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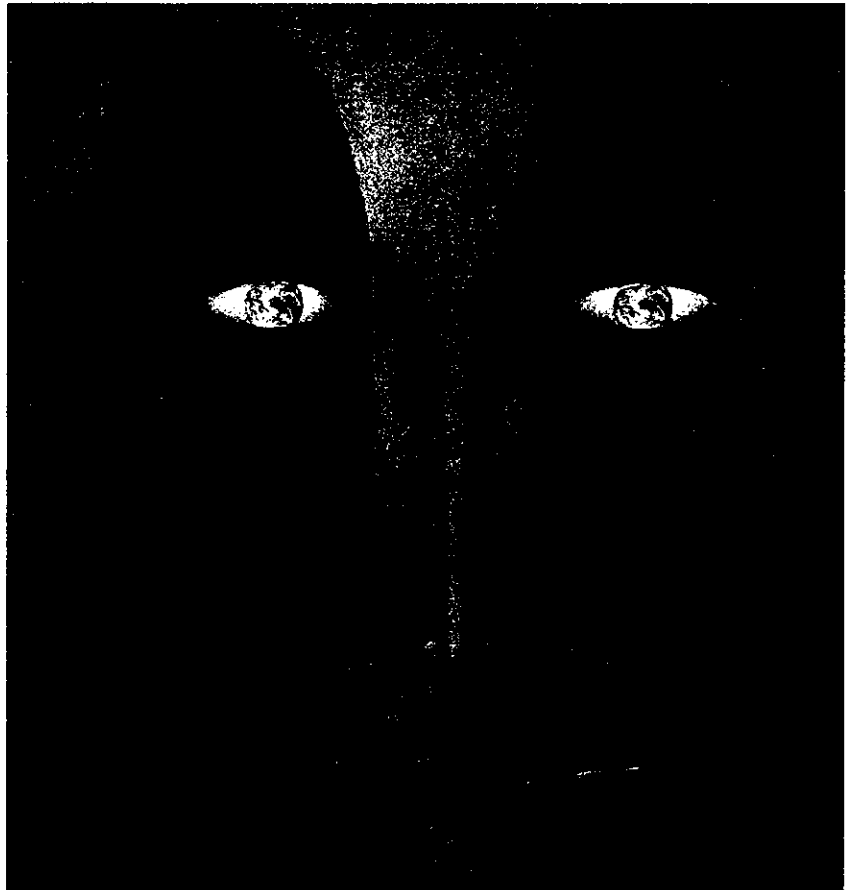
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LEBANON AND EUROPE: *Forging New Partnerships*

Working Papers on the Formation of Joint Ventures



*Edited by:
Rosie Nasser and Thamar Kashishian*

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LEBANON AND EUROPE:

Forging New Partnerships

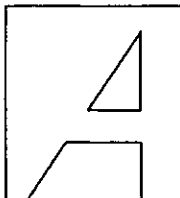
Working Papers on the Formation of Joint Ventures

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Preface

As a follow-up to the 1996 conference on Lebanon and the EU partnership, the Lebanese Center for Policy Studies (LCPS) in cooperation with the Konrad Adenauer Foundation (KAF), held a two-day conference on the Euro-Mediterranean Partnership with special emphasis on the formation of joint ventures. Held at the Riviera Hotel between July 11 and 12, 1997, the conference hosted senior officials, prominent academics, leading businessmen, as well as officials from the European Commission and the European Investment Bank. All invited conference speakers were directly or indirectly involved with the current negotiations between Lebanon and the EU or in research in this field.

The main aim of the conference was to familiarize the private sector with all issues relevant to the formation of joint ventures with European firms. It served as a unique opportunity for all participants to establish contact and discuss potential European-Lebanese relations with national and international experts involved in recent research in that field.

This report includes a selection of five working papers which were presented at the conference. The first paper on "Forming European-Lebanese Joint ventures with Small and Medium Sized Enterprises," presents the benefits that programs can confer upon the process of establishing joint ventures between foreign companies and small and medium sized (SMEs) businesses. Using the Italian case as an example, the paper shows the importance and advantages as well as the hurdles, difficulties, and risks involved in creating joint ventures. The paper concludes with a set of policies and measures which might support and enhance the success of establishing joint ventures.

The second paper, entitled: "Joint Ventures as a Strategic Option for the Lebanese Private Sector," proposes that internal development, mergers and acquisitions, as well as joint ventures could be among the strategic options pursued by Lebanese companies in the private sector in order to prepare for the challenge of a growing competitive market. With reference to conducted studies, the paper compares the three strategic options and presents the factors which influence the outcome of joint ventures.

The third paper, on "Joint Ventures in Lebanese and European Law," examines the legal aspects of joint venture creation in relation to European and Lebanese law. The paper also suggests the legal ways that companies can enter into the Lebanese market, as well as the constraints faced by these companies under the current law.

The fourth paper, on "Financing Corporate Partnerships," focuses on the positive role that the European Community Investment Partners (ECIP) can play in governing financial support from the European Community for starting joint ventures between different country companies. The paper examines the purpose

and structure of ECIP, the technical modalities of its financing facilities, and how it can address the current needs of Lebanese entrepreneurs, companies, and investment organizations.

The fifth paper, on "Lebanese and European Standards," examines the importance of standardization in promoting economic development with special emphasis on the Lebanese Standard Institution (LIBNOR). The paper provides a detailed account of the formulation, development, and preparation of standards. It also discusses the compatibility of Lebanese standards with European norms and standards and stresses the need to harmonize them.

Keynote Speech

Yassin Jaber*

Ladies and Gentlemen,

It is my pleasure to be here this morning addressing such a distinguished audience. Lebanon, strategically located in the Eastern Mediterranean, is one of the most dynamic and quickly developing countries in the region. The Lebanese people have always played a positive role in the world. Those who knew Lebanon before the war will clearly remember it as a small country whose importance and reputation were far greater than its size. The country was truly the jewel of the Middle East, as well as a recognized international business and finance center.

Throughout its history, Lebanon has always maintained the best possible relations with Europe. This special relationship has been conducted through financial and economical trade, as well as the formation of investment ties. Other important links between Lebanon and Europe were built through social, political, and educational channels. The impact of the European culture is present in our laws and decrees, in the multitude of European languages spoken by the Lebanese people, as well as in our architecture and designs, including restaurants, hotels, clothing, and style of living.

To keep pace with the world's economic changes and the new global economy, Lebanon's ultimate aim is to further liberalize its open economy towards free trade. The country plans to regionally expand its exports, and seize important opportunities to reach these aims. It is not in Lebanon's best interest to engage itself in a protectionist commercial policy that will harm its image, decrease its presence in the international market, and lead to isolation.

Along with the correct preparatory steps taken, a well-negotiated Euro-Mediterranean partnership can aid the country's economic growth and development. This self evident truth has resulted in many unanswered questions and has raised different worries among Lebanese officials, organizations, traders, analysts, and researchers.

We expect much more than free trade in the partnership agreement between Europe and Lebanon. The present status of trade relations between the two parties is governed by the 1977 Agreement and its modifying protocols. The agreement called for preferential trade arrangements which provide unreciprocated duty-free access to European Union markets for most Lebanese industrial goods, and preferential access for agricultural commodities. However, Lebanon cannot benefit from this preferential arrangement due to the barriers caused by its long war.

* Yassin Jaber is the Minister of Economy and Trade.

It is important to note that the EU is our major trade partner. The EU provides more than 55% of Lebanese imports, and provides the source of more than half of our customs revenue.

The estimated annual revenue loss could range between 5 to 6% of GDP, without considering additional losses due to 'Trade Diversion'. Moreover, transient decrease in local production can occur due to the increased competition. The agriculture sector will be highly threatened due to the limitations of the European Agricultural Agenda, the cancellation of import licenses, and the European subsidization of certain agricultural products. The latter measure can expose the agricultural sector to severe competition.

A proposed remedy for compensating some of these drawbacks is the application of a new fiscal policy. This can be implemented through altering the tax-mix, which usually involves a shift from general to consumption taxes like Value Added Tax (VAT) or General Sales Tax (GST).

Nevertheless, taking into consideration the complexity of taxation, a change in the tax structure and reforming the tax administration sector, are not easily accomplished tasks. These changes are costly and necessitate a complete change of the accounting systems at the private and public levels.

In light of the above factors, the EU should consider assisting Lebanon in overcoming the differentials imposed by the agreement:

- The EU should accommodate the legitimate needs of Lebanon by allowing for the time and space needed to prepare the country to compete (in those sectors where competitive strengths are evident) through gradual market liberalization.
- The EU should recognize Lebanon's special financial burden of reconstructing the country. When considering financial assistance for Lebanon, the EU should take this burden, as well as Lebanon's huge deficit vis-à-vis the EU, into consideration.

In our opinion, it is not fair to place Lebanon on equal footing with other countries. One should also remember all the hardships that this country has had to overcome.

- Lebanon needs to build greater strength in its investment infrastructure, rather than increasing the accumulation of investment capital. Capital for investment purposes is available, while productive investment opportunities are scarce. The latter is needed to create new employment and generate income into the economy.

Clearly, Lebanon needs the contribution in the transfer of the European know how, as well as the new production methods based on modern and advanced technologies. A contribution such as this one could raise confidence in Lebanese production and enhance the living standards of thousands of ordinary people.

The EU countries are urged to have direct involvement in the reconstruction of Lebanon. This involvement should not only occur in the form of financial assistance, but also through the encouragement of private sectors to establish joint ventures, branches, or open offices in this country. In doing so, these sectors can benefit from Lebanon's comparatively advantageous position vis-à-vis other countries in the region. The rights regulating the establishment of laws in Lebanon are extremely liberal; the major barriers are a few labor permit regulations, and licensing procedures for certain activities (i.e. a banking, insurance). Lebanon's economy is free and open. It is not only based on the freedom of private investment, and free cash and capital movements, but it also has an important service sector (specifically its financial and banking services) which constitutes the largest portion of its GNP.

- The EU must exert every effort to achieve a peaceful settlement in the region, as well as in Lebanon, as anticipated in the Barcelona declaration.

The EU countries are required to make continuous improvements with regard to their political participation in the region. Europe has to create a powerful protective umbrella and use enforcement strategies over Israel in order to safeguard its role, interests, and its future impact and presence in the region.

In my opinion, it is not in Europe's best interest to separate its political standing from its financial, social, and economic cooperation. On the contrary, the economical and political issues are expected to progress along the same pace.

Opening Remarks

I. Paul Salem *

On behalf of the Lebanese Center for Policy Studies (LCPS), I welcome you to this conference on "Lebanon and Europe: Forging New Partnerships." This event is being held in coordination with the Konrad Adenauer Foundation (KAF), and it represents a follow-up to last year's conference on "Lebanon and Euro-Mediterranean Partnership."

One of the subjects that LCPS is concerned with is the building of strong and vital economic relations between Lebanon and Europe. The Center seeks to build a democratic Lebanon with an advanced and transparent public administration, as well as a balanced, developed, and open economy in which values of political and economic freedom, and social justice prevail.

Lebanon and Europe have strong historical relations. In the past, these relations have been characterized by cooperation, and have been mutually advantageous. However, they have also been characterized, at times, by inequality, and contradictory and competing interests. We hope that these negative aspects are a thing of the past.

In today's new economic world, the processes of economic openness and commercial exchange are getting stronger, not only in our region, but in the entire world. A number of Arab countries, including Lebanon, are developing their economic relations and agreements with the European Union. Through these agreements, Arab countries, as well as Lebanon, are seeking to enhance their ability to market their products in Europe and obtain European material and technical assistance to develop their economies. Also, Europe is seeking to expand its markets in Arab countries and build relations with these Arab societies. These relations can promote economic and social stability and reduce Europe's security- and political-related fears about the situation in the region. These efforts have gained increasing momentum with the end of the Cold War and the convening of the Madrid and Barcelona conferences, along with the progress in the political and economic integration of Europe.

In light of the potential positive results of economic cooperation, such as GDP and export growth, Lebanon places great hopes on its economic relations with Europe. At the same time, there are legitimate Lebanese fears about the effects of the partnership agreement if such an agreement does not provide balance and equal opportunity. Among these worries, are challenges to the productive sectors such as industry and agriculture, which continue to suffer from post-war problems. Additionally, the diverse services sector continues to search for a prominent role

* Paul Salem is the Director of The Lebanese Center for Policy Studies.

for itself in the 1990s and post-1990s period. Economists and politicians are also concerned about the agreements' effects on the social level, in terms of unemployment, wage levels, and the distribution of benefits for various social groups.

This conference is convened today to study the best possible agreement and to establish a more objective and constructive dialogue. Furthermore, it has brought together an elite group of Lebanese and European officials and specialists in various fields.

I would like to thank His Excellency, the Minister of Trade and Economy, Mr. Yassin Jaber for delivering the conference's keynote address, as well as the Resident Representative of the Konrad Adenauer Foundation, Mr. Olaf Köndgen, for his Foundation's interest in this subject and the support it has provided. I would also like to welcome His Excellency, the ambassador of Germany, Mr. Peter Wittig. Last but not least, I would like to thank the representatives and officials from the EU who are with us today, as well as the Lebanese experts who are taking part in this conference.

I hope that we may all benefit from a productive and useful series of sessions.

II. Olaf Köndgen*

Your Excellencies, Honored guests, Ladies and Gentlemen,

The Barcelona Declaration constituted a type of beginning of a new and decisive phase in relations between the European Union and the countries of the southern Mediterranean. The two sides announced their commitment to this document. There is sometimes an insufficient awareness of the required political and economic reforms needed to be achieved by countries of the Mediterranean basin. Some of these countries have announced their commitment to what resembles a type of near-revolution in economic legislation. Additionally, the issues of human rights, democratic transformations and political pluralism are at the top of the agenda for discussion with these countries. There is no doubt that there is a considerable distance between these hopes and the reality.

At the beginning of 1996, a top EU official wrote in a strategic policy paper about the Barcelona process, "One can say with a great deal of certainty that the process of democratic transformation in the countries of the Mediterranean basin is unstoppable. The Barcelona Declaration and the bilateral agreements help to support this continuing process." The next few years will demonstrate the extent to which these European predictions are correct, and the extent to which they represent an exaggeration, even though the process of democratic transformation remains an extremely urgent demand.

The next few years will also demonstrate the ability of a new elite of politicians and economists; an elite which has been produced by this process, to demonstrate a true commitment to the processes of democratic transformation and political pluralism. However, this transformation is dependent on the progress made towards the achievement of a regional peace. As long as military aggression, occupation, and neglect of human rights considerations continue in this region, I fear that the hopes for democratic transformation are premature.

In terms of economic considerations, the decrease of reforms is not at all what is required. Although most Southern Mediterranean countries are not completely prepared for central reforms as is the case in Eastern Europe, options remain limited in the light of economic globalization.

The amount of opportunities to achieve the big dream in the European-Mediterranean region where peace, prosperity and free trade will be enjoyed by the year 2010, is principally dependent on the EU's southern neighbors' determination to carry out the necessary reforms with strong determination, despite all of the current obstacles.

* Olaf Köndgen is Resident Representative for Jordan and Lebanon, The Konrad Adenauer Foundation.

In any case, we must not expect too much. The disparities in GDP remain wide between EU countries and Mediterranean partners. Despite the many justified criticisms, it is clear that there is no other alternative for Europe or the countries of the Southern Mediterranean to follow, except that of a continuous Mediterranean-oriented policy, as well as gradual economic integration. The Konrad Adenauer Foundation has always stressed the importance of European-Arab economic cooperation. This emphasis has made possible the convening of this conference today, in cooperation with the LCPS. The Foundation hopes that its participation in this conference is seen as a sign of its commitment to, and support for the Barcelona process. Support for economic and political reforms always remains at the heart of the Foundation's activities.

Lebanon shares a long history and enjoys a close and constant relationship with Europe. Despite the fact that Lebanese-European relations were never free of disagreements, Lebanon is undoubtedly capable of playing the role of a strong partner with Europe. I look forward to the success of our work in the coming 2 days.

In conclusion, I would like to take the opportunity to thank the Lebanese Center for Policy Studies for organizing this important conference. I would also like to thank the German and European guests for participating in this event.

III. Peter Wittig *

Ladies and Gentlemen,

First of all I would like to express my congratulations to those who organized this conference: The Lebanese Center for Policy Studies and the Konrad Adenauer Foundation. They could not have chosen a more timely and important topic. I am particularly delighted that His Excellency, the Minister of Economy and Trade, has honored us with the keynote speech.

Europe and the Middle East are neighbors tied together by geography and closely connected by a long common history. Everything that occurs in the Middle East is of our direct concern. We, the people of Europe, have a vital interest in peace and stability as well as economic progress in this region. Therefore, the European Union (EU) association agreements and the so-called Barcelona Process, and the idea of comprehensive regional cooperation between Europe and the Middle East, are of crucial importance.

The network of bilateral association agreements between the EU and the different partner countries is closely linked. Therefore, partner countries face the need to modernize and restructure their economies. We know that this requires tremendous and sometime painful efforts. The success of the process towards modernization and restructuring depends on a large degree on the Lebanese will and capacity to effect change. The EU can only accompany and support this change.

We strongly hope that the association agreement between the EU and Lebanon can be concluded as soon as possible. Germany is ready and willing to contribute everything within its power to reach a speedy conclusion.

The new and decisive element of the Barcelona Process is the creation of a comprehensive regional partnership. This relationship should supplement the bilateral agreements between the EU and the individual partner countries. The conference held in Malta during April 1997 gave some remarkable impulses to this respect. However, there remains a lot to accomplish:

- The political and security related dialogue must be continued and reinforced in all its dimensions.
- In order to enhance the economical dynamics and attract private investors to the Mediterranean regions, trade barriers have to be removed in the long run. This removal must occur not only vis-à-vis the European Union, but also between the partner countries themselves.

* Peter Wittig is the Ambassador of the Federal Republic of Germany.

- The Euro-Mediterranean partnership can be sustained for a long period if it is firmly based on a solid foundation of mutual understanding. A tight net of human and social relations can further develop this understanding. A partnership does not only mean cooperation between governments, but includes a working dialogue and the exchange of people. Non-governmental and non-centralized representatives of societies have to be included in the partnership. The knowledge and the understanding of each others cultures and religions has to be strengthened. Today's conference exemplifies the importance played by the social dimension of the Euro-Mediterranean partnership.

For Germany, a partnership between the EU and the Mediterranean region is an indispensable counterpart to integrating central and eastern European states into the European Union. Germany has announced that the development of the Euro-Mediterranean partnership will be a priority during its presidency of the European Union in the first half of 1999.

The Euro-Mediterranean partnership is not independent of the progress of the Middle Eastern peace process. Europe is concerned with reviving the peace process which lost its momentum. Germany will do its utmost, through bilateral talks and those held within the EU, to propel the peace process out of its present stalemate. However, it is the regional parties who have to undertake the decisive steps.

I am confident that this conference will be a success, and I look forward to its interesting and fruitful discussions.

IV. Kamal Shehadi*

Minister Jaber,
Distinguished Guests,

Someone once said that war was too important to be left to generals. Today, I will suggest that trade agreements are too important to be left to diplomats or politicians or even economists. This is the reason why we have gathered here to discuss the Lebanese-European Association Agreement.

This agreement, part of a broader framework of liberalizing European-Mediterranean trade in goods and services, is of great importance to the Lebanese economy. The discussion that will follow in the next day and a half should take into account the following facts:

- There is a global trend to liberalize trade in goods and services, increase reliance on market forces, and shape domestic environments to become more favorable to foreign investments. Our collective responsibility is to ensure that Lebanon keeps pace with these developments. The *sine qua non* for our economy is to achieve high and sustainable rates of growth.
- The southern Mediterranean region cannot remain isolated from the worldwide trend of forming Preferential Trade Areas (PTA). Over a hundred of these PTAs have been registered with the World Trade Organization (WTO). We hope that similar areas will be created by the Euro-Mediterranean initiative. Lebanon needs to participate in, and benefit from these arrangements.
- The proposed Euro-Lebanese association surpasses the mere liberalization of trade. The association opens the way for increased integration of Lebanese and European economies. This is why we have titled one of our books: *Pathways to Integration: Lebanon and the Euro-Mediterranean Partnership*. This agreement will bring about a greater harmony between economic policies and regulatory regimes. Lebanon will be allowed to anchor greatly needed reforms within a binding international agreement.

Some of you may have wondered why the word “partnership” was used in the plural form in the title of this conference. This is because the Euro-Mediterranean initiative is a multifaceted and multi-layered process. The initiative not only involves an agreement between governments, but also includes the establishment of partnerships between Lebanese and European economic and civil associations, local governments, trade unions, and private sector firms.

Our intention is to provide a forum for fruitful and enlightening discussions about

* Kamal Shehadi is the Director of Research at The Lebanese Center for Policy Studies.

the Euro-Lebanese Association Agreement, as well as the various partnerships it should produce. Likewise, we hope that this gathering also addresses the broader issue of envisioning the future of Lebanon's economy. A vision such as this one needs to complement and sustain Lebanon's long and arduous process of reconstruction.

Today we are fortunate to have the company of His Excellency, the Minister of Economy and Trade, Mr. Yassin Jaber. During his holistic time in public office, Mr. Jaber has striven to expand Lebanon's markets abroad, while enhancing the competitiveness of Lebanese firms. He is committed to the task of upgrading the Lebanese economy, and the creation of a trade regime favorable to growth and prosperity.

Paper 1

The Formation of European - Lebanese Joint Ventures with Small and Medium Sized Enterprises

*Silvio Bottazzo**

Small and Medium Enterprises

Small and medium sized enterprises (SMEs), even when existing within the same mercelological sector, differ according to the place and the relative state of economic development in which they are located. For example, a textile firm in Italy has different technologies, exists in a different milieu, produces different articles for different markets, exhibits different labor relations, and employs different ways of management and training when compared to a Lebanese firm.

The Italian Case

When one focuses on the Italian case, and particularly the Lombardy region, one can clearly observe that areas with a higher percentage of SMEs have the highest rates of growth. These SMEs are frequently grouped within industrial districts, and are usually rather small. Additionally, they specialize in certain products, share a common culture, and are involved in a continuous series of relations, similar to those occurring within a single firm. The policies of local authorities are important when referring to these districts.

SMEs and Internationalization

SMEs interested in new markets, or looking for partners abroad, should focus more firmly on a strong, supportive external milieu, than on training, technology, and other fields. In fact, numerous functions pertaining to SMEs are distributed among a small number of persons. Thus, the entrepreneur must simultaneously attend to numerous tasks, and has little time and capacity to enhance foreign relations and search for foreign partners.

Company growth and joint venture capital, depending on individual investments, make SMEs less capable of compensating for bad choices. This leads SMEs to hesitate and thus resist the establishment of joint ventures.

The Importance of Joint Ventures from a European Perspective

There are many forms of joint ventures. In all cases, the main aim is to use synergy to achieve major effects instead of using the sum of single elements.

* Silvio Bottazzo is consultant for the external service of the Milan Chamber of Commerce for the Promotion of International Activities and Public Relations (PROMOS).

From the European perspective, partners and countries identify the following advantages of joint ventures; they:

- provide a way to enter the Lebanese and the regional markets;
- bypass custom barriers and high transport costs through local production;
- facilitate investment authorizations;
- acquire new sources of raw materials, as well as semi-finished goods and finished products;
- cause delocalisation; and,
- lower risks.

The Importance of Joint Ventures from a Lebanese Perspective

For Lebanese Companies, joint ventures are important because they:

- acquire new technologies and know-how;
- obtain management and marketing techniques;
- utilize foreign market networks; and,
- share investment and managerial costs.

Through joint ventures, the host country is able to:

- expand its export oriented productions;
- replace its imported goods and save currency;
- receive capital flows and local-added value;
- modernize and improve quality; and,
- increase employment rates, and develop higher skilled manpower.

Some Difficulties and Problems:

The percentage of joint venture failures regarding is quite significant. In order to minimize such a risk, companies should spend enough time in clearly identifying the goals, targets, and results they want to reach. Areas of possible collaborations and the points of possible divergence should also be determined.

In addition to what was previously mentioned regarding SMEs, namely the problems and hurdles of internationalization, there exist other hurdles that make the process of establishing a joint venture particularly rough. These hurdles include the following:

- management is only capable to run its ordinary activity;
- heavy bureaucracy;
- inability to check the strong and weak points of initiatives;
- inability to evaluate and neutralize their local competitors' reprisals;
- lack of time to assure a long lasting presence on the field, especially with regard to the problems related to logistics and local organization; and,
- lack of Lebanese flexibility and ability, especially in approving new market tendencies.

Intermediate Modalities of Collaboration

Between the successful and the unsuccessful joint venture experience, there lies an abundance of interesting intermediate possibilities that can be stimulated and experienced. Less advanced internationalization frameworks could prove to be successful, and pave the way to more complete ways of cooperation. These frameworks appear in the following forms:

- commercial dealings;
- agreements for marketing the respective products;
- franchising;
- agreements for maintenance of plants; and,
- license productions.

Supportive Measures for European Partners: an Italian Example

In order to respond to these, as well as other difficulties and weaknesses of SMEs, Italian legislation (bill number 49 of 1987, article 7) aims to support companies engaged not only in trading and investment but in joint investment with foreign partners. The facilitation is very original and successful. Loans of up to 12 million US dollars could be provided to the Italian partner of a joint venture. These loans are accompanied by very good conditions, such as a 1/3 decrease of the usual interest rate, and a ten year time limit for the repayment of the loan.

Policies and Measures at the Lebanese Level

It should be underlined that joint ventures are one of the processes which lead to the integration and opening of the Lebanese market. These processes are based on the idea that the countries involved do not need to conform, but become compatible with each other. Most importantly, institutions must provide SMEs with financial means, human resources, infrastructure and other services (i.e. a stable and clear legal framework, effective educational structure, research and training organizations, technology centers, suppliers and subcontractors).

As SMEs rely on their surroundings, those involved in joint venture experiences require a special variety of support organizations. Intermediate organizations (those that link the local level with the national one) are very important.

Additionally, a multitude of structures, in the form of service centers, chambers of commerce, consulting groups, and business associations must be created or strengthened. While focusing on industrial cooperation, supportive measures should be adopted to develop and create enterprises. These measures include:

- the provision of consulting services for the preparation of business plans and feasibility studies;
- the provision of assistance in drawing up contracts;
- giving advice on product marketing at the domestic and foreign levels; and,

- lowering the cost of training, and extending the stay of the expatriate expert beyond the completion of the start up phase of joint ventures and new business activities in general.

The Mediterranean Development Assistance Program (MEDA)

Among other projects under the Mediterranean Development Assistance program (MEDA), the following projects which aid the establishment of joint ventures should be underlined:

In general, these projects:

- provide an enabling environment for private investments;
- favor the gradual transformation of enterprises and informal activities into micro enterprises; and,
- support the efforts of export oriented enterprises that, due to the restricted size of the domestic market, are the framework of SMEs system.

In particular, these projects provide:

- entrepreneurial training;
- project assistance;
- partner research abroad; and,
- training of managers and entrepreneurs abroad.

PROMOS, MEDA, and the Milan Chamber of Commerce

The Milan Chamber of Commerce consolidates about 350,000 registered companies, belonging to all sectors. Ninety five percent of these companies are small and medium sized. Almost 15,000 of these businesses deal with import-export activities and are strictly oriented towards international markets. In order to help entrepreneurs, the Milan Chamber of Commerce makes available numerous services through its special agencies such as PROMOS. The PROMOS agency promotes international activities, and it is especially designed to favor SMEs.

After having hosted the Euro-Mediterranean Workshop on small and medium-sized businesses, held in Milan in June 1996, which also followed the enactment of the MEDA regulation, the Milan Chamber of Commerce and PROMOS approved a Euro-Mediterranean project. The PROMOS project involves and concerns the countries coinciding within the Barcelona framework. The latter is mainly developed through the promotion of contacts and direct collaboration between businesses of the area. Additionally, the project aims to connect, catalyze, and possibly support cooperation between bodies that already exist at the Euro-Mediterranean level.

The central priority of the project rests at the company level, and it supports the internationalization of small and medium sized enterprises. This is accomplished by matching the needs and demands of SMEs with the interests of the companies

located in the Mediterranean Partner Countries (MPCs). At the horizontal level, the project deals with the creation of a stable network of collaboration between PROMOS and local institutions. Furthermore, the project focuses on setting up Country Desks both in Milan and in the partner countries, which can promote country seminars, special delegations, bilateral investments, and potential partner identification. At the vertical level, the project deals with the identification of priority manufacturing industries in the MPCs which can represent them and express their potential and project capacity.

The services in Lombardy should be investigated in order to identify structures that can support the initiative even more comprehensively on the basis of the PROMOS project. Additionally, SMEs need help to find similar services in partner countries with which they can interface.

The PROMOS Project and Lebanon

The financial aspect is one of the major bottlenecks in the promotion and development of SMEs, and hinders their growth through joint ventures and cooperation agreements with European partners.

One of the PROMOS projects aims at training and improving the skills of bank executives and bank clerks in financing and providing credit to SMEs. Another goal of the PROMOS project regarding Lebanon is the establishment of cooperation agreements with the local Chamber of Commerce and business associations. These agreements would promote trade, involve Lombardy business in the RDP, and allow for the transfer of decommissioned machinery. Lastly, the project aims to promote cooperation with Lebanese businesses and those companies providing gas, water, energy, and environmental services in the planning, establishment, and management of plants and services.

A Concrete Proposal

It should be stressed that the Council for Development and Reconstruction (CDR) should favor and encourage the participation of Lebanese small and medium sized businesses in the reconstruction program tenders. This participation, which would otherwise be difficult, is dependent upon the strengthening of the Lebanese offering capacity; directly or as sub-contractors, and by their participation in joint ventures with European companies. The participation of European companies in joint ventures, as well as their presence in Lebanon, would secure important jobs and pass on technical and managerial experience. This latter task could be achieved by transferring their know-how, and training their Lebanese partners.

Paper 2

Joint Ventures as a Strategic Option for the Lebanese Private Sector

*Nabil Fahed**

Introduction

The globalization of business, the liberalization of trade, and the formation of trading blocks have resulted in a new set of rules for businesses worldwide. Countries that have adopted policies of trade liberalization and have integrated into the world economy are experiencing higher rates of economic growth, whereas protectionist or interventionist measures are counterproductive and detrimental to economies. While Lebanon contemplates becoming a member of the Euro-Mediterranean Agreement, companies in the Lebanese private sector will face new competition. New entrants will start to make inroads into the market and exert serious competitive pressure. A response to this challenge requires courage to accept the gravity of the situation. One must face the need to formulate new strategies and have the will to implement them. Three strategic options are identified:

- Internal Development;
- Mergers and Acquisitions; and,
- Joint Ventures.

Internal development is an attractive option for companies that have access to financial markets, technological advancement, distribution, local marketing resources, and export markets. Although mergers could be an attractive alternative, there have been few recent cases of mergers in Lebanon. This is explained by the fact that competition has yet to reach a level where companies either merge or face liquidation. The joint venture option is comparably attractive to a local company, as it allows the company to retain its identity, and provides the new venture with an advantage over other competitors. Traditional concerns regarding access to financial resources and export markets, are overshadowed by more important concerns. There is a growing importance placed on having access to continued technological improvements, use of strategic information systems, and the streamlining of operations to reduce costs and increase efficiency.

Recent studies about joint ventures have shown that joint ventures are considered to be a good alternative when the basic elements of sole ownership are not present. Additionally, failure rates of 27%, 50%, and 60% have been reported. Studies also show that surviving projects are terminated after seven years. These projects consist of deals between parties that have comparable sizes and resources. The formation of a joint venture is a fragile affair that needs to be nurtured carefully and methodically. Both parties involved in a joint venture need to align their

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incentives and realize that a joint venture is a dynamic relationship that changes over time.

A major challenge for companies in the Lebanese private sector is to cope with the liberalization and the deregulation of markets. Dismantling barriers will not only encourage existing competition to be bolder, but will also create new competition. Companies located in the developed world which enjoyed protected markets, started to feel the pressure of entering competition. In order to compensate for their loss of local market share, these companies started looking abroad for expansion in new markets.

Despite having a small market, Lebanon's ideal location, coupled with the prospect of open markets in the region's future, is attracting several companies to establish a Lebanese base for operations designed to serve all the Levant countries. In order to meet the challenges of an evolving global market, local companies should work towards becoming more competitive. Previous practices which include the apportioning of markets amongst stronger players, fixing prices, colluding for the provision of services or bidding, must be changed. To become truly competitive, companies have to become more efficient and more transparent. Moreover, they should accept the idea that merging together to form a stronger entity can increase their capability to face large competitors with deep pockets and established systems of operations.

The Development Path of Companies

Strategic options facing companies in the Lebanese private sector can take several forms, and exist in a multitude of ways and contexts. One possible step that a firm can take towards its development path, is to position itself so that it could evolve from a single business concentration to a diversified business. Another approach could emphasize differing degrees of commitment and alliance for entering a new business. These alliances are essentially agreements between two or more companies to share costs, risks, as well as those benefits associated with developing new business opportunities.

The former approach follows a growth pattern where most companies begin as small single business enterprises serving local markets and then develop into a diverse business enterprises serving international markets. In a small business enterprise, the product line tends to be limited; the company's capital base, thin; and its competitive position, vulnerable. Strategic emphasis is placed on increasing the amount of sales revenues and market share gains. At a later date, the product line is broadened to meet changing and varied customer needs. The natural inclination would then be, especially in the absence of regulatory barriers of entry, to follow geographic expansion where profitable markets could be pursued. Other markets could also be pursued, to a lesser degree, depending on the factors of competition, the availability of resources, and the firm's ability to cope with greater expansion needs at the physical and managerial level.

Another approach is vertical integration. While this approach should follow geographic expansion, it precedes it in many ways. This situation occurred in Lebanon during the war years when many companies decided to integrate

backwards due to the lack of opportunities to expand within the country. The drive to integrate vertically usually arises from competitive pressure to lower the costs of supplies, ensure the reliability of input factors, get closer to the customer, and respond quickly to preferred changes in consumer demand. Vertical integration will then be pursued if it significantly enhances the company's profitability and competitive strength.

The option to diversify becomes mandatory when opportunities for growth in the industry start to wane or cease to materialize. A closely related diversification that takes advantage of a strategic fit is the optimal venue for this strategic option.

Along this path, a company confronts several obstacles due to certain internal deficiencies or external forces beyond its control. Decisions pertaining to the nature of the procedure, as well as the identity of the companies' businesses, and the formation of a strategic vision describing the companies' future steps, are issues that need to be considered while selecting strategic choices. Determining these choices will guide management to make reasonable and cohesive decisions among alternative courses of action. Threats facing local companies should be recognized, neutralized, and turned into opportunities. Presently, threats considered to be of most menace to Lebanese companies are:

- the entry of low cost foreign competitors;
- changes in customer needs and tastes;
- fast technological changes; and,
- the inability to cross-subsidize across markets in periods of slow market growth.

These external threats are supplemented by some structural internal weaknesses which include:

- weak management;
- the inability to access financial resources due to the absence of an efficient capital market;
- outdated manufacturing processes;
- slow response to change;
- narrow product lines (services and manufacturing alike); and,
- the small size of the local market.

The inability of local firms to finance the needed strategic changes and fuel firm expansion in the proper manner, will result in the erosion of Lebanese competitive advantages which have survived the war years. The country's long civil war has discouraged foreign firms from entering Lebanon. Additionally, some local companies have grown accustomed to inefficiency and are still able to generate profits. The life span of a company's competitive advantage is directly related to its size; the larger a firm's competitive advantage, the longer its life-span. Therefore, a firm's competitive advantage can only be expected to last for a short period of time before consumers come to realize the advantages of dealing with the more efficient arrivals.

Generic Strategic Options

A local company can pursue the following venues in order to achieve an appropriate strategic choice:

1. Internal Development: In this case the company will rely on its own resources.

a. The company has to be able to raise capital and have access to creditors. The relatively small size of Lebanese companies makes this issue quite difficult to accomplish. Even if access to financing is established, the small size of the market, and the large number of competitors, make the prospects of large-scale expansion look unachievable.

b. Technological advancement requires long term commitment, large investment, and human resources. In the services industries, information systems have taken a long time to develop and, in most cases, still fail to represent a strategic asset for Lebanese companies.

c. Human resources, with adequate training in several industries, give local companies a competitive edge over regional competitors.

d. Market penetration by services and products of the new business would be hindered by established competitors.

In the long run, the option of Internal Development is more beneficial to companies. This option strengthens the capabilities of a firm. The latter would learn tremendously through participating in the process of research, development, product testing, and launching. However, this process involves major commitments of manpower, financial resources, and time. In fact, the importance of time can hardly be ignored within a competitive open market economy.

2. Mergers and Acquisitions:

Mergers and acquisitions are options which will ameliorate some of the deficiencies of the internal development option. Furthermore, they can strengthen a company's local presence, and thus take advantage of its size, market power, and customer loyalty. However, expected improvement in several industries such as banking, insurance and agri-business, has yet to take place. This state can be explained by the fact that competitive pressures have not yet intensified to the point where weaker companies are forced to merge or be acquired. This has occurred despite the relative openness and presence of foreign players. It is believed that the market has not yet reached the boiling point. Additionally, certain inefficiencies, on the part of the investment portfolio of a specific sector, are being covered by the profits of other operations in less competitive and more profitable sectors.

3. Joint Ventures:

In addition to the above-mentioned options, joint ventures with foreign partners can present another possibility. Joint ventures can exploit foreign technology. The competitive advantages provided by the local partner, such as knowledge of

market intricacies, consumer behavior, preferences, local culture, as well as legal and regulatory hurdles, can also be exploited by the joint venture.

Although unorthodox to common practices, the rationale whereby one can eliminate a competitor by entering into the same joint venture is sometimes valid. For most businesses in the developed economies, the days of predatory competition are disappearing. The traditional drive to pit one company against another through every aspect of a business, no longer guarantees low costs, superior products and services or high profits. Cut-throat pricing and costly high quality services could leave companies financially exhausted and vulnerable to competition and innovation. The latter could come as result of liberalization in the region's economies and the possible continuation of the peace process. Multinational companies in developed economies have learned that they must collaborate to compete, and in the process, they can create higher values for customers and shareholders alike. This is achieved by selectively sharing and trading control, costs, capital, market access, information, and technology with suppliers and competitors. The *Apple* computer company would most likely be in a much superior position had it shared its proprietary operating system with competitors and software suppliers. The *Mac* could have become an alternative standard, with greater muscle and presence in the PC market worldwide. The formation of joint ventures ensures that competition will not vanish, but it will occur within a more equal framework. Companies will increasingly come to compete only in those areas where they enjoy a distinct advantage or where there is a need to preserve industry power or capture a hidden value. In some industries, sensitivity towards timing, along with the use of effective negotiating skills during alliance formation, are competitive advantages.

While having a lesser degree of impact, a licensing agreement is another option within the joint venture framework. The agreement, if structured well, can have the technological component capable of updating information on a continuous basis. However, it does not include the commitment usually needed in the terms of capital readiness, management involvement, and market feedback. Of course, a licensing agreement is still more preferable than having no agreement at all. Although technology content is very difficult to measure or quantify, the ultimate measure is at the point where the level of profits in the joint venture can indicate its success. Although licensing agreements and franchising setups, can provide local companies with technology and management know-how, they are generally of a short-term nature.

Joint ventures in the service industry are reputed to place less emphasis on technology. This is true to a certain extent. A major factor determining the success of a service venture is the venture's ability to cover the market. Usually there is a close relationship between the local partner and the joint venture, as well as a good knowledge of customer preferences. In the field of advertising, the role of the foreign partner would be limited to accessing major multinational accounts. This is an important link but, creativity, a key success factor in the industry, is closely related to local content and knowledge of the customer. A useful example can be given in the form of the banking sector where adequate capital, transaction

processing, and access to a network of clients are all intangible benefits of a joint venture. However, as these benefits are based on knowledge, it is possible that a foreign partner's involvement will gradually be reduced, while the local partner rides the experience curve. Thus, there follows the inclination to either "buy him out" or "drive him out". At this point, mutual needs, which existed at the outset of the joint venture formation, are no longer compatible. The local partner should avoid being short sighted by using caution and restraint vis-à-vis the foreign partner.

Sometimes there is a tendency to force the formation of joint ventures. This tendency has occurred in Mexico, Brazil, and India during their drive towards industrialization in the seventies. Although such a policy can be successful in the short term, the experiences of these countries demonstrate that joint ventures can be dissolved as soon as laws are changed, or when incentives which prompted their creation have disappeared. Only fundamental market forces can become the arbiters of success; joint ventures formed in response to market needs and market forces are the ones who usually survive.

Motivations for Entering into Joint Ventures

Motivations for entering into a joint venture differ from case to case. Companies from developing countries have different reasons from those located in the developed world. In most cases of joint venture formation, the industrial country's company attempts to gain entry into the developing market. There are very few cases of reverse joint venturing where the target market of the joint venture is a developed country.

Motivations which guide companies in developed countries will differ depending on the time frame, the long term objective, and the strategy of the company. The following reasons can generally be applied:

a) Cost and risk sharing: Oil and gas companies, technology companies, extractive industry companies, and construction contractors form a consortia to minimize the risk of a new project. By limiting their exposure in a particular project, more ventures can thus be pursued. Risk reduction in investment and technology can be achieved through diversification.

b) Financial resources: Companies in developed countries have access to relatively large financial resources and are usually large enough to make certain ventures in developing countries seem insignificant, even when resulting in total loss.

c) Market access: Companies might face complicated government regulations and procedures, as well as the possibility of getting entangled in a web of never-ending requirements. These possibilities can push some companies towards the formation of joint ventures so as to escape delays and avoid protracted losses. The best example pertaining to this situation is the case of Indonesia where in order for companies to be licensed and be able to proceed with their operations, family members of President Suharto must be included in large-scale projects. The saga

of the Busang gold discovery shows the occasional importance and need of the right political connections in a developing country.

d) Cultural differences: A local partner could provide a foreign partner with a smooth introduction to the local culture, and foreshadow accepted practices and modes of operations. A misunderstanding of a country's local culture might lead an independent foreign operation towards failure.

e) Companies of developing countries: These companies have different reasons for entering into joint ventures. They look for deficiencies and attempt to secure critical complementarities to their operations.

f) Transfer of technology: The transfer of technology has always been one of the most cited factors for entering into a joint venture. Developing countries lack advancement in the fields of research and development, as well as easy access to the newest product and process technologies. These deficiencies usually occur as a result of inherent structural problems within the economy. A small local market, high barriers to entry, difficulty in exporting to neighboring countries, and an absence of high level technical research facilities are all factors that lead to the virtual non-existence of technology development in Lebanon.

g) Availability of financial resources: An efficient capital market would enable companies to expand their product lines, expand geographically, and purchase newer technologies when necessary. Lebanon has only recently witnessed the development of long-term finance sources. This occurrence comes as a result of the developing new capital market where savings are slowly being channeled towards investments in the private sector.

h) Access to management know-how: Management know-how has become a notable issue within a highly competitive market, where an efficiently run and tightly managed company has a distinct advantage over its rivals. Lebanon enjoys certain advantages in the service industry due to the presence of Lebanese expatriates who return from their jobs in Europe, the US, and Canada. However, companies remain dominated by families and plagued by outdated organizational structures. As a result, companies become increasingly handicapped by these structures rather than by the need for specific technical skills in management.

i) Export markets: With regard to joint ventures, this issue is considered to be a contentious one. The local partner usually desires a foothold in the export market through the assistance of the foreign partner, while the latter regards such a motivation as a threat to the control of his own export markets. In the new era of free trade areas and agreements such as NAFTA and the Euro-Med agreements, tariff barriers should be dismantled and access should be allowed. However, regulatory and market barriers will continue to keep access to export markets an important motivation for those wishing to enter into a joint venture.

Differing motivations exhibited by foreign and local partners should result in the mutual recognition and acceptance of the other party. The negotiation process and its length indicate that the need for complementation does not diminish the need to strike a better deal in one's favor. Negotiations over joint venture agreements

require a long time, and sometimes stretch over a two-year period. Important issues such as equity structure and technology transfer are issues which usually take the longest time to agree upon. In an atmosphere of mutual trust, negotiations must lead to a balanced outcome. This will create a more stable joint venture in the long run.

Performance of Joint Ventures

In a review of several studies on joint ventures, it was found that some factors influence the outcome of joint ventures more than other factors. These findings are considered to be new and contrary to past belief, especially in relation to size and ownership split.

a) Size: An important aspect of success is size (Bleeke & Ernst 1996). The greater the equality of size between partners, the brighter the future for the joint venture. This means that both partners must have equal financial strength, and have equal strength in the product or function that they bring to the joint venture. Forty-nine alliances were examined in detail; two thirds of those between equally strong partners succeeded, while about 60% of those involving unequal partners failed.

b) Ownership structure: When regarding the split of ownership, the study arrived at the same results. Those joint ventures where each partner held around fifty percent, had the highest rate of success than any other deal structure examined. The joint ventures within which one partner dominated, resulted either in the acquisition of the weaker partner by the dominant partner, or a drive towards venture dissolution.

c) Flexibility: Successful collaboration also requires flexibility. Most enduring joint ventures are redefined in terms of geographic scope or product scope. Alliances which have changed this scope over time, are more likely to succeed than alliances which have failed to respond to market dynamics. Alliances subjected to rigid legal or financial structures, will most probably fail. Parties that cover all eventualities in a joint venture agreement prior to the birth of the operation will find themselves either crippled by the agreement or forced to abandon most of it for the sake of allowing the operation to adapt to changes.

d) Attitude: The attitudes of the joining parties and their likeliness to agree on certain matters, are important issues when attempting to keep a joint venture alive. Another important issue in attempting to keep the joint venture alive is the attitude of the joining parties and their propensity to agree. The ability to compromise for the well being and survival of the venture, is considered to be an important aspect. The selective appointment of managers is needed to fulfill this requirement.

e) Performance measures: By agreeing upon a measure of performance, problems arising throughout the course of the joint venture will decrease. In the IFC study (1996), the most important non-performance measures cited include: the improvement of products (78%); the improvement of quality (77%); sales growth (76%); financial indicators such as return on equity (59%), and return on assets (58%).

Comparison of Generic Choices

Most companies consider joint ventures to be a second rate solution for the parties involved. If a company possessed all of the requisite ingredients for success, most managers would much rather retain sole ownership instead of entering into a joint venture. The prospect of keeping sole control over the new business provides a powerful reason and a strong motivation to keep the new venture within the fold of a single management system.

In a study by Zajac (1990), it was found that 67% of companies considered joint ventures as viable alternatives to mergers; and 63%, to internal development. It was also revealed that 66% of surveyed companies considered that their firm's interest in joint ventures would increase. Killing (1982) surveyed 37 international joint ventures and found that participants rated 36% of these as having unsatisfactory performances. In the IFC study, involving seventy joint ventures in six developing countries, the rate of success was higher at 73%. Even for joint ventures in the US, where many of the cultural and cross-border problems are absent, Kogut (1989) found that after seven years, 35% and 12% of the joint ventures were dissolved. Additionally, 22% of the companies were acquired by one of the partners, and 31% were at risk of facing termination. The prospect of failure provides ample reason to look behind the motivations of companies entering into a joint venture.

Conclusion

Local companies which contemplate entering a joint venture arrangement with a European company must evaluate their options in the context of their position in the life development path. Companies still in the geographic expansion stage might find their plans curtailed if the expansion will infringe on the export territory of the co-venturer. If the local company is in the backward vertical integration stage, that is, it is its own supplier of raw materials, the foreign partner might lose an important incentive to enter into the joint venture, since it could count on becoming the preferred supplier to the joint venture.

The best situation for establishing a joint venture is when the local company is in the diversification stage where it has the flexibility of starting a related business without interfering in its existing operations. Additionally, the local partner must decide whether it is lacking the key success factors, and whether the foreign partner will be providing these factors to the joint venture. The importance of this decision has increased as a result of business globalization where many companies can attempt to complement their firms' strengths through a joint venture. This latter act involves identifying strengths and weaknesses, setting-forth strategic directions, and matching these directions with those of another company.

The formation of a joint venture is a fragile affair that needs to be nurtured carefully and methodically. Moreover, companies need to prepare themselves for the possibility of entering into a joint venture through methods of incorporation. Additionally, they need to have transparent financial statements audited by an internationally reputable firm.

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Paper 3

Joint Ventures in Lebanese and European Law

Chibli Mallat*

Context

It is frequently noted that in the United States; the country in which the concept of a joint venture first developed, joint ventures lack legally defined boundaries. This lack of clarity also exists in Lebanon and other European countries.

In the US, a distinction is often made between a contractual or a non-equity joint venture, on the one hand, and an equity or a corporate joint venture on the other hand. The first type of company – a non-equity joint venture – is a special case of partnership. The second type, ties the joint venture with the corporate world which is much wider in scope, time, and institutional organization. Additionally, it offers limitations on the liability of the investor.

A parallel distinction can be made by gathering resources for an unspecified time period, or more specifically for a particular venture the partners set out to accomplish. Once the purpose (building a factory, carrying out an infrastructure project under a BOT contract, etc.) is accomplished, the contract binding a joint venture terminates.

Under European law, joint ventures are similarly elusive legal concepts, yet are more clearly defined under the rules of company law. In England, “joint ventures” are dismissed as an indecipherable category outside clearly defined rules of company law. In France, the wording of the contract has been variously translated by French lawyers, as *association d'entreprises*, *entreprise conjointe*, *co-entreprise*, or even *entreprise commune*; that is of course when the word “joint venture” itself is not used. Likewise, in Germany, the area dealing with company law under which the joint venture falls, belongs to a various combination of companies. Such a combination is most likely categorised under the German law of groups (*Konzern*).

After the failure of the European Union to create a special type of European company that would bring together English, French and German company law traditions, joint ventures remain a fleeting concept. They are regulated from the inside by the complex contract and company laws. These are specific to each tradition (English, French, German). From the exterior, joint ventures are subject

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to a regulatory framework which comprises anti-monopoly principles, EU competition laws, and, depending on the field, technological norms, environmental concerns and so forth.

The concept is also not clearly delineated within a Middle Eastern, and more specifically Lebanese framework. In Lebanon, international joint ventures are also subject to laws of obligations, company law, and foreign investment. To this extent, they are not self-standing legal vehicles, but must be viewed as commercial partnerships with foreign participation or control. Additionally, they should be appreciated against other such vehicles of foreign participation as appear in distribution networks – mainly agency – and the French equivalent of the public limited company, the *Société Anonyme* (SAL, with an ‘L’ for *Libanaise*).

Options available to foreign companies attempting to gain entry into the Lebanese market can be the following:

- (1) By way of agency rules and variations thereof in new fields such as the franchises;
- (2) By way of opening branches or subsidiaries in Lebanon;
- (3) By joining or creating a company, such as a *Société Anonyme* (SA).

The issue regarding the agency is special, and corresponds to distributorship/importation schemes with special regulations falling outside the field of “joint ventures.” The other two possibilities offer advantages and peculiarities that will now be analyzed in some more detail, whilst comparisons will be made from time to time with other countries. This comparison will include a rapid overview of the EU impact on the European joint venture in terms of competition law, and the interface between these constraints and the proposed Euro-Med Treaty.

Legislative efforts and discussions with the European Union over the Euro-Med agreement in recent years, should be viewed and appreciated within the above-mentioned context.

The Lebanese Law

Under Lebanese law, joint ventures are not intrinsically different from the hybrid state one finds in most Western systems. Although business persons and lawyers in Lebanon establish joint ventures in the shape of commercial companies, the concept of joint venture does not stand as a separate legal category. The terminology itself suffers from “speaking in prose” without foreknowledge, and one can hear several corresponding terms in Arabic, including *sharaka mahsura*, or *mashru' mushtarak*, or simply *sharika*. The latter term is not off the mark despite its generality. After all, *sharika* (or *shirka* for the purists) pertaining to classical law in an Islamic-Middle Eastern context, is defined as the “mixture of money;” *khalt al-mal*. If one wanted to be more precise, an exact correspondence to joint venture may be found within classical law as *sharikat al-'inan*, which one

still encounters in books in a country like Saudi Arabia. The famed Ottoman *Majalla* consecrates a full chapter (chapter 6) and some fifty articles on this type of corporation. In the book, a lawyer will find a close equivalent, both in its general terms and in many of its characteristics, to the joint venture.

However, this is the Ottoman law, and *sharikat al-'inan* did not survive in the text of the Lebanese commercial code that was effected during World War II. As in the case of France, one needs to go back to the full spectrum of companies, together with, in the case of foreign participation, to rules regulating foreign investment in Lebanon. We shall deal here simply with the French form of joint stock companies known as the *Société Anonyme*. The latter is the most common vehicle for foreign participation, as opposed to the other types of partnerships and corporations. These corporations range from the smaller *Société à Responsabilité Limitée*, where all shares are nominal, to the Anglo-American partnerships (the *sociétés de personnes*), where liability is unlimited, and to the more recent offshore and holding regulations. An interesting development in the Lebanese law for foreign participation comes in the form of offshore companies. This company pays an annual flat fee, while other companies must pay profit and dividend taxation. However, in our present discussions we will disregard the offshore company because it is by definition barred from carrying out business in Lebanon. The holding is another interesting development in Lebanese corporate law mainly due to the type of taxation regime it allows. Although holding companies remain subject to most regulations that govern SAs, the exclusive corporate form holdings may develop under Lebanese law.

However, a foreign investor is not forced to adopt the *Société Anonyme* as the exclusive conveyor of its commercial interests. Two other possibilities are available: by way of agency, exclusive or otherwise; and by directly establishing a branch in the country. In the case of agency, Lebanese law is strictly regulated by a 1967 decree-law (reinforced in 1975). This law became a model for the rest of the Middle East, and it imposes some exorbitant contractual rules on the exclusive distribution and importation of foreign goods. The manufacturer/exporter is held liable for compensation if the contract is not renewed. This law is also valid for contracts that are entered into for a limited period of time. Procedural means are made available to the importer/distributor/ agent to bind the new agent to any compensation that the court may pronounce. The Lebanese law of agency would be subject to severe scrutiny under the draft dispositions of the Euro-Med Agreement. Whilst crucial to the distribution networks in the country, and to the European-Lebanese trade which remains the most important sector in the international trade of Lebanon, this law is relevant to our examination only in so far as it illustrates another common business contract. This contract can be conceived as a form of 'joint venture,' alongside such newer models as international licensing or leasing. It is true that in most cases of this sort, the Lebanese importer/distributor/ agent legally retains a wide range of manoeuvre. In any case, the foreign party hardly invests any money in the venture. If, however, the agency is conceived as a joint venture agreement, then it becomes

subject to regulations dictated by the 1967 Decree-Law and those laws generally regarding SAs.

The two other legal models allowing for a foreign presence in the Lebanese market are either the subsidiary or branch in the country, or the formation of a shareholders' company. Let us examine the two models in turn.

1. Branches: The law governing the establishment of branches or subsidiaries of a foreign company goes back to Decree 96 of the French *Haut Commissaire*, 30/1/1926. This decree mainly continues to regulate the Lebanese branch of a foreign SA. Under the law, there is in theory no need to make a previous agreement with Lebanese authorities in order to establish a branch in the country. In practice, however, a declaration is followed by registration during which one must obey certain rules.

The company must first declare an interest in opening up a branch or a subsidiary in the country. The declaration, which must be made before the company establishes the branch, is directed at the section pertaining to companies in the Ministry of the Economy. The application is presented by a company representative. The declaration includes a number of documents:

- articles of Association of the foreign company;
- by-laws;
- power of attorney is given to the representative in Lebanon, officially translated into Arabic, and notarized. The representative may be a foreign national, yet he/she needs a residence permit delivered by the Ministry of the Interior.

All these documents must be signed by the foreign company intending to open up the branch in Lebanon. The papers must be officially sealed by the Ministry of Foreign Affairs. This action must follow a countersignature by the Lebanese Ministry of Foreign Affairs. Once all these conditions are met, the appropriate stamp fees paid, and proof of payment from the treasury is added to the declaration, the branch is registered under a special section of foreign companies. Thereafter, the certification is sent to the official journal for publication. Disregard for these formalities is conducive to the payment of fines, can cause legal paralysis, and results in the inability to conduct one's case before the Lebanese jurisdiction (Art.3 of Law dated 30/9/1944, with Art.16 of D-L 96).

Once the formalities are completed with the Ministry of Economy, registration with the Commerce Registry is required. In contrast to the declaration, this act does not prevent the branch from appearing before the court, but it may be subjected to fines. Registration was principally introduced to protect third parties. Branches in specific areas of the economy (such as banking), as in the case of SAs, require a special permission. A branch, however, is generally established when the foreign investor does not wish to tie up his investment with a Lebanese partner. The normal route for teaming up capital and human resources, while securing some local participation, is to adopt some form of corporation

under Lebanese law. The most common corporation for larger endeavours is the SA.

2. *Sociétés Anonymes*: The *Sociétés Anonymes*, like all other companies, are regulated by the Lebanese Code of Commerce. Four chapters, in Book 3, and some 200 articles are devoted in the Code to the SA (Arts 77-225). Over the years, several articles have been modified by special legislation, and there are specialized areas where supplementary legislation must be considered; notably real estate, banking and financial services, and shipping companies.

Formation and Constraints of the SA

Established in Lebanon, the SA is subject to Lebanese law. The minimum number of founders is three, and its capital is stated at L£30m. Articles of association must be registered with the notary public. The memorandum of association includes name, main location, object, duration, amount of capital and shares, the value of non-liquid assets, dividends, board of directors (three to twelve members), competence, assemblies, and the signatures of the shareholders. Public subscription may then be allowed.

During the first meeting of the founders, the board is elected if it is not already established in the memorandum. The board chooses the president, and carries out publicity requirements. There is in reality little that renders an SA essentially different from its European cousins. However, one exception comes in the combination of 'national' requirements that holistically create a backdrop to the traditional openness of the Lebanese corporate sector.

For the formation of the company, irrespective of the type of activity, the only tangible constraint is the requirement under Art.144 of the Code of Commerce which states that "The majority of the members of the board of directors (*majlis al-idara, conseil d'administration*) must be Lebanese." The chairperson of the board need not be Lebanese. This latter stipulation is a seemingly superfluous constraint which does not correspond to any requirement in the nationalities of shareholders.

However, foreign investors must remain attentive to two other types of constraints. The first constraint is linked to land; the second, to the type of corporate activity.

1. Land:

One can presume that any foreign company needs premises. A complicated law, dating back to 1969, imposes restrictions on individual or corporate foreign ownership of land. The law is complicated and poorly drafted. In addition to distinctions made between individuals and companies, the law distinguishes between: a full Lebanese national, a foreign national of Lebanese descent, a citizen from an Arab country, and a 'full' foreigner. According to the law, a

foreign SA is defined as a company in which at least one third of the shares are not owned by Lebanese individuals. While a fully Lebanese owned company does not encounter any constraint in the acquisition of Lebanese land, a foreign company cannot own more than 10,000 square meters without a special permission from the government. For those with industrial concern, such a limit is important. However, a special derogation is possible.

2. Type of activity:

In professional associations, such as those serving engineers, lawyers, and medical doctors, nationality is important. In this case, the exercise by a foreigner may depend on a special leave by the professional syndicate concerned. However, most institutionalized joint ventures are not theoretically subject to constraints on foreign participation. Originally, the Code of Commerce required a special dispensation by the Council of Ministers for the registration of any SA. However, this requirement was abolished in 1977. The only remnant left from the original constraints is a section in Art.78. This section requires that any SA "whose object is the exploitation of a public interest," must retain a third of the nominal actions with Lebanese shareholders.

In practice, however, problems emerge in special areas such as agency, real estate, banking and financial institutions, shipping, and insurance companies. As in many other countries, these areas are regulated by special legislation, and Lebanese ownership may be important for the various regulations attached to each. While in the case of real estate and agency, a special regulation might make a clear distinction between foreign and local investment, there are also other considerations that play a role. Permits allowed for companies with significant foreign participation within the banking and insurance sectors, can count as one of these considerations.

Lebanese Joint Ventures and the Euro-Med Draft Agreement

Considering the disparity between company rules in Europe, and the several forms that joint ventures may take, the European Commission, the Council and the Court have ensured that horizontal cooperation, (i.e. cooperation between companies), will be regulated by a competition law irrespective to the legal form taken by the agreement. While the cartel law applies to some joint ventures, the merger law applies to others.

If the creation of a joint venture would qualify it as a concentration, the 1989 EEC Merger Regulation can apply in this case. This is a fairly complex set of rules that applies to huge concerns, and is of little potential application to Lebanon in the immediate future. The importance lies in clearly defining a concentration joint venture, and the 1990 Commission Notice on Cooperative and Concentrated Joint Ventures offers a set of useful, if not decisive, definitions.

Firstly, a joint venture is defined as “an undertaking under the joint control of other undertakings,” meaning that no joint venture exists if one of the parent companies can alone decide its commercial activities. Secondly, a concentrative joint venture is one where two conditions are met. The first, a positive condition, is the autonomy of the joint venture which must be its “full function on a lasting basis.” The second, a negative condition, is that the joint venture does not lead to the coordination of the competitive behavior of undertakings which remain independent of one another.

As defined, the concentrative joint venture is subject to the investigation of the Merger Commission, and could possibly be deemed incompatible with the Merger Regulation. If it is not considered as concentrative, it may be deemed co-operative. If it is labeled as a co-operative joint venture, the project is categorized under Art.85 (1). In the Notice on co-operative joint ventures (1993), the commission noted, as joint ventures occur under diverse situations that, “It is impossible to make general comments on the compliance of joint ventures with competition law.” Nevertheless, a set of five criteria was developed by authors to assess whether the joint venture in question restricts competition. These criteria are:

- “does the agreement restrict competition between the parent companies?;”
- “does the agreement restrict competition between the parent companies and the joint venture?;”
- “does the agreement have an anti-competitive effect on third parties?;”
- “does the agreement have an appreciable effect on competition?;” and,
- “does the agreement establish a network of joint ventures that could restrict competition?.”

An instance where the Commission found an infringement of Art.85 (1) is in the case of joint venture for research (Re Henkel and Colgate 1972). In this case, the agreement did not specifically prevent the parent companies from carrying out their own research. In practice, however, the research was inhibited through a clause limiting the transmission of information to the parent companies. The long list of possible infringements covers specialization joint ventures (where firms enter into joint ventures allowing them to specialize in a specific market segment), joint sales, joint purchasing, manufacturing, standardization, and restrictive covenants.

These regulations, while being remarkably complex, underlie the concern of the community by facilitating healthy competition as big companies enter into multi-million dollar joint ventures in ways that are bound to affect the markets. The Middle Eastern market, with the exception of oil, is too small to be affected by any sizable competition in the near future. However, as in the case of the agency, it is arguable that the language of the Euro-Med Agreement draws on the *acquis communautaire* in a way which introduces the more complex areas of Europe in a completely foreign legal environment. This is made apparent in Title 4, chapter 2, dealing with competition, and draft Art.40 states categorically that “*sont*

incompatibles avec le présent accord et interdits tous accords entre entreprises, toutes décisions d'associations d'entreprises et toutes pratiques concertées, qui sont susceptibles d'affecter le commerce entre la Communauté et le Liban et qui ont pour objet de restreindre ou de fausser le jeu de la concurrence...". The whole paragraph is a verbatim reproduction of the language of Art.85 and is followed by the Euro-Med draft treaty's rendering of Art.86. The latter prohibits the abusive exploitation of a "dominant position".

This leads, as in the case of the agency, to attract challenges before the Lebanese courts which are neither equipped to deal with European law, nor with the complex rules of competition law developed by the European Court of Justice and other agencies. Nor is the problem of monopoly formation one that would necessarily elude litigation. The fierce competition over joint ventures in the cellular phone sector over the past years shows that Lebanon, despite its size, may not be free of the hurdles accompanying commercial competition.

Conclusion

From a comparative perspective, the main problem of joint ventures is one where "once we recognize the fact that an enterprise can be controlled by more than one company, it follows that the dependency created by joint control can be increased to the point where centralized management is introduced. This raises the question of how one regards joint ventures in the context of a regime of affiliated groups."

Further emerging problems include the "exercise of the rights of direction, obligatory safeguards for outside shareholders, and the application of the rules for the protection of creditors." While the application of the regime for de facto affiliated groups to the relationship created between parent companies and their joint venture has not been fully discussed to date (as noted in the context of the *Societas Europae*), one can imagine the effects that they can have on an inexperienced legal framework such as the one prevailing in Lebanon.

Beyond these problems, whatever form the joint venture might take upon the decision to invest in Lebanon, investors will need to give practical attention to the usual constraints one might face in the field. The country is famous for its liberal attitude, the absence of cash flow constraints, banking secrecy, and a reformed yet simplified system accompanied by a low tax rate. In all these matters, Lebanon is at a comparative advantage in the region and is located within an international setting. Few Western countries can benefit from such relaxed legislation. However, cases where foreign investors might find a joint venture troublesome, occur in areas where the state is attentive to foreign ownership. On a ladder of constraints, agency and distributorship appear to be the most adversely affected by foreign ownership or management. Other constraints affect the banking and the so-called "strategic" sectors, such as real estate. Additionally, the financial services sector is in a state of flux, and the government and the Central Bank have begun to open up the field to foreign investment in recent years. The appropriate

choice is to deal with these problems in a civilized way and list, in detail, those constraints that the potential investor might face.

These problems must be addressed in the best interest of the country before entering into a binding agreement with the EU.

Paper 4

Financing Corporate Partnerships

*Xavier Cagnion**

The European Community Investment Partners (ECIP): Philosophy and Concerns

I. Main Features

A. Historical Background. One of the European Commission's (EC) goals is to support sustainable economic growth in the developing countries of Asia, Latin America, the Mediterranean region, and in South Africa (ALAMEDSA countries). Its economic cooperation policy aims at improving the economic environment in the ALAMEDSA countries by promoting such activities as trade, investment, research, and human resource development. The EC tries to involve private sector operators and aims at actions that benefit both the EC and its partner country. Within this framework, the European Community Investment Partners (ECIP) program aims to increase direct investment in the ALAMEDSA countries through the EC and local companies.

The program originally ran for a three year pilot phase (1988-1991), and its success led to the project's receipt of a 1992 legal and budgetary basis by a Council Regulation with increased budgetary resources for a further three year trial period (1992-1994). Upon the expiration of this Regulation, the Commission was enabled to continue offering the ECIP program on the same basis, until a new ECIP Regulation was approved on January 29, 1996. On that date, the Council of Ministers adopted Regulation (EC) No. 213/96 which provided for an extension of the instrument until the end of 1999.

B. Why Use ECIP? The Benefits of Foreign Direct Investment. When foreign direct investment is successfully incorporated into the economy of a developing country, it becomes a very effective means of transferring capital as well as technology, know-how, and management skills to the country. It can also provide the host country with the opportunity for greater integration into the international market. It may also alleviate the burden of debt and add to public investment. Eventually, because of the growing interdependence of the economies, foreign direct investment will provide a way of integrating developing countries into the general process of development. By reinforcing their industrial links with the EC, developing countries can feel secure that their interests are taken into account. The ECIP primarily aids the creation or development of joint ventures, as well as privatization or private infrastructure projects. It acts as a catalyst; unlocking other sources of finance, and this gives support to other financiers as well as to the entrepreneurs themselves.

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ECIP does not aim to substitute its own risk capital for the normal financial flows of the private sector. On the contrary, it aims to stimulate private funding by strengthening the financial structure of the business concerned, and by safeguarding the interests and health of the partnership.

C. ECIP is a market oriented instrument. While the EC offers complementary support, the market initiates the activity. The EC prefers that small and medium enterprises (SMEs) determine their own needs. As a source of finance, ECIP does not offer direct technical assistance and never intervenes in the management of the project.

D. ECIP is available as a banking product and is managed as a decentralized financial instrument. The ECIP, with the exception of some applications, is conveyed to companies through the banking system. ECIP is therefore managed, on behalf of the EC, by a network of Financial Institutions ranging from commercial banks to development corporations. The Commission is prepared to accept new Financial Institutions into the network, but the institution is first obliged to obtain the EU Council's approval. The actual Financial Institutions' membership list in the network, together with the list of persons to contact, is available.

E. ECIP focuses on small and medium-sized enterprises. SMEs create net worth and employment. Although, they are creative and flexible in their operations they do not always have the financial monies to support their ambitions. ECIP aims at small and medium-sized companies but larger company operations are also eligible. However, large multinationals may not benefit from this scheme.

F. ECIP is inspired by several economic and policy priorities which revolve around the objective of sustainable development of local economies. Some of these priorities are:

- the promotion of new investments;
- the creation of jobs;
- the environmentally sound development of local economies; and,
- the training of personnel and the provision of management assistance to joint ventures.

G. ECIP is tailored to assist at different stages of the joint venture creation. It assists joint ventures in:

- identifying partners and projects (Facility 1);
- conducting feasibility studies and pilot projects (Facility 2);
- equity participation in joint ventures (Facility 3);
- human resource development (Facility 4); and,
- providing assistance for privatization programs (Facility 1B).

H. ECIP has its own specificity compared to other EC investment and funding programs. The nature of the finance includes grant money for identification of projects, interest free advances for preparation of projects, equity or equity loans for investment, and interest free loans or grants for human resource development.

I. ECIP covers every sector of the economy. Any sector of the economy may be covered, including industry, services, agriculture, mining or any other. However, projects are assessed in the light of their positive contribution to the development of the countries. For instance certain sectors such as arms production or gambling houses are excluded.

II. Some General Applied Criteria in Assessing ECIP Proposals

The project must be compatible with the main objectives of the ECIP program and with the technical requirements of the Facility concerned. It must be financially viable and it must contribute to the development of the country of investment. The selection process generally takes into account the following criteria:

(i) Quality of the operation foreseen.

(ii) Quality of the intervening parties.

(iii) Contribution to development (cf art 6 of the ECIP Regulation : impact on the local economy, creation of added value, promotion of local entrepreneurs, transfer of technology, know-how and development of the techniques used, acquisition of training and expertise by managers and local staff, implications for women and improvement of their working conditions, creation of local jobs with conditions of work which do not involve the exploitation of employees, impact on balance of trade and balance of payments, impact on the environment, use of local raw material and resources, manufacture and supply to the local market of products hitherto found difficult to obtain).

(iv) Location of the joint venture. The ECIP Regulation provides that ECIP supports “joint ventures with local operators in eligible countries (i.e. the ALAMEDSA countries) including tripartite operations with other developing countries to promote regional integration”. This implies that, firstly, the joint venture must be located in a developing country. Secondly, the joint venture and the local operator may be from different eligible ALAMEDSA countries, and lastly, that tripartite joint ventures are eligible (i.e. a joint venture in South Africa between an operator from the UK and an operator from Zimbabwe).

It should, however, be remembered that the third country involved must be a developing country. Additionally, operators from the local country and the EU must participate significantly in all aspects of the joint venture.

III. Technical Modalities of ECIP Facilities

A. Facility 1: Investment Identification

Objectives: Facility 1 aims at encouraging chambers of commerce, professional associations, financial institutions and other institutions (i.e. development agencies) promoting economic cooperation, to search for projects and identify potential partners for joint ventures in the ALAMEDSA countries. The aim of the action for which support under Facility 1 is sought must be quite specific. In other words, the action should bring together operators who are willing and able to engage in joint ventures within the eligible geographic areas.

Therefore, an eligible applicant for a Facility 1 should satisfy the following criteria:

- It should be an association, federation, organization or body; either representing businesses of a particular sector, country, region or locality, or hold the objectives of promoting the interests of such businesses.
- Its statutes will provide membership for the businesses it represents. Membership will include a significant proportion of the businesses located in the sector, country, or region covered by the action.
- It should usually remain operational for at least three years.
- Its statutes will either categorize it as a non-profit making venture, or as a venture whose profits are retained to fund future activities.
- It has to show proof of adequate technical, financial and human resources to enable the enactment of the Facility 1 action, in addition to its normal activities.

Actions covered: A Facility 1 action must be market-oriented and therefore aim to satisfy those investment and cooperation objectives clearly expressed by companies that are members of the applicant. The EC emphasizes the importance of including all detailed company information in the application. It is then up to the applicant to carry out preparatory work (not eligible for ECIP support) before submitting the ECIP application. This initial stage involves:

- developing the action's general concept;
- collecting opinions of members interested in participating in the action; and,
- Selecting at least 15 members, and providing a detailed data sheet on each member.

A classical action eligible for support under Facility 1 will usually involve three phases:

Phase 1: Identification of a specific sector or a clearly defined region where potential joint venture activity can be instigated. This phase will involve matching enterprises from the EU with partners in the eligible country having a compatible development strategy.

Phase 2: Contacts between enterprises on both sides have to be arranged. This arrangement will involve personal meetings between appropriate representatives on each side.

Phase 3: A follow-up meeting would increase the probability that the started process will evolve into the creation of joint ventures.

Successive operational phases of a successful action are as follows :

- full company profiles of all interested companies must be compiled;
- a survey and search for matching partners must be carried out;
- company profiles must be evaluated by the Final Beneficiary and its counterpart organization (if applicable);
- meetings must be organized to gather potential partners;
- a return mission should be staged if necessary;
- a follow-up mission should be planned (maintain contact with participating companies, collect information on results of the action, facilitate on-going joint venture negotiations.);
- a final report on the action should be sent to the Financial Institution at the least one month after the completion of the follow-up phase.

To ensure that the proposed action leads to the identification of specific joint venture projects and partners, the Commission will expect a precise definition of the role played by the economic sector in the action. In general, the action will then be limited to one main economic sector or to a maximum of three related sub-sectors. However, one should note that the sectors should correspond to the economic sectors covered by the lead applicant's organization.

Additionally, the action should relate to a defined geographical area. A maximum of three neighboring countries, where a search for projects and partners can be conducted, will generally be selected. An applicant from an eligible country will concentrate its partner search in a maximum of three EU member states.

The applicant can propose to cooperatively work on the action with a counterpart organization based in the target country(ies). Although the eligibility of the proposal is not conditional upon the involvement of such a counterpart organization, this involvement is likely to enhance the quality of an application, and maximize the action's success. Delegating some of the work pertaining to the execution of the action to third party experts or consultants, is also eligible under certain eligibility criteria.

The aim of ECIP Facility 1 is not to provide financing to public relations and sales promotional activities. It also does not provide finance for studies aimed at creating work for the consultants concerned. ECIP Facility 1 aims rather at fostering the establishment of small-scale and well targeted seed activities that will benefit from a good preparatory phase and a thorough follow-up phase. These activities will encourage a number of joint ventures in a specific sector of activity

within a given country. However, contacts between enterprises may be arranged during big international and commercial gatherings since these assemble worldwide entrepreneurs from all industries.

Financing support: The contribution of the Commission may be up to 50% for the eligible costs of the operation in question, but may not exceed ECU 100,000 per operation. The remaining 50% is raised by the applicant and any counterpart organization, if applicable. If the EC is to accept that the stated amount, or all of the remaining 50% be covered by a third party's financial sources, the commission must be informed of the identity of the party in question, and the amount provided to the operation. If it appears that some or all of the remaining 50% will receive support under another program, the EC reserves the right to limit total EC contribution to an amount not exceeding 50% of the total sum.

Under Facility 1 of ECIP, applications can be submitted by applicants not only via a Financial Institution in the network, but also directly to the Commission. In that latter case, the EC will vigilantly ensure sound financial management, given that the applicant will not have been vetted, and subsequent actions will not be administered by a Financial Institution in the network. Accordingly, the Commission will, in all cases of direct application, require the applicant to arrange for an advance payment guarantee from a financial institution (not necessarily one from the ECIP network) authorized to give guarantees. This guarantee will be for the amount of the advance payment, normally 50% of the estimated ECIP contribution, and should be valid for a period extending to at least 6 months after the proposed completion date of the action.

Criteria of evaluation: The Commission and the Financial Institution will appraise all applications submitted to them in accordance with the criteria laid down in Regulation (EC) No 213/96 and in the light of the objectives of the ECIP instrument. The following criteria should be kept in mind:

- the ultimate objectives of the action (degree of cooperation in the sector chosen, development benefits for ALAMEDSA countries involved);
- methodology of the action (methods of identification, phased program of the activities, precise terms of reference);
- the applicant's technical and financial capability (status and sphere of influence, and the quality of staff members);
- the counterpart organization's technical and financial capability (status and sphere of influence, and the quality of staff members);
- proposed follow-up (publicity of the action results, measures to maintain contacts between enterprises after their establishment);
- the budgeted expenditure (should be proportional and reasonable).

B. Facility 2: Investment Feasibility

Objectives: Facility 2 assists enterprises from the EC or from the ALAMEDSA countries in joint venture project preparation, or privatization, or private

infrastructure projects. It also encourages feasibility studies, pilot projects, and other actions which will ultimately lead to a joint venture investment project. Only those enterprises that are willing and capable of undertaking such a joint venture investment project will be provided with these funds.

The EC's real goal through Facility 2 is to assist promoters in the formulation of a joint venture which is able to attract funds from financial markets necessary for its establishment. In other words, the EC's objective is not to encourage a systematic resort to Facility 3 (equity participation in the joint venture). As a matter of fact, ECIP considers that it has already achieved its aims at that point where, thanks to the studies financed by Facility 2, the joint venture locates enough funding to establish itself, and ensure its own economic and financial viability.

Financing support: Facility 2 provides two types of support which include:

- a grant to cover certain pre-feasibility travel costs (up to 50% of the eligible expenditure with a maximum ECIP grant of ECU 10,000); and,
- an interest free advance to fund feasibility studies and other actions for the preparation of a joint venture (up to 50% of the eligible costs).

These two phases are generally referred to hereinafter as the pre-feasibility phase and the feasibility phase.

The total ECIP contribution under Facility 2 cannot exceed ECU 250,000 (grant and interest free advance combined). The remaining 50% of the action's cost will be raised by the sponsor(s) of the project.

Actions covered: The classical type of operations eligible for Facility 2 support are:

1. *The pre-feasibility phase* : this phase generally involves an initial visit made by the Final Beneficiary company to the country of the proposed partner. This visit serves to:

- carry out initial research on the joint venture concept;
- identify and meet potential partners;
- select a partner for the proposed joint venture; and,
- agree and sign a letter of intent with the identified partner.

2. *The feasibility phase* : tasks required in preparation for the proposed joint venture are:

- the preparation of a feasibility study;
- the preparation of a market study;
- the investigation of possible sources of funding for the joint venture;
- the drawing up of a business plan;

- the setting up of a pilot production unit;
- the manufacturing of prototypes; and,
- the negotiation of joint venture agreements (nature of the share holding split,...)

Criteria of evaluation (cf Regulation (EC) No 213/96):

- quality of the project's sponsors (the action's technical and financial capacity);
- the action's likelihood to lead to the creation of a joint venture (taking into consideration the coherence of the business concept, the serious pursuit needed to establish a substantial production joint venture, as well as any commercial and regulatory obstacles that may prevent joint venture creation);
- development benefits likely to accrue in favor of the host country from the proposed joint venture (employment, investment amount, technology transfer, balance of payments situation, training, human resource development, environmental effect);
- benefits for the EC;
- methodology of the action (accurate and precise terms of reference);
- choice of consultants; and,
- budgeted expenditure: is the budgeted expenditure reasonable given the extent and scope of the proposed action?. How does the cost of the action compare to the amount of investment likely to be made in the eventual joint venture?.

After the Facility 2 action: The interest free advance provided by Facility 2 for the feasibility study costs may be replaced by a grant in cases where, ultimately, no investment takes place. However, if the investment takes place (with or without joint venture creation), and the final beneficiary decides to implement the project analyzed in the study, the loan remains interest free. However, it must be repaid to the EC on the set repayment date; normally two years after the study's completion date.

If the action is successfully implemented, the EC may, under certain circumstances, agree to defer the repayment date to a date up to 5 years from the commencement of the advance. Additionally, provided the Final Beneficiary is an SME, it may provide a supplementary loan to cover the other 50% of the study costs. If the investment does not take place by the set repayment date, then the advance can be converted into a grant. This act requires a specific application from the Final Beneficiary explaining the reasons for not proceeding with the project. Prior to the creation of joint ventures, it is important to conduct thorough and comprehensive feasibility studies. Despite the lengthy yet necessary process of conducting the feasibility studies, Facility 2 financing must be able to fund part of the expenses.

C. Facility 3: Joint Venture Funding

Objectives: The EC Regulation governing ECIP precisely states the conditions under which the Commission may participate in financing a joint venture. Priority

is usually given to small and medium-sized enterprises. For larger enterprises, financing depends on whether such projects will have a significant impact on development, particularly in terms of technology transfer.

The Commission, in accordance with the terms of the regulation, prefers to take an indirect participation in the provision of the capital. In other words, the ECIP contribution is made available to the Financial Institution, Additionally, it funds an investment of equity, quasi equity or equity loan.

Eligible projects: Eligible projects must meet the following criteria:

- the investment project must be located within an eligible country;
- the project should be financially sound and viable;
- projects must be implemented either by a joint venture between an EC operator and a local operator, or by a local company benefiting from a licensing agreement granted by the EC operator;
- the project must contribute to the development of the eligible country in which it is based;
- the project must be located within any legal and developing sector.

The EC requires some important commitments from local and EC operators.

(i) In case of a joint venture project, both the EC and the local partners must commit themselves to participate significantly in the equity of the joint venture. The level of participation has not been determined, but each partner should be equally exposed to the venture's risks. Subsidiaries of a foreign company, of which only 5% is owned by a local partner, can hardly qualify as being involved in a joint venture. The EC considers that having a 10% share in the equity is the absolute minimum investment to be taken by partners from the EC and the local country.

Upon acquiring enough experience relevant to the projects in question, the EC and the local partners will form businesses. In exceptional cases and on a temporary basis, the Commission may accept that the place of one of these partners be taken by the Financial Institution presenting the application. However, the commission regards this as an interim arrangement and will wish to make certain that a third partner will soon be found to replace the Financial Institution as a participant in the project.

(ii) In case of licensing arrangements, the company implementing the project may be owned by local shareholders only. The company shall be linked to an EC operator which grants the latter the rights to use potential technology or a particular know-how under a licensing agreement. The Financial Institution and the EC will carefully check the content and quality of this agreement. The contract must show that the EC operator has shown a clear commitment to the financial success of the project, as well as a lasting partnership.

Financial support: The ECIP Regulation provides that Facility 3 funding be provided as “equity or by equity loans not exceeding 20% of the joint venture’s capital up to a ceiling of 1 million ECU”. The ceiling of EC financing is set at a maximum of 20% of the joint venture’s- or the local company’s- incremental capital; depending on which project has the lower amount.

Any decision by the EC to grant Facility 3 funding will be denominated in ECU. However, under Facility 3, ECIP may take the exchange risk by respect of its participation. Where the ECIP funding is being used to refinance types of financing other than equity investment (convertible loan, for instance), the EC may accept, on a case by case basis, that the back to back financing is denominated in foreign currency.

Facility 3 can therefore contribute equity financing, quasi- equity, and other types of financing where the remuneration is based on the performance of the joint venture or the state of its shares (i.e. convertible loans, mezzanine finance, mixed debt/equity facilities, preference shares). The Commission will not, under Facility 3, provide term debt remuneration. The latter is unrelated to the performance of the joint venture, but is solely related to the interest incurred at market rates.

If financing has been granted under Facility 2, its conversion into a Facility 3 financing can only occur if an application for Facility 3 is presented through a Financial Institution in the usual manner. If the project also requires Facility 4 funding for its training needs, the possible finance coming through Facility 3 will be reduced accordingly.

Facility 3 finance must be reimbursed, or participation disposed of, at the earliest opportunity. This can occur once the project becomes viable, and at the latest date prior to the tenth anniversary of the EC’s investment decision.

Matching contribution from the Financial Institution: Under exceptional circumstances, the Financial Institution, a company of its group or, a third party financier acceptable to the EC can provide financing at least equal to the amount provided by the EC. The matching contribution by the Financial Institution is at the level of equivalence of the risk involved. This equivalence is assured when the Financial Institution and the EC grant identical financing. However, the Financial Institution’s financing does not necessarily have to be of the same type, provided that the Financial Institution and the EC are exposed to the same risks.

The European Commission seeks to apply Facility 3 flexibly and will consider a whole range of financing structures.

Duration of the EC financing: Even though the EC financing is granted over an extended period of time, so that it meets the capital requirements of the project, it cannot remain permanent. Therefore, financing must be reimbursed or relinquished at the earliest opportunity. This opportunity can occur once project

becomes viable, and at the latest prior to the tenth anniversary of the investment decision by the EC. Therefore, the Financial Institution and the promoters must propose an exit route to the EC when preparing their application. Proposals can include a quotation on a stock exchange giving an actual market for shares.

Conditions of the EC financing: ECIP financing support under Facility 3 cannot be soft finance and should earn a return at appropriate market rates. If the EC and the Financial Institution grant identical financing, the appropriate rate of return will be determined by taking into account the fact that EC financing earns a return equal to that of the Financial Institution. If ECIP funding is used, for instance, to refinance part of the Financial Institution's equity investment in the joint venture, the equity funded by the EC will carry the same terms and conditions as the equity acquired by the Financial Institution from its own resources.

In case of different financing granted by the EC and the Financial Institution, the Financial Institution will ensure that the rate of return accruing to the ECIP participation is at the appropriate market rate.

Direct participation: The Regulation allows that the Commission authorize a financial institution to participate directly on the Community's behalf. Direct participation can occur in exceptional cases where the following conditions are fulfilled:

- the Financial Institution cannot intervene on behalf of its own name because of its regulatory and legal statutes;
- the EC's direct financial participation is necessary to decisively reinforce the promoters' capacity to raise other sources of finance which could normally not be mobilized due to the particular political situation, or to specific legal obstacles in the joint venture host country. As stated in the regulation, only projects having either a particular development, an environmental impact or a significant technology transfer, shall qualify for such direct participation.

D) Facility 4: Human Resource Development

Objectives: Facility 4 aims to co-finance investment made by eligible joint ventures to improve the level of human resources. For example it could help in training and supporting management or providing new technologies. Facility 4 can also be used to assist in the rehabilitation or the restructuring of an existing enterprise.

Financing support: The contribution of the EC may be up to 50% of the total cost of the operation in question but may not exceed ECU 250,000. If an SME is the Final Beneficiary, it will be eligible for a grant under Facility 4. Otherwise, support is provided by way of an interest free advance. In cases where the EC provides an advance, the duration is specified in the agreement in question. The present policy allows for loans lasting up to five years from the date of the specific agreement between the EC and the Financial Institution.

The Final Beneficiary will be regarded as an SME if the most recent financial statements of the final beneficiary's group show net fixed assets of less than MECU 75. Additionally, the manpower of the final beneficiary's group at the date of the most recent financial statement was less than five-hundred full time staff members.

(NB : The Final Beneficiary's group is the group comprising those companies which, according to generally accepted accounting standards, are members of the same group as the Final Beneficiary. Therefore, where the Final Beneficiary is a holding company, the Final Beneficiary's group will include all subsidiary companies in which the Final Beneficiary holds shares totaling over 50% directly or indirectly. Where the Final Beneficiary is itself a subsidiary, the Final Beneficiary's group will include the ultimate holding company, as well as all subsidiaries in which the ultimate holding company holds shares exceeding 50%, directly or indirectly).

The decision as to whether an applicant is an SME, and is consequently eligible for grant support, is made once only, upon the initial evaluation of the application.

Matching contribution from the Financial Institution: Whether ECIP support is made by way of a grant or an advance, the Financial Institution, a company of its group, or a third party financier acceptable to the EC, must co-finance the Facility 4 action with its own resources. The latter task is accomplished by providing finance in an amount at least equal to the amount of the EC loan. However, the EC is prepared to consider the inclusion of outstanding financial obligations made by the Final Beneficiary to the Financial Institution. It could also consider an investment or grant previously provided by the Financial Institution to the Final Beneficiary, as part of the Financial Institution's matching contribution.

E) Reminders for Facilities 1, 2, 3 and 4

The aggregate amount made available under facilities 2,3,4 may not exceed ECU 1 million per project.

(i) **ECIP eligible expenses:** Whatever the Facility, the EC will not in any event contribute to costs judged to be unreasonable or not proportionate to the objectives of the action in question. The Final Beneficiary may appoint outside experts or consultants to carry out some or all of the work program. Nevertheless, if such experts are to be hired, the Final Beneficiary should justify the reason for this necessity and explain why in-house personnel are not being used to carry out the tasks in question. The Commission can, at its discretion, decide not to accept expenses incurred by outside experts in case their participation in the action does not seem indispensable.

Within this context, the different categories of eligible costs are as follows:

***Travel costs :** for staff of Final Beneficiary, counterpart organization, consultants or third party experts appointed to assist in the execution of the action. All

business travel costs, whether international or local, should be economy class tickets.

*The salaries of the Final Beneficiary personnel: (as well as the counterpart organization if applicable) include secretarial costs based on actual salaries, and does not include the allocation of overhead costs. The amount cannot exceed ECU 450 per day.

* Fees for outside consultants: up to a maximum of ECU 450 per day.

* Out of pocket expenses: This includes expenses related to food and accommodation for the staff of the Final Beneficiary, of any counterpart organization [Facility 1], and of any consultants or third party experts appointed to assist in the execution of the action. The amount cannot exceed ECU 120 per day for expenses incurred in the course of missions related to the execution of the action.

* Other costs directly related to the accomplishment of the action: costs that comprise communications, documentary research, printing materials, hiring premises, publicity, etc.

* Costs related to a pilot project or a prototype (if applicable).

* Miscellaneous: up to 10% of the total eligible budget may be included for unforeseen expenses.

(ii) Schedule of disbursement of EC funds:

1. Disbursement of funds by the EC to the Financial Institution

This is governed by the provisions of the Framework Agreement between the EC and the Financial Institution. It involves a payment of 100% of the EC contribution to the Financial Institution. Once the specific agreement between the Financial Institution and the EC is signed, the Financial Institution is expected to disburse the funds to the Final Beneficiary in installments.

2. Disbursement of funds by the Financial Institution to the Final Beneficiary

This disbursement schedule is specified by the EC upon giving notified approval of the action. The schedule will usually involve a first payment of 50% of the estimated EC contribution, upon signing a Back-to-Back Agreement between the Financial Institution and the Final Beneficiary. The final payment is disbursed upon the presentation of a final report of the action to the Financial Institution.

The amount of this final payment is calculated so that the total EC contribution equals 50% of the actual eligible expenditure incurred on the action. This amount is calculated by the Financial Institution on the basis of original supporting documents (to be presented with the final report of the Final Beneficiary) which must show the amount of the expenditure incurred.

(iii) Contents of the application:

The contents of the application should include:

- thorough information on the local and European partners;
- audited financial statements of both promoters;
- a list of impacts of the project on the development of the host country;
- detailed and thorough terms of reference for the action. This separate document is crucial and must precisely and completely describe the purpose and methodologies to be used for the implementation of the action;
- information on companies and individuals responsible for carrying out the action (resumes, track records);
- a budget conforming to the requirements of the ECIP procedures. This separate document should provide a detailed presentation of the expenditure envisaged, cross-referenced to the various action phases described in the terms of reference (breakdown of staff or consultants' time costs, presentation of travel costs and out of pocket expenses, ...);
- a financing plan of the joint venture; and,
- all other information technically required for each specific Facility (i.e. data sheets for companies interested in participating in a Facility 1 action, legal documents, and a business plan pertaining to the joint venture in case of a Facility 3 or 4 action, ...).

(iv) Sequence and timetable of events: (i.e. in case of a Facility 2 application):

Event 1: Receipt of application by the EC.

Event 2: Completion of approval process; EC sends out the financing agreement to the financial institution (3 months after event 1).

Event 3: Final date for completion of a back-to-back agreement between the Financial Institution and the Final Beneficiary (date 2 plus 6 months).

Event 4: Completion date for the action (date 3 plus length of time estimated for completion of the action).

Event 5: The Financial Institution should receive a final report from the Final Beneficiary which is then forwarded to the EC. The Financial Institution should also grant the final payment to the Final Beneficiary (date 4 plus 6 months).

Event 6: Repayment Date (date 4 plus 24 months; and with a maximum of 5 years from date 2). Financial Institution sends a Closing Note (1 month after repayment date) to the EC.

(v) Final report and calculation of final disbursement: Final reports on Facility 1, 2 and 4 actions are very important for the ECIP program. Upon the review of information collected from the final reports, the Commission evaluates the development impact of the specific action and that of the ECIP instrument. The final beneficiary should produce a statement of expenditure incurred on the action. It will also send the statement to the Financial Institution with the final report. This separate document, structured according to the table of budgeted costs originally annexed to the financing agreements, will compare the actual expenditure to the expenditure originally budgeted.

(vi) Role of the Financial Institutions: Financial Institutions are responsible for screening applications and playing the management and reporting role on behalf of the EC.

(vii) Audit and anti-fraud provisions: Article 10(3) of the ECIP Regulation provides as follows:

“Without prejudice to the responsibilities of the Commission and the Court of Auditors as laid down in the Financial Regulation applicable to the General Budget of the European Communities, the Commission shall obtain each year an independent financial audit of the financial institutions and of the Facility 1 beneficiary organizations, regarding the ECIP funds they received. The Commission shall make specific provision in the framework and specific financing agreements for anti-fraud measures, in particular a mechanism for the recovery of advances which are not fully justified after such audit.”

The Commission is placing a contract with an international firm of accountants to execute a financial audit of ECIP funds at each year's end. The framework agreements between the EC and the Financial Institutions, and all the ECIP specific financing agreements provide the EC with the automatic right to recover from the Financial Institutions any funds disbursed by the Financial Institution to the Final Beneficiary. Disbursements which can be recovered, as shown by audit or by any other inquiries, are those that are not fully supported by original documents or are otherwise unjustified.

Frequently Asked Questions Regarding ECIP

Question: How long does it take to complete the entire process?

Answer: The written procedures (for EC budget commitments and firm offers of finance) are going to be more rapidly drafted in the future. Starting from the date of application receipt by the EC until the ratification of agreements, one should plan for a five to six months period.

Question: Which Financial Institution should be contacted ?

Answer: It depends on the type of facility applied for. Certain Financial Institutions are more adequate than others (commercial banks, development banks).

Question: Is my project eligible ?

Answer: When presenting an application, one should be aware of the EC's discretionary power. When making a decision, the Commission takes both the technical and the policy issues into account.

Question: How do I apply ?

Answer: Without fear of discrimination, an application for Facility 1 can be submitted either through a Financial Institution, or directly to the EC. Great importance should be placed on the terms of reference and the budget proposal.

Question: How much funding should I ask for ?

Answer: EC is entering a period of reduced budgets and has paid a lot of attention to the proposed budgeted expenditure. Actions should be proportional to the project in question.

Question: What if there is only one Lebanese Financial Institution in the ECIP network ?

Answer: Lobby the EC for help with the application of other Lebanese Financial Institutions. Check with Lebanese subsidiaries of European Financial Institutions.

Some Remarks on ECIP and Lebanon Based on the Discussions Held at the Conference

ECIP aims at the development of regional integration and helps actions and projects that have a positive influence in that area. Lebanon, has a natural key role to play in the region and it perfectly fits the main goals of ECIP. Although manufacturing activities have received the largest part of funds allocated by ECIP in the past years, the European Union is in that respect becoming more and more aware of the problems in the service sector, and does not want to let that enormous part of the economic activity "slip by". Awareness is increasing, mentalities are evolving, and Lebanon may highly benefit from this evolution.

However, yesterday's session stressed the lack of venture capital from Europe. This capital is needed to fund more classical investment and industrial production oriented projects. ECIP could be used on a broader basis in order to develop joint ventures between EC and Lebanese partners in the industrial and manufacturing field. It was also pointed out that while there is a low level of foreign direct investments in Lebanon, the country offers a relatively small market size to EC potential investors. However, the provision of infrastructure services to the Lebanese economy has yet to be completed. The ECIP can become a privileged instrument in the fostering of BOT programs. Lebanon still needs productive private sector investments (this constitutes the 2nd Phase of the reconstruction process). Additionally, ECIP Facilities (Facilities 2 and 3) should be fully utilized, since they aim towards the development of those types of initiatives.

During yesterday's discussions, several fields lacking in investment were mentioned. These include the agri-industry, printing industry, and other kinds of high-tech industries (software and information related industries in general). In other parts of the world, some eligible countries who receive ECIP's finance support have already understood that ECIP can bring them that additional help in promoting joint ventures. ECIP can promote the transfer of technology, know-how, and cooperation through productive joint ventures. Lebanon may have some particular interests in mind when searching for more ECIP financial support.

ECIP always tries to favor those initiatives which have the greatest possibility to lead to real, effective joint venture formation. When it comes to gathering people for a common productive venture, Lebanon has an advantage as there is a high level of qualified workers present in the country. This is not contradictory to the additional support which can be provided through human resource development and Facility 4.

Generally, Lebanon offers a lot of incentives in the development level of its private sector, its geographic location, and the development level of its human capital. In order to achieve the objective of creating free trade opportunities between Lebanon and the European Union, some issues remain to be addressed. The main purpose of the ECIP is to make tools and financial instruments available. As a result, the process of integration can be strengthened through the creation of joint ventures. Furthermore, the way to a more global framework can be paved by the end of the day. Each Facility, in that respect, reflects the needs to be fulfilled and the appropriate actions to be taken.

What do the Facilities say in Lebanon's case?

Facility 1: Associations of enterprises must become more involved in the ECIP program. EC associations must investigate Lebanon.

Facility 2: Facility 2 can legitimately be used when doubts arise over the existence of conditions needed for joint venture formation.

Facility 3: Sends a signal to capital investors.

Facility 4: Could help joint venture projects in the long run.

ECIP can provide one answer, among other solutions, for the lack of involvement by EC promoters and actors in the Lebanese scene. However, the market force will ultimately decide whether or not to use the program. Lebanon will have to strengthen the presence of both its Financial Institutions and professional associations in the ECIP network.

Paper 5

Lebanese and European Standards

*Antoine G. Semaan**

Introduction

The first national organization for standardization was established in the United Kingdom at the beginning of the twentieth century. Since then, many countries realized the need for national standard bodies, especially due to the growth of industrialization and world trade. Thus, today, standardization plays a major role in promoting industrial and economic development.

The responsibilities of a national standard body include:

- the preparation of new standards;
 - the review of existing national standards; and,
 - certifying the conformity of products and systems to national standards.
- In some countries, these responsibilities include metrology and inspection.

The Lebanese Standards Institution (LIBNOR)

The Lebanese Standards Institution (LIBNOR) was established in 1962 as the sole authority for the issuing of national standards and permitting the use of the sign of conformity (product and system certification). LIBNOR is a para-statal entity with a board of directors representing both public and private sectors. LIBNOR is very modestly funded through government appropriations drawn from the budget of the Ministry of Industry and Petroleum. Other sources of funding may come from the sale of standards, membership fees, and donations.

Since 1962 and, until 1987, LIBNOR's general secretariat was contracted to the Industry Institute. In this period, about 200 standards and codes of practice were issued and published. About 23 of these standards were made mandatory by the council of ministers due to their interest in public health and safety.

From 1988 and, until 1994, LIBNOR's activities came to a halt due to several factors. One factor included the devaluation of the Lebanese pound. In 1994, the Ministry of Industry and Petroleum started a plan, presently still underway, to revive LIBNOR. Up to this date, Government appropriations amount to £L300m per year, and this number is hoped to increase by threefold to meet the huge volume of work awaiting LIBNOR. In order to get an idea of this volume we can observe the number of national standards held by neighboring countries:

- Syria 2,000 standards
- Jordan 1,200 standards
- Cyprus 1,500 standards

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As of December 31, 1995, the *Comite Europeenne de Normes* (CEN) published around 5,500 standards, and the International Standardization Organization (ISO) published around 12,000 standards. The number of published standards by different European countries exceeds 20,000 standards and sometimes reaches an amount of 60,000.

Formulation of Standards

Due to the fact that all resources, whether public or private, are limited, national standard bodies draw up programs for their activities based on their governments' national standard development plans, which usually cover a number of years. The preparation of standards is the primary objective of LIBNOR. Its formulation should therefore be approached with a definite philosophy, which should:

1. Take a pragmatic approach: where ever suitable standards exist from outside sources, such as regional countries and international bodies (ISO, IEC, etc.), LIBNOR should adopt or adapt them to fit its needs. There is no need to reinvent the wheel.
2. Gear efforts towards international or regional harmonization of standards.
3. Observe, learn and take advantage of other countries' experiences. The countries however must be in a similar stage of development and have the same socio-economic conditions as Lebanon.

Development of Standards

Once the initiation of a standard project and its scope has been agreed upon, the process for its development can begin. However, it is important at this stage to recognize the requirements and principles by which standards are developed and based upon.

1. Requirements:

The following requirements should be taken into account:

- the standard should have a sound technological basis, be economically justifiable, and have the potential to increase the rate of economic development in the country;
- the standard should be processed so that it will be widely accepted by the various interest groups in the community; and,
- the standard should be easily implemented.

2. Principles:

To achieve these requirements, certain principles should be observed. These include:

- *The fulfillment of an economic need:* it costs money to prepare a standard, therefore, it should be a needed document.
- *Consistency with the needs of the economy:* standards should reflect current industrial and commercial practices and needs, as well as future developments.

- *Safeguarding interests*: standards should accommodate the interests of both producers and consumers.
- *Consensus approach*: this principle should be used as much as possible in order to ensure acceptability of standards.
- *Recognition of latest advancements*: standards should recognize technological and scientific advances as well as the country's current stage of industrial and economic development.
- *Encouraging development*: standards should not hinder continuous improvements. Therefore, standards should give more weight to performance characteristics rather than design.

3. Technical Committees:

The usual method for establishing standards is through the establishment of technical committees; a process that brings together all parties interested in the subject matter covered by the scope of the committee, e.g. textiles, food and agriculture, rubber and rubber products, etc.

Technical committees are set up by LIBNOR, or delegated by LIBNOR through the supervision and guidance provided to another organization. Such an organization should, in principle, be one of the interested parties, possibly, the party which requested initiation of the project, and that LIBNOR is kept informed of the work in progress.

A. Creation of a Technical Committee

The creation of a technical committee requires careful consideration. Initial consultations should occur with representatives from all sectors of the economy so that the technical committee can prepare an effective plan for the implementation of standards. This consultation ensures the full support of the proposed programs.

B. Composition of Technical Committees

When a technical committee is being formed, every effort should be made to bring together all those who have an interest in the subject matter. Representatives of the following groups could be considered for membership in a technical committee:

- manufacturers;
- users and/or consumers;
- chambers of commerce and trade;
- government bodies; and,
- professional associations and educational institutions.

All interested organizations should seek representation on the relevant technical committee. Therefore, technical committees should be publicized so that interested parties will know of their existence.

C. Duties and Responsibilities of Technical Committees:

The primary duty of a technical committee is the preparation of financial standards. The body should see that all necessary aspects of a subject are tackled, and that there is no duplication or contradiction of the committee's work with respect to that of other technical committees.

Technical committees should ensure that the planned program is followed and established target dates are met. This control could be exercised through regular meetings held between the secretary of the technical committee and the secretaries of subsidiary bodies.

The Preparation of Standards

A standard goes through different stages before materializing into a national standard.

1. The draft proposal:

The first step in the preparation of a standard is the preparation of a draft proposal. The starting reference for such a draft is normally an ISO, a CEN or an International Electro-technical Commission (IEC) document. Data for this draft is normally obtained from informed sources such as research organizations, industry associations, public statistics, and others.

It is usual to organize a drafting committee consisting of a few persons for this task. The relevant committee, that is, the subcommittee or technical committee can then consider the draft.

2. The draft national standard:

The agreed upon draft proposal is submitted to the parent technical committee for consideration. The technical committee reviews the document to check for technical soundness and to make sure that the standard does not limit the freedom of the designer and the innovator. At this stage, laboratory tests and analysis are performed to obtain data or to validate it. The technical committee then ensures that the format conforms to that of LIBNOR's specifications.

3. Circulation of the draft standard:

Once the technical committee is satisfied with the level of the draft proposal, the latter is approved and is submitted to LIBNOR for circulation. The circulation of the draft standard to all interested parties allows for its careful examination and review. This is done to determine whether any interests would be unduly or adversely affected, before the draft becomes a standard. It is essential to publicize the draft in technical, trade, and professional journals. LIBNOR would set a time limit for this circulation. Countries will usually receive a three month time period.

4. Finalizing a standard:

All comments received as a result of the circulation of a draft are passed on to the technical committee. This committee reviews the standard in light of the feedback and arrives at decisions and compromises that would meet most of the views expressed, always, bearing in mind the following two objectives:

- technical and economic soundness; and,
- widest possible acceptance of the final standard.

When the garnered comments lead to substantial changes in the original draft, the technical committee may re-circulate the amended draft to draw more comments. This procedure will be repeated until the above two objectives have been achieved.

5. Final draft approval:

Once the technical committee is satisfied with the draft standard circulation results, the standard is submitted to LIBNOR. In turn, LIBNOR checks that the document is in conformity with the initial objectives of the standards project. Once checked and approved by LIBNOR's board of directors, the standard is then announced or published as a national standard. An announcement or publication may be extolled in the relevant departments of LIBNOR. The report can be included in scientific, technical and trade journals, as well as in official government publications such as the Official Gazette.

Disputes

In some cases, it may not be possible for technical committees to take a decision on certain issues. If at all possible, such points of dispute should not be settled by the act of voting. If the technical committee is unable to resolve a dispute within the course of a few meetings (three at most), the dispute should be referred to the board of directors for arbitration. The decision of the board should be final.

Review of Standards

All standards should be reviewed periodically to ensure that they are in harmony with the changing conditions within which they have to be implemented. Factors, which make such reviews necessary, include:

- advancement in technology;
- discovery of new sources of material; and,
- normal changes in consumer tastes and demands.

According to international practice, standards generally should be reviewed at least every five years. However, particular circumstances may require the review of a standard within a shorter period of time.

Emergency Standards

In certain situations, such as in times of war or in cases where a standard is required at a very short notice, it may not always be possible to follow all the steps outlined for the preparation of standards. LIBNOR staff may thus be called upon to prepare draft standards to be considered by the board of directors. If the document is accepted it becomes a standard. However, standards approved in this manner are considered to be of a provisional nature. Additionally, the document should be taken through the normal steps when the situation returns to normal.

The Presentation of Standards

Standards are presented in printed form and may in the future be electronically presented (i.e. CD-ROM). The major elements of a standard are:

Preliminary elements

- Title page
- Contents
- Foreword
- Introduction

General Elements

- Title
- Scope
- Normative References

Technical Elements

- Definitions
- Symbols and abbreviations
- Requirements
- Sampling
- Testing Methods
- Classification and designations
- Marking, labeling, and packaging
- Normative annexes

Supplementary Elements

- Informative annexes
- Footnotes

Dependence of a Standard on Other Documents

It is common in the practice of writing standards, to refer to the text of other standards. One must make sure that the referenced document actually exists. If the material comes from other sources, the material should be reproduced in full, so that the standard document will be complete.

Voluntary and Mandatory Standards

Standards issued by LIBNOR are voluntary. However, for public safety reasons, LIBNOR or other entities in Lebanon have the right to suggest that the council of ministers make a standard mandatory. Other situations where a standard may be made mandatory are:

- protection of the consumer from being offered low quality products in a situation where the economy does not allow for competition; and,
- protection of a country's export trade.

The Compatibility of Lebanese and European Norms and Standards

In a communiqué received from the EU, titled "Community External Trade Policy in the Field of Standards and Conformity Assessment," it is clearly stated that the Community's trade objective is "...to encourage our trading partners to adopt standards and regulatory approaches based on, or compatible with international and European practice."

The European Union decided to base its harmonized European standards wherever possible on international standards. In the Vienna agreement of June 1991, the CEN formally committed itself to developing synergistic relationships with the ISO, and to basing its work on international standardization. In other words, whenever possible, CEN adopts International Standards as European Standards that are, in turn, promulgated as national standards in each of the CEN countries. A similar agreement exists between the IEC and its own regional partner, CENELEC. [Dr. Eicher, ISO Secretary General, speech at AIDMO meeting in Aghadir, Morocco, June 1997].

LIBNOR's policy is to adopt and/or adapt International Standards and European Standards whenever possible. As we have seen earlier, the start of a draft national standard is based on international or European Standards. To achieve this objective, LIBNOR will receive, starting in 1998, a Technical Assistance program from the EU in the field of quality, standardization and metrology. This program includes:

- training and technical support standardization;
- laboratory equipment; and,
- trade promotion activities.

An important activity that evolves from standardization is the conformity assessment. This occurs when clients ask their suppliers to provide them with third party certificates proving conformity to certain standards or specifications. The following issues should be considered:

- accreditation of certification firms: mutual recognition;

- existence of local and non-local certification firms: costs.

How Many of the ISO and EU Standards can be Adopted by LIBNOR?

The exact answer to this question depends on the economic situation of the country. However, we can assume that with the assistance of the EU and the increase in the volume of trade between Lebanon and the EU, trade facilitation will necessitate an alignment of the standards.

In the construction field, the scientific or engineering basis for calculation has worldwide similarity, but the values may differ from one country to another. The parasismic design is one example. In construction materials, the standards will have to take into account the local climate conditions and the local nature of such material. However, the design and supervision services can easily be based on the same standards or codes of practice.

In the agri-food industry, some local products that enrich our cuisine will have to be standardized. Additionally, their standards should be introduced at the international level. This in turn will facilitate their export. For some products under this category, the range of values may have to accommodate diversified tastes (Olive oil is a good example in this case).

In the electrical, electronics, and communication fields, almost all countries apply international standards. The global nature of this industry is automatically enforcing this situation.

In summary, as LIBNOR is still in the infancy stage, technical assistance is very crucial to its maturity, and therefore to the standardization activities in Lebanon. This assistance and involvement is not only required from the EU and the ISO, but also from every entity in Lebanon; whether public or private. It is especially required from industrialists, traders, educational institutions (universities, technical schools, etc.), and laboratories.

Appendix

Summaries of Papers

The following pages include a selection of summaries of working papers presented by speakers at the conference. They are listed according to the order of their presentation during the conference

An Update of the Negotiations from a European Perspective
*Bernard Philippe**

This paper indicates that a partnership agreement between Lebanon and Europe was at the center of three meetings taking place in Brussels last year. These meetings made tangible progress, and devised new solutions for a variety of areas, especially in the services sector; a sector central to Lebanon. However, good intentions and a common will by the Lebanese and European sides can overcome the remaining difficulties.

The paper concludes by stating that the Euro-Mediterranean agreement is a strategic option, but requires mutual efforts made by both sides.

* Bernard Philippe is the Director of the Southern Mediterranean and Near East Department of the European Commission

Lebanon and the European Union at a Crossroads: A Preliminary Evaluation of the Partnership Agreement

*Nasser Saidi**

The Partnership Agreement: Opportunities and Challenges

The paper examines how the current negotiations between Lebanon and the European Union over a partnership agreement represent a new initiative with fundamental and strategic importance for Lebanon. This importance is magnified because it comes at a time when Lebanon is facing great challenges. The country has just exited a wartime period, and has begun a reconstruction process which involves the rehabilitation and reformation of the demolished infrastructure. At the same time, however, Lebanon faces regional challenges, as exemplified in the stalemate of the Middle East peace process.

The paper shows how the timing of the agreement is important in relation to the continual processes of reconstruction and modernization. This added importance is due to the fact that the fundamental requirements for investment not only involve more than decade-long commitments, but also affect most economic sectors and regions in the country, and would eventually lead to structural changes in the economy. Thus, the Euro-Med partnership for Lebanon cannot resemble the agreements that were negotiated with other Middle Eastern and North African countries.

The paper indicates that the EU-Lebanon negotiations over the conclusion of a partnership agreement will constitute a great challenge for Lebanon. Huge funds are required for reconstruction and the burden of these funds will be placed on state revenues. In addition to these funds, Lebanon will have to reorganize its elements of production and might also face social problems after the process is completed. For example, customs duties constituting around 45% of treasury revenues, are expected to be gradually reduced over a period of 12 years. This amount constitutes approximately 5% of the GNP, especially since EU countries are principal trading partners (50% of imports). However, the paper also presents how Lebanon will benefit from this agreement through its gradual entry into the international trade cycle, and its related rise in performance and productivity after an increase in competition. This will allow Lebanon to play an important role as a Mediterranean finance and investment center, which is reinforced by its historically liberal economy and the development of services, especially financial sector services.

The paper stipulates that direct positive benefits from the agreement also involve an improvement in foreign creditworthiness, and an expected progress in the evaluation of its credit rating due to the country's increasing absorption into the world economy. This will enable Lebanon to increase its reliance on foreign

* Nasser Saidi is the First Vice-Governor of the Central Bank of Lebanon.

funding for reconstruction. The agreement will also consolidate Lebanon's ability to easily penetrate international capital markets, and speed the cycle of growth through increased investment, especially in the form of direct investment.

The paper examines the difficulty to predict the negative effects of the agreement on the economy, except that these effects are directly related to the final form of the agreement. It states that the final agreement will require the holding of many rounds of negotiation, as well as the enactment of policies by the subsequent governments who, while implementing the agreement, have to coordinate their timing, and speed of implementation. The paper adds that the longer Lebanon delays the carrying out of necessary reforms, the greater the likelihood that the negative character of the agreement will overshadow the positive results.

The Partnership Agreement and Economic Growth

The paper describes the two principal areas that allow the best use of resources, especially human resources, to push the Lebanese economy toward balanced, steady, and exemplary growth. Firstly, the text of the partnership agreement is notable for the part dealing with liberalizing the right of establishing companies, as well as service trade. It is the author's opinion that this section is the most "renewing" part of the agreement since it does not appear in agreements concluded with other countries. Due to the leading role played by the services sector in the Lebanese economy, making up two-thirds of the GNP, this clause of the agreement has a great and special importance if services actually constitute the most prominent comparative advantage in the economy. Thus, the country must place great importance on the right of establishing companies and liberalizing trade services. A number of other sectors, such as the media, advertising, tourism, publishing, finance and banking, have demonstrated an ability to be competitive, especially since foreign companies' entrance into these sectors have not been prohibited. Thus, in the framework of the partnership agreement, in view of the degree of cooperation that can be achieved with the EU, and in terms of technical matters, technology, information, and legislation, especially in finance, these sectors can be fundamental in the growth process. The paper states that Lebanon has more liberal conditions for the establishment of companies than some of the European Union states.

Secondly, Lebanon can benefit from the partnership agreement with respect to processing and export trade between Lebanon and Syria. Since the cost of raw materials and labor is low in Syria, Lebanon can import and process raw materials, and market them for re-export. This can be a very useful method if adopted by the agro-processing industry, since agricultural primary materials are extremely inexpensive in Syria.

The paper also notes that the partnership agreement permits commutative rules of origin among countries negotiating with the EU. This rule can encourage a reduction in production costs, stimulate exports, and encourage the movement of

goods between the two countries. Additionally, the result could be a boost in activity both between Lebanon and Syria, as well as Lebanon and the EU. By strengthening the commercial exchange and binding this exchange to the productive base, and the processing and export process, Lebanon's services sectors will be strengthened. This sector will market and sell these products, as banks with regard to financing. While, the Syrian economy remains closed, Lebanon can be its entry-point into the world and help Syria face the challenges of globalization.

Lebanon as a Regional Center, and the Role of Direct Investment

The paper shows how the issue of private investment, as well as the development of the private sector and its expanding role in the economic cycle, is one of the most important areas that EU policy stresses upon vis-à-vis the southern Mediterranean countries. It also reveals how the partnership agreement constitutes the ideal framework for encouraging continued direct investment in the economies of our region. The agreement can also strengthen financial and technical relations in the form of the exchange of expertise, through the networks of specialized EU-Med programs, such as: Med Campus, Med Media, Med Urbs, Med Techno, and especially Med Invest. As the EU begins the implementation of ECIP-Med Invest, involving the establishment of joint ventures, these EU-Med programs have begun to make their way into Lebanon. The Chamber of Commerce, in coordination with the EU, has begun to set up a business center that broadcasts information and studies connected to joint investments in European countries.

Direct investment is important because it constitutes an important productive base for the economy, and can result in the provision of many new job opportunities, the transfer of technology and expertise. These latter benefits can raise the general level of economic performance. The paper stresses that direct investment made by the companies of the EU, in coordination with Lebanese companies, must constitute the cornerstone of the agreement. It states that the goal for Lebanon is to become a regional center where European and international companies can reach the markets of Syria, as well as the rest of the *Mashreq* countries, and beyond. The partnership agreement with the EU is a sign to foreign investors indicating Lebanon's growing international economic liberalization. The EU is one of the most important sources of investment flows (41.6% of total FDI outflows in 1995). Lebanon and countries of the region must work together to attract a significant portion of these investments through partnership agreements. However, attracting these funds will not take place without the enactment of necessary reforms.

Economic Policies and Required Reforms

The paper suggests that, in order to confront the challenges facing Lebanon, the following reforms must be planned and implemented:

- Hasten the process of financial and tax reforms with the goals of reducing the dependence on customs duties and creating a new, comprehensive tax system, such as a general sales tax. Additionally, in the future, a value-added tax (VAT) should be created. However, the aforementioned programs require huge organizational and administrative efforts.
- Support official administrative capabilities through administrative reform programs in order to improve performance, and supply administrations with the latest information to achieve greater effectiveness, especially by establishing tax collection systems.
- Encourage the participation of the private sector, through ensuring the suitable supervisory and organizational climates to stimulate private investment. In addition, provide an infrastructure which will improve the competitive ability of the private sector.
- Establish an Arab common market which will improve the negotiating positions of the Arab countries. This must be achieved in order to avoid the danger of trade diversion, the effect of which would be great on these countries if they lag behind in this area.

It is a certainty that the partnership agreement requires important changes in the structure of the Lebanese economy. However, it is also required that the EU provide a more flexible position regarding agricultural policy and the reduction of import fees on agricultural goods, as well as increased participation in Lebanon's reconstruction process. As for Lebanon's role in this agreement, one can forewarn that as long as the structure of the agricultural economy remains fragile, it will be difficult for the country to make further concessions. This issue remains a sticking-point in negotiations. Lebanon cannot compromise and further liberalize its trade in services without receiving something in return. Thus, the paper emphasizes that discussions with the EU about assistance and financing should be a priority. Criteria which determines the distribution of this assistance, especially population and GNP statistics, which are detrimental to the position of Lebanon compared to other countries of the region, should not be accepted.

The paper positively concludes that it is within Lebanon's power to create a suitable future environment. Therefore, the country must reap the expected profits of a Euro-Med partnership agreement for the benefit of future generations. This partnership constitutes the economic passport of commercial cooperation, in an area stretching from the Balkans to Saudi Arabia, and involving 870 million people, with a continuous expansion of markets. The agreement is both a huge challenge, and a huge opportunity.

Certification and Accreditation in the European Market

*Frank Hiersekorn**

The paper examines the establishment, in 1985, of a European Community market where products and services are distributed without restrictions. This measure applies not only to the removal of all customs barriers, but also to all other limitations, i.e. the technical barriers piled up by national standards and regulations. While various European directives have been agreed upon and published, the tremendous work of harmonizing the different national standards to European standards is currently in process.

The paper states that the conformity assessment, as defined in the European Union's global concept, requires the involvement of a third party. Without this factor, the notified body has to comply with the criteria as stated in the European standards EN45011 to EN 45613. The examination of the third party certification body is termed "accreditation".

The paper concludes by pointing out that the system's general idea is to build confidence between potential business partners. The instruments to be used in this process are harmonized standards such as the EN ISO 9000 and various product-related European Directives.

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The Trade in Services: The Hidden Face of the Euro-Med Partnership

*Tania Friederichs**

The paper emphasizes the importance of having a well-developed services network. In the last ten years, the service sector has been the main area of economic growth; generating employment, business opportunities and a greater variety of choices for the consumer. Services are an essential part of a modern economy, and a necessary component in the liberalization of trade. Furthermore, countries with more liberal economies, develop a greater dependence on service trade. This dependence will necessitate the establishment of financial systems allowing for payments and transfers in all currencies, as well as the development of a good telecommunications network.

The paper states that it is essential that the sector of services be fully addressed in the Partnership with the European Union. Currently, however, the hidden framework of an agreement is being discussed and is yet to be sufficiently developed. The paper expounds that it is important for both sides, the European Union and Lebanon, that all services be comprehensively covered under the agreement. Additionally, the agreement should offer each side the possibility to establish trade on a cross-border basis. This trade should occur under fair and transparent conditions.

Services are traditionally highly regulated and this tradition should be respected. Regulations should continue to be applied in order to safeguard the interests of the consumer and to ensure that an orderly supply of services in the territory continues. However, regulations should not be used to discriminate against foreign suppliers. Fully addressing the liberalization in a bilateral context with the European Union, among other entities, will prove that Lebanon is interested in opening up its market. The paper favors Lebanese entry into the World Trade Organization (WTO). This act would allow the country to open up its market at non-discriminatory conditions. Competition in trade, particularly in the trade of services, is favorable due to the many needed technological and capital investment services which cannot be supplied by Lebanese companies alone.

The paper suggests that joint ventures are useful tools towards opening up the market economy. Joint ventures allow both parties to have access to the market. However, the sole application of joint ventures is not sufficient to effect market liberalization. Businesses are also looking at possibilities to set up individually owned companies that can give more flexibility in their operations and plans. The paper states that this should not be seen as a threat to a country's economy, but rather as another means used to open up the market.

In conclusion, the Partnership agreement should be seen as an important step

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towards opening up the market. This would be a beneficial necessity for the economy if Lebanon wants to compete on a world wide basis. The paper concludes by pointing out that Lebanon, with its excellent geographic situation and its historic status as a trading nation, should have the ability to live up to this challenge. The Euro-Med Partnership is merely a means towards this achievement.

Joint Ventures between Lebanese and European Partners: Issues faced by Lebanese Companies Entering Joint Ventures

*Antoine Maroun**

The paper reveals the obstacles facing Lebanese companies entering into a joint venture with European partners. The formation phases of joint ventures are also described. The paper compares the establishment of joint ventures to the development of a marital relationship between two partners. The process of entering into a joint venture should gradually develop through a "Getting to Know Each Other" phase. This phase should include a background check on character and professionalism. This first phase should lead to the second phase described as a joint market, and should also lead to a "Business Assessment" phase, whereby a preliminary cooperation agreement (dealing with distributorship, technical and management support) should take place. The third phase is based on detailed business objectives and long term goals. The final challenge to this association is the formation of a "happy ending" phase as opposed to one ending with a "nasty divorce".

The paper concludes by providing recommendations to potential problems which might occur while forming joint ventures. Some of these problems and recommendations include:

Problem: Jumping into bed too quickly

Recommendation: Investigate character, competence, culture, reputation, and name risk prior to union.

Problem: Who is in the dominant control position?

Recommendation:

- * Board representation
- * Share holding structure
- * Day to day management

Problem: Short run expectations are too high

Recommendation: Avoid an overly optimistic scenario, and accept long lead before revenues are booked.

Problem: Role definition ('introductory' versus 'active' management role)

Recommendation: Avoid an 'advisory' arrangement and seek active management involvement

Below is an outline of the Joint Venture formation phases:

A. Background:

1. Establish need for foreign expertise.

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2. Selection Process:

- Determine field of activity (industry, services, trade).
- Determine identity of project (European, American, Asian).
- Determine size of investment.

3. Make first contact with collaborator.

B. "Building a Relationship" Process:

Phase One: "Getting to Know Each Other"

- Check character and competence.
- Sell your country risk.
- Review general ideas or options.

Phase Two: "Market Analysis"

- Conduct joint market analysis.
- Conduct joint market testing.
- Review business scenarios.
- Engage in pre-venture collaboration (Determine distributorship, technical support, and management support).

Phase Three: "Working Together"

- Enter into formal cooperation agreement (Choose between a joint venture, advisory, or joint company).
- Active joint marketing or production process should be established.

Phase Four: "Long Term Prospects"

- *First scenario:* Project succeeds (Have many children and live happily ever after).
- *Second scenario:* Project fails (Divorce).

The Role of Associations in Promoting Partnerships

*Peter Göpfrich**

The paper explains the way that business associations can play an important role in the promotion of partnerships between Lebanese and European member state companies. Business associations are self-help associations used by businesses and industries alike. They can provide foreign companies with reliable and objective information about Lebanon's role in the Middle East and North African (MENA) region, as well as the country's market potential and the advantages of Lebanese production facilities.

The paper illustrates how business associations can identify and connect potential partners. It states that the general level of Lebanese production facilities can be improved by organizing vocational training, management training, and marketing training. Other important tasks performed by business associations can include lobbying governments and international organizations for joint venture oriented financial, as well as technical assistance programs. In turn, terms of trade and business can be improved.

Lastly, the paper urges trans-national cooperation between national and international business associations, along with the organization of partnerships to create a support network for companies. At the same time, Lebanon can be further integrated into the Euro-Mediterranean and MENA scenarios.

* Peter Göpfrich is the Delegate for Industry and Trade for Lebanon. He is also the Executive Director of the German/Arab Chamber of Commerce.

Lebanese Industry and the Process of Globalization

Marco Ayyoub *

The paper reveals that the state of Lebanese industry today, six years after the end of the war, is one of stagnation and anticipation. This state is due to several factors:

- * lack of new and important industries;
- * annual industrial investment does not equal the consumption of assets; and
- * the net number of industrial firms remains constant.

The paper also warns that the Lebanese industry faces a crisis of identity. The signs of this crisis are apparent in those sectors where progress and development have ceased or declined. Constructive solutions have not been found and future strategic plans have not been prepared for these sectors. This situation is exemplified in the textile, clothing, dye, furniture and wood-working sectors.

If other open markets have benefited from the so-called process of globalization, then Lebanese industry has failed in reaping the benefits from this progress. Regarding the attraction of foreign capital, the paper indicates that, if flows of capital to Lebanon were to take place, they would be concentrated in the financial, real estate, and tourism sectors before the industrial sector can benefit from this influx.

The paper suggests the following options that the Lebanese industry can take to remedy the situation:

- A new interventionist, or pro-active attitude must be adopted by all parties concerned, including the state, associations and individuals (the author mentions the example of Japan's MITI, as well as another example occurring in South Korea). This type of attitude will be realized when official and public commitments make industrial growth a national issue.
- Huge and intensive assistance in the fields of technology and marketing must be provided so that it can become centralized in certain sectors (However, the author does not imply the provision of direct or indirect financial subsidies).

The paper concludes that saving the Lebanese industry requires more than market forces alone are able to provide; i.e. by the practice of a laissez-faire policy. This type of policy would only suffice for a launching period of limited duration.

* Marco Ayyoub is an Industrialist and a Member of the Board of Directors of the Association of Lebanese Industrialists.

Strategic Options for the Lebanese Private Sector

Fady Frem *

The paper addresses INDEVCO's experiences with joint ventures. This organization considers that "joint venturing" with international companies is a primary step for the establishment of Lebanese industrial projects serving the Middle Eastern markets. This step allows for the strategic development of new industrial ventures at sustained rates of growth. However, this development cannot be realized without the cooperation of international companies.

Additionally, the paper states that "joint venturing" requires special skills combining art and science, tangible and intangible evaluation elements, and excellent interpersonal communication skills with partners of different nationalities and cultures. "Joint venturing" can become the right option used by local companies in attracting those international partners whose aim is to expand in the Middle East. "Joint venturing," if cultivated at the national level, can position Lebanon as the preferred entrance gate used by multinational countries desiring access into Middle Eastern markets.

Republic of Lebanon

Office of the Minister of State for Administrative Reform

Center for Public Sector Projects and Studies

(C.P.S.P.S.)

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