

Doing Business in Lebanon



COUNTRY UPDATE
2004

BOYADJIAN & ASSOCIATES
PROJECT FINANCE & MANAGEMENT CONSULTANTS

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General Background

Geography, Climate & Population

Lebanon is situated on the eastern coast of the Mediterranean Sea and occupies a strip of land 210 kilometers long and 40 kilometers wide. Rising abruptly from the sea, Lebanon is a mountainous country with over half its 10,452 square kilometers area lying above 1,000 meters. There are two parallel ranges of mountains running north to south: the Mount-Lebanon Range hugging the Mediterranean coast reaches an altitude of 3,088 meters and the Anti-Lebanon Range, reaching an altitude of 2,814 meters, runs along the eastern border. The fertile Bekaa valley lies between these two mountain ranges. The two main rivers, the Asi and the Litani, flow out of this valley.

The climate of the Republic is alpine in the mountains and Mediterranean along the coast. All four seasons are equally distributed throughout the year. Rainfall is, by Middle Eastern standards, generous, about 90 cms annually along the coasts, 130 cms in the mountains, and above 69 cms in the Bekaa, which is largely irrigated farmland. Most of the rain falls between November and March, with only rare showers during other months. The average temperature in Beirut is a balmy 24°C, ranging from a winter average of 12°C to 27°C in summer. The historic and cultural heritage of Lebanon dates back over six thousand years to the Phoenicians and the subsequent civilizations that were established in or interacted with the Lebanese. Throughout its history Lebanon has been a contact center between various cultures and civilizations, which has in the past rendered the Republic a highly cosmopolitan country with a great deal of tourism.

According to a current survey, the number of Lebanon's permanent residents was estimated in June 1997 at 4,005,000, 92.4 per cent of whom were Lebanese. This number does not include temporary residents such as migrant workers. The main cities are Beirut, the capital, Tripoli, Sidon, Jounieh, Zahle and Tyre. Approximately 32 per cent of the population lives in Beirut and its suburbs. The population is composed of Christians, Muslims, and minorities and is Arabic speaking, with French and English being widely used. The major resource of Lebanon has been its people. The literacy rate in Lebanon is more than 90 per cent, the highest in the region and one of the highest in

the world. Lebanon has a high percentage of university graduates. Lebanon has thus been able to "export" professionals in many fields, principally to Africa, the Americas and the Arab countries, whose remittances have helped to sustain Lebanon through the years.

Geography	Surface (in sqkm)	10,452
	Coast length (in km)	210
	Maximum altitude: Qornet-el-Saouda (in m)	3,088
	Mount Lebanon average altitude (in m)	2,200
	Average temperature (in centigrade)	20.7
	Rainfall (in mm per year)	893
	Number of rainy days per year	78
	Humidity rate	68%
	Demography	Population (in millions)
Population growth rate		2%
Population density (per sqkm)		411
Urban population		89%
Active labor force (in millions)		1.50
Life expectancy at birth		70
Infant mortality rate		25/1,000
Human Development Index (UNDP)		0.76
Education	Adult literacy rate	86%
	Male	92%
	Female	80%
Land use [in hectares]	Agriculture (arable land)	217,402
	o.w. irrigated	86,526
	Grazing	360,000
	Forest and woodland	80,480
	Other land	387,318
	Total	1,045,200
Infrastructure	Roads (paved): 7,200 km	
	Railways: Non functional	
	Airport: Beirut International Airport (16 km from city center)	
	Ports: Beirut (principal), Tripoli (main port for the North), Jounieh, and Saida (main port for the South)	
General	Currency: Lebanese Pound	
	Official language: Arabic, French and English are widely spoken	
Business hours	Government: 8:00 a.m. to 2:00 p.m.	
	Business: 8:00 a.m. to 5:00 p.m.	
	Banks' Counters: 8:30 a.m. to 2:00 p.m.	

Constitutional System

Since 1944, Lebanon is an independent republic with a parliamentary system of government. A formal system of power sharing among Lebanon's 18 officially recognized religious confessions affects all aspects of civil society. The President must be a Maronite Christian the Prime Minister a Sunni Muslim, and the Speaker of Parliament a Shi'a Muslim. The President is elected for a six-year term by the Parliament. The next presidential elections will take place in fall 2004.

The Prime Minister, nominated by the President in consultation with Parliament, is subject to the Chamber's vote of confidence. Lebanon's 128 deputies are elected by the voters for four-year terms, and are divided equally between Christians and Muslims. Parliamentary elections were held in August/September 2000. The current Parliament will serve for four years and eight months; the next elections will be held in 2005. There is universal adult suffrage. Municipal elections were held in most parts of the country in May 1998 for the first time in over 25 years. The next municipal elections will take place in 2004.

The democratic political system and freedom of speech and beliefs have nurtured a wide and diversified spectrum of political parties. The classification and categorization of the parties is blurred and the criteria adopted for their description are far from accurate. There are in excess of 30 parties reflecting various backgrounds and political beliefs. Ten parties are represented in a 128-member house of Parliament. The Council of Ministers offers a balance between the major political currents represented in Parliament and a group of non-parliamentarian technocrats holding key ministerial positions related to the development and reconstruction.

Judiciary System

Lebanon's legal system reflects the various foreign influences the country has experienced. There are still remnants of many different legal systems, but mainly French law. Since independence, several legal amendments have been introduced. Currently an active legislative reform movement is taking place both in Parliament and through a special committee formed by the Minister of Justice to draft reforms in various branches of the law with the aim of modernizing the legal system. Lebanese civil law is mostly based on the Code of Obligations and Contracts (which is inspired from the French Civil Code) and the Real Estate Ownership Law. Other major legislations include the Code of Civil Procedure, the Commercial Code (promulgated in 1942) and the complementary legislative decrees related to commercial representation, stock exchange, the limited liability company and business concerns.

International Relations

Lebanon is a founding member of the United Nations and the League of Arab States. Furthermore, in April 1999 the World Trade Organization (WTO) officially accepted Lebanon's demand to join the Organization as an observer. A special Working Party for Lebanon has been formed to overlook the lengthy preparatory stages of the process, of which the preparation of a special Memorandum on Foreign Trade Regime. Lebanon anticipates WTO accession in early 2005. The importance of such a development lies in the further opening up of Lebanese markets, the enhancement of foreign trade, the rising access of foreign investment, and the progress in technology flows and know-how.

In an effort to integrate with the Arab region, Lebanon acceded to the Arab League's Greater Arab Free Trade Area agreement (GAFTA) in 1997. The GAFTA calls for a ten percent annual mutual reduction in tariffs over ten years, effective 1998. Lebanon has signed bilateral free trade agreements with Syria (effective 1999), Egypt (effective 1999), Kuwait (effective 2000), UAE (effective 2001), and Iraq (effective 2002). Free trade negotiations are ongoing with Jordan. The agreements call for a 25 percent annual mutual decrease in tariffs over four years.

Lebanon has long-standing trade ties with its major importer, the European Union (EU). In 1972, Lebanon signed a trade agreement with the EU by which Lebanese industrial products have preferential customs rate. Lebanon signed the Euro-Mediterranean Partnership agreement on June 17, 2002 in Luxembourg, becoming the eighth country in the Mediterranean Basin to do so. The Euro-Mediterranean Partnership aims at establishing a free trade area in the Mediterranean region by the year 2010.

Lebanon hosts international organizations such as the United Nations Commission for Refugees, FAO, UNDP, the International Health Organization, the United Regional Office for Education, Science and Culture in the Arab Countries, the United Nations Fund for Childhood and the Arab Center for Legal and Judicial Research affiliated to the Arab League. ESCWA headquarters moved back to Lebanon in October 1997 in a signal of regained confidence in the country. In January 2000, the World Bank opened a permanent office in Lebanon. Also in 1999, the US government has completely lifted restrictions on American businessmen wanting to come to Lebanon. It is worth mentioning that various American companies have been recently moving in or committing funds in Lebanon. Of these, we mention "Microsoft" which has opened a regional office in Beirut, the "Howard Johnson" hotel chain, "Radian International", adding to the already existing American companies namely McDonald, IBM, Pepsi and Ford.

Political Situation

The Taif accord signed in 1989 was a successful move towards putting an end to the fifteen-year civil war and restoring national reconciliation. In 1990, the war ended, and the subsequent Lebanese governments undertook a series of reforms aimed at the restoration of public confidence and stability in the economy.

The National Assembly elected a new president, Elias Hrawi, in November 1989 for a six-year term, and his term was extended in late 1995 by three years. In summer 1992 parliamentary elections were held for the first time in 20 years. Following the elections, Rafiq Hariri, became Prime Minister in 1992, and declared his main goal to be the launch of a comprehensive reconstruction and rehabilitation program. The public recovery program gave priority to the work in infrastructure including the telephone, electricity, water and road networks. In 1996, parliamentary elections took place for the 2nd time after the war, and were marked by higher voter participation than 1992. In June 1998, countrywide municipal elections were held for the first time since 1963.

President Hrawi remained in office until November 1998, when the Head of the Lebanese army, Emile Lahoud, was elected president for a six-year term, and former Prime Minister Salim al-Hoss was appointed as the head of the new Cabinet. The newly appointed government set for itself ambitious challenges as to fiscal adjustment and administrative reforms. A five-year fiscal reform plan was introduced in 1999 to address the serious public finance issue, while strict administrative reforms are underway in several public institutions.

On May 24, 2000, Israel withdrew its military forces from Southern Lebanon after 22 years of occupation. Eyes are now turned to the regional settlement process, which rests upon a resumption of Syrian-Israeli peace negotiations. Lebanon, which is set to benefit from the Israeli withdrawal, is widely assessed to be the most beneficiary from a regional settlement agreement, as it would gain on various levels, including mainly the lessening of political and military risk that would give a boost to the Lebanese economy by encouraging foreign investments and tourism as well as enhancing remittances from abroad.

The current Government under the leadership of Mr. Hariri as Prime Minister focused initially on revitalizing the economy through measures designed to encourage the development of the private sector and the integration of Lebanon into the global economy. The current Government's objectives consist of maintaining monetary and price stability and improving fiscal performance through a reduction in the debt service burden, the curtailment of other public expenditures and privatization of state assets.

The Lebanese Economy

Fundamental Economic Features

The major economic features that characterize Lebanon are the private and liberal aspect of the economy, and the openness to abroad with perfect capital and labor mobility. The Lebanese economy is a private sector economy. The private sector contributes to around 80% of aggregate demand, a well-diversified sector that covers the totality of economic sectors and is a major pillar for growth and recovery. The Lebanese economy is also a free economy with a very attractive business environment including highly skilled human capital, a freely floating exchange regime, liberal trade and investment policies, free currency conversion, a comprehensive banking secrecy, open entry and exit for foreign capital, in addition to a lenient fiscal system with a flat 15% corporate tax rate and a 10% withholding tax rate. The flow of capital, people and goods are structural, and capital inflows make up on a continuous basis 40% of the aggregate demand for goods and services. This free economic culture has enabled Lebanon to be a major financial, commercial, educational, and touristic center in the region.

Within this framework, the investment environment in Lebanon has today significantly improved. The basic infrastructure is 80% rehabilitated using the best technologies, Beirut being the only capital in the region having fiber optics in its underground. The legal and regulatory environment has been fundamentally revised. The domestic capital market, while being of average size, is the only in the region along with the Saudi one to offer clearing and settlement techniques in line with the G30 recommendations. On the other hand, the banking sector, strictly controlled and supervised, and involved in a comprehensive consolidation process, has very well resisted to the consecutive market turmoils in emerging countries.

Overview of Recent Performances

The GDP growth rate has registered high levels between 1993 and 1995. Since 1996, the growth was reduced. It is estimated that growth in real GDP was 2% in 2003. Despite the relative slowdown in growth rates that has been witnessed lately due to environment and technical factors, growth is still supported by low capacity utilization as Lebanon still witnesses a significant cyclical output gap before reaching full employment and potential output.

Macroeconomic indicators	1996	1997	1998	1999	2000	2001	2002	2003
GDP (US\$ billion)	12.9	14.8	16.1	16.4	16.4	16.7	17.9	18.3
Real GDP growth rate	4.0%	4.0%	3.0%	1.0%	0.0%	1.0%	1.5%	2%
GDP deflator	8.8%	7.8%	4.0%	0.3%	1.3%	-0.5%	5.1%	2%

Lebanon's tight monetary policy has been geared towards taming inflation. In fact, the Central Bank's policy of stabilizing the exchange rate and managing interest rate movement has brought inflation under control, from a high of 100% in 1992 to -0.5% in 2001. The Central Bank adopted a prudent monetary policy anchoring the Lebanese pound to the U.S.Dollar and intervened on a daily basis in the Foreign Exchange Market, either absorbing surpluses or supplying shortages of foreign currencies to dampen any speculative behavior. This succeeded in raising the value of the currency relative to the U.S.Dollar from LBP 2830 in September 1992 to LBP 1508 today.

Prices and wages	1996	1997	1998	1999	2000	2001	2002	2003
Consumer Price Index (in US\$)	8.3%	5.2%	2.9%	1.5%	-0.9%	2.9%	4.2%	3%
Minimum Salary (in US\$)	161	164	200	200	200	200	200	200
LL/US\$ exchange rate (yearly average)	1,571	1,539	1,516	1,508	1,508	1,508	1,508	1,508

However, over the years, Lebanon has incurred large budget deficits, resulting from efforts exerted to reconstruct the country, which was coming out of a war that lasted for almost two decades. The budget deficit to GDP reached a high of 24% and public debt to GDP is exceeding 175%, quite elevated by similar standards. Since 1992, the deficit to expenditure ratios remained within the 40%-60%, and debt servicing rose gradually to account for nearly half of government spending over the period. Such a situation called for a rationing policy as of the beginning of 2002, along with improving tax collection and implementing tax reforms. The Lebanese authorities are today cognizant of the need for fiscal adjustment and a consensus is reached as to the fact that

the improvement in fiscal policy constitutes the most important challenge for a further reinforcement of macroeconomic and monetary conditions.

Public finance (US\$ million)	1996	1997	1998	1999	2000	2001	2002	2003
Budget deficit	2,351	3,511	2,234	2,378	3,893	2,804	2,871	2,625
Total debt	12,870	15,393	18,411	22,494	25,007	28,269	31,327	33,700
Deficit/GDP	18%	24%	14%	14%	24%	17%	16%	15%
Net Public debt/GDP	99%	104%	114%	137%	150%	168%	175%	185%

Due to the lack of natural resources, Lebanon is a predominantly importing country and is characterized by large trade deficits; however, net foreign income earnings, remittances and earnings from tourism, banking, insurance, and other services help offset the trade deficits. Lebanon, in general, has witnessed overall surpluses in the balance of payments over the last 10 years. In order to better assess the Lebanese economy, one should understand that inflows are induced by internal demand and are not autonomous which significantly reduces volatility.

Balance of Payments (US\$ million)	1996	1997	1998	1999	2000	2001	2002	2003
Imports	7,559	7,456	7,060	6,206	6,,228	7291	6,444	7,168
Exports	1,018	642	661	677	714	889	1,045	1,524
Trade Balance	-6,541	-6,814	-6,399	-5,529	-5,514	-6,402	-5,399	-5,644
Balance of payments	786	420	-487	266	-289	-1,169	1,564	3,386

Principal Sectors of the Economy

At the end of the conflict, all sectors of the Republic's economy were characterized by widespread damage to physical assets and an obsolescence of remaining facilities, given the reluctance during the years of conflict to invest in new capital or spend funds on maintenance. In addition, there was an outflow of professional and entrepreneurial skills from Lebanon. A lower production capacity, together with rigidities in internal flows of goods and labor, led to very low levels of output.

The end of the conflict in 1990 marked the unification of the internal market and an upsurge in output in most sectors of the economy. Since then, there has been an increase in investment and a gradual return of skilled workers to the country. However, the economy suffered a slow-down in 1998 to 2000 and has resumed a slow recovery since 2001.

The following table shows the composition of the Republic's GDP for the years 1994 and 1995, as calculated by the CAS. No figures are available for

later years but it is believed that the composition of the Republic GDP has not changed significantly since 1995.

Composition of GDP by Sector 1994 and 1997	1994	1997
Agriculture	12.0%	6.3%
Energy, Water and Industry	17.7%	15%
Construction	9.4%	9.4%
Transport and Communication	2.8%	5.3%
Commerce	28.7%	21.3%
Housing	4.5%	8.5%
Other Services (1)	16.7%	22.6%
Public Administration	8.3%	11.6%
Total	100.0%	100.0%

Note: (1) Includes financial services, hotels, restaurants, health services and education

Agriculture

Approximately one third of Lebanon is arable. The most fertile areas are located along the coastal strip and in the Bekaa valley. The diversity of the Republic's topography and climate enables cultivation of a wide variety of vegetables, fruits, industrial crops and cereals. In 1997, agriculture contributed approximately 6 per cent to the Republic's GDP, as compared to approximately 9.9 per cent in 1972. Food and agricultural exports, which include forestry products, provide 7 per cent of merchandise export earnings.

Industry

In 1997, the industrial sector (mainly production of cement, furniture, paper, detergents, cosmetics, pharmaceuticals, batteries, garments and processed foods) accounted for 15 per cent. of GDP. Virtually all industry is privately owned.

Exchange rate and price stability coupled with the gradual decline in Lebanese Pound interest rates have contributed to a better environment for investment and growth in industry. Infrastructural bottlenecks resulting from the conflict are being addressed as improvements in roads, telephones and electricity supply are realized. The Government provides various incentives for the establishment of industrial facilities in Lebanon, including fiscal incentives in the form of reduced customs duties and tax exemptions.

From 1993 to February 2001, the International Finance Corporation ("IFC") carried out 34 investment and financing projects in Lebanon in an aggregate amount of U.S. \$336 million, with an additional U.S. \$256 million raised by the IFC through loan participations. Investments during 2000 included loans to three companies for U.S. \$21 million. As of February 28, 2001, U.S. \$219

million representing IFC loans, loan participations and equity investments had been disbursed and remained outstanding.

Tourism

The strategic position of Lebanon, its mild climate and natural beauty, consisting of snow-capped mountains, valleys and the Mediterranean Sea, make it a natural tourist attraction. Apart from its privileged geographical and natural situation, Lebanon benefits from qualified and experienced human resources in the tourism industry.

Prior to the outbreak of the conflict, tourism (including hotels and restaurants) contributed approximately 20 per cent. to Lebanon's GDP. This is notable given that, at that time, the international tourism industry was not as developed as it is today.

Significant private investment is currently being made in the modernization and expansion of this sector and international hotel companies have returned to Lebanon. Casino du Liban, which historically constituted a major tourist destination, reopened in 1996. Lebanon is the only country in the Arab world that offers skiing and related winter sports activities. The largest ski resort in the country has been expanded and modernized. The Government believes that, because of the return of peace and stability to the country and with the development of the necessary infrastructure, tourism will again contribute significantly to Lebanon's economy. Lebanon's tourism industry also relies on the large number of Lebanese living abroad, who return regularly to the country during the summer season.

Financial Services

From the 1950s to the start of the conflict in 1975, Beirut was the region's financial services center. At the onset of the oil boom starting in the 1960s, Lebanon-based banks were the main recipients of the region's petrodollars.

Currently, the main financial services offered are commercial banking, investment banking and insurance. Despite the conflict and a crisis in the late 1980s involving a small number of banks, the commercial banking sector remains a centerpiece of the Republic's service-oriented economy. The Lebanese banking sector witnessed unprecedented growth during the period from 1992 to the present. Total deposits with commercial banks increased from U.S. \$6.5 billion at the end of 1992 to U.S. \$45 billion at the end of June 2003. In addition, since 1996, Lebanese banks have been successfully accessing the international capital markets. Since 1996, several banks raised over U.S. \$2.5 billion on the international debt markets and three banks raised approximately U.S. \$300 million through the issuance of global depositary receipts on the international equity markets. The banking system is seen as having a key role by being the entry point for capital inflows for the region's development. At the same time the authorities are aiming at widening and deepening the financial sector by facilitating the establishment and evolution of, and providing a regulatory framework to, more diversified private financial institutions. Several investment banks, with capital raised offshore, have been

established in Beirut and offer a variety of traditional investment banking services, including debt and equity raising and corporate finance advisory services. Several commercial banks have established investment banking subsidiaries offering similar services.

As part of the Government's strategy of reestablishing Beirut as a regional financial services center, the Central Bank established in 1994 a central depository, settlement and clearing agency, MIDCLEAR, which is a joint stock company organized under the laws of the Republic. The Government reopened the Beirut Stock Exchange in 1996.

Construction

Prior to the conflict, the property sector had always been important, with a substantial portion of the activity concentrated in Beirut, where the housing needs of the city's rapidly increasing urban population had to be met. Beirut saw an almost uninterrupted boom from the late 1950s to the early 1970s, when it expanded dramatically, eventually to house half of the country's population. Mountain towns and villages close to Beirut favored by tourists, such as Aley and Bhamdoun, also experienced a boom.

The post-conflict era has witnessed a significant construction boom. Real estate prices have risen steeply, especially for prime property, but have recently stabilized. The boom has been fuelled by a mixture of local, expatriate and Gulf Arab funds. With respect to residential property, it has been concentrated mostly at the upper end of the housing market. As the stock market has resumed its operations only recently, land and construction have been viewed by many as attractive investment opportunities. Construction projects are financed mainly by equity investments. In 1995, construction activity accounted for 9.2 per cent. of GDP, a significant increase from approximately 4.5 per cent. in 1972. Since 1996, construction activity has slowed, as witnessed by lower cement deliveries and a decline in the number of construction permits being issued.

Infrastructure

Lebanon has a 2,000 km fiber-optic backbone with a capacity of 1.2 million landlines. There are currently 680,000 subscribers to the fixed network, constituting a 20 per cent penetration rate. The GSM cellular network is well developed, with two operators sharing 776,000 subscribers, constituting a penetration rate of 23 per cent. Internet is widely available at competitive rates through seven Internet service providers (ISPs) offering dial-up, leased lines or satellite connections.

Beirut International Airport (BIA) is the country's only airport. It is currently being used at barely 40% of its capacity of six million passengers per year. Apart from Middle East Airlines (MEA), Lebanon's national passenger carrier, more than 40 major foreign airlines operate regular services to and from BIA.

Sea transportation activities are focused primarily on the Port of Beirut, and secondarily on the ports of Tripoli, Chekka, Jounieh, Saida, and Tyre. In addition, there are various specialized installations to offload petroleum.

Lebanon has an extensive road network, which comprises about 6,300km, excluding municipal roads. Highways, extending to Lebanon's borders, stretch for around 530km, primary roads for 1,650km, secondary roads for 1,340km and local roads for 2,810km. Lebanon has around 200 km of railway, but the network is inoperable.

Lebanon has approximately 2,200 MW of nominal generating capacity, while actual production varies between 1,200 and 1,600 MW. This includes 375 MW additional power as the second gas turbine at Beddaoui power plant (north Lebanon) becomes operational and the steam units at Beddaoui and Zahrani (south Lebanon) stations operate at full capacity.

Lebanon has plentiful water resources, but inadequate storage, distribution and wastewater treatment systems. As a result, Lebanon suffers periodic water shortages, and according to a preliminary report by Parsons, could suffer dramatic shortages by 2015.

General Investment Framework

Attractive Business Environment

Lebanon offers significant returns on investments in different economic sectors as industry, agriculture, tourism, real estate, trade, services, banking and contracting. Emerging from the war period with high growth rate perspectives, liberal trade and investment policies, Lebanon has witnessed since 1990 the return of some of its high skilled managerial and technical human resources and capacities.

At present, the Lebanese economy is operating at way below its potential output. There are significant underutilized resources and pent-up consumption and investment demand, thus providing attractive placement opportunities.

Lebanon managed to preserve a high-standard human resource base despite the prolonged war period. In fact, the quality of human resources maintained fundamentals such as a good basic education and high foreign language abilities thereby remaining well trained and highly educated by regional standards. Lebanon benefits from a manpower of skilled entrepreneurs and managers, very diversified in their outlook, and well trained technicians and engineers. The adult literacy rate currently stands at 86%, and school enrollment in both primary and secondary education records 92%, while that in the tertiary education registers 44%. Lebanon counts today 40 universities and 377 technical colleges, of which 40 belong to the public sector.

There are no restrictions on the movement of capital, capital gains, remittances, or dividends, or on 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. The exchange rate is allowed to float freely in response to market forces, with the Central Bank intervening merely for regulating purposes.

The banking secrecy law enacted in 1956 forbids the disclosure of client information to any person, in the private, public or judicial sectors without

the written authority of the client or his heirs, except when he has been declared bankrupt or in the case of litigation with the concerned bank.

The fiscal framework in Lebanon, reputed for its moderate tax rates, is particularly conducive to direct investment. It actually provides for complete tax exemption for income earned abroad, for offshore and holding companies, and for educational, agricultural, air and sea transport establishments. It further allows accelerated depreciation on fixed assets and a ten-year tax holiday for financial institutions providing medium and long term credit. Presently, the corporate tax rate is fixed at 15%, while the personal income tax ranges between 2% and 20%, and the withholding tax rate is set at 10% for listed companies.

Foreigners are not restricted in terms of the entry, extent of ownership or sector of activity. Restrictions apply, however, to foreign investment in infrastructure or public utilities, to foreign ownership of Lebanese banks (to 66%) and to land ownership by foreign majority firms. Registration is compulsory with the Commercial Register, but is done automatically and does not require the prior approval by government bodies or committees (except in the case of insurance, banking and exchange).

Labor Force, Labor Laws and Wages

There are no thorough or reliable statistics on the composition of Lebanon's labor force. The Central Administration of Statistics' 1997 study on household living conditions reports that Lebanon's working population totals 1.36 million, including foreign residents, but excluding the seasonal work force. The report estimates Lebanon's total population at four million.

Local unskilled labor is in short supply, and Arab (mainly Syrian and some Palestinian refugees), Asian, Indian, and African laborers are hired to work in construction, agriculture, industry, and households. There are no reliable statistics on unemployment. Unemployment is forecast to be high among university graduates. Reputed economic consultants estimate the unemployment rate in 2002 at 12-13 percent. The government is now working towards upgrading the local education and training network. The Lebanese pre-university education system secures places for around 800,000 students and over 80,000 students graduate annually from Lebanon's universities.

Labor in Lebanon is governed by the decrees of the September 1946 Labor Act law. Employment contracts are drafted freely by the parties involved, they can be temporary or for indefinite periods. The law also specifies a maximum of 48 hours/week while exceptions to the maximum weekly working hours are made by ministerial decree in a number of industries like agriculture and catering. A daily limit of seven work hours is imposed for minors and children. Rest periods of one hour should be given at lunchtime if employees work for more than six hours per day. All employees have the right for at least nine consecutive hours of rest per day and for 36 hours of continuous

rest per week. Overtime above the maximum weekly working hours must be paid 50% higher than the ordinary wage. Certain regulations regarding women, minors (13-16 years of age) and children (less than 13 years of age) are observed; they are not allowed to work in certain industries that require manufacturing work or night shifts. It is strictly forbidden to employ children of less than eight years of age and schooling up to fifth grade is compulsory.

Lebanon's social security system requires payments from both employers and employees to the Social Security Fund as contributions to the sickness and maternity scheme, the family allowance scheme and the end-of-service indemnity fund. These contributions are calculated as a percentage of monthly salaries.

Employers have to pay 7% of an employee's total salary per month to the sickness and maternity scheme, 6% to the family allowance scheme and 8.5% to the end-of-service indemnity fund. Employees are required to pay 2% contribution to the sickness and maternity program.

The government establishes wage levels for over 190,000 public sector employees and retirees and imposes an official minimum wage of US\$ 200 for all employees of private sector firms. Foreigners wishing to work or establish a business in Lebanon can easily acquire a residency from the General Security Administration and a work permit from the Ministry of Labor.

Lebanese Companies

Lebanese law does not differentiate between local and foreign investors, except in land acquisition. A foreigner can establish a business under the same conditions that apply to a Lebanese national. Lebanese commercial laws have been inherited from the French legal system although with slightly varying provisions and conditions. Generally a company is established as Joint Venture, General Partnership, Limited Partnership, Joint Stock Company, Stock Limited Partnership, Limited Liability Company, Holding Company, Offshore Company, or Foreign Company. A brief description of each type of company follows.

Sole Proprietorship

A Sole Proprietorship can be established by any individual engaging in a business activity as a sole proprietor or as a partner in an existing or newly established partnership. Sole proprietors must register with the commercial court and must abide by the general regulations of the Commercial Code. Foreigners wishing to manage a sole proprietorship are required to obtain a work and residence permit.

Joint Venture Company

A Joint Venture Company consists of a non-revealed agreement establishing commercial obligations and duties between at least two partners. It is not a legal entity and it is not subject to incorporation or publishing requirements. It can be a civil or commercial company and its partners are personally liable to transactions they undertake.

General Partnership Company

A General Partnership Company consists of two or more partners jointly and indefinitely responsible for debts over their own assets. It is considered as a legal entity and has mandatorily a corporate name. There is no required initial minimum capital. Decisions should be taken by unanimity in assembly, unless articles of association state otherwise. The bankruptcy of the company entails the bankruptcy of each partner. Profits are taxable on the share basis of each partner and not directly as tax on profits.

Limited Partnership Company

A Limited Partnership Company is constituted of two or more persons belonging to one of two categories. The first type of partners consists of acting partners whose responsibility is unlimited over their personal assets and who own the right to manage the company. On the other hand, limited partners hold a responsibility limited to their financial contributions and do not have the right to participate in the management of the company.

Joint Stock Company

A Joint Stock Company consists of three persons or more. The minimum capital required is LL 30 million, subscribed at the date of the company's formation. Capital can consist of cash or contributions in kind with one-fourth paid up at the time of registration. The shareholders are responsible for the company's debt up to their shares. The company is managed by a board consisting of three members at least and twelve at most, with a maximum term of three years. The majority of the board members must be Lebanese. The validity of the board resolutions requires a minimum of 50% presence of directors.

Stock Limited Partnership

A Stock Limited Partnership is subject to the same laws governing the Limited Partnership Company. It consists of two categories of partners namely, acting and sleeping partners. Its main characteristic is that sleeping partners contributions are represented by shares. Operating and constitutional rules are identical to those of Joint Stock companies.

Limited Liability Company

A Limited Liability Company consists of three partners at least and of twenty at most. The minimum required capital is LL 5 million that must be fully paid at the constitution. This commercial company cannot undertake operations as insurance, saving, investment or air transport. Partners own a fixed percentage of the company and exercise their rights during General Meetings. Resolutions may be adopted by a simple majority except if they are related to modifications of the articles of association, where a majority of two third of the capital is required. Management consists of one or more managers, partners or non-partners.

Holding Company

A Holding Company is structured in the form of a Joint Stock company. Its activities are: the acquisition of shares or stocks of Joint Stock and Limited Liability companies; the management of companies; the acquisition of properties necessary for their activities; the acquisition of intellectual property rights. Particularly, Holding companies are able to hold their capital in foreign currency and to raise loans and issue bonds up to five times their capital; they may not hold more than 40% of the capital of each of 2 companies operating in the same field in Lebanon. Finally, Holding companies enjoy a forfeiting taxation and taxation exemptions on their profits.

Offshore Company

An Offshore Company is structured as a Joint Stock company and can carry the following activities: negotiate and sign contracts and agreements concerning trading operations and transactions performed abroad; use facilities provided by the free zone area for storing products imported in order to be re-exported, to rent offices; carry out studies and give advice to foreigners. Offshore companies have no right to carry out activities related to industry, banking, insurance or holding. They are exempted from tax on income.

Foreign Company

A Foreign Company can establish a branch or a representative office. The difference between the two is that a branch can directly engage in any kind of lawful activity, while a representative office is a non-commercial and non-taxable entity that is allowed only to market the product or service of its company. Both forms of establishment must obtain a license and must register at the commercial register in order to operate.

Fiscality

The Lebanese fiscal system is well reputed for its simplicity and its ability to induce and encourage investments. A new fiscal law was put in action at the end of 1993 aimed at reducing tax rates on revenues in order to stimulate the post-war economy. The tax law was amended on July 30, 1999 in a series of revenue-enhancing measures as fiscal pressure has forced the government to resort to raising taxes and custom duties in addition to the introduction of a value-added tax effective since 2002. Despite these worked changes, the tax rates in Lebanon remain amongst the lowest in the region and the tax regime is one of the country's most attractive characteristics. In the context of the tax territoriality principle, only incomes generated in Lebanon are subject to taxation. The income tax is levied on personal earnings, individual or partnership company profits, capital companies (joint-stock corporations, limited liability companies as well as limited partnerships), holding companies, offshore companies, unearned income, and earnings of non-residents working in Lebanon.

Corporate Taxation

Business profits of capital companies, such as corporations and joint stock companies, are taxed a flat rate of 15% while a 7.5% tax is imposed on profits received from the development or sale of real estate.

Moreover, since 2000, a yearly forfeiting tax is levied for each establishment of a SA (2,000,000 LBP) and of a SARL (750,000 LBP).

Holding companies are exempt from paying income tax on profits and on profit distribution. They are required to pay a 10% tax on the interest on loans issued to companies operating in Lebanon, provided that the loan maturity is less than three years, a 10% tax on capital gains received from the sale of holding company shares and 10% on amounts collected from renting patents and on the reserved rights it possesses on a Lebanese company. Capital and reserves of the holding company are subject to a graduated tax, ranging from 6% to 2%. A 6% rate is applied if capital and reserves are less than LL 50 million while a 4% tax is applied if these range between LL 50 million and LL 80 million and 2% for capital and reserves exceeding LL 80 million. The annual tax should not exceed LL 5 million.

Tax on Income from Professions (Business income tax)

Taxes on profits of industrial, commercial and non-commercial professions are subject to business income tax on all business income derived in Lebanon. Tax rates depend on the legal nature of companies. Private entities, such as sole proprietorships and partnerships are subject to progressive rates. The lower band is slightly higher than that of the personal income tax, standing at 4%. The maximum rate was increased in the 1999 budget to 21% from 10%.

In fact, for profits not exceeding LL 9 million, a tax rate of 4% is applied, the next bracket between LL 9 million and LL 24 million carries a 7% rate, followed by 11% for the LL 24 million - LL 54 million bracket, 16% for the LL 54 million - LL 104 million bracket and 21% for amounts above LL 104 million.

Individual Tax (personal income tax)

The new revenue measures introduced in the 1999 budget increased the rate and the progressiveness of income taxes on wages and salaries. The personal income tax law is linked to well defined income brackets with a specific monetary value attached to them. The tax rate ranges between 2% and 20%. The law specifies six income tax brackets on wages and salaries, from 2% on income not exceeding LL 6 million, moving to 4% on the next income bracket of LL 6 million to LL 15 million, then 7% on the trench LL 15 million to LL 30 million, then 11% for income between LL 30 million to LL 60 million, 15% between LL 60 million and LL 120 million and finally 20% on any amount above LL 120 million. Temporary or part-time employees are taxed a flat rate of 3% and they are not registered with the Social Security Fund.

An important feature of the law is that gross salary is subject to a number of family deductions. The amount of income exempt from tax is LL 7.5 million, with an additional LL 2.5 million if the taxpayer is married and the spouse is not currently working. Another LL 0.5 million is allowed per child every year for the taxpayer's first five children.

Tax on Income from Movable Assets and Dividend Gains

A flat 10 percent tax is imposed on income or profits received from stocks, bonds, credits, cash deposits or current accounts. These include income derived from shares, interest payments or investment payments of joint-stock companies and financial institutions, shares or payments to the company's board of directors, distribution of reserve capital in the form of shares or bonuses and reserve expenditures. A newly imposed 5% tax on interest earnings of bank deposits has been enacted in parliament as stipulated in the 2003 budget.

Value Added Tax (VAT)

Pioneered in France in 1954, VAT helps developing countries to administer their taxes effectively to prevent tax avoidance and evasion, maximize tax revenue, and minimize the impact of taxation on low earners. VAT was implemented in Lebanon on February 1, 2002. It was intended not only to increase state revenues and aid the lessening of tax evasion but also to pave the way for eventual entry into the European Union.

VAT is an indirect tax collected at the level of the business unit but paid by the buyer. Because there is a wide list of exempted goods and services, the tax

burden is 10% and depends on the level of consumption and the nature of goods and services consumed.

Institutions exempted from paying income tax

Certain types of income are exempt from the income tax, these include: religious clerics, overseas diplomatic and consular staff, military personnel, domestic helpers in private homes, nurses and attendants in hospitals and orphanages, public servants' retirement salaries, end-of-service benefits, social security payments and UN and related agency staff salaries.

Permanent exemptions: Educational institutions, Hospitals, hospices, orphanages, nursing and emergency services funded by private or public aid, Mental hospitals and tuberculosis sanatoriums, Non-commercial agriculture and retail cooperatives and unions, Sea and air navigation companies whose home countries have exempted Lebanese companies operating in the area from tax, Public entities of a commercial or industrial nature that are not competing with private enterprises.

Temporary exemptions:

Newly established factories built in areas specified by the Council of Ministers to develop the district, Factories manufacturing goods not produced in Lebanon before 1980, Companies with fixed assets of LL500 million or more, The company's profit, during the exemption period, should not exceed the cost of its fixed assets at the time it opened.

Merchant banks dealing with long- and medium-term projects benefit from a seven-year tax exemption starting from the beginning of the specific undertaking. Tax is imposed on the profits generated in the eighth year.

Accounting Rules

Lebanon has established accounting and financial obligations by means Decree No 4665 dated 26 December 1981. A journal, a ledger, a commitments book and an inventory book where daily entries, obligations and inventory are to be recorded. Annual financial reports must be realized in accordance with the current standard. They must include a balance sheet, a profit and loss account, an appendix and a cash flow statement. The control of accounts is compulsory and must be made by an independent auditor of the company.

Income Tax	Tax Rate
1. Corporate entities (Limited Liability Companies; Stockholding Companies; Partnerships Limited by Shares). Not applicable on Holdings and Offshores. If the corporation is a real estate company.	15% 5%
2. Trading; non-trading; industrial activities (all non-corporate entities; all persons not falling in any other income tax category)	
- From 0 to 9,000,000 LL	4%
- From 9,000,000 to 24,000,000 LL	7%
- From 24,000,000 to 54,000,000 LL	11%
- From 54,000,000 to 104,000,000 LL	16%
- Beyond 104,000,000 LL	21%
3. Salaries	
- From 0 to 6,000,000 LL	2%
- From 6,000,000 to 15,000,000 LL	4%
- From 15,000,000 to 30,000,000 LL	7%
- From 30,000,000 to 60,000,000 LL	11%
- From 60,000,000 to 120,000,000 LL	15%
- Beyond 120,000,000 LL	20%
4. Daily wages	6%
5. Capital gain	6%
6. Dividends and interest	10%
7. Revaluation of non-monetary assets and trading asset of real estate	1.50%
8. Value Added Tax (VAT)	10%
9. Tax on interest of Bank Deposits	5%

IPR Law

The Intellectual Property Rights (IPR) legislation was first incorporated in the Lebanese legislation in 1946. Lebanon is a member of the Paris Convention on Patent Rights Protection. It has also joined the Bern Convention on Literacy and artistic property and the Madrid Convention on the false declarations of the Origin of Goods. Patents are issued for a 15-year period. They are transferable and assignable. Trademarks are granted for a 15-year period with the option to extend for a further 15 years. However applicants may request trademark protection for 30, 45 or 60 years on registration.

In June 1999, Lebanon took a large step towards enforcing its copyright and trademark legislation by putting into effect a new law governing intellectual property rights. The new law provides the necessary tool to combat software piracy and thus enables Lebanon to gain the confidence of the world community. Upon the enactment of the IPR law, software giant Microsoft officially opened its first office in Lebanon. The Beirut office is also in charge of the Jordan and Cyprus markets. Microsoft has been reluctant to move to Lebanon without the implementation of an anti-piracy law, since the absence of a copyright law in a country would hinder company investment due to the lack of protection and guarantees for its investment. The new law is supposed to provide the needed legislative protection for a developing Lebanese information technology industry, with prospects to make Lebanon the Middle East's information technology center. Other large companies have recently set foot in the Lebanese IT industry, namely Cisco systems, the worldwide leader in networking for the Internet decided to open an office in Beirut in August 2000 in addition to choosing Lebanon as host of its first Cisco Expo in the Middle East. in terms of the Internet user population in the Arab world, with 57 Internet users in every 1,000 people. Moreover, Lebanon has one of the highest PC penetration rates in the region with the number of PCs per 1,000 people standing at 60, twice the Arab countries average.

Extensive Guarantees for Investments

As already expounded upon, Lebanon presents a favorable climate for foreign investment in terms of its laws, regulations, business environment, and developing capital market. However, an important aspect in the view of potential investors is obviously the

security of their investments.

Lebanon is included in the export credit guarantee schemes of COFACE (France), ECGD (UK), and HERMES (Germany), which will provide cover for a mixture of political and economic risks. In addition, the EXIM Bank of the United States decided in November 1994 to resume its financing programs in Lebanon, after twenty years of absence. It provides short, medium and long term financing to the private sector, and short and medium term financing to the public sector.

Further, Lebanon joined the American OPIC (Overseas Private Investments Corporation), MIGA (Multilateral Investment Guarantee Agency) and the Arab Investments Guarantee Agency, which guarantees direct investment and insures export credits against commercial and non-commercial risks. Domestically, the existing investment guarantee agency (National Investment Guarantee Corporation), created in 1977, offers in return for an annual premium not exceeding 0.2% of the guaranteed amount, a ten-year insurance which covers fixed assets against non-economic risks, such as wars, riots, revolutions, and nationalization.

Privatization

Since June 2002, the Government of Lebanon has enacted a privatization law to generate revenues to serve the public debt and attract international donors support. Economic sectors subject to privatization include but are not limited to telecommunications, electricity, water, gas exploration and the ports.

There hasn't been any substantial progress on privatization in the first three months of 2004. Despite the GOL's commitment to Donor countries at the Paris II conference in November 2002 to move forward on privatization and securitization, the GOL has not been able to initiate privatization as a result of domestic political bickering, regional instability, the outbreak of the Iraq war and worldwide recession.