

46/97

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

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

MACRO ECONOMIC ANALYSIS OF THE LEBANESE TOBACCO
INDUSTRY -REGIE

A MACRO ECONOMIC ANALYSIS OF THE LEBANESE TOBACCO INDUSTRY - REGIE

1. INTRODUCTION

Any study aimed at understanding the Lebanese Tobacco Monopoly, i.e., Regie, must take a multi-disciplinary approach to be as comprehensive as possible. Indeed, it is not enough to rehabilitate the Regie organizational structure, to consider providing a new ownership, or to refurbish its manufacturing equipment. Rather, in a competitive world where multinational corporations collapse overnight, competitors become partners, and consumer demand varies drastically, a thorough review of the Regie viability needs to tackle the dynamically changing business environment. In addition, the human dimension reflected in the Regie employees, the tobacco growers, the smokers, and the population affected by the tobacco industry, requires a special investigation.

In this context, the following report highlights the factors which are essential to the thorough understanding of the Tobacco industry in Lebanon. It starts with a description of the world tobacco trend reflecting the risky nature of the industry and the decreasing consumption of tobacco products in industrial countries. Then, it reveals the harmful effect of smoking, the addictive nature of nicotine, and the recent policy trends on banning smoking in several countries of the world. Third, it depicts the cost of the industry to the Lebanese economy and reflects the problematic and controversial aspects of assessing its costs and benefits. A thorough discussion follows regarding the health cost of smoking to the public and private sectors, followed by an analysis regarding government policy and considerations for restructuring the tobacco industry.

2. OUTLOOK OF THE TOBACCO INDUSTRY

Economic studies regarding the future trend of cigarette consumption in the world clearly show that the tobacco industry has a risky future. The anti-smoking lobby is gaining grounds throughout the world. The uncovering of secret documents about cigarette makers manipulating nicotine levels to make smoking addictive (Wittes. B., 1996)¹, and the consistent results of epidemiological studies about the health hazards of smoking (American Cancer Society, 1996)², have decreased the demand for cigarettes. For example, financial institutions like Indosuez Capital, which closely monitors Seita, the French Tobacco Monopoly, affirms that *"the French cigarette market is on a slowly declining trend. Anti-smoking companies and price rises, aimed at driving down the number of smokers, have taken a toll. Laws forbidding the*

¹Wittes, B. (1996) "Philip Morris versus ABC: The Case ABC Never Made" in *The Legal Times*, January 15, 1996)

²American Cancer Society (1996) CPS-II Cohort Circulation: Volume 94, Number 04; pp.662-628. August 15, 1996. "Environmental Tobacco Smoke and Coronary Heart Disease" by Steenland K.; Thun, M.; Lally, C.; and Heath, C.

consumption of tobacco in public places (including corporate premises) also have had an adverse impact, which we believe will endure in the coming years." ... "The Tobacco Industry as a whole doesn't enjoy a very favorable image among investors because of the barrage of anti-smoking legislation in the Western World. As growth prospects seem rather dim, tobacco companies are viewed as dividend distributors." (Indosuez Capital, 1995, p.6)³

3. HEALTH ISSUES

Assessing the feasibility of promoting the Tobacco industry is a controversial task, because its cost to the national economy far outweighs the benefits it generates to the minority group involved in the trade, distribution, cultivation, and manufacturing of Tobacco. For example, in the United States, which already has one of the lowest smoking rates in the world, conservative figures estimate that smoking causes one sixth of all deaths, more than alcohol, illicit drugs, AIDS, guns, automobile, and all forms of air pollution COMBINED (Action on Smoking and Health, 1996)⁴. In other countries, this ratio is much higher. In Lebanon, out of the 40,000 deaths per year, 4,400 (11 percent or the equivalent of 12/day) are directly related to smoking (Oueda, A. 1995)⁵. If the harmful effect of smoking is added to second hand smokers and the people indirectly affected by smoking, the number would be higher.

Tobacco, although directly or indirectly supporting over 300,000 people in Lebanon and affecting the whole population, is not only a drug⁶, but an addictive poisonous substance. This is confirmed by all credible scientific publications such as the New England Journal of Medicine, and by respected organizations such as the World Health Organization, the American Cancer Society, and the American Lung Association⁷. On the governmental level, President Clinton publicly declared Tobacco as an addictive substance in August 1996. Some States in the U.S. passed legislation on February 28, 1997 prohibiting the sale of cigarettes to persons below 27 years of age. Syria prohibited tobacco ads and banned smoking in public places. Violators of Syrian law can get up to one year in prison. Lebanon officially joined the Eastern Mediterranean countries to comprehensively combat smoking on the governmental, social, cultural, and economic levels, and in December 1996, it reinforced previous ordinances prohibiting smoking in public places (Ministry of Health, 1997)⁸.

³Indosuez Capital (1995). *Annual Report*. February 1995. p.6.

⁴Action on Health and Smoking (1996) "Major Health Hazards of Smoking to Smokers". Electronic File. <http://ash.org/papers/h2.htm>.

⁵Oueda, A. (1995). Unpublished Figures Received through Personal Interview With Dr. Oueda, Dean of the School of Pharmacy, on December 19, 1996.

⁶The term drug can be defined in several ways. Nicotine qualifies for all of them: A drug is "1-A substance used as/or in medication. 2-A chemical substance used to alter the state of the body or the mind. 3-A narcotic substance, especially one which induces addiction." (Webster's Dictionary of the English Language. Deluxe Encyclopedic Edition. 1992)

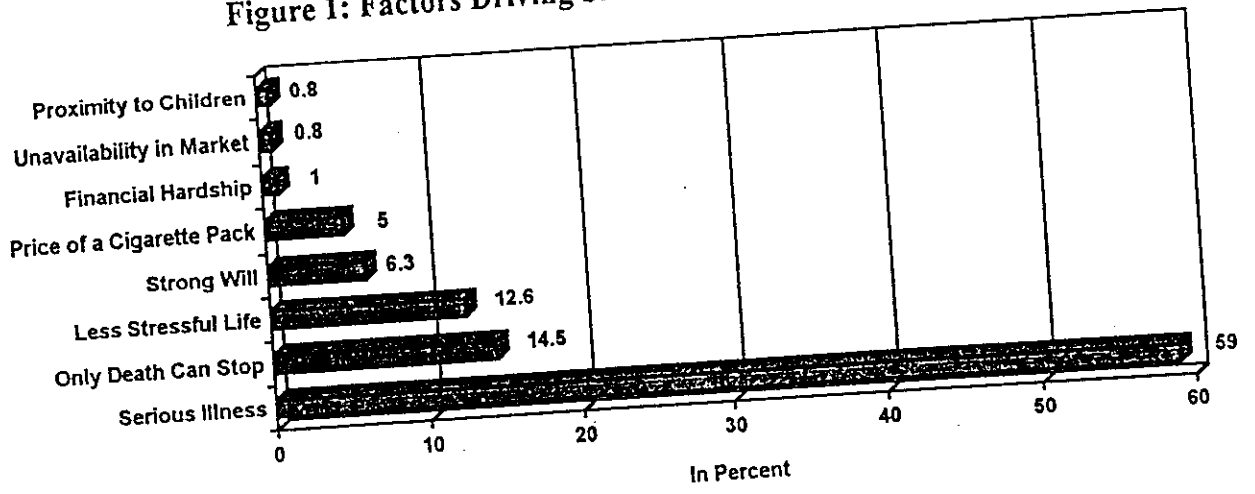
⁷Based on overwhelming sources from these organizations which are too numerous to list.

⁸Ministry of Health (1997). Copy of ordinances obtained from the Ministry of Health in Beirut.

The scientific community has reached a consensus that smoking is actually more addictive than heroin, alcohol, marijuana, and barbiturates, and high exposure levels of nicotine make it a lethal poison (Action on Smoking and Health, 1996). Two drops of pure nicotine induce cardiac arrest for a dog within seconds, and three drops are sufficient to cause immediate death to a human being (Ministry of Health, 1995)⁹. As Figures 1 and 2 suggest, nicotine is so addictive that only exceptional circumstances drive a smoker to quit the habit, and the price of a cigarette pack is seldom a factor to switch to a cheaper brand.

⁹Ministry of Health (1995). Educational brochures and articles from the Ministry's Tobacco related topics' archiving file.

Figure 1: Factors Driving Smokers To Stop Their Habits



Source: TEAM International field survey conducted in 1997 and based on 120 smokers

Figure 2: Effect of Cigarette Price Increase on a Smoker's Choice to Buy Cheaper Brands

	Price Does Not Matter	1,500	2,500	3,000	4,500	8,000
Price Per Pack in LL →		1.00	1.66	2.00	3.00	5.33
Price Per Pack in \$ →		7.14	4.28	2.8	2.8	2.8
Smoker (in percent)	77.14					

Note: Current average price of a cigarette pack is 1,500 L.L. (~\$1)

Source: TEAM International field survey conducted in 1997 and based on 120 smokers

Besides its harm on the smoker's body, mind, and income, smoking affects passive smokers¹⁰, i.e., the non-smoking portion of the population who inhales cigarettes' smoke, and the fetuses, infants, and children who slowly get drawn into this addictive habit. Each hour spent in a public place, such as a bank, a restaurant, a bus station, or a public institution where smoking restriction is not enforced, is equivalent to smoking 15 cigarettes (Lebanese Ministry of Health, 1995). The American Cancer Society's epidemiological study of 479,680 persons published in August 1996, clearly confirmed that married (non-smoking) persons living with a smoking spouse increase their risk of heart attack. The results were compatible with 13 previous epidemiological studies. According to the British Medical Journal (July, 1996), smoking by parents is a major cause of death among infants from SIDS (Sudden Infant Death Syndrome). Fifty-two percent of children of smoking parents have to get their tonsils removed in comparison with 8 percent of children with non-smoking parents (Oueda, I.; & Oueda, A.; 1995).

4. ECONOMIC FACTORS

The harm of smoking is not limited to the physical body. The Tobacco industry actually costs the Lebanese economy a minimum of 1 billion dollars per year: ~\$400 million for cigarettes, tobac, and smoking related products, ~\$400 million for health

¹⁰This is also referred to as second-hand, environmental, or involuntary smoking.

costs, and \$200 million for the cost of agricultural labor, subsidies, and wasted land that can be used to produce beneficial crops, in addition to the cost of energy, absenteeism from work, car accidents, and other tobacco-related cost. To put the magnitude of this figure in perspective, it is possible to compare it with three other figures:

1-In 1995, the Ministry of Health's total allocation from the national budget was \$83 million. Forty-two percent of the Lebanese population qualifies for the Ministry's assistance (Ministry of Health, 1997). If 100 percent of the Lebanese population was covered by the Ministry of Health (a nearly free hospital care system), the total cost would have been \$195 million, less than 20 percent of the cost of the tobacco industry.

2-The allocation from the National Budget to the Ministries of a-Agriculture, b-Environment, c-Education and Sports, and d-Culture and Higher Education combined, totaled \$298 million. (Calculated from the Official Gazette, 1995)

3-The cost of wheat in Lebanon per year is \$40 million, 1/25th of the total tobacco related costs (Oueda, I.; & Oueda, A.; 1995)¹¹, suggesting that if tobacco consumption was only reduced by 10 percent (from \$400 million to \$360 million), the savings generated is sufficient to provide free bread and wheat by-products for the whole population for the whole year. In addition, the wheat price tag is less than the price of raw tobacco and tobac that the Lebanese government purchases from the local farmers.

Out of the 1 billion dollar tobacco-related cost to the economy, the Lebanese government only generates around \$33 million in net profit¹². It has been argued that 30 to 50 percent of Lebanese Tobacco is smuggled to neighboring countries. If such statistics are true, then the cost of the Tobacco industry on the national economy (health, consumption, etc.) should be decreased to \$500-700 million, which is still 15-21 times above the profit it generates to the Lebanese government.

In addition, the Lebanese population is increasingly seeking hospital care for lung, cancer, and heart diseases due to smoking habits. Taleb¹³ (1994) estimates that "smoking is certainly the main factor" for the increase in the number of cancer patients. While some of them pay their own bills or are covered by private insurance companies, most of them, especially those with heart and cancer problems, are subsidized by the Lebanese government. Table 1 reflects the breakdown of the Lebanese population in terms of means for seeking health care.

¹¹Oueda, I. & Oueda, A. The Epidemic of Smoking: Facts and Figures. An educational brochure.

¹²A gross income of about \$88 million (through import and sales taxes, profit, social security payment, municipalities, utilities fees, and other minor revenues), minus \$55 million (for tobacco farmers' subsidies and raw tobacco & tobac purchases).

¹³Taleb, Nagib N. (1994) "Public Health: Cancer in Lebanon: An Update of Epidemiological Data" in *Journal Medical Libanais*. Volume 42, Numero 1. Mars 1994. pp.29-31.

Table 1: Distribution of Health Care Service Providers in Lebanon in 1995

Health Care Provider ¹⁴	Population Covered	Percentage of Total
- Cooperatives	258,000	8.32
- Armed Forces	325,000	10.48
- Private Insurance	400,000	12.90
- Social Security	815,000 ¹⁵	26.29
- Ministry of Health	1,302,000	42.01
TOTAL	3,100,000	100.00

Source: Ministry of Health (1996) & Social Security (1996). Unpublished data obtained through interviews with Mr. Ismat Azzam and Mr. Khaled Sorour in charge of statistics at the above offices respectively.

In 1995, the Ministry of Health spent 118.38 billion L.L. (~\$75 million) in health expenditures. This amounted to around 87 percent of the Ministry's total budget of 130 billion L.L. (~\$83 million)¹⁶. Figure 3 shows that out of the 118.38 billion Lebanese Pounds, 52.2 billion L.L. (~\$33 million) were spent on cancer treatment and open heart surgeries. The smokers' share of this expense is at least 30 percent, consisting of 15.8 billion L.L. (~\$10 million) or 13.5 percent of the Ministry of Health's budget or roughly 0.50 percent of the total Lebanese Government's budget. Since 1,995 patients were subsidized by these two diseases due to their smoking habits, it is possible to conclude that 13.5 percent of the Ministry of Health's budget is spent on 0.05 percent of the population on a preventable sickness. Figure 3 also demonstrates that open heart surgeries and cancer diseases alone cost at least 32.96 billion L.L. (~\$21 million) to the government or more than 1 percent of the country's national budget, and cost 38.01 billion L.L. (~\$24 million) to the national economy.

Due to the lack of accurate statistics, it was difficult to collect the cost of at least 24 smoking-related diseases and operations other than Cancer and Open Heart surgeries. Among these diseases are: 1-Chronic obstructive lung diseases (Emphysema, cough, phlegm, and wheezing)(90 percent are smoke-related), 2-Peptic ulcer (60 percent are smoke related), 3-duodenal ulcer (60 percent of cases are smoke-related), 4-Headaches, 5-Bronchitis, 6-Influenza, 7-Halitosis, 8-Allergies, 9-Complications with alcohol intake, 10-Burns (fires), 11-Teeth and gingivitis problems, 12-Interference with medication, 13-SIDS (Sudden Infant Death Syndrome), 14-Male and female infertility

¹⁴Some people, who qualify to have their medical bills get paid by one of the public health care service providers, choose not to use them in order to select their own doctors or to avoid filling out lengthy paperwork. In addition, not all illnesses are covered by the health care providers, including smoke-related illnesses, and almost all of them have deductibles.

¹⁵About twenty percent of the employees registered with social security have private insurance coverage.

¹⁶Extra amounts of medicine and supplies were also provided to the public by the Ministry but were not accounted for since they were acquired as donations. Also, substantial amount of medicine is bought by patients directly from abroad.

and reproductive disorders, 15-Early menopause, 16-PMS (Premenstrual syndrome), 17-Wrinkles, 18-Asthma, 19-Early delivery and low birth infants, 20-Memory problems, 21-Pneumonia, 22-Osteoporosis, 23-Hypertension, and 24-Children ear infection. The statistics do not also include economic cost of disabilities from absenteeism to work (smokers get more absent than non-smokers), and from car accidents (smokers have substantially higher accident rates due to their low reaction time and distraction in emergency situation).

Figure 3: Cost of Open Heart Surgeries and Cancer Treatment to The National Economy And Smoking's Portion Of It (In Billion L.L.)

Name of Disease	Cost to Ministry of Health	Cost to Insurance and Private Sector	Cost to Cooperatives	Cost to Armed Forces	Cost to Social Security	Total Cost	Smokers' Share of Total Cost ¹⁷	Smoking Cost to the Government ¹⁸	Smoking Cost to the Economy
Coronary Heart Disease (CHD)	16.68 ¹⁹	5.38	3.47	4.37	10.59	40.49	30%	10.53	12.15
Cancer ²⁰	35.52 ²¹	11.45	7.38	9.30	22.56	86.21	30%	22.43	25.86
Total	52.20	16.83	10.85	13.67	33.15	126.70		32.96	38.01

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

¹⁷Estimates from the American Cancer Society and ASH (Action for Smoking and Health). In Lebanon, the percentage is higher.

¹⁸Cost to Ministry of Health + Cooperatives + Armed Forces + Social Security.

¹⁹This figure only covers open heart surgery. The total number of patients covered by the Ministry of Health is 1450 persons. The Ministry of Health doesn't cover heart catheterization or angioplasty.

²⁰All cancer diseases may be related to smoking. The most prominent ones are: Lung (80-90 percent are smokers), Larynx (84 percent smokers), Oral, such as lip and tongue (50-70 percent smokers), Esophagus (50 percent), Bladder (30-40 percent).

²¹Cancer treatment (2,500 patients), operations (1,200 patients), drugs (n/a), and hemodialysis (1,500 patients).

How Have The \$400 Million Figure For Health Cost Been Obtained

- 1- One way to justify the \$400 million figure is to consider the estimates of the experts at the World Health Organization as valid. These estimates conclude that for each dollar spent on tobacco (retail price estimates), another dollar is spent on health cost. Considering that the 1:1 ratio was developed in 1974 and between 1974 and 1997, health cost has risen much faster than cigarette cost, then the ratio is still valid and if anything, should increase the health cost. This estimate also accounts for the Tobacco smuggled outside Lebanon. Therefore, since the tobacco industry in Lebanon is over \$450 million at the retail market, then the \$400 million estimate is conservative.

- 2- A second way of confirming the figure is to base the estimation on the latest study published by the European Union of Non-Smokers, in Versailles, France under the Title: "Tobacco Revenues and Tobacco Costs". The study confirms that while the tobacco industry generates 50 Billion francs in Taxes to the French Government, it cost 80 billion in total health expenditures. These two figures can be applied to confirm the \$400 million estimate. The following solid figures (not assumptions) can be used:
 - a- Taxes on Tobacco sold in France is 87% of the price of a cigarette pack. It is 50 Billion F.F.
 - b- Cost of health expenditures related to smoking is 80 Billion F.F.
 - ⇒ If tax on tobacco in France was 20% (12.5% on import tax and 7.5% on sales tax like in Lebanon) instead of 87%, then it would be 11.49 Billion F.F., or roughly 14.37 percent of the total health cost.
 - ⇒ Since the Lebanese government generates 88 million dollars from Tobacco (tax and sales), and considering that this is 14.37 percent of the total health cost, then the \$400 million is extremely conservative (instead of the \$612 million figure). Here again, the estimate accounts for possible 30 to 50% smuggling.

- 3- To further confirm the first two figures, it is possible to justify the \$400m estimate by consolidating figures from TEAM International's in house research obtained from the Ministry of Health and Social Security Office, and conservatively assume certain numbers related to unavailable information. By "conservative", we mean that the health cost are estimated at their minimum not their maximum. In that case this is how the figure was obtained:

E S T I M A T E S	In Billion L.L.
Cost of Heart Disease of Smoking Patients to Ministry of Health 30 percent of total cost: 16.68 X 30%=	5.00
Cost of Cancer Disease of Smoking Patients to Ministry of Health 30 percent of total cost: 35.53 X 30%=	10.66
Cost of Heart and Cancer Diseases of Smoking Patients to Cooperatives	3.26
Cost of Heart and Cancer Diseases of Smoking Patients to the Armed Forces	4.10
Cost of Heart and Cancer Diseases of Smoking Patients to Social Security	9.95
Cost of Heart and Cancer Diseases of Smoking Patients to Insurance Companies and private sector	5.05
Adjustments ²² to Cost of Heart and Cancer Diseases of Smoking Patients	0.82
Adjustment to Coops (125% of Ministry of Health)	1.03
Adjustment to Armed Forces (125% of Ministry of Health)	2.49
Adjustment to SSN (125 % of Ministry of Health)	3.00
Adjustment to Insurance ²³ companies and to private sector(175% of Ministry of Health)	0.50
Adjustment for lung, larynx, esophagus, lip and tongue cancer	8.30
Adjustment for Deductibles	8.30
Estimation for 24 other smoking-related diseases ²⁴	567.00
TOTAL	621.16
	~\$414 Million

²²The Ministry of Health only covers expenses related to open heart surgeries and to cancer treatment. Unlike the Coops, the Armed forces, and the SSN, and Insurance companies, it doesn't cover Heart catheterization and angioplasty, two operations very frequently performed for heart patients.

²³Adjusted with K factors obtained from the al-Makassed Hospital Accounting Office

²⁴Calculated as $[d \times n \times c] / p$, where d (=24) is the number of major smoke-related diseases other than cancer and heart (there are many other smoke-related diseases which are un-accounted for), n (=27 billion L.L.) is the weighted average national cost, per disease, of cancer and heart treatment, c (=7) is the relative number of patients affected by the 24 diseases due to smoking in relation to cancer and heart patients, and p (=12.5%) is the estimated 1/8th cost of other diseases in relation to Cancer and Heart treatments).

5. POLICY ISSUES AND RECOMMENDATIONS

It is not only contradictory to the government's national policy, but also financially uneconomical for the Lebanese government:

- ⇒ to subsidize tobacco production (Lebanese tobacco farmers),
- ⇒ to support tobacco smuggling (raw tobacco and tobacco get smuggled from neighboring countries and sold by Lebanese farmers to Regie at the artificially high prices), and
- ⇒ to pay for medical bills on the official level

while take away literally millions of dollars every year from health education campaigns and from agricultural subsidies (non-tobacco/beneficial crop production). In addition, considering the latest statistics that one third of the Lebanese population falls below the poverty line²⁵ (An-Nahar, November 7, 1996), and knowing that the minimum cost of cigarette consumption per person per year is 547,000 L.L.²⁶, then it is possible to deduce that at least 3-8 percent of every poor household's yearly income goes for drug consumption. This is of course affecting 1/3 of the Lebanese people who lack basic needs, such as putting their children in schools, affording a shelter, getting proper health care and adequate food. The above figure is confirmed by Table 2, suggesting that while 45 percent of the Lebanese population spends less than 5 percent of its income on cigarettes, 55 percent actually spends over 5 percent, sometimes reaching over 15 percent of the income. This is not a surprise considering that 33.3 percent of the smokers consume more than one pack per day (Table 3), and many households, including the poor ones, have more than one smokers.

Table 2: Percentage Of Smoking Cost To Household Income

SMOKERS (in percent)	PORTION OF INCOME
45.00	Less than 5
38.50	5-10
10.78	10-15
5.72	15 or more
100.00	-----

Source: TEAM International field survey conducted in 1997 and based on 120 smokers

Table 3: Daily Per Capita Consumption Of Cigarette Packs

Number of Cigarette packs	<1	1	1-2	>2
Smokers (in percent)	32.50	34.20	20.50	12.80

²⁵A family of 5 people with a monthly income below \$1,000.

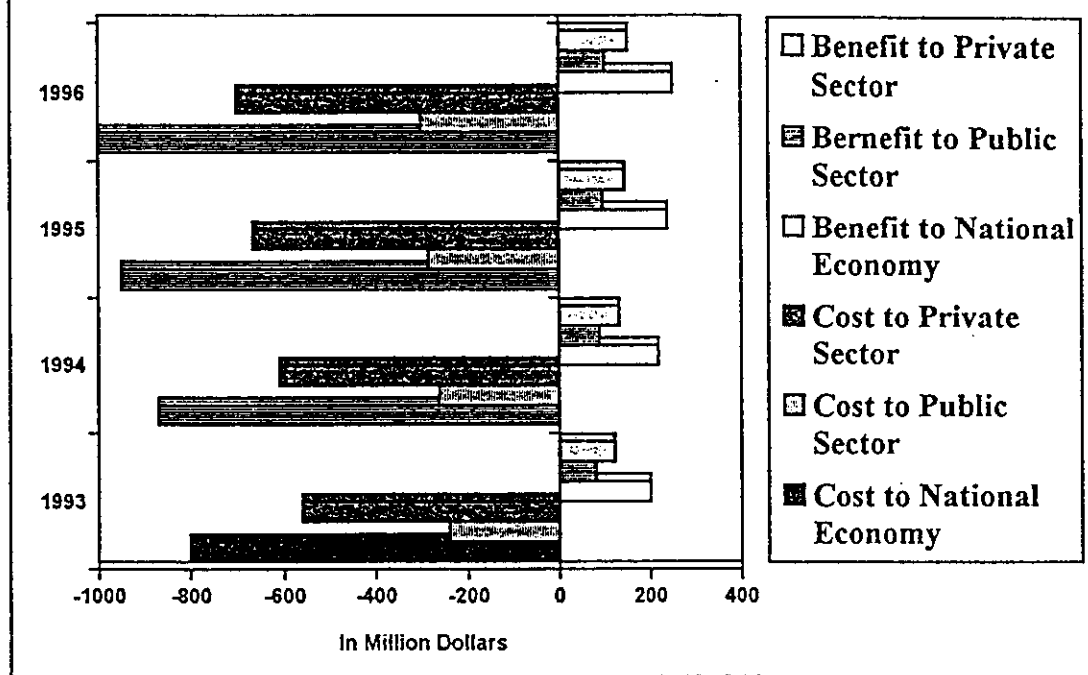
²⁶Calculated as 1,500 L.L./pack X 365 days. Some locally manufactured brands cost 800-1000 L.L. per pack while some imported brands cost over 2500 L.L.. Local brands are insignificant (less than 2 percent) of the total cigarette volume.

Source: TEAM International field survey conducted in 1997 and based on 120 smokers

This section will not argue about the economic flaws of subsidizing the Lebanese tobacco cultivation. Subsidies actually affect both drug production and other food crops, and legitimate arguments can be given supporting both sides of the issue. Books like Farming for Farmers? A Critique of the Agricultural Subsidies Policy clearly documents the dilemma of subsidies, whose costs and benefits have to be evaluated in light of the national policy.

However, since the Regie is under tutelage of the Lebanese Government and is an institution dealing with what is today regarded, both regionally and internationally, as a drug industry, the government should take the opportunity to come forward with a restructuring initiative, the long-term benefits of which would secure socio-economic returns to Lebanon. It is important to point out that the issue under discussion is not whether people should smoke or not, nor how to launch an effective anti-smoking campaign. The matter at stake in this context, and the challenge for the Lebanese government is to make Regie a profitable and efficient company without increasing the cost to the national economy or contradicting the public policy commitment to combat tobacco production and consumption. Therefore, unless Regie gradually diversifies its operation with non-smoking activities, then, simply overhauling it, or considering to lease it to the private sector, or creating a separate entity to compete with the existing one, will further increase its cost to the national economy. This is mainly due to the fact that the newly established and efficient entity, regardless of the designated party responsible of its operations and its legal status, will try to maximize profits by increasing cigarette consumption and/or production. The efficiency and therefore the increase in tobacco consumption induced by the management of a new company will not only decrease the public health, but will increase government and national expenditures and the transfer of hard currency spent on higher imports as depicted in Figure 4. From a purely economic point of view, the Hashish and Cocaine cultivation (also drugs), generated to the Lebanese economy more money than Tobacco, and cost much less: no subsidies and no health cost (since most of these drugs were exported). Dr. Riad Saade, an expert on Lebanese Agriculture and the President of the Center for the Lebanese Economic and Agricultural Research, clearly proved in 1994 that it was the illicit crops that revived agricultural investment in the Beqaa not the government's subsidies.

FIGURE 4: Cost and Benefit of the Tobacco Industry to the Lebanese Economy by Sector



While formulating a long-term policy for the Tobacco economy of Lebanon, it is important to monitor how the Tobacco industry in several Western countries is dying out and how the Tobacco companies in the United States agreed to pay \$368 billion for health cost and anti-smoking campaigns in exchange of being protected from class-action lawsuits against them for the extreme harm they have caused to the American people health and economy (Weinstein, H.; Levin, M.; 1997). Indeed, there is a world-wide documentable trend among the major tobacco manufacturers to diversify their operations: Philip Morris acquired Kraft Foods, RJR acquired Nabisco, and Seita got involved in the business of selling phone and parking cards, because they are well aware that the tobacco business is declining. In that context, a diversification scheme for Regie should be considered in the future to maintain its long-term viability.

Therefore, the Lebanese government should take progressive initiatives for re-allocating its resources in order to implement the most appropriate scheme serving the nation's public interest. Whatever the authority responsible for restructuring the Regie recommends after evaluating previous studies related to the Tobacco industry, will be adopted by the Lebanese government and will affect millions of people for generations to come. Hence, since the Lebanese government considers it necessary to build the country's infrastructure, to rehabilitate the tourism sector, and to make the nation ready to face the challenges of the 21st Century, then it is as well important to update its knowledge on the latest tobacco policy trends and to implement its anti-smoking legislation. Therefore, the Lebanese government has the opportunity to be a pioneer in overhauling the tobacco sector in Lebanon by recommending ambitious and appropriate plans that generate, instead of cost, human and financial resources to the economy.

While formulating a progressive and feasible policy, it is worth mentioning that promoting tobacco production is not a necessary nor the only reason for farmers to remain on their land. Any agricultural activity that gives them hope, continuity, security, and economic return, will keep them in their villages. That's true whether they grew avocado, cherimoya, kiwi, parsley, hashish, or tobacco. The social impact on the farmers of a Regie structural change has to take into consideration the choice of the strategic option. While for example, privatization may allow a more efficient management of the tobacco industry, it may also end up being the least beneficial scenario to the farmers because profit maximization, not social welfare, will be the real goal of the newly structured firm.

In short, since the tobacco industry is one of the largest industries in Lebanon affecting thousands of workers and families, its restructuring should be done comprehensively. With all of the economic evidence justifying the gradual transformation of the Regie into a non-drug producing and trading company, any scenario should be very well researched to avoid making the situation worse. If Regie gets into the hands of the private sector, many individuals and organizations would seek to promote it, taking advantage of the ineffective anti-smoking legislation. Consequently, considering the negative impact of this output, demarketing smoking, currently a universal measure of

socio-economic rationale of modern world governments, will become much tougher and more costly.

In addition, it has been suggested as a possible alternatives that farmers may be able to benefit from the Tobacco industry by buying shares in a newly formed company, the same way the French tobacco farmers did in the Seita. This alternative scenario is questionable because the Lebanese farmers are much poorer than their French counterparts and cannot afford to purchase shares. The above mentioned An-Nahar study estimates that 70 percent of Lebanese farmers fall below the poverty level. The other suggested alternative of transforming part of the Regie into a cooperative or mutual benefit company, should be deeply investigated because all agricultural cooperatives in Lebanon have failed as discussed in a doctoral dissertation regarding this specific subject.

While there is abundant information to learn from the French experience, France still has its unique conditions. After several years of pro-socialist administrations, the French bureaucracy was burdened with social programs and employment subsidies, and had many state monopolies to deal with including the car, defense, telecommunication, and high tech industries. The tobacco monopoly happened to be one of them and was partially privatized along the other ones. In addition, the French Farmers' Lobby is very powerful, it can protect its interest, and at critical times, is able to call for a strike that can cause a major shutdown of the French government. The conditions in Lebanon are quite different. The Ministry of Agriculture itself is known as the "Forgotten Ministry" and the farmers are usually neglected in all planning schemes. Besides its social importance, Regie already generates around \$33 million to the Lebanese Treasury in addition to the ~\$55 million dollars paid to purchase tobacco and subsidize farmers. Therefore, since Regie is actually making profit (as a business entity and not to the national economy or the public sector) and is an economically viable company, then the choice of restructuring it ought to provide a very attractive scenario if the government were to lease it out or change its legal status. This is very important to realize especially that throughout the past fifty years, most of the profit that Regie generated to the government happened when the Regie managed itself in the mid-1980s, and not when a concessionary company was in charge, especially during the pre-Civil War period. Needless to say, that from an administrative point of view, the current Regie is only costing the Government the salary of its commissioner to Regie and minimal administrative time from the Ministry of Finance. Furthermore, it has been commonly suggested that Regie should be restructured because it is a public entity and public administrations are commonly inefficient. While it is true that inefficiency is an endemic aspect of public administrations, since its inception, Regie was never a public entity, its employees were never public servants, and the only role of the government was regulatory. Therefore, the inefficiency problem has nothing to do with the government but with a deteriorating management affected by the war and by a socio-cultural system promoting sectarianism and nepotism. As a matter of fact, any independent opinion can easily certify that before the Civil War started in 1975, Regie was very well organized, and its top management was of the highest skills and ethics. For example, during the pre-war years, any farmer who cultivated more than its allowed

acreage had his field burned by Regie inspectors who couldn't be bribed, and the team in charge of monitoring smuggling was very efficient.

Hence, the restructuring schemes should take into consideration the national food objectives, national interest, and the likelihood of their implementation. This can be achieved through a concerted plan to transform the current Regie into a real wealth generating firm. As such, the most feasible restructuring option that presents itself in this regard, amounts to diversifying Regie's operations, through the gradual process of phasing-out tobacco cultivation and phasing-in alternative crops and products.

REFERENCES

Action on Health and Smoking (1996) "Major Health Hazards of Smoking to Smokers". Electronic File. <http://ash.org/papers/h2.htm>.

American Cancer Society (1996) CPS-II Cohort Circulation: Volume 94, Number 04; pp.662-628. August 15, 1996. "Environmental Tobacco Smoke and Coronary Heart Disease" by Steenland K.; Thun, M.; Lally, C.; and Heath, C.

American Cancer Society (1994-1996) Multiple Sources (flyers, brochures, books, studies, and educational material).

American Lung Association (1994-1996) Multiple Sources (flyers, brochures, books, studies, and educational material).

Andreou, Paris; Dagher, Nuhad J.; Kawar, Nasri S.; Nimah, Musa N.; Saghir, Abdur-Rahman. (1979) "Agricultural Development in Lebanon. Beirut". Beirut: Publication of the Faculty of Agricultural and Food Sciences. American University of Beirut. Publication No. 62. January 1979.

Choueiri, Adel. (1994) "A Meeting and an Interview with the General Manager of the Ministry of Agriculture". Proceedings from The Second National Conference on Lebanese Agriculture. Ministry of Agriculture. [Arabic]. October 16 & 22, 1994. Beirut.

Daher Massoud. (1983) The Historical Origins of the Lebanese Agricultural Question: 1900-1950. [Arabic]. Beirut: Publication of the Lebanese University. Department of Historical Studies.

Economic Commission for Western Asia (ECWA) and the Food and Agriculture Organization of the United Nations (FAO). (A Joint Publication). (1981) Agriculture and Development. June 1981. Number 4. Beirut: ECWA Publication No. E/ECWA/AGREB/IV.

Food and Agriculture Organization of the United Nations. (1991) FAO Production Yearbook. Rome: FAO Statistics Series.

Indosuez Capital (1995). *Annual Report*. February 1995. p.6.

Kisirwani, Marun. (1974) Patron Client Politics and Bureaucratic Corruption: The Case of Lebanon. Bloomington, Indiana: Indiana University Press.

Lebanese Official Gazette. (1995) Supplement to Issue Number 6. pp.20-21. February 9, 1995.

Ministry of Health (1997). Copy of ordinances obtained through the Ministry of Health in Beirut and acquisition of Official statistics.

Ministry of Health (1995). Educational Brochures and articles from the Ministry's Tobacco related topics' archiving file.

An-Nahar (1996) November 7, 1996.

Official Gazette (1995) Special Amendment to Issue No. 6. February 9, 1995.

Oueda, I. & Oueda, A. (1995) The Epidemic of Smoking: Facts and Figures. An educational brochure.

Oueda, A. (1995). Unpublished Figures Received through Personal Interview With Dr. Oueda, Dean of the School of Pharmacy, on December 19, 1996.

Qortas, Adel. (1994) "The Condition of Agriculture and the Ministry of Agriculture in Lebanon". [Arabic]. Beirut: Proceedings from The Second National Conference on Lebanese Agriculture. Oct. 16 & Oct. 22, 1994. (During this period, Dr. Qortas was serving as the Minister of Agriculture).

Qortas, Adel. (1993). "Agriculture: A Fundamental Pillar for the Livelihood of Nations". [Arabic]. Proceedings from The First National Conference on Lebanese Agriculture. Ministry of Agriculture. [Arabic]. November 14-15, 1993. Beirut. (During this period, Dr. Qortas was serving as the Minister of Agriculture).

Ryan, John & Saad, Adib. (1980) "Agricultural Education for Development in the Middle East". Beirut Lebanon.

Saadé, Riad F. (1994) "The Marketing of Lebanese Agricultural Output and the Relationship Between Production and Marketing". [Arabic]. Proceedings from The Second National Conference on Lebanese Agriculture. Oct. 16 & Oct. 22, 1994. Beirut.

Saadé, Riad F. (1993) The Fortieth Annual Report on the Agricultural Production in Lebanon. [Arabic]. Beirut: Publication of the Center of Lebanese Agricultural Research and Studies. May, 1993.

Taleb, Nagib N. (1994) "Public Health: Cancer in Lebanon: An Update of Epidemiological Data" in *Journal Medical Libanais*. Volume 42, Numero 1. Mars 1994. pp.29-31.

Tohmé, G., & Tohmé, H. (1985). Ecology of Lebanon: Facts and Examples. [Arabic] Beirut: Publications of the Lebanese University. Department of Natural Sciences.

Treaties and Other International Agreements. (1978) Agricultural Commodities Agreement with Annex. "Agreement between the government of the United States of America and the Government of Lebanon for Sales of Agricultural Commodities Under Public Law Title I Program". Signed in Beirut March 23, 1978; entered into force March 1, With minutes of negotiations signed in Beirut March 20, 1978. 68 Stat. 455; 7 § 1701 et seq. TIAS 9303.

Webster's Dictionary of the English Language. (1992) Deluxe Encyclopedic Edition.

Weinstein, H.; Levin, M. (1997) "\$368-Billion Tobacco Accord Deal With States Would Restrict Marketing" in *Los Angeles Times*. Saturday, June 21st, 1997; pp. A1, A12, A13.

Wittes, B. (1996) "Philip Morris versus ABC: The Case ABC Never Made" in *The Legal Times*, January 15, 1996)

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

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