always welcome very numerous foreign students. This involves export of education services which are completely important. However, the signing of the association agreement will have only a marginal effect. It can however improve the recognition of diplomas and encourage the common training programmes.

IV.4.2.6. Wards, Other human health services

The considered budget of Health accounts for 900 million of USD, including 50% for hospitalisation, 15% for ambulatory medicine and 25% for medication.
Lebanon is well endowed in number of caring personnel both for the doctors and for the dental surgeons. A doctor for 474 inhabitants in Lebanon, against 1600 in Tunisia and 1500 on average on the MENA region. Nurses are in insufficient number because in particular of the attractive and better remunerated positions that they can obtain in the Gulf States.

Numbers of health personnel in 1998

Doctors	8461
Dental surgeons	3801
Nurses	4336
Pharmacists	3713

Source: Bank of Lebanon

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

Source: Bank of Lebanon

A very major part of the doctors and dental surgeons have graduated abroad.

The doctors' training

	Doctors	Dental surgeons
Diploma obtained in Lebanon	34%	30%
Diploma obtained in Eastern Europe	24%	28%
Diploma obtained in Western Europe and America	16%	12%
Diploma obtained in the Arab countries	10%	9%
Others	16%	21%

Source: Bank of Lebanon

Hospitals

Lebanon is very well provided in hospitals and in number of beds.
There are 16 public hospitals for 1650 beds and 158 private hospitals for 11185 beds. As a comparison, Tunisia comprises only 70 hospitals for 2000 beds. The private sector is therefore dominant.
There are 152 establishments specialised.

The principal problems that the profession encounters are
The high price of medical care
The lack of transparency in the invoicing of the care
The imbalance between general practitioner medicine and specialised medicine: it is missing general practitioners in particular in the rural areas.

The doctors' unequal qualification
The distribution of the health care is organised badly.
The number of hospitals is too high and Lebanon is over-equipped. There are for example 46 scanners what is considerable and which does not make it possible to make investments profitable.

Health service exports are composed of two segments
- The care exempted to the tourists at the time of the short stays that they carry out
- The care exempted to the foreigners who are looked after in Lebanon. That concerns especially the nationals of the Middle East countries.

The association agreement will have only a tiny effect on the sector.

IV.4.2.7. Passengers' maritime carriage

The sector is very weak. It concerns approximately 14,000 persons in 1998. That is due to the geographical situation of Lebanon which is far away from the European coasts and which is not therefore favourable to the passengers' maritime carriage. It seems however that the figure is particularly low (in comparison for example with Israel) and that certain targets could be reached (cruisings or new lines). Very strong growth relative to 1997 is noted however and one can hope for a correction of the delay in relation to the potential.

IV.4.2 8. Passengers' road carriage

The export potential of this resident sector in the services offered to the non-resident. Road transport is generally dealt with by the hotels and the tour operators which organise circuits. But a share of transport can also be ensured by the usual transport services (taxi and buses). The main part of transport is ensured by the private and collective taxis as well as the minibuses.
This sector depends for its exports primarily of the development of tourism.

IV.4.2.9. Road haulage s

The road haulage could take of the breadth in the future in particular if the harbour and road infrastructures, in particular the Beirut-Damas connection were improved. A major part of the activity is however internalised in the companies which ensure itself the transport of the goods that they treat. The export potential of this service remains therefore low and will not be influenced significantly by the signing of the association agreements with the European Union.

IV.4.2.10. Transport by control

Transport by control ceased any activity in 1982 in Lebanon. There are however two gas pipelines one from Iraq, the other from Saudi Arabia. The first could possibly be given in a state and to re-open. It would give rise to fees. However, reopening is tributary of the development of the situation in Iraq and of the improvement of the harbour infrastructures. The sector is independent of the signing of the association agreement with Europe.

IV.4.3. High potential to the export

IV 4.3.1 Tourism; Hotel trade and catering service

Lebanon was before the war a highly appraised tourist destination which concerned primarily the region of Beirut and attracted mainly business tourism. These segments are still present in Lebanon but there are different targets which could be reached.
- Cultural tourism (target: Europeans)
- Leisure and approval tourism - e.g. Lebanon is the only country in the Middle East able to give stays of snow (which has as a market the Lebanese emigrants - the Western expatriate and the expatriate residing in the Arab countries) and the summer mountain stays (in the direction of the inhabitants of Kuwait and Saudi Arabia).
- Sporting tourism (e.g. rallies)

- Religious tourism (in the south of Lebanon - Cana, old monasteries, St. Charbel, etc.)
- Education and training tourism (American University, Arab university etc., with students of the Arab. African, and even European countries)

In September 1999, one recorded196 hotels recorded for 10,743 chambers. The hotel park is characterised however by spatial distribution unbalanced with 82% of the chambers concentrated in Beirut and the Mount-Lebanon. The three categories, top, medium and range bases are represented apart from virtually equal in number of hotels. But the average number of the chambers by hotel increases while passing from the base to the top-of-the-range (international category - 5 stars).
The establishments (of 3 or 4 stars) carrying out cultural discovery circuits are insufficient in Beirut but especially in the other tourist centres of the country.
The construction of new hotels is in hand. The short-term development in hand and foreseeable of hotel trade is mainly directed upwards from range. It covers 2,500 with 3,000 chambers.
For example, the Phoenicia hotel opened in March 1999 comprises 414 chambers, 46 suites , 7 conference rooms).

Occupancy rate in 1998 for the hotels 4 and 5 stars

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

There are different types of accommodations (furnished, complex balneal, etc.) who represent an important capacity of accommodation. These types of accommodation played a role before the war and attracted family tourism.

The tourist incomes have been in increase since 1996.

	1996	1997	1998
Tourist incomes	$715 millions	$1,000 millions	$1,280 millions
Lebanese number	424.000	558.000	632.000
Departures	1.471 million	1.504 million	1.65 million
Arrivals	1.284 million	1.352 millions	1.477 million
Balance	186.000	152.000	173.000

Recommendations

Efforts should cover:
- the rebalancing of the activities apart from the capital (in particular those in the tourist pôles have to be created)
- the expansion of tourist space Lebanon-Syria-Jordan
- the development and the safeguarding of the tourist potential, in particular the environment of the historic sites.

The sector of tourism is the first service export sector. Lebanon has many assets to develop this sector It is primarily handicapped by regional insecurity. The absence of peace and the persistence of the conflict with Israel until recently did not make it possible to diversify tourist stay tender. It is probable that when peace is established, the sector of tourism will experience strong growth. This growth by a development policy will have however to be accompanied such as it is envisaged currently by the Ministry of Tourism. In the absence of peace, the association agreement with the European Union will hardly have no effect on the development of the sector.
The foreign presence on the sector is expressed mainly by the franchising of the major international groups and by the participation of the Arab capital in construction and in the hotel restoration. The facilities granted by the European Union in terms of right of establishments should not modify the foreign presence significantly.

IV.4.3.2. Advertising

The sector has a long tradition in Lebanon. It developed from the end of the 19th century. It made advances between the two world wars with the development of the daily newspapers and of the cinemas. In 1959 with the beginning of commercial television in Lebanon, the sector experiences new development. Advertising was the single source of income for television and generated the creation of advertising agencies.
In 1961, the second television network opens new outlets. In the 1970s, the side-Arab press develops and attracts in Lebanon the companies which want to develop publicity on the Arab world.
During the war, displacement of almost the whole of the sector towards Dubai is observed, which becomes the new centre for advertising in the Middle East. However the relations with Lebanon remained strong. There are 70 syndicated and hundred non syndicated advertising agencies. About fifteen agencies are subsidiary companies of major international groups. The partnership in the form of a joint-venture with international groups is widespread. The foreign groups use know-how in Lebanon to develop their strategy throughout the Middle East. In this sector, Lebanon is an intermediate platform.
The market of publicity accounts for USD 105 million. 50% of income come from television.

Estimate of advertising expenditure in the media in 1999

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

Daily newspapers: 15.5 USD million; magazines: 3.5 million; monthly magazines: 8.5 million; others: 1 million

Development of advertising expenditure by media

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

Source: Arab Ad-Ipsos Stat

The sector of advertising is developed much more in Lebanon than throughout the region. It has always been stimulated by the commercial principle of the exclusiveness which supposed to extend brand product distribution. The export potential is high because many activities concern the Middle East. The sector is finally strongly incorporated into all the international networks. The association agreement will not have significant impact on the sector.

IV.4.3.3. Travel agency and tourist organisation service

The sector is well developed in Lebanon and proposes circuits in addition to the traditional activities. Lebanese tour operators are incorporated into the international networks and benefit from the system of the *all-sellers* which makes it possible to offer the product everywhere in the world. The foreign presence is reflected by grouped requests. The activity is very largely determined by the development of tourism. It is not the quality of the products of agency which is missing but rather the low dynamism of tourism and of numerous expenses which block it.

IV.4.3.4. Air transport; Air transport service

The sector is framed by a long-term programme (the "Year 2000 Plan) which envisaged the rehabilitation of the international airport in Beirut and of all the air transport infrastructures. The ambitious forecasts of this plan were not reached since the total number of passengers in 1998 reached 2 million instead of 6 million envisaged. The positioning policy on transit was a total failure (64,000 in 1998 instead of 534,000 in 1974). The number of flights was 48,000 in 1974 and reaches only 25,000 in 1998, despite growth of 5,000 flights in 1995.
The forecasting errors involved an investment excess cost which compels the airport to follow a high invoicing policy in relation to the competing airports. The airlines serving the region forward little by Beirut and limit their presence on the airport. The activities of catering, of repair and of maintenance of the planes particularly are therefore handicapped. But these sectors are mainly exporting and benefit from high growth in the world.
The sector of freight has been stable for a few years. The development of the exports of air transport is in addition directly connected with the development of tourism.

IV.4.3.5. Aircraft hiring.

The aircraft hiring services are developed little owing to the absence of mass tourism able to generate hiring by travel agencies. This sector is independent of the signing of the association agreement with the European Union but is rather connected with the development of tourism.

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

In the examination of the sub sectors, it appeared that none of them were threatened by greater liberalisation and a setting in competition with the international people receiving benefits. The impact of the association agreement or of any liberalisation on the services in Lebanon will be overall positive for reasons which very frequently appeared during our meetings.

V.1. Lebanon has comparative service advantages

The human resources in Lebanon are very favourable to the developments of the services: high degree of literacy, qualified manpower, agricultural crops close to Western ones, opening tradition to the outside, capacity of adaptation to a variable environment, strategic position between Europe and the Arab world, capacity to treat with several enterprise cultures (Anglo-Saxon world, French-speaking person. Arabic). There is an obvious advantage for the council to the companies, construction, engineering in the Arab world.
This potential begins with development services information computer and communication. The high level of wages is however a disability for the development of the services intensive in manpower.

V.2. Lebanon is a developed and liberal and already open service country.

In the services like elsewhere, the private sector has been dominant in Lebanon for a long time, on a level which exceeds numerous European countries for example as regards health, education or telecommunication. The service providers have a long practice of competition even if it is limited by strong segmentation of the market. The service sector is well developed in Lebanon (especially in Beirut), on a level comparable with that of the industrialised countries. Lebanon is therefore in a very different situation from the majority of Arab countries where the service sector is not only not very competitive but also in numerous cases non-existent. Lebanon will not suffer from a larger opening of the services, because operators are become accustomed to competition and can adapt to it. The foreign presence is already important or even very important. The opening of the services already is reality and the service providers can cope. The liberal character of the sector of the services in

Lebanon is therefore a decisive argument to explain that the positive aspects of additional liberalisation succeed it.

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

Lebanon is finally an intermediate country at the geographical and economic level between the industrialised countries and the Middle East. The development level of the services is overall higher than among its neighbours. The service providers wanting to settle in Lebanon, find on the spot qualified manpower and knowledge of the region which is very often essential to them. Moreover, the installation of the foreign firms is connected with the geographical situation of Lebanon which serves as a stepping stone to penetrate the markets of the Middle East. The installation of the foreign firms contributes to promoting service exports Lebanese in the direction of the third countries. It is seen therefore that the DIE foreign can have a very beneficial role. The foreign companies bring their technicality and their financial power and supplement the own skillsof the Lebanese companies, which enable them to develop service exports in the direction of the countries of the region.

V4. The foreign presence is complementary more than competing

The existence of a qualified manpower and of the infrastructures developed are reflected by the fact that foreigners settle in the form of beneficial associations for Lebanon and on sectors not covered or only in a marginal way by the local people receiving benefits. Thus, the liberalisation of the banking sector can make the foreign banks coming in Lebanon, but they will have for example advice activities that the local banks will not have. Another example, credit insurance is only a minor activity which interests however Belgian companies. The foreign presence supplements more that it does not compete with the local people receiving benefits.

V.5. Service trade is less fluid and more complex than asset trade

In relation to the assets, services are overall less easily exchangeable, they require the producer's proximity and of the consumer, they are not storable. Numerous services suppose cultural proximity, the respect of quality standards, know-how or the regulation respect which forms much more determining restrictions as the changes of prices. The importance of the economies of scale for the services must be added. Lebanon is a small country and its reduced size can discourage the foreign service providers. *On the opposite,* many services (n°1 cases of the OMC) exchange themselves in rather great freedom because of their invisible character or owing to insufficient regulation and it in spite of existing regulation. All the numerical services (music, software,..) or likely to be transmitted on digital support (council, telecommunication, entries and data processing, health etc) already escape regulation because they can circulate unbounded on the web.
All these elements show that the effect of service liberalisation is not limited to the tariff dismantling of the commodities. The effects on the balance of payments or on the local producers are therefore weaker and less mechanical. They are in fact more difficult to measure.

V.6. The existence of the Diaspora is decisive for the exports of services in Lebanon

Very numerous Lebanese service exports are explained and are supported by the existence of the Diaspora. It is this reality which was expressed in the majority of the talks and which is confirmed by the analysis. The activities of services carried out abroad first are so in the direction of the Lebanese companies already installed abroad. Software export for example began while responding to needs expressed by a Lebanese of the Diaspora which turned to already known Lebanese computer companies. The banking activities in Europe or in the United States are explained almost entirely by the existence of the Diaspora and the needs for appropriations generated by the commercial activities to the hands of the Lebanese. Similarly engineering, advice, management service exports,... are connected with the Lebanese companies. The Lebanese Diaspora is therefore decisive in the service export potential.

VI. THE REGIONAL AGREEMENTS OF LEBANON

The regional agreements into which Lebanon entered are primarily and co-operation trade agreements. Services are not mentioned directly in these agreements which concern above all commodity trade.

VI. 1. The cooperation agreement with Syria

The indications on the services are:

Health
Exchanges of knowledge and of expert opinions are envisaged within the framework of training and within the framework of the fight against the plagues and natural disasters, a policy of harmonisation of the standards in pharmaceutical matters, of the supply facilities in the event of natural disaster.

Concerning persons' movement and the right of establishment, free movement of persons is envisaged, and the adoption of the national treatment and of the principle of reciprocity. An effort of harmonisation of the laws on Social Security has to be made.
In the transport sector, taxis and buses will be able to carry out the cross-border transport of passengers freely.

Agreements are therefore extremely limited as regards service liberalisation. It is even less favourable for Lebanon that proximity with Damas is a deciding factor of penetration of the Lebanese service operators on the Syrian territory. There was therefore in this agreement, a genuine possibility for Lebanon of limiting its negative impact in agricultural matters.

V.2. Free trade agreement between the Arab countries

To our knowledge (but the mission did not obtain the translation of the text in Arabic), no individual indications on the services.

VII. COMPARISON WITH THE OPENING AGREEMENTS OF THE EGYPT AND TUNISIA SERVICES.

One should in this paragraph recall briefly and on a comparative basis, the opening measures of the services of two Mediterranean countries, Tunisia and Egypt. One first of all points out the terms of the Euro-Med agreement which return in the WTO agreements, one presents then extracts of the lists of engagements of both countries.

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

As we mentioned, the association agreements between the EU and the Mediterranean countries evoke the services. It is the case for Tunisia in Articles 31 and 32: "*Parties reaffirm their respective obligations and in particular the mutual granting of the treatment of the most favoured nation* ". In addition the association agreement has to include "*the right of establishment of the companies of a party on the territory of the other party and the liberalisation of the supply of services by the companies of a part towards the service recipients in another party* ". The text of the agreement

between Egypt and the European Union will probably comprise the same provisions[1] . The reaffirmation of these principles is accompanied however by certain reserves.
For Tunisia, the concrete methods of application of the articles on the services will be defined by the Association council within five years following the entry into force of the agreement. Moreover, the reserves to the principle of the most favoured nation return in general agreement on the trade and the services defined under the WTO.
The negotiations between Tunisia and the European Union on service liberalisation are therefore circumscribed in the decisions that both partners under the WTO take.
The case that we have just evoked is similar to all the signatory countries of the Barcelona agreements and which also are member of the WTO.

VII.2. Service liberalisation under the agreements of the GATS

In addition to the treatment of the most favoured nation, and the national treatment, the general agreement on trade and the services (GATS) adopt a number of fundamental principles and of the uniform rules in the presentation of the engagements that each country proposes. Among the general principles, the transparency of the regulations and creation of information points accessible must be mentioned for the foreign companies and the governments. These regulations have moreover to be "objective and reasonable". Parts have to provide to the other members the possibility of negotiating arrangements comparable with those that they signed with a member in the field of the recognition of the qualification systems. The international payments and transfers do not have to be an obstacle to the liberalisation of a service for which a government entered into a commitment. The liberalisation process of the services is progressive, i.e. countries have the option of extending the field of liberalisation gradually by increasing their specific commitments.

The underwriting liabilities by a country are indicated in the lists of specific engagements which define the degree of opening of the markets as well as the possible limitations of the national treatment. When engagements are consolidated, that means that the country can modify its engagements only after renegotiation which would lead to a compensation. The consolidation is therefore a guarantee for the foreign service providers and for the investors. Lists are submitted in a uniform way to allow international[2] comparisons. They comprise four columns. In the first the sector in question according to the classification defined by the WTO is specified. The second column indicates the conditions of access to the market, the third the restrictions on the national treatment and the fourth optional gives further details. In each one of the column is indicated moreover the method of supply (cf. afterwards) for which the provision is taken. Lastly, engagements are divided into two under groups. There first of all are the horizontal engagements which indicate the limitations applicable to all the sectors being found on the list. For example, Egypt specifies that for the activities aimed by its list of recruitment, the foreign companies have to recruit at least 90% of Egyptian staff. This measure concerns all the sectors mentioned in the list of engagement and not all the other sectors for which the country did not enter into commitment.

The sectoral engagements specify the methods specific to the individual sectors and subsectors. It is important to note that the absence of restrictions mentioned in the list of the sectoral engagements does not mean the absence of restriction on this sector because the horizontal restrictions can apply to it. The absence of restriction is indicated by the word "nothing" in the list of engagement. Lastly, engagements are consolidated normally but it can be different if the government wants to keep the latitude to take measures contrary to its engagements. In this case, the indication "Non consolidated" is carried on the document.

The definitions adopted by the World Trade Organisation distinguish four types of provision of services exchanged internationally. One takes up again here, the terminology used in the lists.

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[1] According to the draft texts that we could examine in the articles of the Title III of the agreement on the rights of establishment and on service tender.

[2] See the guide for the reading of the lists of specific engagements and of the lists of exemptions to the national treatment, established by the WTO. We present simplified extracts of the lists of Tunisia and Egypt.

1) Supply cross-border: faculty for the non-resident to provide services on the territory of the signatory country.
2) Consumption abroad: possibility for the residents of the signatory country of buying services on the territory of another Member State.
3) Commercial presence: possibilities for the foreign service suppliers of establishing, of managing or of extending a commercial presence on the territory of the signatory country, such as a branch, an agency or a subsidiary company the capital of which is held entirely.
4) Presence of natural persons: possibilities offered for the admission and the temporary stay on the territory of the signatory country of foreign persons for the supply of a service.

VII.3. The lists of engagement of Egypt and Tunisia

We will submit here only the lists of horizontal engagements. The lists of sectoral engagements are rather bulky and rather complex documents. They comprise in addition supplements in measure of the projection of the negotiations and of the engagements of the countries in the liberalisation process. The horizontal engagements give overall indications which concern all the services mentioned in the lists.

VII.3.1. Tunisia

Summarised presentation of the Tunisian[3] horizontal engagements.

Sector or subsector	Limitations concerning access to the markets	Limitations concerning the national treatment
Foreign investments	3)[4] Investments in the services, other than financial, are free	3) For the services, approval if participation > 50% of the safe capital undertaken completely exporting (BE)
Changes in staff	4) Unconsolidated, except for (BE) who can recruit 4 agents of direction and of foreign nationality framework	4) conditions of the foreigners' stay: - need for an employment contract aimed by the competent authorities
Exercise of the commercial activities	3), 4) subject to the conditions defined by Tunisian legislation (Decree-Law n °61-14 of 30 August 1961 and the texts regulating the various commercial activities) Conditions for the granting of the tradesman's card for the foreign applicant. If it has been native/resident for several years If the spouse is of Tunisian nationality. If the activities envisaged generate technology transfers, jobs contribute to the promotion of service exports	3), 4) The natural and legal foreign persons have to have a card of tradesman The legal entities are Tunisian if: a) conformity in laws in force and their registered office in Tunisia b) more than 50% of the capital held by natural or legal Tunisian persons c) majority of Tunisian in the Board of Directors, of management or of monitoring d) President, director or Tunisian manager Except exemption, are prohibited to the foreigners the activities of building manager, commission agent, broker, sales representative, trustee, general representative, traveller, canvasser, sale agent (unconsolidated)

3 It is not a question of the official list but well of a presentation the formulation of which was altered and which is not complete. One will refer directly to the list for a more complete analysis.
4 These numbers return to the methods of supply defined by the GATS: 1) Supply cross-border, 2) Consumption abroad, 3) commercial Presence, 4) Presence of natural persons

Sector or subsector	Limitations concerning access to the markets	Limitations concerning the national treatment
Exchange control	1), 2) Are free the transfers relating to the payments to the foreign countries in the title: Current operations, of the clear real product of the transfer or the liquidation of the capital invested by means of import. The other transfers are subject to an authorisation of the Ministry of Finance.	
Land acquisition	3), 4) No, except for the arable land but the foreigners can obtain a long-term lease going as far as 40 years renewable.	3), 4) administrative authorisation for acquisition by the foreign ground investors and real estate.

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

The sectoral engagements of Tunisia concern the financial services, tourism, and telecommunications for the moment.
The restrictions applied to the access to the market and to the national treatment for the financial services concern primarily the conditions of nationality; the minimum capital, the need to obtain approval of the ministry of finance, the need to constitute oneself in Tunisian law companies, or the obligation to have a Tunisian representative. For example, broking in securities or the portfolio management services can be ensured only by Tunisian nationals. However, the commercial presence of the foreign supplier as regards insurance and bank is not subject to a limitation in the participation of the capital but only, in accordance with the horizontal engagements, in accordance with approval if the participation in capital exceeds 50%.

Concerning the services relating to tourism and to the trips, Tunisia does not necessitate restrictions on the commercial presence of the foreigners in hotel trade and the catering. For the travel agencies, only consumption abroad suffers from no restriction. Finally as regards telecommunications, Tunisia committed itself to raising the limitations concerning access to the markets according to a timetable running until 2003. In 1999, there was not according to the agreement, more limitations concerning the telexes and the data transmission by communication by packages. As from the year 2000, sectors as well as mobile telephony, the transport radio, the teleconference are liberalised. As from 2003, liberalisation stretches to local distribution and a foreign participation to the Tunisia Telecom capital is even envisaged amounting to 10%. There are however limitations in this sector: the capital of the companies has to be by a majority Tunisian. Operators have the obligation to serve certain areas in particular the rural areas and to provide systems of telecommunications of distress.

VII.3.2. Egypt

Summarised presentation of the horizontal engagements of Egypt[5] .

Sector or subsector	Limitations concerning access to the markets	Limitations concerning the national treatment
I. HORIZONTAL ENGAGEMENTS ALL SECTORS INCLUDED IN THIS LIST		
	3) Nothing	3) Land acquisition : The land or other real estate acquisition is subject to authorisation. The requests for this purpose are studied according to the destination of the assets the

[5] It is not a question of the official list but well of a presentation the formulation of which was altered and which is not complete. One will refer directly to the list for a more complete analysis.

Sector or subsector	Limitations concerning access to the markets	Limitations concerning the national treatment
		acquisition of which is required and in accordance with the objectives of the national policy. The land acquisition and real estate in the free zones are not consolidated.
	4) Entry and natural temporary of the persons stay. According to the code of work (Law n °137/1981) and its implementing regulations, the foreign manpower necessary for the supply of services in any organisation, independently of the number of its branches, does not have to exceed 10 per cent of the total staff complement of the staff employed, unless otherwise specified in the "sectoral Recruitments" of this list.	4) Nothing

Source: World Trade Organisation, GATS/SC/30

One points out that the list of the horizontal engagements of Egypt is briefer. That does not mean that Egypt is less advanced in the liberalisation process of the services. Numerous restrictions can indeed be specified in the sectoral engagements. It is therefore important to refer to this second list.
It is noted however that both lists are anxious jointly to preserve employment at local level by limiting the number of foreign persons who can be recruited by the foreign companies. It also is anxious in this measure to ensure that foreign direct investments connected with the method of supply 3, are accompanied by transfers of know-how. The Egyptian lists of engagements specify for numerous sub sectors that training will have to be ensured by the foreign companies.
The Egyptian sectoral engagements cover 4 sectors : the construction services and related engineering services, tourism, the sector financial, transport. The number of approached sectors is therefore more important than those of Tunisia.

Concerning the first sector, only joint enterprises can exert but the share of the foreign capital cannot exceed the majority. In the sector of tourism, which appears rather open, it should be noted that approvals for the majority of the activities are obtained according to the examination of the economic needs, which can represent a regulation of the market but which can also achieve a discretionary power on the part of the authorities delivering approval. The foreign participation is limited in the region of the Sinai. The rules of access to the market and the limitations concerning the national treatment are rather similar and rather liberal in the case of Tunisia and Egypt.
For the financial sectors, Egypt was initially less open than Tunisia. Thus, the foreign insurance companies could exert only in the free zones and in convertible currencies. The participation foreign to insurance joint enterprises was limited to 49% and 1/3 of the contracts had to be reinsured within an Egyptian company. These restrictions were rather largely made more flexible. Insurance has always to obtain approval conditioned to the examination of the economic needs of the country but there is not more ban on exerting on the territory apart from the free zones. These conditions will cease gradually being more strict than in Tunisia where despite the ban on signing contracts in non resident companies, it is possible for the foreign suppliers to establish subsidiary companies on the Tunisian territory under minimum and of legal form condition of capital. In banking matters, Egypt entered more into the opening since the limitations in the share of the capital that can hold the foreign banks fell. They are subject naturally to approval of the Egyptian central Bank and it as soon as their participation

exceeds 10%.

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