

# Lebanon

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RISK & COMPLIANCE REPORT

DATE: January 2017

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**Executive Summary - Lebanon**

<b>Sanctions:</b>	Subject to UN, EU, and US sanctions – Financial and Arms embargo
<b>FATF list of AML Deficient Countries</b>	No
<b>Higher Risk Areas:</b>	<p>US Dept of State Money Laundering Assessment</p> <p>Supporter of or Safe Haven for International Terrorism</p> <p>Not on EU White list equivalent jurisdictions</p> <p>Corruption Index (Transparency International &amp; W.G.I.)</p> <p>World Governance Indicators (Average Score)</p> <p>Failed States Index (Political Issues)(Average Score)</p> <p>Offshore Finance Centre</p> <p>Compliance of OECD Global Forum's information exchange standard</p>
<b>Medium Risk Areas:</b>	<p>Non - Compliance with FATF 40 + 9 Recommendations</p> <p>Weakness in Government Legislation to combat Money Laundering</p>

**Major Investment Areas:**

**Agriculture - products:**

citrus, grapes, tomatoes, apples, vegetables, potatoes, olives, tobacco; sheep, goats

**Industries:**

banking, tourism, food processing, wine, jewelry, cement, textiles, mineral and chemical products, wood and furniture products, oil refining, metal fabricating

**Exports - commodities:**

Jewellery, base metals, chemicals, miscellaneous consumer goods, fruit and vegetables, tobacco, construction minerals, electric power machinery and switchgear, textile fibers, paper

**Exports - partners:**

UAE 13.1%, Iraq 8.4%, Saudi Arabia 7.7%, Turkey 7%, Syria 6.7%, Switzerland 5.5% (2011)

**Imports - commodities:**

petroleum products, cars, medicinal products, clothing, meat and live animals, consumer goods, paper, textile fabrics, tobacco, electrical machinery and equipment, chemicals

**Imports - partners:**

US 10.2%, Italy 9.3%, France 8.8%, China 8.2%, Egypt 5.3%, Germany 5.1%, Turkey 4% (2011)

**Investment Restrictions:**

Lebanon has a free-market economy and a strong laissez-faire commercial tradition. The government does not restrict foreign investment

Foreign private entities can establish, acquire, and dispose of interests in business enterprises and can engage in all kinds of remunerative activities.

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## Section 1 - Background

Following World War I, France acquired a mandate over the northern portion of the former Ottoman Empire province of Syria. The French demarcated the region of Lebanon in 1920 and granted this area independence in 1943. Since independence the country has been marked by periods of political turmoil interspersed with prosperity built on its position as a regional centre for finance and trade. The country's 1975-90 civil war that resulted in an estimated 120,000 fatalities, was followed by years of social and political instability. Sectarianism is a key element of Lebanese political life. Neighbouring Syria has long influenced Lebanon's foreign policy and internal policies, and its military occupied Lebanon from 1976 until 2005. The Lebanon-based Hizballah militia and Israel continued attacks and counterattacks against each other after Syria's withdrawal, and fought a brief war in 2006. Lebanon's borders with Syria and Israel remain unresolved.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF Status

Lebanon is not currently identified by FATF as having substantial money laundering and terrorist financing (ML/TF) risks or having strategic AML/CFT deficiencies.

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Lebanon was undertaken by the Financial Action Task Force (FATF) in 2009. According to that Evaluation, Lebanon was deemed Compliant for 4 and Largely Compliant for 19 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 5 of the 6 Core Recommendations.

### Key Findings from latest Mutual Evaluation Report (2009):

This report provides a summary of AML/CFT measures in place in the Lebanese Republic as to the date of the onsite visit or directly thereafter. It describes and analyses those measures, and rates Lebanon's compliance with FATF 40+9 Recommendations (see attached table about FATF recommendations compliance rating).

Lebanon is one of the most important banking and financial centres in the Middle East; its capital system and the Law of Banking Secrecy applied therein have attracted many capitals. In addition, the demographic and economic status of Lebanon has a special susceptibility in this regard. As to the crime rate, it is relatively low, despite the existence of some drug traffic and robbery activities. All such factors constitute together a certain level of risk in money laundering. As to the probability of terrorism financing, some risks related to terrorism activities have emerged by the presence of terrorist groups in addition to the execution of some terrorist operations.

In general, Lebanon has a legislative structure to criminalize money laundering and terrorism financing, whereby the cooperation of the Republic in combating the phenomenon of money laundering had a large impact on having its name delisted by FATF in 2002 from the list of non cooperative countries in combating money laundering, particularly after its legislations and systems have conformed to a certain extent to the international standards. The Lebanese legislator has criminalized the act of money laundering since 2001 and the act of terrorism financing since 2003. The legislator has as well established the legal framework required to put in place a financial intelligence unit (FIU), which is the Special Investigation Commission (SIC). It is worth mentioning that the AML Law has overlooked some of the requirements needed to finalize the combating system, among which including CFT within the SIC functions. Hence, main aspects of the legal framework necessary to establish a good AML system in Lebanon were covered.

Lebanon has established an AML system that includes many positive aspects; however, the most important comments to be highlighted are the non issuance of all legal instruments needed to comply with the main requirements stated in the 40 Recommendations and 9 Special Recommendations for AML/CFT, whereby and until date of the onsite visit and directly thereafter, no regulations representing the secondary legislations or other required enforceable means were issued. With regard to the regulatory and supervisory aspects, a number of instructions addressed to the different financial sectors were issued; they deal with a reasonable aspect of the international standards' requirements. On the other hand, the AML system in Lebanon did not cover all DFNBP's categories available in the Republic, in addition to not binding the categories covered by the law to some of the main requirements according to the international standards. It is worth mentioning that there is no regulatory and supervisory framework to combat terrorism financing.

### US Department of State Money Laundering assessment (INCSR)

Lebanon was deemed a Jurisdiction of Primary Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

#### **Perceived Risks:**

Lebanon is a financial hub for banking activities in the Middle East and Eastern Mediterranean and has one of the more sophisticated banking sectors in the region. Lebanon faces money laundering and terrorism financing challenges. Domestically, there is a black market for cigarettes, cars, counterfeit consumer goods, pirated software, CDs, and DVDs. Nevertheless, the sale of these goods does not generate significant proceeds that are laundered through the formal banking system. In addition, the domestic illicit narcotics trade is not a principal source of laundered proceeds. Lebanon has a substantial influx of both formal and informal remittances from expatriate workers and family members, estimated by the World Bank at approximately \$7.5 billion annually over the last six years. Recent statistics demonstrate that embezzlement of private funds operations, which includes cybercrime money laundering, increased in 2015.

A number of exchange houses are reportedly used to facilitate money laundering and terrorism financing, including by Hizballah, which the United States has designated as a terrorist organization, though the Government of Lebanon does not recognize this designation. Lebanese expatriates in Africa, the Gulf, and South America have established financial systems outside the formal financial sector, and some are reportedly involved in trade-based money laundering (TBML) schemes. International trade is also used to provide counter-valuation between Lebanese hawaladars.

The use of bitcoins is prohibited in Lebanon. Although offshore banking and trust and insurance companies are not permitted in Lebanon, the government has enacted regulations regarding the activities of offshore companies and transactions conducted outside Lebanon or in the Lebanese Customs Free Zone. Offshore companies can issue

bearer shares. There are also two free trade zones (FTZ) operating in Lebanon: the Port of Beirut and the Port of Tripoli. FTZs fall under the supervision of the Customs Authority.

**Do financial institutions engage in currency transactions related to international narcotics trafficking that include significant amounts of US currency; currency derived from illegal sales in the U.S.; or illegal drug sales that otherwise significantly affect the U.S.:** NO

**Criminalization of money laundering:**

**“All serious crimes” approach or “list” approach to predicate crimes:** List approach

**Are legal persons covered: criminally:** YES **civilly:** YES

**Know-your-customer (KYC) rules:**

**Enhanced due diligence procedures for PEPs: Foreign:** YES **Domestic:** NO

**KYC covered entities:** Banks, financial and lending institutions, money dealers, financial brokerage firms, leasing companies, mutual funds, insurance companies, real estate developers, promotion and sales companies, high-value goods merchants, and money remitters

**REPORTING REQUIREMENTS:**

**Number of STRs received and time frame:** 189: January 1 – October 31, 2015

**Number of CTRs received and time frame:** 55: January 1 – October 31, 2015

**STR covered entities:** Banks, lending institutions, money dealers, financial brokerage firms, leasing companies, mutual funds, insurance companies, real estate developers, promotion and sales companies, casinos, money remitters, auditors appointed at financial institutions, high-value goods merchants, public notaries, attorneys, and accounts

**money laundering criminal Prosecutions/convictions:**

**Prosecutions:** 12: January - October, 2015

**Convictions:** 0

**Records exchange mechanism:**

**With U.S.: MLAT:** NO **Other mechanism:** YES

**With other governments/jurisdictions:** YES

Lebanon is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body.

**Enforcement and implementation issues and comments:**

On November 13, 2015, Parliament endorsed laws intended to strengthen Lebanon’s AML/CFT regime. These include amendments to the existing AML law (Law 318/2001) to further widen categories of reporting entities to include public notaries, attorneys, and accountants. The list of predicate offenses to charge money laundering has also been



increased. Legislation now allows confiscation of assets and sharing of confiscated assets with concerned countries. New Law 42/215, Declaring the Cross-Border Transportation of Money, imposes requirements to declare both inbound and outbound cash transportation of amounts exceeding \$15,000 or its equivalent in any other currency. This is applicable to any means of transporting the currency, whether on your person, in a suitcase, by post, or any means of shipment. There also is a new law on the exchange of tax information (Law 43/2015), which authorizes the Ministry of Finance to join bilateral and multilateral agreements to exchange information related to tax evasion and tax fraud.

The Special Investigation Commission (SIC), Lebanon's financial intelligence unit, publishes annual statistics on money laundering, breaking them down by type of offense. Lebanon's Internal Security Forces (ISF) Cybercrime and Intellectual Property Unit tracked 76 cases of hackers located in Lebanon and abroad who embezzled funds from local depositors and transferred the funds to bank accounts located outside Lebanon.

On June 30, 2015, the Banque du Liban, the Central Bank, issued Intermediate Circular No. 393, amending Basic Circular No. 69, strengthening AML/CFT controls on money remitters. The Banque du Liban also has issued regulations to regulate exchange houses.

The SIC has confirmed reports suggesting local commercial banks and financial institutions have implemented regulatory measures, including enhanced due diligence regarding high risk customers and/or closure of accounts that represent unacceptable risks. As a result there are no longer currency transactions related to international narcotics trafficking that include significant amounts of U.S. currency, currency derived from illegal drug sales in the U.S., or illegal drug sales that otherwise significantly affect the U.S.

Despite no requirement to file currency transaction reports (CTRs) with the SIC, 55 such reports were filed voluntarily between January and October 2015.

The SIC froze a number of accounts on suspicion of money laundering; however, the SIC does not publicly disclose figures of total amounts frozen. Although the number of filed STRs and subsequent money laundering investigations coordinated by the SIC has increased steadily over the years, convictions are still lacking. The U.S. Department of Justice has six pending legal assistance requests with the Government of Lebanon. Lebanon has been slow to react to the requests.

The Lebanese Customs Authority must inform the SIC of suspected TBML or terrorist financing; however, alleged high levels of corruption within Customs make this problematic. Lebanon is a participant country of the Kimberley Process, and trade in rough diamonds is governed by law number 645. However, there have been persistent reports of smuggling and the mis-invoicing and mis-classification of diamonds. Another unaddressed vulnerability is the trading of bearer shares of unlisted companies.

In the first 10 months of 2015, the SIC sent 25 referrals to the Office of the Prosecutor General. The ISF also received 48 allegations of money laundering from Interpol and arrested three persons. The ISF sent five suspected money laundering cases to the SIC for investigation. Lebanese law enforcement entities often do not coordinate activities. The government has started training joint task forces including members of relevant agencies, such as Customs, the ISF, the SIC, and the judiciary. Cooperation between the SIC and local enforcement

authorities, especially in terrorism financing cases, has increased; several training initiatives were undertaken in 2015 to enhance such cooperation. Lebanon could also benefit from increased cooperation among local and international law enforcement organizations to combat money laundering and terrorism financing.

Individuals in Lebanon are engaged in TBML by utilizing vehicles as the commodity to legitimize drug proceeds linked to Hizballah. U.S. law enforcement identified money wires coming into the United States from Jordanian and Lebanese entities to various domestic vehicle dealerships. These funds are used to purchase vehicles subsequently exported to Lebanon and Jordan. In some instances, there are weapons secreted within the exported vehicles. The transactions that occur in the United States appear to be legitimate, but the ultimate destination of the vehicles is unknown and the proceeds may be directed back to Hizballah in Lebanon.

Lebanon should strengthen its overall efforts to disrupt and dismantle money laundering and terrorist financing activities, including those carried out by Hizballah. Lebanon should enforce its new cross-border currency reporting requirements, fully implement its new laws and directives, and take action to immobilize bearer shares. The government should continue its efforts to achieve better coordination and efficiency in the investigation of complex financial crimes by its various law enforcement and investigative agencies.

#### **Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):**

According to the US State Department, Lebanon does not conform with regard to the following government legislation: -

**Record Large Transactions:** By law or regulation, banks are required to maintain records of large transactions in currency or other monetary instruments.

**Arrangements for Asset Sharing:** By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

**International Transportation of Currency:** By law or regulation, the jurisdiction, in cooperation with banks, controls or monitors the flow of currency and monetary

**International Terrorism Financing Convention:** States parties to the International Convention for the Suppression of the Financing of Terrorism, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

#### **EU White list of Equivalent Jurisdictions**

Lebanon is not currently on the EU White list of Equivalent Jurisdictions

#### **World Governance indicators**

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

### **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

### **Offshore Financial Centre**

Lebanon is considered to be an Offshore Financial Centre

### **Narcotics - 2016**

Lebanon is not a major source country for illicit drugs, but serves as a transit point for hashish, cocaine, heroin, and fenethylline (an amphetamine-type stimulant). The primary illicit drugs consumed in Lebanon are hashish, cocaine, fenethylline, and MDMA.

The main drug control goal of the Lebanese government remains eradication of illegally-cultivated opium poppy and cannabis in the Bekaa region. Little significant eradication activity occurred in 2015, however, due in large part to instability along the border with Syria, combined with a lack of logistical support and equipment for the Internal Security Force's eradication efforts.

The volume of cocaine entering Lebanon via commercial aircraft in 2015 was similar to 2014 levels. Individual smugglers typically depart from South America and transit through other countries en route to Lebanon, usually carrying between three and five kilograms (kg) of cocaine in their luggage. Fenethylline continues to be smuggled through Lebanon to Gulf region states and is produced in Syria and the Bekaa Valley area of Lebanon.

Official reports indicate that drug seizure events through the first nine months of 2015 totaled 1,874, down from 2,404 seizure events in all of 2014. Over this nine month period, seizures of heroin totaled approximately six kg (up from one kg in 2014). Cocaine seizures amounted to nearly 76 kg in 2015 – comparable to the 2014 figure of 70 kg. The number of hashish seed seizures dropped from 1,641 in 2014 to 1,089 in 2015. However, quantities of hashish seized increased significantly, from two metric tons (MT) in 2014 to nearly 6.17 MT through September. The number of seized fenethylline tablets increased from 23 million in 2014 to 26 million over this same nine month period.

The United States does not have a mutual legal assistance treaty or extradition agreement with Lebanon, although Lebanon has acceded to multilateral conventions that enable law enforcement cooperation. In 2013, the United States discontinued all material assistance to Lebanon's Internal Security Force's counter-narcotics unit, following a finding of credible reports of human rights violations. There has been no U.S. material assistance within the last two fiscal years. However, U.S. law enforcement entities continue to exchange information with Lebanese counterparts on narcotics matters.

### **Trafficking in Persons**

Lebanon is classified a Tier 2 (watch list) country - A country whose governments does not fully comply with the Trafficking Victims Protection Act's minimum standards, but are making significant efforts to bring themselves into compliance with those standards

Lebanon is a source and destination country for women and children who are subjected to forced labor and sex trafficking. The country is also a transit point for Eastern European women and children subjected to sex trafficking in other Middle Eastern countries. Women

from Sri Lanka, the Philippines, Ethiopia, Kenya, Bangladesh, Nepal, Madagascar, Democratic Republic of the Congo (DRC), Togo, Cameroon, and Nigeria who travel to Lebanon with the assistance of recruitment agencies to work in domestic service, are often subjected to forced labor, experiencing withholding of passports, nonpayment of wages, threat of arrest and deportation, restrictions on movement, verbal abuse, and physical assault. Workers who leave their employers' houses without permission or a "release paper" automatically forfeit their legal status; to retain legal status, a change in their sponsorship must be pre-arranged and approved by the General Directorate for General Security (DGS), the government agency responsible for the entry, residency, and departure of foreign workers. Some employers in Lebanon threaten workers with the loss of legal immigration status in order to keep them in forced labor and, in some cases, keep foreign domestic workers confined in residences for years. Some victims are recruited to work in Lebanon by employment agencies using false lucrative job offers. A highly publicized case of an Ethiopian domestic worker who was publicly beaten by a Lebanese recruitment agent in March 2012 exemplifies the abuse suffered by domestic workers in Lebanon. The worker committed suicide shortly after the incident was reported in the media.

Women from Eastern Europe, including Russia, Ukraine, Belarus, and Moldova, as well as the Dominican Republic, Morocco, and Tunisia enter Lebanon through the government's artiste visa program to work as dancers in Lebanon's adult entertainment industry; the visas are valid for three months and may be renewed once for an additional three months. In 2013, 11,465 women entered Lebanon under this visa program—almost double the amount of artiste visas issued in 2012—which sustains a significant sex trade and enables forced prostitution through such practices as withholding of passports and wages, restrictions on movement, and physical and sexual abuse. Some women from the DRC and Burundi are forced into prostitution in Lebanon; it is unclear if they work in Lebanon under the artiste visa program. Some Syrian women may be forced to engage in street prostitution, and underage Syrian girls are reportedly brought to Lebanon for the purpose of prostitution, including through the guise of early marriage. Syrian refugees, in particular women and children, who fled the conflict to Lebanon are at an increased risk of sex trafficking and forced labor due to their vulnerable economic and financial situation. NGOs and international organizations continue to report an increase in Syrian children engaged in street begging, some of which are forced; Syrian girls are forced into marriages, which can place them at risk of forced labor and sex trafficking. An international organization reported Syrian gangs force Syrian refugees, including men, women, and children, to work in the agricultural sector in Beqaa Valley harvesting potatoes, olives, and bananas while living in informal tented settlements. Victims are forced to work under harsh conditions with little to no pay; some are forced to work to pay off debts incurred to facilitate their entry into Lebanon or to pay for their lodging. Anecdotal information indicates that Lebanese children are victims of forced labor within the country, particularly in street begging, as well as commercial sexual exploitation facilitated by male pimps, husbands, and "boyfriends," and at times through early marriage. Small numbers of Lebanese girls may be taken to other Arab countries for exploitation in prostitution.

The Government of Lebanon does not fully comply with the minimum standards for the elimination of trafficking, but is making significant efforts to do so. The government conducted an increased number of investigations of human trafficking and prosecuted and convicted some trafficking offenders. Despite these measures, the government has not

shown evidence of increasing efforts to address human trafficking compared to the previous year; therefore, Lebanon is placed on Tier 2 Watch List for a third consecutive year. Lebanon was granted a waiver from an otherwise required downgrade to Tier 3 because its government has a written plan that, if implemented, would constitute making significant efforts to bring itself into compliance with the minimum standards for the elimination of trafficking and it has committed to devoting sufficient resources to implement that plan.

The government did not investigate officials complicit in human trafficking. Although the government continued to identify and refer some victims to NGO-run protection services, the government did not provide or fund any protection services for victims and did not have victim identification and protection procedures in place. Officials failed to proactively identify victims of trafficking among vulnerable groups, including domestic workers who ran away from abusive employers, illegal migrants, and women holding artiste visas. As a result, authorities continued to arrest, detain, and deport both potential and identified trafficking victims for crimes committed as a direct result of being subjected to trafficking. Finally, Lebanon's sponsorship system, coupled with the widespread withholding of passports, continued to be a structural impediment that contributed to the domestic servitude of domestic workers.

### **Terrorist Financing 2015:**

Lebanon is currently identified by the US Secretary of State as a Safe Haven for International Terrorism

**Overview:** Lebanon grappled with significant terrorist threats in 2015, both internally and on its borders as a result of worsening spillover from Syria. Hizballah, which fully mobilized in support of the Asad regime, and to a lesser extent individual Lebanese who supported various opposition forces, made Lebanon a magnet for violent retribution. After nearly a year of relative internal calm, the November 12 Islamic State of Iraq and the Levant (ISIL) suicide bombings in Beirut's southern suburbs marked the capital's deadliest terrorist attack in more than a decade and were reminiscent of the wave of Sunni terrorist attacks against Shia population centers and Lebanese Armed Forces (LAF) targets in 2013-2014. Lebanon also faced a terrorist threat from hundreds of ISIL and al-Nusra Front terrorists who operated along the porous, undemarcated eastern border with Syria and carried out guerrilla-like attacks against the LAF on a regular basis. The continued presence of these Syria-origin Sunni extremists in Lebanese territory underscored both the centrality of border security to Lebanon's stability and the importance of enabling the Lebanese government to exercise its full sovereignty, as mandated by UN Security Council Resolution (UNSCR) 1701.

Despite the paralysis of the political decision-making apparatus, various institutions of the Lebanese state, including the LAF, Internal Security Forces (ISF), and Central Bank, continued to cooperate with international partners in combating terrorism and have scored some notable successes in the disruption of terrorist networks and in combating terrorist forces. The United States remained Lebanon's closest counterterrorism partner, and the bilateral relationship is robust and growing. U.S. assistance focused on strengthening Lebanon's security institutions so they can better exert sovereign authority and maintain border security in accordance with UNSCR 1701, and counter terrorist threats.

Ongoing internal political deadlock prevented the election of a new Lebanese president and weakened state function. In the absence of a president, the 24-member cabinet, which includes members of Hizballah, is paralyzed in political deadlock and has not met regularly since mid-2015. Lebanon's enormous refugee crisis has also complicated efforts to maintain stability. A country of approximately four million, Lebanon hosted nearly 1.1 million registered refugees from Syria as of the end of 2015. Lebanese authorities were challenged not only by the significant burden the refugees placed on its financial and natural resources, infrastructure, and host communities, but also by fears of potential militant recruiting among the refugee population. ISIL and Nusrah Front's use of informal refugee settlements near the northeastern town of Aarsal in the Beqaa Valley further hardened Lebanese attitudes towards Syrian refugees.

Hizballah, with considerable support from Iran, remained the most capable terrorist group in Lebanon, enjoying popular support among many Lebanese Shia and allied Christians. Hizballah continued to operate as an armed militia beyond the control of the state and as a powerful political actor that can hobble or topple the government. Hizballah justified its stockpile of arms for its "resistance" to any potential conflict with Israel. The government did not take significant action to disarm Hizballah or eliminate its safe havens in Lebanese territory. Despite Lebanon's official dissociation policy regarding the Syrian conflict, Hizballah accelerated its military role in support of the Syrian regime in 2015 and has proved to be a necessary force in propping up the regime. Iran's Islamic Revolutionary Guard Corps has had a presence in Lebanon since the early 1980s and coordinated closely with Hizballah on military operations and training. Hizballah engaged in terrorist activity against Israel on January 28 when it attacked an Israeli military convoy near the Shebaa Farms area, killing two Israeli soldiers and wounding several others. The attack was the most severe eruption of violence between Israel and Hizballah in the area since 2006.

Other designated terrorist groups, including Hamas, the Popular Front for the Liberation of Palestine, the Popular Front for the Liberation of Palestine General Command, Asbat al-Ansar, Fatah al-Islam, Fatah al-Intifada, Jund al-Sham, Palestinian Islamic Jihad, the Abdullah Azzam Brigades, and several other splinter groups, continued to operate within Lebanon's borders, although primarily out of Lebanon's 12 Palestinian refugee camps. ISIL and Nusrah Front also had a limited, but growing presence in the camps. The LAF did not maintain a presence in the camps, but it conducted limited operations and patrols near the camps and across Lebanon to counter terrorist threats.

Lebanon is a member of the Global Coalition to Counter ISIL and the Foreign Minister has attended several counter-ISIL Coalition ministerial meetings. The Lebanese security forces seek to limit the ISIL threat at home, including the flow of foreign terrorist fighters both to and from Syria, by working to secure the porous, ungoverned border with Syria and conducting counterterrorism operations within Lebanon. The LAF and other security services also were actively engaged in monitoring potential ISIL elements in Lebanon, disrupting their activities and networks, and arresting those suspected of plotting terrorist attacks. The government expanded its efforts to counter ISIL messaging, but these efforts were not coordinated among different government agencies. In accordance with UNSCR 2178, the Lebanese government increased security measures at airports and border crossings to prevent the flow of ISIL and Nusrah Front fighters to Syria and Iraq. However, the Lebanese government has not taken significant action to prevent Hizballah from sending its fighters to Syria and Iraq.

## 2015 Terrorist Incidents:

- On January 10, two suicide bombers attacked a café in the Tripoli neighborhood of Jabal Mohsen, killing nine people and wounding more than 30. Al-Nusrah Front claimed responsibility for the attack.
- On January 28, Hizballah fired two laser-guided, anti-tank missiles from Lebanese territory at an Israeli Defense Forces (IDF) convoy near the Shebaa Farms area south of the Blue Line, killing two IDF soldiers and wounding several others.
- On November 5, at least five people were killed and several others wounded after a suicide bomber detonated his suicide vest at a religious center in Aarsal. Lebanese authorities believed that ISIL carried out the attack, which targeted a group of Syrian Sunni clerics with close ties to the Nusrah Front.
- On November 12, two suicide bombers attacked a crowded street in Burj al-Barajneh, a neighborhood closely associated with Hizballah in the southern suburbs of Beirut, killing at least 45 civilians and wounding nearly 250 more. ISIL claimed responsibility for the attack, which was the deadliest in Beirut in more than a decade.

**Legislation, Law Enforcement, and Border Security:** Lebanon does not have a comprehensive counterterrorism law, but several articles of Lebanon's criminal code (1943) are used to prosecute acts of terrorism. Implementation of these articles has at times been hindered by Lebanon's complex confessional political system, however, and also by Hizballah restricting access to attack sites that were within areas under its control. The cabinet did not consider legislative initiatives that could potentially threaten Hizballah's operations, as the presence of Hizballah and its political allies in the government make the requisite consensus on such actions impossible. State security agencies remained functional in combating non-Hizballah terrorism, but would benefit from stronger political support.

The LAF, ISF, Directorate of General Security (DGS), and Directorate of State Security (DGSS) are the primary agencies responsible for combating terrorism. Despite notable counterterrorism successes in 2015, the law enforcement capacity of these agencies was overstretched due to the magnitude of the country's terrorism-related threats. Although cooperation among the services was inconsistent, all services have taken steps to improve information sharing and are receptive to additional training to expand capacity. Lebanon has been a participant in the Department of State's Antiterrorism Assistance program since 2006; this assistance has focused on border security as well as building law enforcement's investigative and leadership capabilities. The Department of State has provided assistance to improve the capabilities of the ISF through a multi-year program that includes construction of training facilities and establishment of a secure radio communications system, provision of vehicles, protective gear, and other types of equipment, and a wide range of training and mentoring activities. The Department of State also provided corrections training to bolster the ISF's limited capacity to manage its overcrowded prisons. The ISF has worked to prevent terrorist recruitment and the direction of terrorist activities by prison inmates who, in many cases, have access to cell phones and the internet.

The LAF has primary responsibility for securing Lebanon's borders, but worked collaboratively with other agencies to prevent the infiltration of terrorists and illicit goods. The services have



increased security measures at airports, border crossings, and ports to prevent the flow of ISIL and Nusrah Front fighters to Syria and Iraq, with a special emphasis on detecting counterfeit passports. The DGS, under the Interior Ministry, controls immigration and passport services, and it uses an electronic database to collect biographic data for travelers at all points of entry. Lebanon collects and disseminates Passenger Name Records (PNR) on commercial flights, but does not collect advance passenger information (API).

The Lebanese security services disrupted multiple terrorist networks and made several high-profile arrests in 2015. On August 15, the DGS arrested Sheikh Ahmed al-Assir, a radical Salafist cleric who was one of Lebanon's most wanted fugitives since June 2013, when Assir and his supporters killed 18 soldiers during clashes with the LAF near Sidon. Information obtained during Assir's interrogation led to arrests of more than a dozen other suspected terrorists. In mid-November, the Lebanese security services unraveled terrorist networks in Beirut and Tripoli connected with ISIL's November 12 suicide attacks in Burj al-Barajneh. One ISF raid yielded 150 kilograms of explosives and three suicide vests.

On May 13, the Lebanese Military Court sentenced former Lebanese Information Minister Michel Samaha to four and a half years in prison for "transporting explosives from Syria to Lebanon in an attempt to assassinate Lebanese political and religious leaders" in 2012. Procedural errors and public outcry over the relatively light sentence prompted a retrial, which began in July but did not produce a new verdict by the end of 2015.

The United States maintains close ties with the Lebanese security services and could expect significant investigative support in a terrorism case affecting U.S. citizens or interests. Lebanese authorities maintained that amnesty for Lebanese involved in acts of violence during the 1975-90 civil wars prevented terrorism prosecutions of concern to the United States.

**Countering the Financing of Terrorism:** Lebanon is a member of the Middle East and North Africa Financial Action Task Force, a Financial Action Task Force-style regional body; and its financial intelligence unit, the Special Investigation Commission (SIC), is a member of the Egmont Group. It also participates in the Counter-ISIL Finance Group co-chaired by the United States, Saudi Arabia, and Italy. Lebanese government officials and financial leaders have also met repeatedly with the U.S. government regarding the Hizballah International Financing Prevention Act of 2015, and said that they would fully comply with the new regulations.

Lebanon's Central Bank, the Banque du Liban (BdL), issued Intermediate Circular No. 393 on June 30, amending Basic Circular No. 69, strengthening anti-money laundering/countering the financing of terrorism (AML/CFT) controls on money remitters. On November 13, Parliament endorsed three laws intended to strengthen Lebanon's AML/CFT regime, which were published in the Official Gazette on November 24. These included:

- Law No.44 amending AML/CFT Law 318/2001 to further widen categories of reporting entities and increase the list of predicate crimes; it also allows confiscation of assets and sharing of confiscated assets with concerned countries;
- Law No. 42 requiring the declaration of cross-border transportation of cash; and

- Law No. 43 on the exchange of tax information, which would authorize the Ministry of Finance to join bilateral and multilateral agreements to exchange information related to tax evasion and tax fraud.

In 2015, the ISF received two requests for assistance with terrorism cases from INTERPOL; the ISF investigated the two cases and forwarded them to the Public Prosecutor. The ISF did not receive any allegations of suspicious financial transactions that led to terrorism finance cases in 2015. The SIC is an independent legal entity empowered to investigate suspicious financial transactions and to freeze assets, reporting that it had received three cases in 2015 regarding individuals with alleged terrorism ties and alleged terrorism financing transactions. The SIC froze the individuals' financial assets (amounts undisclosed) in Lebanon's banking sector and forwarded the cases to the public prosecutor for further investigation.

**Countering Violent Extremism:** Several government institutions have programs that seek to counter violent extremism (CVE), but there was no overall national strategy in place. The Foreign Minister attended the Leaders' Summit on Countering ISIL and Violent Extremism hosted by President Obama in September 2015 on the sidelines of the UN General Assembly, and MFA representatives have attended U.S.-hosted working level meetings on counter-ISIL messaging. The LAF is developing a comprehensive counter-messaging strategy that amplifies moderate voices and uses TV spots, social media, billboards, and SMS texts to counter extremist narratives. There were no programs to rehabilitate and/or reintegrate terrorists into mainstream society.

**International and Regional Cooperation:** The LAF partnered with several nations on a bilateral basis to receive training programs that focused on strengthening its counterterrorism capabilities. Lebanon is a member of the Organization of Islamic Cooperation, the Arab League, and attended Global Counterterrorism Forum meetings on counter-ISIL efforts. Lebanon continued to voice its commitment to fulfilling other relevant UNSCRs, including 1559 (2004), 1680 (2006), and 1701 (2006). The Special Tribunal for Lebanon, an international body investigating the 2005 assassination of former PM Rafiq Hariri, received Lebanon's annual contribution of approximately US \$37.5 million on September 21.

## International Sanctions

Lebanon is currently subject to UN, EU, and US sanctions.

On 7 August 2006, the Government of Lebanon decided to deploy the Lebanese armed forces in South Lebanon, with assistance as necessary from the United Nations Interim Force in Lebanon. Such action was taken in an effort to extend the Government's authority over Lebanon's full territory. Sanctions were imposed in an effort to assist the Government with its efforts to exercise full sovereignty over all Lebanese territory by ensuring no weapons were available, other than those made available with the consent of the Government.

### Current EU regulations provide for the following measures: -

Freezing of funds and economic resources of those suspected of being involved in planning, sponsoring, organising or perpetrating the terrorist bombing in Beirut in 2005 resulting in a number of deaths, including that of former Lebanese Prime Minister Hariri.

a prohibition on providing, directly or indirectly, technical assistance relating to military activities and to the provision, manufacture, maintenance and use of arms and related material.

A prohibition on financing or financial assistance related to military activities in Lebanon.

### US sanctions

any person determined by the Secretary of the Treasury, in consultation with the Secretary of State:

- to have taken, or to pose a significant risk of taking, actions, including acts of violence, that have the purpose or effect of undermining Lebanon's democratic processes or institutions, contributing to the breakdown of the rule of law in Lebanon, supporting the reassertion of Syrian control or otherwise contributing to Syrian interference in Lebanon, or infringing upon or undermining Lebanese sovereignty;
- to have materially assisted, sponsored, or provided financial, material, or technological support for, or goods or services in support of, such actions, including acts of violence, or any person whose property and interests in property are blocked pursuant to this order;
- to be a spouse or dependent child of any person whose property and interests in property are blocked pursuant to this order; or
- to be owned or controlled by, or acting or purporting to act for or on behalf of, directly or indirectly, any person whose property and interests in property are blocked pursuant to this order.

### Arab League Sanctions

The Arab League (comprising 22 Arab member states), of which Lebanon is a member, has approved imposing sanctions on Syria. These include: -

- Cutting off transactions with the Syrian central bank
- Halting funding by Arab governments for projects in Syria
- A ban on senior Syrian officials travelling to other Arab countries
- A freeze on assets related to President Bashar al-Assad's government

The declaration also calls on Arab central banks to monitor transfers to Syria, with the exception of remittances from Syrians abroad.

It should be noted that Lebanon, and Iraq, have refused to impose the sanctions.

The Arab League also imposes various financial sanctions on Israel.

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	28
World Governance Indicator – Control of Corruption	18

### Extract from US State Department Report

#### Corruption

There is rampant corruption when dealing with the Lebanese public sector. According to Transparency International's (TI) 2013 Corruption Perception Index (CPI), Lebanon ranked 127 out of 177 countries worldwide and 13 out of 19 MENA countries. Based on its score, Lebanon remained in the top 50 most corrupt countries in the world. TI noted that the country's "deeply entrenched nepotism networks" made civil society efforts against corruption very difficult, while anti-corruption legislation exists but is not properly enforced. The LTA blames political paralysis for preventing the passage of various legal reforms (including draft laws against illicit enrichment, access to information, and whistle blower protection) with which the organization has been closely involved to combat corruption. The index measures the perception of corruption by public officials and politicians and focuses on corruption in the public sector, defined as an abuse of official power for private interests. LTA's website: <http://www.transparency-lebanon.org>.

The International Finance Corporation (IFC) and the LTA signed an MOU on October 11, 2007, to establish the Institute of Directors (IoD) on Corporate Governance in Lebanon, which became operational in 2010. The IFC provided a \$250,000 grant for the institute, which provides training courses on corporate governance, offers consultancy services, carries out research and educational activities, and organizes awareness-raising private sector events in Lebanon and the MENA region. In 2011, the IoD launched a guidebook focused on Corporate Governance stories and solutions in the MENA region.

LTA established the Lebanese Advocacy and Legal Advice Center (LALAC) program to inform citizens of their rights and to encourage victims and witnesses to take action against cases of corruption. LALAC operates a hotline for victims and witnesses to call and report cases of corruption and receive free legal advice and assistance with their case. The program is currently funded by the European Union, the Lebanese Renaissance Foundation, and the Center for International Private Enterprise (CIPE). In March 2013, LTA launched a one-year project entitled "Corruption Investigator," funded by the United States Agency for International Development (USAID). The project aimed at facilitating citizens' access to

information throughout various media outlets to promote transparency and accountability and to advocate for a democratic community.

The Ministry of Tourism launched the Lebanese Observatory for Transparency in December 2012, which is aimed at fighting corruption, raising the level of transparency, and identifying achievements and practices in transparency that would constitute a role model for the community. The observatory hopes to attract Lebanon's youth to discuss and debate methods and policies that would help fight corruption and, therefore, raise confidence in the country's institutions and values.

Lebanon has laws and regulations to combat corruption, but these laws are not always enforced. According to Lebanese law, it is a criminal act to give or accept a bribe. The penalty for accepting a bribe is imprisonment for up to three years, with hard labor in some cases, and a fine equal to at least three times the value of the bribe. Bribing a government official is also a criminal act. The Central Inspection Directorate is responsible for combating corruption in the public sector, while the public prosecutor is responsible for combating corruption in the private sector. In April 2009, Lebanon ratified the UN Convention against Corruption. Lebanon is not a signatory to the OECD Convention on Combating Bribery.

Corruption is more pervasive in government contracts (primarily in procurement and public works), taxation, and real estate registration than in private sector deals. It is widely believed that investors routinely pay bribes to win government contracts, which are often awarded to companies close to powerful politicians and businessmen. The law provides criminal penalties for official corruption; however, the government did not implement the law effectively, and officials often engaged in corrupt practices with impunity and on a wide scale. Government security officials, agencies, and police were subject to laws against bribery and extortion. In practical terms the lack of strong enforcement limited the laws' effectiveness. The MoF has implemented reforms aimed at enhancing transparency and fighting corruption including requiring taxpayers to file exclusively through mail and to pay through banks, privately-owned Liban Post, or OMT, a money-transfer company. In 2007, an automated document tracking system for taxpayers' inquiries was implemented and a 24/7 call center was launched, as well as a service enabling taxpayers to handle the Built Property Tax transactions through Liban Post. In 2008, the Tax Procedures Code was ratified, unifying tax procedures, specifying deadlines for tax transactions and defining taxpayers' rights and obligations. The MoF launched a portal in 2010, providing access to economic, financial and fiscal information. The MoF also initiated the development and distribution of the tax calendar in order to increase taxpayers' awareness of their rights and obligations. In 2011, the collection function was transferred to the regional tax offices. In August 2012, the MoF launched the Built Property Tax online service on its portal enabling inquiries for due Built Property Tax, and filing for built property tax online starting August 2013. Also, in September 2012, taxpayers were able to register for e-services through the MoF portal. Citizens can also file their VAT taxes online. These services are expected to decrease corruption in the tax sector.

On the customs front, and to ensure trade facilitation, transparency, and security, remote filing of manifests and declarations was introduced in 2011. A new version of the ASYCUDA

WORLD software (Automated System for Customs Data) was implemented to fill the gaps of the previous version. Transit trade applications can also be now filled online. Work has begun for Lebanon's Industrial Research Institute to submit its certificate of conformity online to further facilitate trade procedures Customs also established an Intelligence Unit to detect counterfeiting and fraudulent operations. Nonetheless, there were press reports in 2013 of corruption and bribery in the operations of Lebanese Customs at major facilities such as the Port of Beirut. Members of the business community report that bribery was sometimes the only way to avoid lengthy and expensive delays in the processing of imported products at the ports. Lebanese Customs hopes to implement e-payment of customs operations, a step that many hope will help combat corruption, but the process has been delayed.

Within the context of the modernization and development of the Customs clearance process of goods, several modules were developed in 2013 inside ASYCUDA World in order to enhance transparency and trade facilitation, on the one hand, and improving the Customs security and controls, on the other. To enhance security, Lebanese Customs currently has cameras on all of the Port of Beirut gates along with their private fiber network in order to remotely monitor and store in- and out-goods transactions. Further, Lebanese Customs decided to implement and initiated the first phase of the Paperless, E-Government and Single Window projects. In addition, an MoU was also prepared to create a legal framework basis for the second phase of these three projects; the generic MoU will be adjusted according to the needs of each Lebanese administration agreeing to join the Lebanese Customs Single Window project.

## Section 3 - Economy

Lebanon has a free-market economy and a strong laissez-faire commercial tradition. The government does not restrict foreign investment; however, the investment climate suffers from red tape, corruption, arbitrary licensing decisions, complex customs procedures, high taxes, tariffs, and fees, archaic legislation, and weak intellectual property rights. The Lebanese economy is service-oriented; main growth sectors include banking and tourism. The 1975-90 civil war seriously damaged Lebanon's economic infrastructure, cut national output by half, and derailed Lebanon's position as a Middle Eastern entrepot and banking hub. Following the civil war, Lebanon rebuilt much of its war-torn physical and financial infrastructure by borrowing heavily, mostly from domestic banks, which saddled the government with a huge debt burden. Pledges of economic and financial reforms made at separate international donor conferences during the 2000s have mostly gone unfulfilled, including those made during the Paris III Donor Conference in 2007 following the July 2006 war. The collapse of the MIKATI government in early 2011 over its backing of the Special Tribunal for Lebanon and the conflict in neighboring Syria slowed economic growth to the 1-2% range in 2011-13, after four years of 8% average growth. In September 2011 the Cabinet endorsed a bill that would provide \$1.2 billion in funding to improve Lebanon's downtrodden electricity sector, but fiscal limitations will test the government's ability to invest in other areas, such as water.

### **Agriculture - products:**

citrus, grapes, tomatoes, apples, vegetables, potatoes, olives, tobacco; sheep, goats

### **Industries:**

banking, tourism, food processing, wine, jewelry, cement, textiles, mineral and chemical products, wood and furniture products, oil refining, metal fabricating

### **Exports - commodities:**

Jewellery, base metals, chemicals, miscellaneous consumer goods, fruit and vegetables, tobacco, construction minerals, electric power machinery and switchgear, textile fibers, paper

### **Exports - partners:**

UAE 13.1%, Iraq 8.4%, Saudi Arabia 7.7%, Turkey 7%, Syria 6.7%, Switzerland 5.5% (2011)

### **Imports - commodities:**

petroleum products, cars, medicinal products, clothing, meat and live animals, consumer goods, paper, textile fabrics, tobacco, electrical machinery and equipment, chemicals

### **Imports - partners:**

US 10.2%, Italy 9.3%, France 8.8%, China 8.2%, Egypt 5.3%, Germany 5.1%, Turkey 4% (2011)



## Banking

Lebanon is a financial hub for banking activities in the Middle East, and it has one of the most sophisticated banking sectors in the region. Bank secrecy is strictly enforced, but Banque du Liban (BdL) regulates all financial institutions and money exchange houses. In April 2001, Lebanon adopted Law No. 318, which created a framework for lifting bank secrecy, mandated suspicious transaction reporting, required financial institutions to obtain and maintain records of customer identification information, and facilitated access to banking information and records by judicial authorities.

Foreigners can open accounts in banks operating in Lebanon and get credit on market terms. The Banking Control Commission (BCC) closely monitors bank credits, and all credit transactions are subject to timely and accurate disclosure. The National Institute for the Guarantee of Deposits (NIGD) insures up to LL 5 million (about \$3,317) of Lebanese and foreign currency deposits in commercial banks. Bank financial statements are in compliance with international accounting standards. Independent auditors audit annual accounts, and most banks utilize internationally recognized accounting firms.

The banking regulatory system is transparent and consistent with international norms. Banks conform to Bank for International Settlement (BIS) standards and International Accounting Standards (IAS). In 2011, the BdL issued three circulars for corporate governance in the banking sector.

Lebanon has legislation regulating issuance of and trading in bank equities. Law No. 308 on unification of bank shares allows banks to increase their capitalization and shareholder base, as well as to optimize trading of bank shares on the BSE. Parliament has ratified a law on asset securitization. There are no restrictions on portfolio investment, and foreign investors can invest in Lebanese equity and fixed income paper.

The banking system enjoys a high financial standing with a capital adequacy ratio of 11.6 percent in September 2012 (compared to eight percent as set by Basel II) and sound liquidity, with a foreign currency prime liquidity ratio exceeding 45 percent of foreign currency deposits. The Lebanese banking sector has complied with Pillar I and II of the Basel II Accord (new capital adequacy ratio and supervisory review process on economic capital of banks respectively). The BdL and the Banking Control Commission (BCC) will continue issuing new circulars requiring banks to comply with Pillar III (transparency and market discipline) of Basel II. The BdL and the BCC have established a steering committee to follow up on the new Basel III Accord. In December 2011, the BdL issued a circular that sets an agenda for the implementation of Pillar I of Basel III with more conservative rules, such as raising total equity capital adequacy ratio to reach progressively 12 percent in 2015 (compared to the eight percent required by Basel III). Lebanese banks are preparing to be FATCA compliant.

## Stock Exchange

The [Beirut Stock Exchange \(BSE\)](#) quotes six commercial banks, one investment fund, 18 sovereign Eurobond issues (16 in U.S. dollars, one in euros, and one in Lebanese Lira), and four companies, including "SOLIDERE," one of the largest publicly held companies in the

region. Trading is a combination of auction and continuous trading. In spring 2008, the BSE authorized on-line trading. Legislation allows the listing of tradable stocks or papers on the BSE. Lebanon now hosts the headquarters of the Arab Stock Exchange Union.

### Executive Summary:

Lebanon is open to foreign direct investment and has many advantages that have encouraged foreign companies to set up offices in the country. These include a free-market economy, the absence of controls on the movement of capital and foreign exchange, a well-developed banking system with strong financial soundness indicators, a highly-educated labor force, good quality of life, and limited restrictions on investors. However, some issues continue to cause frustration among local and foreign businesses, such as red tape and corruption, arbitrary licensing decisions, an ineffectual judicial system, high taxes and fees, and weak enforcement of intellectual property rights.

The formation of the cabinet in February 2014 – after a stalemate of eleven months – created a positive climate and led to a slight improvement in economic activity. This spurred S&P to revise its outlook for Lebanon from negative to stable in April 2014. However, political risk perceptions remain high in 2014, given the continuing turmoil in Syria and in the region and its adverse impact on Lebanon. Moreover, uncertainty prevails about the presidential and parliamentary elections being held in a timely manner in May and November 2014 respectively. On the security front, the cabinet took measures to counter security threats, but the security environment continues to represent a major challenge leading investors to adopt a wait-and-see attitude. The public deficit and public debt could be a growing issue of concern for investors, but given the high liquidity in the domestic banking sector and continued growth in deposits, the Government of Lebanon (GoL) should not face difficulties in rolling over sovereign maturities in 2014. The Central Bank publicly asserted that it will continue to maintain monetary and financial stability, reassuring investors that there will be no debt defaults or currency depreciation.

The business climate will remain sensitive to domestic and regional political and security developments. Spillovers from the Syrian crisis will continue to impact growth, which is expected to remain below potential in the near term. There is also laxity among the political class to endorse structural reforms and legislation to stimulate growth, encourage private sector development and create jobs. The launch of the first bid round for offshore oil and gas exploration on April 30, 2013 was still pending as of May 2014, because the cabinet's approval of two decrees – the model Production Sharing Agreement and the delineation of the ten offshore blocks – is required for the licensing round to proceed.

Lebanon is keen to attract U.S. investment because of its state-of-the-art capabilities in technology, know-how and competitiveness. Significant potential opportunities for U.S. oil companies exist in the energy sector, namely oil and gas exploration. U.S. firms are also well positioned to invest in the upgrading of Lebanon's power plants to operate on natural gas, the construction of an LNG pipeline along the coast from northern to southern Lebanon with subsequent extensions, and the development of terminals and storage facilities. Moreover, there are tremendous opportunities in energy-related sectors, as Lebanon intends to rely on renewable energy for 12 percent of its needs by 2020. Other potential opportunities exist in the information and communication technology, health, and agribusiness sectors.

## 1. Openness to, and Restrictions Upon, Foreign Investment

Lebanon is a country that traditionally has remained open to foreign direct investment. Over the last ten years, the GoL has passed several laws and decrees to encourage such investment. The Investment Development Authority of Lebanon (IDAL) possesses the authority to award licenses and permits for new investment in specific sectors. IDAL also has the authority to grant special incentives, exemptions, and facilities to large projects, whether implemented by local or foreign investors. IDAL has further expanded its support to encourage agricultural exports through a new program, Agri-Plus, providing financial incentives and different promotional and marketing activities to qualified exporters. IDAL is currently working to promote investment opportunities in Business Process Outsourcing, specifically in the outsourcing of IT services. Furthermore, IDAL facilitates the creation of strategic international and local partnerships through joint ventures, equity participation, acquisition, and other mechanisms. It provides legal and administrative advice as well as sectoral studies to support potential investors. IDAL processed three projects in 2013 deemed eligible to benefit from incentives based on the Investment Law No. 360. Updated information on IDAL and its incentives can be found on their <http://www.investinlebanon.gov.lb/>.

Lebanon's economy performed sluggishly in 2013 for the third consecutive year but remained resilient, despite the country's political stalemate, deteriorating security conditions, and impacts of the conflict in Syria on Lebanon. The economy avoided a contraction in real terms and maintained monetary and financial stability. The economic slowdown is attributed to spillover from the Syrian crisis into the domestic political and security environment, which discouraged investment and tourism and affected Lebanese exports via land routes. Some mitigating factors, such as an influx of returning Lebanese expatriates and increased spending by Syrians in Lebanon, helped to partially alleviate these negative trends. According to the most recent projections made following the International Monetary Fund's (IMF) Article IV mission in May 2014, Lebanon's real GDP growth was estimated at 2.5 percent for 2012, and the IMF revised upwards its Economic Outlook growth estimates for 2013 and 2014 to 1.5 percent and around 2 percent, respectively. The World Bank in its April 2014 Lebanon Economic Monitor forecasted real growth of 1.5 percent in 2014, compared to 0.9 percent in 2013 and 2.2 percent in 2012. The economy witnessed a slight improvement in the first quarter of 2014 following cabinet formation, but growth continues to be driven mostly by household consumption, as investors adopt a wait-and-see attitude, delaying major investment decisions. The presence of an estimated 1.5 million Syrians seeking refuge in Lebanon has boosted domestic consumption of goods and services. Although financial inflows increased in 2013, they were not enough to offset the country's rising trade deficit. However, Lebanon's balance of payments (BoP) deficit was smaller in 2013, at \$1.1 billion compared to \$1.5 billion in 2012 and \$2 billion in 2011. In the first quarter of 2014, the BoP recorded a surplus of \$162 million, compared to a deficit of \$62.2 million in the corresponding period of 2013.

Some issues continue to cause frustration among local and foreign businesses. Impediments include red tape and corruption, arbitrary licensing decisions, complex customs procedures, archaic legislation, an ineffectual judicial system, high taxes and fees, flexible interpretation of laws, and weak enforcement of intellectual property rights. The World Bank/International Finance Corporation (IFC) in its 2014 Doing Business report ranked Lebanon 111 out of 189

countries worldwide and 9 out of 18 MENA countries in terms of ease of doing business. Lebanon improved in two out of the 10 indicators considered: resolving insolvency (up by 38 spots) and protecting investors (up by 2 spots). Lebanon's scores fell in the categories of starting a business, dealing with construction permits, getting electricity, registering property, getting credit, paying taxes, trading across borders, and enforcing contracts.

The government continues to express a strong commitment to improving the business environment as well as encouraging domestic and foreign investment and public-private partnerships, but some efforts have slowed. The Ministry of Economy and Trade's (MoET) amendments to the Code of Commerce to further streamline business and intellectual property legislation are still pending parliamentary approval. The MoET has revitalized efforts to support micro- and medium-sized enterprises and start-up firms. It also introduced e-registration for copyright and trademarks. A revised Public-Private Partnership (PPP) Law is being discussed in the Budget and Finance parliamentary committee, but official sources believe it could take several months to pass, after parliamentary elections scheduled for November 2014. In anticipation of the passage of the PPP Bill, the Higher Council for Privatization issued in February 2014 guidelines for PPP posted on its website: [www.hcp.gov.lb/](http://www.hcp.gov.lb/). Ratification of the PPP legislation could open new opportunities for local and international private sector investment in Lebanon. In 2013, 55 foreign companies, including three U.S. companies, opened offices or branches in Lebanon, according to statistics from the MoET.

Lebanon received mixed results in the World Bank's 2012 World Governance Indicators. The results showed minor improvements but still reflected a weak level of governance in Lebanon. Regarding individual indicators used in the survey, Lebanon's ranking improved in terms of voice and accountability, political stability, and control of corruption, and regressed in terms of government effectiveness, regulatory quality, and rule of law. Meanwhile, the World Economic Forum's 2013-2014 Global Competitiveness Index ranked Lebanon 103 out of 148 countries worldwide in terms of the level and quality of institutions, policies, and factors that determine the productivity of a country. According to the report, Lebanon continues to rank poorly in terms of infrastructure, macroeconomic stability, the supporting institutional environment, and innovation.

The government's priority is to maintain stability, given regional turmoil. However, it recorded progress on some sectoral fronts in 2013: continued work to upgrade and expand telecommunications services; the Ministry of Energy and Water (MoEW) contracted tenders to increase electricity production by 700 megawatts (MW), and also contracted two barges to provide 270 MW of additional power; and the Petroleum Authority (PA) Board launched the first offshore licensing round for oil exploration on April 30, 2013. These projects offer opportunities for U.S. technology and investors.

Lebanon is consistently rated near the bottom of the world in terms of internet download speeds, but speed has improved in recent years, including in 2013. Lebanon's connection to the submarine IMEWE (India-Middle East-Western Europe) ultra-high capacity fiber optic submarine cable, and its recent purchase of 25% of Cyprus' Alexandros cable have gradually resulted in higher internet speeds across the country. Lebanon and Cyprus signed an MoU for the construction of the EUROPA high-capacity submarine cable to link both countries, which is expected to be ready by 2015. The Ministry of Telecommunications (MoT)

commissioned international consultancy firm Booz & Co. to “validate, complement and extend” its study on restructuring the IT sector. The plan includes amendments to Law 431 (on the privatization of telecommunications, endorsed in 2002), taking into consideration new developments in the information technology (IT) sector such as mobile virtual network operators, liberalization of services, content providers, and other issues. The ministry’s new plan for the sector appears to represent a retreat, however, from the scope of earlier privatization commitments it made under previous governments. It keeps ownership of underlying infrastructure and control over telecommunications revenues firmly in the ministry’s hands. The plan awaits cabinet approval before it can be implemented, while the amendments to Law 431 will require parliamentary ratification.

Meanwhile, the MoT continued its expansion plan for mobile networks. The MoT is implementing projects to improve landline and mobile network infrastructure, to enhance coverage and quality of service, and to expand internet bandwidth. The MoT’s broadband expansion connecting local telephone centers with fiber optic networks should be completed in 2014. In the mobile sector, the MoT launched 3G services in October 2011 available across the country. Limited 4G data services were launched in May 2013 and will gradually expand in scope and geographical coverage. International cell phones and Blackberries don’t necessarily work in Lebanon without a local SIM card. Lebanon is also outside some major telecom companies’ global data plans (e.g. TMobile). In September 2012, Beirut Digital District, a pilot project for a state-of-the art business incubator and accelerator, was launched, while the MoT hopes to set up additional hubs outside the capital. Meanwhile, the GoL continues to contract the management of the two government-owned cellular companies to private operators, whose management contract was extended in March 2014 for three months, and the GoL is expected to launch a new tender when this latest extension expires. The Telecommunications Regulatory Authority (TRA) Board’s term in office expired in February 2012 and the cabinet has not appointed a new board since that time. According to Law 431, the TRA Board cannot be renewed; however, the acting TRA Chairman remained in place and the TRA continues to operate under the oversight and approval of the Minister of Telecommunications.

As for the power sector, in 2012, the MoEW contracted three projects to increase power production by an additional 700 megawatts (MW) for a total cost of \$850 million, based on Law 181 from September 2011. Work started in 2013 on two new power plants (by the same contractor) using reciprocating engines for Jieh (south of Beirut) and Zouk (north of Beirut), together providing a total of around 280 MW. The MoEW also contracted the construction of a 550 MW power plant in Deir Ammar (north Lebanon) in the first quarter of 2013, and site mobilization started in March 2014. When ultimately completed, these projects will add about 800 MW in new capacity. These projects are part of the MoEW policy paper for the power sector endorsed by the cabinet in June 2010, which aims to reach gradually 4000 MW of generation capacity by 2014; however, delays in project implementation, in part due to payment issues, will thwart efforts to reach the target date.

Lebanon is open for offshore oil exploration. On April 18, 2013, the MoEW prequalified 46 international oil companies (IOCs), including four U.S. firms, (out of 52 participants from 25 countries), to participate in Lebanon’s first offshore licensing round on April 30, 2013, but has had to postpone the bid deadline four times since November 2013; the latest deadline is August 14, 2014, assuming that the cabinet endorses two decrees - one a model Production

Sharing Agreement and the other the delineation of the ten offshore blocks - required for the licensing round to proceed. The cabinet's approval was still pending as of mid-May 2014. If the cabinet approves the two decrees in May 2014, then the contract award could occur by the end of 2014 or first quarter of 2015, and drilling could start at the end of 2015 or the beginning of 2016. Moreover, in January 2014, the MoEW signed a contract with U.S. company Neos Geosystems to perform an airborne onshore survey of the subsurface of the northern part of Lebanon, to help better understand hydrocarbon prospects onshore. Meanwhile, the Petroleum Administration (PA) has completed a draft onshore exploration law as well as a draft petroleum tax law, although both bills need to be approved by the Cabinet and then by Parliament. Information and documents are available on the PA website: <http://www.lpa.gov.lb>.

The maritime dispute with Israel over the extent of each nation's claims on the area of the Exclusive Economic Zone (EEZ) creates additional uncertainty for IOCs that might otherwise be interested in prospects for exploration activities in the blocks that include the disputed waters. In addition, Lebanon's regulatory framework and capacity in the hydrocarbons sector is still being developed and is largely untested when it comes to dealings with international companies.

The MoEW is keen to attract private sector participation in water and wastewater projects.

In March 2012, the cabinet approved the national water sector strategy that included construction of dams, hill lakes, transmission and distribution networks, storage tanks and consumer meters. In October 2012, the cabinet passed the national strategy for the wastewater sector. If implemented, both plans offer good opportunities for U.S. technology.

Other infrastructure projects also offer opportunities to foreign investors. The Council for Development and Reconstruction (CDR) is responsible for tendering and procuring funding for government physical infrastructure projects (electricity, telecommunications, roads, and public transport); social infrastructure (education, public health, social and economic development, land use, and environment); basic services (water supply, wastewater, and solid waste management); and productive sectors (agriculture, irrigation, ports, airports, tourism, and government buildings). Public infrastructure opportunities lie primarily in roads and highways, ports, electricity, education, solid waste management, wastewater, and water supply. As of the end of 2013, the CDR possessed a total of \$1.4 billion in loans and agreements ratified by parliament but not yet disbursed.

A foreigner can establish a business under the same conditions that apply to a Lebanese national, provided that the business is registered in the Commercial Registry. Foreign investors who do not manage their business from Lebanon do not need to apply for a work permit. However, foreign investors who own and manage their business from Lebanon must apply for an employer work permit and a residency permit. The employer work permit stipulates that the investor's share in the capital be not less than \$67,000 and that the investor pledge to hire three Lebanese and register them at the National Social Security Fund (NSSF) within six months. All companies established in Lebanon must abide by the Lebanese Commercial Code and regulations, and are required to retain the services of a lawyer. The judiciary upholds the sanctity of contracts. There are no sector-specific laws on acquisitions, mergers, or takeovers, except for bank mergers. Bidding criteria are clear and non-discriminatory but the evaluation process is often opaque.

Lebanese law does not differentiate between local and foreign investors, except in land acquisition (see property section below). Foreign investors can generally establish a Lebanese company, participate in a joint venture, or establish a local branch or subsidiary of their company without difficulty. Specific requirements apply for holding and offshore companies, real estate, insurance, media (television and newspapers), and banking.

The establishment of joint-stock corporations, limited liability, and offshore and holding companies is allowed under Lebanese law. A joint-stock corporation (Societe Anonyme Libanaise - SAL) is governed by Legislative Decree No. 304, dated January 24, 1942, under the Commercial Code. Limitations related to foreign participation include a general limitation on management participation (Article 144 stipulates that the majority of the board of directors should be Lebanese); indirect limitation with regard to acquisition of capital shares (Article 147); limitation on capital shares with regard to public utilities (Article 78); and limitation on capital shares and management with regard to exclusive commercial representation (Legislative Decree No. 34/67, dated August 5, 1967). In the financial sector, most establishments, including those in banking and insurance, must take the form of a joint-stock company.

A limited liability company (Societe a Responsabilite Limitee - SARL) is governed by Legislative Decree No. 35, dated August 5, 1967. It can be fully owned by non-Lebanese, and the management of the company can be controlled by non-Lebanese.

Holding and offshore companies follow the legal form of a joint-stock corporation and are governed by Legislative Decree No. 45 (on holdings) and Legislative Decree No. 46 (on offshore companies), both dated June 24, 1983, and amended by Law No. 19, dated September 5, 2008. A foreign non-resident chairman/general manager of a holding or an offshore company is exempt from the obligation of holding work and residency permits. Law No. 772, dated November 2006, exempts holding companies from the obligation of having two Lebanese persons or legal entities on their board of directors. All offshore companies must register with the Beirut Commercial Registry. Offshore banking, trust, and insurance companies are not permitted in Lebanon.

Law No. 296, dated April 3, 2001, which amended the 1969 Law No. 11614, governs foreign acquisition of property. The 2001 law eased legal limits on foreign ownership of property to encourage investment in Lebanon, especially in industry and tourism; abolished discrimination for property ownership between Arab and non-Arab nationals; and lowered real estate registration fees from six percent for Lebanese and 16 percent for foreigners to five percent for both Lebanese and foreign investors. The law permits foreigners to acquire up to 3,000 square meters of real estate without a permit, as acquiring more than 3,000 square meters requires cabinet approval. Cumulative real estate acquisition by foreigners may not exceed three percent of total land in each district. Cumulative real estate acquisition by foreigners in the Beirut region may not exceed 10 percent of the total land area. The law prohibits acquisition of property by individuals not holding an internationally recognized nationality. This restriction is primarily aimed at preventing Palestinian refugees residing in Lebanon from permanently settling in the country.

Measure	Year	Index/Ranking
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TI Corruption Index	2013	127 of 177
Heritage Economic Freedom	2014	96 of 178
World Bank Doing Business	2014	111 of 189
Global Innovation Index	2013	75 of 142
World Bank GNI per capita	2012	\$ 9,190

## 2. Conversion and Transfer Policies

There are no restrictions on the movement of capital, capital gains, remittances, dividends, or the inflow and outflow of funds. The conversion of foreign currencies or precious metals is unfettered. Foreign currencies are widely available and can be purchased from commercial banks or money dealers at market rates. There are no delays in remitting investment returns except for the normal time required by the banks to carry out transactions. There are no surrender requirements for profits earned overseas.

## 3. Expropriation and Compensation

Land expropriation in Lebanon is relatively rare. The Law on Expropriation (Law No. 58, dated May 29, 1991, Article One), as well as Article 15 of the Constitution, clearly specifies that expropriation must be "for the public utility" and calls for fair and adequate compensation. Compensation is paid at the time of expropriation and is often perceived as below market value. The government does not discriminate against U.S. investors, companies, or their representatives in expropriation.

The government, with the agreement of the parliament, established three real estate companies to encourage reconstruction and development in Greater Beirut: private corporation Solidere for Beirut's downtown commercial center; public company Elyssar for the southwest suburbs of Beirut; and public company Linord for northern Beirut. Linord has been dormant for years and Elyssar's projects have stalled since 2007. These companies have been granted the authority to expropriate certain lands for development; although in doing so, they have faced serious legal challenges from landowners and squatters. Several court cases are still pending against Solidere after 18 years of litigation.

## 4. Dispute Settlement

Over the last few years, the government has faced problems with previously-awarded contracts and resorted to international arbitration to resolve them. In 2005, the International Chamber of Commerce's Arbitration Court issued rulings favorable to the two private operators of the cellular network, Cellis (which was two-thirds owned by France Telecom) and Libancell, whose contracts were terminated by the government in 2001. The government negotiated a settlement and paid them compensation. The government has also settled a dispute with a Chinese contracting company working to expand the northern port of Tripoli.

Cases in Lebanese courts are not settled rapidly because of archaic procedures, a shortage of judges, inadequate support structures, and a traditional slowness in the handling of cases. Commercial litigation in Lebanese courts takes, on average, eight to 10 years. Politicians and powerful lobbying groups sometimes interfere in the court system. Local courts accept investment agreements drafted subject to foreign jurisdiction, if they do not contradict Lebanese law. Judgments of foreign courts are enforced subject to the "exequatur" obtained.

The Commercial Code (Book No. 5, Articles 459-668) and the Penal Code govern insolvency and bankruptcy. By law, a secured creditor has a right to share in the assets of a bankrupt party. Verdicts involving monetary values in contract cases are made according to the currency of the contract or its equivalent in Lebanese Lira at the official conversion rate on the day of the payment. Workers can resort to the Labor court and the National Social Security Fund to recover pay and benefits from local and foreign firms in bankruptcy.

International arbitration is accepted as a means for settling investment disputes between private parties. The Lebanese Center for Arbitration was created by local economic organizations, including the four Lebanese chambers of commerce, industry, and agriculture. The Center acts as an arbitrator in solving domestic and international conflicts related to trade and investment. Its statutes are similar to those of the International Chamber of Commerce in Paris.

Lebanon has an administrative judicial system that handles all kinds of disputes involving the state. The government accepts binding international arbitration of investment disputes related to contracts between foreign investors and the state. In the case of a concession or a project granted by contract by the state, the government does not accept binding international arbitration unless the contract includes an arbitration clause that obtained prior approval by cabinet decree. However, there is an exception for investors of countries that have achieved a signed and ratified investment protection agreement with Lebanon that stipulates international arbitration in case of dispute. Lebanon is a member of the International Center for the Settlement of Investment Disputes (ICSID - Washington Convention). In 2007 Lebanon ratified the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Lebanese law is in conformity with both conventions.

## **5. Performance Requirements and Investment Incentives**

The law imposes no performance requirements on investments. There are no requirements on foreign investors regarding geographic location, amount of local content, import substitution, export expansion, technology transfer, offset requirements, or source of financing. Investors are not required to disclose proprietary information as part of the regulatory approval process, except in the case of banks, which must obtain the Banque du Liban's (BdL, Lebanon's central bank.) approval for transfer of ownership of shares in most cases (BdL circulars are posted on <http://www.bdl.gov.lb>).

Foreign investors enjoy the same incentives as local investors. Foreigners doing business in Lebanon through a company, factory, or office must have work and residency permits. There are no discriminatory or excessively onerous visas, residence, or work permit requirements. Registration with a chamber of commerce is required for the import and handling of a limited

number of products that are subject to control requirements for safety reasons, but products with special import requirements constitute less than one percent of total tradable goods. Registration at the chambers of commerce is required for ensuring that established facilities meet safety, handling, and storage requirements.

The Investment Law divides Lebanon into three investment zones, with different incentives provided in each zone, and it encourages investments in the fields of technology, information, telecommunications and media, tourism, industry, and agriculture and agro-industry. Incentives include facilitating issuance of permits for foreign labor, tax incentives ranging from a 50 percent tax reduction for five years on income tax and tax on the distribution of dividends to total exemption of these taxes for 10 years starting from the date of operation (tied to the issuance of the first invoice), and exempting companies that list 40 percent of their shares on the Beirut Stock Exchange from income tax for two years. The Investment Law also allows for the introduction of tailor-made incentives through package deals for large investments projects, regardless of the project's location, including tax exemptions for up to 10 years, reductions on construction and work permit fees, and a total exemption on land registration fees. IDAL may exempt joint-stock companies that benefit from package deal incentives from the obligation of having a majority of their board of directors be Lebanese (Law No. 771, dated November 2006). Investors who seek to benefit from facilities in the issuance of work permits under "package deals" must hire two Lebanese for every foreigner and register them with the NSSF. Amendments to the Investment Law that would increase incentives provided to companies and increase the pool of start-ups operating in the ICT sector that could benefit from the incentives await parliamentary approval.

Other laws and legislative decrees provide tax incentives and exemptions depending on the type of investment and its geographical location. Industrial investments in rural areas benefit from tax exemptions of six or 10 years, depending on specific criteria (Law No. 27, dated July 19, 1980, Law No. 282, dated December 30, 1993, and Decree No. 127, dated September 16, 1983). Exemptions are also available for investments in south Lebanon, Nabatiyeh, and the Bekaa Valley (Decree No. 3361, dated July, 2, 2000). For example, new industrial establishments manufacturing new products will benefit from a 10-year income tax exemption. Factories currently based on the coast that relocate to rural areas or areas in south Lebanon, Nabatiyeh, and the Bekaa Valley benefit from a six-year income tax exemption. In April 2014, parliament enacted a law to reduce income tax on industrial exports by 50 percent.

The government reduces to five percent the tax on dividends for companies listed on the Beirut Stock Exchange (BSE), companies that open up 20 percent of their capital to Arab companies listed on their country's stock exchange or foreign companies listed on the stock exchange of OECD countries, and companies that issue Global Depository Receipts (GDRs) amounting to a minimum value of 20 percent of their shares listed on the BSE.

Domestic and foreign investors may benefit from a 4.5 percent subsidy on interest on new loans granted after 1/1/2012 amounting to up to \$10 million per project (with a ceiling of \$40 million) provided by banks, financial institutions, and leasing companies to industrial, agricultural, tourism, and information technology establishments. The subsidy extends for a maximum of seven years, with a grace period of two years. Investors can also benefit from

loan guarantees from Kafalat, a semi-private financial institution that assists small- and medium-sized enterprises (SMEs) in accessing subsidized commercial bank loans, with a grace period of two years.

Domestic and foreign investors may also benefit from regulations issued by the BdL to stimulate economic activity. The BdL launched in January 2013 a financial package of approximately \$1.47 billion available to commercial banks to boost economic growth; this program of incentives aims to stimulate lending at a reduced cost for housing loans, investment in productive sectors, and energy-saving and renewable energy projects for lending within a one-year term. In November 2013, the BdL expanded the stimulus package by an additional \$332 million in Lebanese Lira loans to be earmarked to finance new projects or develop existing ones. Moreover, in August 2013, the BdL issued a circular authorizing banks to directly invest in technology start-ups up to 2-3% of equity by providing banks with interest-free facilities over a maximum period of 7 years. It also issued a circular indicating that the BdL will start, in cooperation with the EU, to subsidize loans of \$5 million or less that are extended to finance environmentally-friendly energy projects. In addition, in mid-November 2013 the BdL Governor announced an \$800 million financial package to stimulate lending in 2014 to contain inflation and preserve the stability of the currency and interest rates.

Customs exemptions are granted to industrial warehouses for export purposes. Companies located in the Beirut Port or the Tripoli Port Free Zone benefit from customs exemptions and are exempt from the value-added tax (VAT) for export purposes. They are also not required to register their employees with the NSSF if they provide equal or better benefits.

## **6. Right to Private Ownership and Establishment**

The right to private ownership is respected in Lebanon. Foreign private entities can establish, acquire, and dispose of interests in business enterprises and can engage in all kinds of remunerative activities.

## **7. Protection of Property Rights**

The concept of a mortgage exists, and secured interests in property, both movable and real, are recognized and enforced. Such security interests must be recorded in the Commercial Registry and the Real Estate Registry. The Real Estate Law governs acquisition and disposition of all property rights by Lebanese nationals, while Law No. 296, dated April 3, 2001, governs real estate acquisition by non-Lebanese.

Lebanon's legislation generally aims to provide Trade-Related Intellectual Property Rights (TRIPS) intellectual property rights (IPR) protection, but enforcement of intellectual property rights is weak. Lebanon is not a member of the World Trade Organization (WTO). The Ministry of Economy and Trade's (MoET) amendments to the Code of Commerce to improve the IPR environment by further streamlining business and intellectual property legislation are still pending parliamentary approval, but increased political will and additional resources are needed. In collaboration with World Intellectual Property Organization (WIPO), MoET's Intellectual Property Protection Office's (IPPO) conducted several public and in-house seminars in 2013, focusing on raising awareness and improving technical capabilities. The

MoET officially launched online copyright and trademark registration in January 2013 as part of its overall efforts to enhance its online services portal.

In 2011, the GoL and the U.S. government began work on developing an action plan and setting a bilateral IPR working group to foster communication and sharing of best practices on IPR issues. The U.S. Trade Representative's Special 301 annual review of intellectual property protection worldwide has kept Lebanon on its watch list since 2008. The establishment of the Cyber Crime and Intellectual Property Unit at the Internal Security Forces (ISF) in 2006 has led to moderate progress in IPR enforcement. During 2013, the government raided a number of shops and warehouses and seized counterfeit material. Although cable television piracy persists, following a series of lawsuits from major cable TV operators, illegal cable providers are now paying a fee to the respective right holders. The International Intellectual Property Alliance has noted that copyright protection in recent years has not witnessed major improvements, highlighting the need for better enforcement of the law to deter infringers. A study conducted by the MoET in collaboration with WIPO on the economic contribution of the software industry in Lebanon estimated that the industry continued to suffer from a weak legal framework, with software piracy rates reaching levels as high as 71% in 2013. Unauthorized copies of internationally patented pharmaceuticals continue to be approved by the Ministry of Public Health, although Decree No. 571 issued in 2008 contains requirements on the treatment of undisclosed information in registration applications. There has been no progress in inter-ministerial efforts towards amending the Patent Law to define what relates to undisclosed information (Article 47).

Existing intellectual property rights laws cover copyright, patent, trademarks, and geographical elements.

Lebanon's 1999 Copyright Law largely complies with WTO regulations and needs only minor amendments to become fully compatible. Amendments to the current law have been stalled in parliament since 2007. Registration of copyrights in Lebanon is not mandatory, and copyright protection is granted without the need for any registration.

A modern and TRIPS-compatible Patent Law, approved in 2000, provides general protection for semiconductor chip layout designs and plant varieties, but no adequate coverage is provided for trade secrets. Amendments to the Patent Law, regarding undisclosed information, are still being studied by the relevant ministries. The Lebanese legal regime does not require examination, prior to registration, of patents for novelty, utility, and innovation. Simple patent deposit is required at the MoET, where the application is examined only for conformity with general laws and ethics.

The Council of Ministers approved the draft of a new industrial design and trademark law in October 2007 and a geographical indications law in May 2007, and both still await parliamentary ratification. While the 1924 Law on Industrial Property does not require examination of trademarks and calls for simple deposit, partial examination of trademarks prior to registration became the norm starting in 2001. Registration of industrial and commercial trademarks takes about two weeks.

Lebanon signed the Singapore Treaty on Trademarks in December 2006; the treaty is awaiting parliamentary ratification.

Lebanon's parliament ratified the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty (WPPT) in February 2010. Ratification documents have not yet been deposited with WIPO, however, because implementation of these treaties requires an amendment to Lebanon's Copyright Law that has been submitted and is awaiting parliament's ratification.

Lebanon signed a Trade and Investment Framework Agreement (TIFA) with the United States in November 2006.

Lebanon began pursuing WTO accession in 1999, but has done little in recent years to advance this process. A U.S. Agency for International Development (USAID)-funded technical assistance project staffed by consultants from Pricewaterhouse Coopers and Booz Allen Hamilton worked with the GoL from May 2000 to October 2007 (and with U.S. government Middle East Partnership Initiative funding from November 2007 to September 2009) to revise, update, and draft appropriate laws to facilitate WTO accession. In December 2009, USAID renewed this project, contracting Booz Allen Hamilton to continue providing support for Lebanon's WTO accession for the next three years, with an emphasis on bolstering the private sector's capacity to hold the government accountable for needed trade reforms. The project officially ended in October 2012.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Tim Forsyth [EmbassyBeirutInvestment.gov](mailto:EmbassyBeirutInvestment.gov)

Local lawyers list: <http://lebanon.usembassy.gov/attorneys.html>

## **8. Transparency of Regulatory System**

Private sector companies should be wary when bidding for public projects, given lack of transparency, clear regulations, and fair consideration of bids. There is no one specific law regulating all aspects of government procurement in Lebanon. Government administrations often award contracts by mutual agreement, without calling for a tender, and the government does not always establish clear procedures for the process.

In Lebanon, the procedures necessary for business entry, operation, and exit are not streamlined. However, the process does not discriminate against foreign investors.

Red tape plagues bureaucratic procedures. International companies are faced with an unpredictable, opaque operating environment and often encounter unanticipated obstacles or costs late in the process. Even so, according to the World Bank's Doing Business 2014 report, it takes entrepreneurs only five steps to start a business in Lebanon, compared to the global average of seven steps and average of eight procedures in Arab countries. The report may be accessed at <http://www.doingbusiness.org>.

The MoET launched in December 2011 a project to assess and redesign the overall business processes of the ministry. The purpose is to improve the quality of the services offered to citizens, reduce the number of complaints, and automate value-added processes. Currently, IPR trademark registration, economic and trade indicators, and market surveillance reports are available online at <http://www.economy.gov.lb>.

The government does not publish proposed laws and regulations in draft for public comment. The normal practice when preparing legislation is to form a drafting committee composed of both public and private sector stakeholders. However, Telecom Law No. 431 requires the Telecommunication Regulatory Authority (TRA) to issue regulations in draft for public consultation in an effort to ensure full transparency and enable the general public to play a role in shaping future regulations. In general, legal, regulatory, and accounting systems are consistent with international norms.

Lebanon still lacks an access to information law that aims at promoting transparency at both the private and public sector levels. According to Transparency International (TI)'s Lebanon chapter, the Lebanese Transparency Association (LTA), several ministries took initiatives to promote transparency in 2013, while the Lebanese Parliament failed to enact new legislation. In 2012, the Ministry of Finance (MoF) updated its website to include a section on e-taxation, allowing citizens to acquire an electronic tax ID to assist them in facilitating tax declarations. Citizens with a tax ID are no longer obliged to physically visit the tax departments to declare their taxes. The new tax inquiry section also allows citizens to identify the amount of tax on their properties without visiting the tax departments. In September 2013, the MoF launched its electronic payment system whereby citizens and companies would be able to file and pay their taxes online 24/7, either through the ministry's website or through the websites of Lebanese commercial banks. The Ministry of Tourism in 2013 inaugurated the first one-stop shop to process licensing requests from private developers of touristic facilities. Initiated in collaboration with the Minister of State for Administrative Reform, the office is expected to be operational sometime in 2014. The MoET continued publishing its consumer protection newsletter, inaugurated in 2010.

The MoF continues to publish reports on public finance, debt, foreign trade, and foreign aid, in addition to thematic reports and annual budget brief notes, all available online. The monthly report "Salaries, Wages and Related Benefits" was launched in February 2011. The "Citizen Budget 2010," developed in collaboration with the LTA to facilitate the ordinary citizen's understanding of the government budget revenues and spending was also published and disseminated in 2011. Reports are available at: <http://finance.gov.lb/>.

As part of the National Network for Access to Information, the LTA, MoF and other stakeholders helped draft laws on access to information and whistleblower protection, both which still await parliamentary ratification since 2009. As one of the members of the National Network for Access to Information, the MoF continues to organize workshops, raise awareness, and build capacity of civil servants on access to information and whistleblower protection.

The LTA, in partnership and cooperation with the Center for International Private Enterprise (CIPE), established in 2008 the Lebanon Anti-Bribery Network (LABN), which was re-launched in 2013, for the specific purpose of combating bribery in the country. LABN invited MoF to become a member of this network and requested its involvement in LABN's activities in June 2013.

Under its Lebanon Anti-Bribery Network, the LTA launched the Code of Ethics and Whistleblower Protection for small and medium enterprises (SMEs) and provided a workshop for owners and directors of companies on the importance of ethics and on ways of applying the code. LTA is also preparing a handbook and workshop series on "Know Your Rights: A

Guidebook for Dealing with the Public Administration," which aims to empower Lebanese citizens to fight bribery by educating them on their related rights.

## **9. Efficient Capital Markets and Portfolio Investment**

Lebanon places no restrictions on the movement of capital in or out of the country for investment or other purposes. The government permits the free exchange of currencies, precious metals, and monetary instruments, both domestically and internationally. There are no restrictions on payments and transfers for current international transactions. According to the World Bank's latest estimates, remittance inflows to Lebanon remained almost constant at \$7.2 billion for 2013, or 16.1 percent of total remittances to the MENA region. Lebanon is considered by the World Bank to be one of the top global recipients of remittances relative to the size of its economy. Remittances as a share of GDP reached on average 20 percent over the past 20 years, representing one of the highest ratios worldwide. According to the World Bank, remittances per capita reached \$2000 in 2013, the second highest ratio worldwide.

Credit is allocated on market terms, and foreign investors can get credit facilities on the local market. The private sector has access to overdrafts and discounted treasury bills, in addition to a variety of credit instruments, such as housing, consumer, or personal loans, and loans to SMEs. The International Finance Corporation (IFC) and the European Investment Bank (EIB) have been separately extending financial facilities through the Lebanese banking sector to help SMEs in specific productive sectors, such as high-tech, industry, and tourism. Since 2007, the Overseas Private Investment Corporation (OPIC) has extended \$300 million in credit line guarantees through Citibank to select Lebanese banks for private sector lending.

The Beirut Stock Exchange (BSE) quotes six commercial banks, 25 sovereign Eurobond issues (23 in U.S. dollars, one in Euros, and one in Lebanese Lira), and four companies, including Solidere, one of the largest publicly held companies in the region. Trading is a combination of auction and continuous trading. In spring 2008, the BSE authorized e-trading. Legislation allows the listing of tradable stocks or papers on the BSE. On August 4, 2011, the Parliament endorsed both the Insider Trading Law and the Capital Markets Law to regulate and supervise capital market activity. The BSE suffers from lack of liquidity, with low trading volumes, in the absence of significant institutional and foreign investors, and had an annual trading volume of only 3.6 percent of market capitalization in 2013. The weak market turnover discourages investors from committing funds to the market and discourages issuers from seeking listings on the BSE. To stimulate market activity, the Capital Markets Authority (CMA) in Lebanon, which acts similarly to the U.S. Securities and Exchange Commission, issued several circulars in 2013 to regulate disclosure policy of joint stocks and mutual funds as well as to encourage investment in start-up companies. The Capital Markets Law calls for the corporatization and then privatization of the BSE within a two-year period from the date the CMA is appointed; however, by May 2014 no serious action has been taken to corporatize the BSE. Lebanon hosts the headquarters of the Arab Stock Exchange Union.

The banking regulatory system is transparent and consistent with international norms. Banks conform to Bank for International Settlement (BIS) standards and International Accounting Standards (IAS). In 2011, the BdL issued three circulars for corporate governance in the banking sector, and in January 2013, it issued a comprehensive circular with more stringent regulations on compliance in banks and financial institutions. In 2014, the Banking Control



Commission (BCC, the banks' regulatory body) created a new unit in charge of the full implementation of "Consumer Protection" based on the circulars issued by the BdL (in 2010) and by the BCC (in 2012).

Lebanon has legislation regulating issuance of and trading in bank equities. Law No. 308 on unification of bank shares allows banks to increase their capitalization and shareholder base, as well as to optimize trading of bank shares on the BSE. Parliament has ratified a law on asset securitization. There are no restrictions on portfolio investment, and foreign investors can invest in Lebanese equities and fixed income paper.

The banking system enjoys a high financial standing with a capital adequacy ratio of 12.2 percent as of June 2013 (compared to eight percent as set by Basel II) and sound liquidity, with a foreign currency prime liquidity ratio exceeding 45 percent of foreign currency deposits. The Lebanese banking sector has complied with Pillars I and II of the Basel II Accord (new capital adequacy ratio and supervisory review process on economic capital of banks respectively). The BdL and the BCC will continue issuing new circulars requiring banks to comply with Pillar III (transparency and market discipline) of Basel II. The BdL and the BCC have established a steering committee to follow up on the new Basel III Accord. In December 2011, the BdL issued a circular that sets an agenda for the implementation of Pillar I of Basel III with more conservative rules, such as raising total equity capital adequacy ratio (including Capital Conservation Buffer of 2.5 percent) to reach progressively 12 percent in 2015 (compared to the eight percent required by Basel III). Lebanese banks are preparing to be Foreign Account Tax Compliance Act (FATCA) compliant.

International banks established in Lebanon, such as Standard Chartered Bank, Emirates Lebanon Bank, HSBC, Citibank, and Qatar National Bank remain active. Many sectors are dominated by traditional businesses held by commercially powerful families. The government is trying to improve the transparency of such firms in order to help solidify an emerging capital market for company shares.

The total domestic assets of Lebanon's five largest commercial banks reached about \$90 billion in 2013 (or about 52.4 percent of total banking assets), according to BdL data. Meanwhile, the total consolidated assets of Lebanon's five largest commercial banks reached about \$111.5 billion in 2013. About 3.98 percent of total loans were estimated as non-performing by end-February 2014. Banks maintained around 55.3 percent of specific provisions against non-performing loans as of February 2014, while the remaining 44.7 percent were covered by collective provisions and adequate collateral.

Lebanon is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF) and received its first MENAFATF Mutual Evaluation during the Tenth Plenary held November 9-11, 2009, in Beirut. Lebanon was upgraded from "partially compliant" to "largely compliant" on several core recommendations, including timely feedback by Lebanon's financial intelligence unit (FIU). As a result of this improvement, Lebanon was subject to only a normal review, and presented its first Follow Up report highlighting progress achieved during the 14th MENAFATF Plenary in September 2011, with a second follow up report submitted during the 17th MENAFATF Plenary in April 2013. The next follow up report will be submitted to the 19th MENAFATF Plenary initially planned in the first half of 2014, but the date has not yet been set.

## **10. Competition from State-Owned Enterprises**

The GoL has a monopoly in the utility sector (Ogero for telecom landlines, and two mobile companies; Electricite du Liban-EDL for electricity production and transmission; and four water authorities); a casino (Casino du Liban, a mixed public-private enterprise); tobacco procurement, manufacturing, and sales (La Regie des Tabacs et Tombacs); as well as the national airline (Middle East Airlines-MEA), whose monopoly ends in 2024. Other major state-owned enterprises or public institutions include the Beirut, Tripoli, Sidon, and Tyre ports; the Rashid Karami International Fair (in northern Lebanon); the Sport City Center; and two real estate development entities, ELYSSAR and LINORD. The GoL also owns shares in Intra Investment Co., a mixed public-private investment company, and the latter owns 96.62 percent of Finance Bank – a Lebanese commercial bank.

While, by law, electricity production is restricted to EDL, there are numerous private investors operating generators across the country that sell electricity to citizens at much higher prices than EDL during power cuts. This sector remains unregulated. EDL has awarded a few concessions to privately-owned companies for power distribution in specific regions, and these companies have expressed interest in producing electricity to meet customer demand. On April 10, 2014, the parliament granted the cabinet for a period of two years the authority to license private companies to generate electricity. In mid-2012, three private companies contracted by EDL began handling bill collection, maintenance, and power distribution services. Moreover, the GoL continues to contract the management of the two cellular companies to two private operators.

The SOEs and public institutions are subject to oversight by the concerned ministries. Public institutions need the approval of concerned ministries for major business decisions. They have independent boards staffed primarily by politically-affiliated individuals appointed by the cabinet in public institutions and by shareholders in SOEs. The SOEs and public institutions are required by law to publish an annual report and submit their books for independent audits as well as send their books to the Court of Audit.

The GoL currently has no plans to privatize SOEs or public institutions. MEA has put on hold its plans to list 25 percent of its shares on the BSE as a first step toward privatization pending an improvement in investor confidence, in order to ensure that its shares will not be undervalued when traded on the BSE.

## **11. Corporate Social Responsibility**

In the last four years, Lebanese firms and member firms of the American-Lebanese Chamber of Commerce have become increasingly aware of corporate social responsibility (CSR), good governance, and the value of providing information to customers. Firms who pursue CSR are viewed favorably. The LTA reports that more companies are approaching CSR for corporate governance assessments and its corporate governance guidelines and toolkits for family-owned enterprises and listed companies.

## **12. Political Violence**

Political violence continued in 2013 due to spillover effects from the Syrian conflict. In April 2014, the situation slightly stabilized with the implementation of a security plan by the Lebanese government in Tripoli and villages in the Bekaa Valley along the Syrian border. By

early 2014, there were over one million officially registered Syrian refugees with the UN High Commissioner for Refugees, severely straining local resources and services. The massive car bomb explosion in Beirut that killed former minister Mohammad Chatah on December 27, 2013 along with seven others represented one of the largest and deadliest attacks against a public official since the 2005 assassination of former Prime Minister Rafiq Hariri. Sporadic clashes continued across the country, especially in Tripoli, where supporters and opponents of the Syrian regime sometimes employed heavy weaponry in upsurges of violence with severe clashes during the year, including two bombs that exploded simultaneously on August 23 in front of al-Taqwa and al-Salam mosques, killing 47 and injuring 600 persons. Lebanon also suffered from multiple suicide and car bomb attacks, in Tripoli, the southern suburbs of Beirut, and the Bekaa Valley.

There have been numerous instances of incursions by Syrian forces across the border into Lebanese territory (much of the border is non-demarcated, contributing to further instability on the border). Cross-border shelling against towns in the north and in the Bekaa Valley happens almost daily. In August 2012, the United States designated as a terrorist organization Hezbollah for its ongoing support to Syrian President Bashar al-Assad and its fighting in support of the Assad regime. Hezbollah continued to accelerate its engagement in the fighting in Syria on behalf of the regime and some Lebanese Sunni individuals and groups have supported the Syrian opposition.

On February 1, 2013, armed clashes between an army patrol and gunmen on the outskirts of Aرسال village in the Bekaa resulted in the death of an officer, a soldier, and one suspect. According to a press statement issued by the army, "the army patrol was chasing someone suspected by the courts of several terrorist operations in the outskirts of the town of Aرسال when the patrol fell into an armed ambush." Three more soldiers were killed in an ambush on their position on the outskirts of Aرسال in May 2013 and similar incidents occurred in Sidon and the Bekaa Valley.

During 2013, numerous incidents of kidnapping for ransom were reported. Lebanon is one of several countries for which the U.S. Department of State has issued Travel Warnings because of long-term, protracted conditions that make the country dangerous or unstable. U.S. companies and visitors are advised to assess carefully the situation in Lebanon by consulting the Department's Travel Warning and its Country Specific Information at <http://travel.state.gov>. These documents contain essential security and safety information on travel to Lebanon.

The U.S. government considers the potential threat to U.S. Embassy personnel assigned to Beirut sufficiently serious to require them to live and work under significant security restrictions. These practices limit, and may occasionally prevent, the movement of U.S. Embassy officials and the provision of consular services in certain areas of the country. U.S. citizen visitors are encouraged to contact the Embassy's Consular Section for the most recent safety and security information concerning travel to Lebanon.

### **13. Corruption**

There is rampant corruption when dealing with the Lebanese public sector. According to Transparency International's (TI) 2013 Corruption Perception Index (CPI), Lebanon ranked 127 out of 177 countries worldwide and 13 out of 19 MENA countries. Based on its score, Lebanon

remained in the top 50 most corrupt countries in the world. TI noted that the country's "deeply entrenched nepotism networks" made civil society efforts against corruption very difficult, while anti-corruption legislation exists but is not properly enforced. The LTA blames political paralysis for preventing the passage of various legal reforms (including draft laws against illicit enrichment, access to information, and whistle blower protection) with which the organization has been closely involved to combat corruption. The index measures the perception of corruption by public officials and politicians and focuses on corruption in the public sector, defined as an abuse of official power for private interests. LTA's website: <http://www.transparency-lebanon.org>.

The International Finance Corporation (IFC) and the LTA signed an MOU on October 11, 2007, to establish the Institute of Directors (IoD) on Corporate Governance in Lebanon, which became operational in 2010. The IFC provided a \$250,000 grant for the institute, which provides training courses on corporate governance, offers consultancy services, carries out research and educational activities, and organizes awareness-raising private sector events in Lebanon and the MENA region. In 2011, the IoD launched a guidebook focused on Corporate Governance stories and solutions in the MENA region.

LTA established the Lebanese Advocacy and Legal Advice Center (LALAC) program to inform citizens of their rights and to encourage victims and witnesses to take action against cases of corruption. LALAC operates a hotline for victims and witnesses to call and report cases of corruption and receive free legal advice and assistance with their case. The program is currently funded by the European Union, the Lebanese Renaissance Foundation, and the Center for International Private Enterprise (CIPE). In March 2013, LTA launched a one-year project entitled "Corruption Investigator," funded by the United States Agency for International Development (USAID). The project aimed at facilitating citizens' access to information throughout various media outlets to promote transparency and accountability and to advocate for a democratic community.

The Ministry of Tourism launched the Lebanese Observatory for Transparency in December 2012, which is aimed at fighting corruption, raising the level of transparency, and identifying achievements and practices in transparency that would constitute a role model for the community. The observatory hopes to attract Lebanon's youth to discuss and debate methods and policies that would help fight corruption and, therefore, raise confidence in the country's institutions and values.

Lebanon has laws and regulations to combat corruption, but these laws are not always enforced. According to Lebanese law, it is a criminal act to give or accept a bribe. The penalty for accepting a bribe is imprisonment for up to three years, with hard labor in some cases, and a fine equal to at least three times the value of the bribe. Bribing a government official is also a criminal act. The Central Inspection Directorate is responsible for combating corruption in the public sector, while the public prosecutor is responsible for combating corruption in the private sector. In April 2009, Lebanon ratified the UN Convention against Corruption. Lebanon is not a signatory to the OECD Convention on Combating Bribery.

Corruption is more pervasive in government contracts (primarily in procurement and public works), taxation, and real estate registration than in private sector deals. It is widely believed that investors routinely pay bribes to win government contracts, which are often awarded to companies close to powerful politicians and businessmen. The law provides criminal

penalties for official corruption; however, the government did not implement the law effectively, and officials often engaged in corrupt practices with impunity and on a wide scale. Government security officials, agencies, and police were subject to laws against bribery and extortion. In practical terms the lack of strong enforcement limited the laws' effectiveness. The MoF has implemented reforms aimed at enhancing transparency and fighting corruption including requiring taxpayers to file exclusively through mail and to pay through banks, privately-owned Liban Post, or OMT, a money-transfer company. In 2007, an automated document tracking system for taxpayers' inquiries was implemented and a 24/7 call center was launched, as well as a service enabling taxpayers to handle the Built Property Tax transactions through Liban Post. In 2008, the Tax Procedures Code was ratified, unifying tax procedures, specifying deadlines for tax transactions and defining taxpayers' rights and obligations. The MoF launched a portal in 2010, providing access to economic, financial and fiscal information. The MoF also initiated the development and distribution of the tax calendar in order to increase taxpayers' awareness of their rights and obligations. In 2011, the collection function was transferred to the regional tax offices. In August 2012, the MoF launched the Built Property Tax online service on its portal enabling inquiries for due Built Property Tax, and filing for built property tax online starting August 2013. Also, in September 2012, taxpayers were able to register for e-services through the MoF portal. Citizens can also file their VAT taxes online. These services are expected to decrease corruption in the tax sector.

On the customs front, and to ensure trade facilitation, transparency, and security, remote filing of manifests and declarations was introduced in 2011. A new version of the ASYCUDA WORLD software (Automated System for Customs Data) was implemented to fill the gaps of the previous version. Transit trade applications can also be now filled online. Work has begun for Lebanon's Industrial Research Institute to submit its certificate of conformity online to further facilitate trade procedures Customs also established an Intelligence Unit to detect counterfeiting and fraudulent operations. Nonetheless, there were press reports in 2013 of corruption and bribery in the operations of Lebanese Customs at major facilities such as the Port of Beirut. Members of the business community report that bribery was sometimes the only way to avoid lengthy and expensive delays in the processing of imported products at the ports. Lebanese Customs hopes to implement e-payment of customs operations, a step that many hope will help combat corruption, but the process has been delayed.

Within the context of the modernization and development of the Customs clearance process of goods, several modules were developed in 2013 inside ASYCUDA World in order to enhance transparency and trade facilitation, on the one hand, and improving the Customs security and controls, on the other. To enhance security, Lebanese Customs currently has cameras on all of the Port of Beirut gates along with their private fiber network in order to remotely monitor and store in- and out-goods transactions. Further, Lebanese Customs decided to implement and initiated the first phase of the Paperless, E-Government and Single Window projects. In addition, an MoU was also prepared to create a legal framework basis for the second phase of these three projects; the generic MoU will be adjusted according to the needs of each Lebanese administration agreeing to join the Lebanese Customs Single Window project.

#### **14. Bilateral Investment Agreements**

The U.S. has neither a bilateral investment treaty (BIT) with Lebanon, nor an agreement to prevent double taxation. Preliminary discussions for a BIT began in 2001 but have been pending ever since.

In November 2006, the United States Trade Representative (USTR) and the MoET signed a Trade and Investment Framework Agreement (TIFA). Apart from pledging to foster an environment conducive to mutual trade and investment, the TIFA requires both parties to set up a United States-Lebanon Council on Trade and Investment that would meet twice a year or more to consult on trade and investment impediments and any other issues of concern. The council, which has not yet been set up, will seek and consider the views of private sector representatives in both countries. Under the TIFA, the United States and Lebanon agreed to a consultation mechanism that may be activated by either party within 60 days in the event of a dispute or other development affecting trade relations.

Lebanon signed the Euro-Mediterranean Partnership (ENP) agreement in 2002, and the interim agreement entered into force in March 2003. The final agreement came into force in April 2006 and the tariff reductions on imported products from the EU started in 2008. In 2012, Lebanon and the EU reviewed the ENP action plan and agreed on a new plan covering 2013-2015. Lebanon is considering signing the PAN EUROMED Regional Convention on Rules of Origin and preparing for the negotiation of the Agadir agreement.

In 2004, Lebanon and the European Free Trade Association (EFTA) signed an FTA. In November 2010, Lebanon and Turkey signed an association agreement establishing a free trade area that will reduce barriers to the free movement of goods, services, capital, and people between the two countries over the next 10 years. The agreement has yet to be ratified. Lebanon has also signed the Greater Arab Free Trade Agreement, which gradually replaced the bilateral FTAs signed with Arab countries including Tunisia, Morocco, Egypt, Iraq, Jordan, Syria, Sudan and the Gulf Cooperation Council states. A regional Economic and Trade Association Council between Lebanon, Syria, Jordan, and Turkey was announced in July 2010.

Lebanon has signed bilateral investment agreements with the following countries (in alphabetical order): Armenia, Austria, Azerbaijan, Bahrain, Belarus, Belgium/Luxemburg, Benin, Bulgaria, Canada, Chad, Chile, China, Cuba, Cyprus, Czech Republic, Egypt, Finland, France, Gabon, Germany, Greece, Guinea, Hungary, Iceland, Iran, Italy, Jordan, Kuwait, Malaysia, Mauritania, Morocco, Netherlands, OPEC Fund, Pakistan, Qatar, Romania, Russia, Slovakia, South Korea, Spain, Sudan, Sultanate of Oman, Sweden, Switzerland, Syria, Tunisia, Turkey, Ukraine, the United Arab Emirates, the United Kingdom, and Yemen.

Lebanon has signed bilateral tax conventions with 32 countries, but not with the United States.

## **15. OPIC and Other Investment Insurance Programs**

On February 10, 1981, Lebanon and the United States signed an OPIC agreement in Beirut, but no investment using OPIC insurance coverage was undertaken until 1996. OPIC is currently engaged with Lebanon in three areas: insurance, financing, and investment. Since 2006, OPIC has worked with Citibank on a program that offers loans to the private sector (SMEs, retail, and housing) through selected Lebanese commercial banks. This program

began in January 2007, and to date, OPIC has provided \$300 million in credit line guarantees.

The Lebanese government's National Investments Guarantee Corporation (NIGC) continues to insure new investments against political risks, riots, losses due to non-convertibility of currencies, and transfer of profits. Other major trade/investment insurance programs operating in Lebanon include COFACE (France), ECGD (UK), HERMES (Germany), SACE (Italian), and IAIGC (Arab Consortium). Lebanon has been a member of the Multilateral Investment Guarantee Agency (MIGA), part of the World Bank, since 1994.

The average U.S. dollar value of the local currency has been pegged by the BdL at Lebanese Lira (LL) 1,507.5 to the dollar for the last 17 years; however, the dollar continues to trade in the business market at LL 1,500. The GoL has repeatedly expressed its commitment to maintaining a stable currency. With record high foreign assets (excluding gold) of \$36.35 billion as of mid- April 2014, covering 79 percent of LL money supply, the BdL has the ability to maintain a stable \$/LL rate for some time. Lebanon has one of most heavily dollarized economies in the world; as of February 2014, 66 percent of bank deposits were dollarized, and businesses commonly accept payment (and return change) in a combination of LL and U.S. dollars.

## **16. Labor**

The 1946 Labor Law provides for written and oral contracts and specifies a maximum workweek of 48 hours (with several exceptions, notably in agriculture corporations). The law provides for the right of association and the right to organize and bargain collectively. Lebanon is a member of the International Labor Organization (ILO) Convention.

Lebanon's working population (aged 15 and above) totals 1.2 million, including foreign residents but excluding the seasonal work force, according to CAS's 2011 Labor Market in Lebanon report. The Central Administration of Statistics (CAS) estimated Lebanon's population in 2007 at 3.75 million (their most recent estimate), excluding Palestinians in the refugee camps, seasonal workers, and now Syrian refugees. The IMF estimated the population at 4.467 million in 2013. According to CAS, unemployment (aged 15-64) reached 6.4 percent in 2009, and rates were higher among women (10 percent) than men (five percent). The World Bank estimates unemployment will double to 20 percent between 2012 and 2014, in large part due to the Syria crisis. As of April 2014, Lebanon had over one million Syrian refugees registered with the UN High Commissioner for Refugees (UNHCR). The unemployment rate is somewhat attenuated because large numbers of Lebanese citizens seek work outside Lebanon, including in Arab countries and the Gulf.

Local unskilled labor is in short supply. Arab (mainly Syrians, Egyptians, and Palestinian), Asian, Indian, and African laborers are hired to work in construction, agriculture, industry, and households.

Lebanon has a General Labor Confederation (CGTL), recognized by the government, whose membership is limited exclusively to Lebanese workers. The CGTL's activities are mainly limited to demanding cost-of-living increases and other social benefits for workers. The general labor-management relationship remains difficult and the Labor Law is not always properly enforced. Given its own political bias, the CGTL has been sometimes accused of

working for its political interests and of being ineffective in fighting for workers' rights. Recently, it has been overshadowed by other labor groupings, most notably the Union Coordination Committees, lobbying in May 2014 the GoL to pass an increase in the salary scale for public sector workers.

### **17. Foreign Trade Zones/Free Ports**

Foreign-owned firms have the same investment opportunities as Lebanese firms. Lebanon has two free zones in operation, the Beirut Port and the Tripoli Port. The WTO-compatible Customs Law issued by Decree No. 4461 fosters the development of free zones. The GoL also passed Law No. 18, dated September 5, 2008, to set up a Special Economic Zone (SEZ) in Tripoli to attract investment in trade, industry, services, storage, and other services which granted investors tax exemptions and other privileges. USAID provided technical assistance to the GoL for preparing a feasibility study for Tripoli SEZ (TSEZ) in 2011. The next steps for the GoL include appointing the TSEZ Authority, amending some laws and decrees, and implementing them to develop the zone, but by May 2014 no progress has been achieved.

### **18. Foreign Direct Investment and Foreign Portfolio Investment Statistics**

There are no recent official statistics available on foreign direct investment (FDI). According to the United Nations Conference on Trade and Development (UNCTAD) inflows reached around \$3.78 billion in 2012, but were expected to drop by as much as 20 percent. Banking sources estimated that construction and real estate account for the largest part of foreign investment.

The Institute of International Finance noted that FDI in Lebanon totaled \$1.1 billion in 2012, constituting a decline of 68 percent from 2011 or 2.68 percent of GDP.

European and Asian companies have won most of the government contracts in the fields of electricity, water, telecommunications, transportation, and infrastructure. This could be attributed to the unstable political and security situation in Lebanon that discouraged U.S. companies from bidding on projects, bilateral financial protocols signed between Lebanon and some European countries that provide grants and soft-term loans, or corruption and/or undue influence in bidding and contracting processes. However, U.S. companies have won contracts in solid waste treatment and landfill and some contracts in the energy, telecommunications, and transportation sectors.

The U.S. Embassy in Beirut tracks U.S. companies' activities in the Lebanese market. The Embassy actively lobbies to support U.S. companies bidding on projects, providing equal support to all U.S. bidders via letters and direct meetings with senior Lebanese government officials and demanding fair consideration of U.S. companies that are bidding on business opportunities in Lebanon. In some cases, the Embassy and the U.S. Department of Commerce have provided higher-level advocacy from Washington. The Embassy encourages U.S. companies bidding on projects to contact the Embassy's Economic/Commercial Section for assistance and advocacy.



	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
<b>Economic Data</b>	Year	Amount	Year	Amount	
Lebanon Gross Domestic Product (GDP) ( <i>Millions U.S. Dollars</i> )	2012	\$42.9	2012	\$42.95	Lebanon's Central Administration of Statistics; <a href="#">World Bank</a>

The rest of the requested data is not available.

## Section 5 - Government

### Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### International organization participation:

ABEDA, AFESD, AMF, CAEU, FAO, G-24, G-77, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IDB, IFAD, IFC, IFRC, ILO, IMF, IMO, IMSO, Interpol, IOC, IPU, ISO, ITSO, ITU, LAS, MIGA, NAM, OAS (observer), OIC, OIF, OPCW, PCA, UN, UNCTAD, UNESCO, UNHCR, UNIDO, UNRWA, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO (observer)

### Legal system:

Mixed legal system of civil law based on the French civil code, Ottoman legal tradition, and religious laws covering personal status, marriage, divorce, and other family relations of the Jewish, Islamic, and Christian communities

### Exchange control

There are no restrictions concerning the repatriation of profits, income and capital nor are there any restrictions on the convertibility of currency.

Residents can freely import and export national banknotes. They may own, deal in, export and import gold. Residents may own foreign currencies and foreign securities, and may maintain bank balances abroad.

Non-residents can freely import and export national banknotes. They may maintain foreign currency accounts with banks in Lebanon.

### Treaty and non-treaty withholding tax rates

The summary below is extracted from the 2012 PKF Worldwide Tax Guide.

In order to avoid double taxation of some income, treaties have been entered into with various countries to regulate bilateral relations.

The Lebanese double taxation treaty network is one of the widest in the Middle East region with more than 30 treaties signed with different countries.

Title	Signed
Algeria	26 March 2002
Armenia	16 September 1998
Bahrain	7 August 2003
Belarus	19 June 2001
Bulgaria	1 June 1999
Cuba	4 February 2001
Cyprus	18 February 2003
Czech Republic	28 August 1997
Egypt	17 March 1996
France	24 July 1962
Gabon	20 February 2001

<b>Title</b>	<b>Signed</b>
Iran	22 October 1998
Italy	22 November 2000
Jordan	31 October 2002
Kuwait	21 January 2001
Malaysia	20 January 2003
Malta	23 February 1999
Malta - Amending Protocol	16 April 2009
Morocco	20 October 2001
Pakistan	31 August 2005
Poland	26 July 1999
Qatar	23 November 2005
Romania	28 June 1995
Russia	7 April 1997
Senegal	19 October 2002
Sudan	9 March 2004
Sultanate of Oman	12 April 2001
Syria	12 January 1997
Tunisia	24 June 1998
Turkey	12 May 2004
UAE	17 May 1998
Ukraine	22 April 2002
Yemen	29 September 2002

## Methodology and Sources

### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
<a href="#">International Sanctions UN Sanctions / US Sanctions / EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

#### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

#### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

#### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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