

The Association Agreement:
Integrated Assessment and Planning for Sustainable Development
Draft Background paper

I- Introduction

The “Capacity Building for Integrated Assessment and Planning for Sustainable Development project” aims to support and enhance national planning processes.

The UNEP project in Lebanon will perform an integrated assessment of the Trade component of the Association Agreement (AA) with particular emphasis on key economic, social and environmental factors directly affected by the AA. The project is expected to identify national priorities and hence outline Action Plans for Lebanon in line with ENP guidelines.

The Ministry of Economy and Trade (MOET) recognises that the relation with the European Union (EU) governed by the Association Agreement and the subsequent ENP entails a broad framework of cooperation covering not only trade and trade- related issues but focuses also on political, socio-economic as well as cultural and judicial issues.

This document provides a basic illustration of the project background including an overview of relations between Lebanon and the EU and the approach the MOET plans to adopt in order to perform an integrated assessment of the Trade Component of the ENP from which the action plans will derive.

II- Lebanon EU Relationship

2.1- European- Mediterranean Partnership

Lebanon participated in the Barcelona Conference in November 1995 which adopted the Barcelona Declaration and launched the Euro-Med Partnership.

The Partnership with the EU and Mediterranean states lies on three basic pillars:

- Political and security
- Economic and financial
- Social and cultural

In parallel to its bilateral relationship, Lebanon is an active participant in the Multilateral process of the partnership. Accordingly Lebanon is participating in Euro-Mediterranean Ministerial Conferences that are held to assess the progress and recommend improvements related to the different objectives of the Partnership. The conferences are complemented with technical working groups addressing specific issues and objectives raised at the various Ministerial Conferences. With respect to trade, The MOET is following up developments in technical working groups covering standards and conformity assessment, services, trade facilitation and rules of origin.

2.2-Lebanese-EU Association Agreement

Lebanon signed in June 2002 the Association Agreement and the Lebanese Parliament ratified it in December 2002. Besides trade-related articles, the Association Agreement laid out general objectives and principles without a proper implementation mechanism.

An Interim Agreement entered into force in March 2003 allowing the immediate implementation of economic and trade related provisions of the Association Agreement, awaiting parliamentary ratification of all EU Member States. The Interim Agreement initiated the tariff dismantlement with a 5 year grace period on EU exports into Lebanon.

Above and beyond tariff reduction, the Association Agreement enabled Lebanon to benefit from substantial technical and financial assistance programs from the EU covering economic, social, and environmental, and education projects, among others.

2.3- Trade Liberalization Planning Process

The Ministry of Economy and Trade (MOET) is increasingly engaging all relevant stakeholders including ministries, the private sector and civil society in its planning processes. For instance MOET has established a WTO National Committee to direct and monitor accession to the WTO. The committee meets regularly and includes representatives from all relevant ministries. The planning process is complemented by bilateral meetings and correspondence between the MOET and all relevant institutions from the public or private.

With reference to the European Neighbourhood Policy (ENP), the planning process is in its early stages. However, a National Committee has been designated by the Council of Ministers to oversee the negotiations and the implementation of the ENP. Furthermore, a task force headed by the Minister of Economy and Trade have been formed to oversee the ENP process.

The MOET headed the Lebanese delegation in charge of negotiating the Association Agreement with the EU. The delegation included representatives from all relevant Ministries and other public authorities such as agriculture, industry, customs. In addition, other stakeholders were kept abreast throughout the negotiation phase although not on a regular basis.

The post negotiations phase included a series of workshops, the circulation of a brochure related to the Association Agreement as well as the access to a web site posting activities in relation to the Association Agreement giving a channel whereby the public and main stakeholder can participate informally or formally.

The implementation phase of the AA increasingly involved key stakeholders' through a series of 'mise-à-niveau' workshops and projects aimed at maximising the benefits of trade liberalisation. Those include projects addressing quality of exported goods, consumer protection, intellectual property rights, the need to upgrade and address small and medium enterprises, rules of origin and trade facilitation.

In the process of implementing the Association Agreement, weaknesses and gaps have been identified and are elaborated below:

- Ex-ante study assessing the potential impact of trade liberalization with the EU only dealt with the economic issues, focusing on specific sectors such as industry, agriculture and services. Those were not validated by an official body due to the variation in the quality of output.

- The absence of regular consultations engaging key stakeholder as well as minority groups such as farmers in the poorest rural areas. This lack of engagement is partly due to the lack of resources and data, the absence of coordination (co-operatives, unions) among minority groups leading to a lack of representation.
- No formal institutional framework to guide and monitor trade liberalization process with the EU was planned for.

Those issues are mainly the result of the absence of a national planning, representations and resources. It is hoped that those weakness will be avoided in the wider economic integration process trough the current IA and the subsequent standardization of methodology and procedures.

2.3-Neighborhood Policy

1- Background

The enlargement of the EU in May 2004 will create opportunities, pose challenges and affect the geopolitical relations of the EU with its new neighbors including Lebanon.

Henceforth the ENP was developed to address this new reality and build upon the existing cooperation with Mediterranean Partners. The EU is proposing a new and developed mechanism to govern its relations with its immediate ring of neighboring countries, but also the EU is offering a stake in its internal market in return for closer integration and harmonization.

The Lebanese Government has officially welcomed the ENP stressing the strategic importance in terms of deepening bilateral and regional integration.

The aim of the ENP is to build and complement on the existing Association Agreement towards greater integration between the EU and its partners. The new policy will cover several key areas including:

- ***Political dialogue***: Covering international and regional political issues
- ***Economic and social development policy***: Offering the neighboring countries a stake in EU internal Market based on regulatory and legislative approximation and allowing these countries to participate in a number of EU programs (education, environment IT, Energy , Transport Etc)
- ***Trade***: Greater liberalization and market opening based on principles of WTO and approximation with EU standards
- ***Justice and home affairs***: Increasing cooperation and collaboration on issues such as border management, organized crimes, money laundering and other economic crimes

2- ENP Implementation

The method proposed is to define with partner countries a national set of priorities, whose fulfillment will bring them closer to the EU without offering membership. These priorities will be incorporated in jointly agreed Action Plans, covering a number of key areas such as: political dialogue; trade; justice and home affairs, energy, transport, information society, environment and research and innovation; and social policy and people-to-people contacts.

These action plans will build on mutual commitment to common values principally within the fields of the rule of law, good governance, the respect of human rights, and the promotion of market economy and sustainable development. Engagement will thus be introduced progressively, and be conditional on mutual agreed targets for reform.

Action Plans will be revised approximately every three years and progress will be monitored through a set of benchmarking indices developed in the action plan. Benchmarks will thus offer a credible and consistent approach between countries.

3-Potential Benefits

While the historic relation between Lebanon and the EU has been strengthened by the Association Agreement, the ENP will bring about a considerable value added to this relationship on all levels be it socio-economic, trade, environment or sustainable development. The ENP stands to offer Lebanon a larger window of opportunities. It is expected to:

- Offer a higher stake in the EU internal market
- Upgrade the scope and the intensity of political cooperation
- Harmonize economic legislation, and eliminate of all trade barriers
- Increase financial support: EU financial support through the action plans will be better targeted to support the identified actions and using new financial instrument There will also be infrastructure investment support through the European Investment Bank
- Provide technical assistance
- Develop the transport, energy and information society sectors and networks
- Strengthen cooperation in science and technology

4-Financial Instrument

MEDA will remain the main financial assistance instruments for Mediterranean Partner countries part of the Barcelona Process until 2007. It will provide support for the ENP and in particular for the implementation of the Action Plans. As of 2007, a new financial instrument will be created; it will incorporate all existing instruments. This new European Neighborhood Instrument (ENI) will build on existing cross-border programs such as partnership, multi-annual programming and co-financing. Its main elements will be the promotion of sustainable development, addressing common challenges in fields such as environment, public health and the prevention and fight of organized crime, ensuring efficient and secure common borders, promoting local cross-border 'people-to-people' type actions.

III- Integrated Assessment Project in Lebanon

3.1-Institutional Aspect

The Ministry of Economy and Trade will establish a multidisciplinary team to perform an integrated analysis and assessment of the ENP trade and economic development policy components evaluating potential impacts on Lebanon's sustainable development. Furthermore the Ministry of Environment will provide the MOET with technical assistance when required, expertise and backstopping in addition the private sector through the Chamber of Commerce Industry and Agriculture (CCIA) will fully collaborate with the MOET and will be a co-owner of the project. The final integrated assessment study will be the guiding document from which Action Plans, projects and programmes will be identified.

In addition, a steering committee will be established to direct the implementation of the Integrated Assessment. Members of the Committee will include all the relevant stakeholders (i.e. Ministries of Foreign Affairs, Agriculture, Industry, etc.)

3.2- The Study

The project will undertake an integrated assessment, of the trade and economic development policy components of the Association Agreement. The study will encompass five major phases:

- a. Analysis of Association Agreement trade component's potential impacts on socio-economic development (poverty reduction, employment, sector development, affected social groups),
- b. Evaluation of the impacts with respect to the sustainability objectives,
- c. Identification of priorities issues of concern,
- d. Perform needs assessment of these relevant areas,
- e. Define actions and programs that need to be undertaken in supporting sustainable development.

Accordingly, the project will provide an *ex-post* assessment of the AA focusing on the trade and economic, development policy components and their impact on sustainable development. This will allow the identification of main gaps that will be addressed in the ENP context.

The project will build on the combination of existing methodologies developed by UNEP in the framework of Integrated Assessment and Planning Tools and Techniques and the DG Trade Sustainability Impact Assessment (SIA) methodology.

Table 1: Proposed sequence for planning the project tasks related to the ENP

Elements of the planning process	Description
1. Initiation	<ul style="list-style-type: none"> ▪ The Government of Lebanon has signed the Association Agreement in June 2002 thereby launching the trade liberalization process. ▪ The Government of Lebanon has expressed its interest in taking part in European Neighborhood Policy adopted in 2003¹. ▪ MOET has recently started the Integrated Assessment project to assess and define the implementation of this Trade Component⁵ of the ENP in collaboration with concerned stakeholders. ▪ .
2. Analysis	<ul style="list-style-type: none"> ▪ Review the process for planning & decision-making applied by Moet with regards to trade relations with the EU & define gaps, weaknesses & strengths ▪ Define potential procedural, institutional and regulatory gaps as well as concerns relating to the application of the Trade and economic components of the ENP ▪ Analyze stakeholder priorities to set the analysis specific objectives ▪ Evaluate potential economic, social & environmental implications of the trade component of the ENP ▪ Assess the suitability of potential trade-offs
3. Design of strategy/ strategic planning	<ul style="list-style-type: none"> ▪ Set a strategy for participating in the ENP focusing on the: <ul style="list-style-type: none"> - Promotion of regional integration in trade, infrastructure networks, as well as quality & environmental standards - Optimization of positive impacts & minimization of negative ones in line with the concept of sustainable development & national priorities
4. Design of actions/ operational planning	<ul style="list-style-type: none"> ▪ Prepare an action plan describing: <ul style="list-style-type: none"> - Clear guidelines & priorities - Regulatory & institutional measures to be taken in order to prepare for the implementation of the trade and economic components of ENP in Lebanon - Actions to be taken for mitigating potential negative impacts (environmental, social & economic) and/ or optimizing positive impacts - Coordination mechanisms for inter-institutional

¹ Communication on “*Wider Europe- Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours*” (COM/104/2003) and communication on “*Paving the way for a new Neighbourhood Instrument*” (COM/393/2003).

	coordination & consultation - Capacity building needs assessment ▪ Define a clear methodology for evaluating trade-offs & identifying what their acceptability by stakeholders
5. Implementation & monitoring	▪ Assess resource needs (funding, regulations, procedures, time-frame, etc.) for the implementation of the recommended measures & actions ▪ Define sustainability indicators to be used for monitoring progress (monitoring system) & responsibilities for calculating & monitoring them

3.3-Setting the stage for an Impact Assessment (IA) in Lebanon:

The purpose of the IA is to assess the impact of trade liberalization as well as the prospect of deeper integration with Europe on the economic, social and environmental level. This will provide policy-makers with the relevant information and in the process hope to develop a standard approach to assess all relevant trade-related policies ex-ante any negotiations.

The focus of the study will be on the gradual elimination of tariff and non tariff barriers on European imports to Lebanon and Lebanese exports to the EU and their potential effect on the agricultural and industrial sectors of the economy, in terms of production levels, consumer welfare, equity, use of natural resources and other environmental issues. The choice of agriculture and industry as main parameters is due to their strategic economic social and environmental importance at the national level as well as their potential for growth in terms of volume and export revenues trough increased trade flows with the EU in the context of the ENP.

The timing of the IA is ex-post with respect to the reduction of trade barriers on Lebanese exports but ex-ante with respect to the reduction of trade barriers on EU imports to Lebanon.

For the study to fully integrate significant economic, social and environmental issues it is essential to involve relevant stakeholders. In the context of Lebanon, the availability of data is very limited, studies undergone are many but much dispersed. It is thus essential to have extensive workshops, focus groups and cooperation with identified stakeholders to be able to build the necessary capacity for the IA. In this respect, three main workshops will be organized as well as several consultations with experts in specific and relevant issues, whether in the field of civil society, academia, private and public sectors.

At the initial stage of the study, the selection of indicators is based on a simple scoping exercise that takes into account the priorities and focus of the IA. As such the main economic, social and environmental indicator believed to identify changes in trade flows, environmental and social being, and compatible with available data are believed to be the following:

economic	GDP growth rate Debt to GDP ratio Employment by sector
Social	Access to basic needs Distribution of income Number of employee registered in the social security
environment	Undecided yet, based on the priority sectors derived from the CGE

3.4-Methodology

The methodology used for the assessment will be based on the IA methods developed within the UNEP framework taking into consideration the specificities of Lebanon. The methodology relies heavily on participatory processes such as stakeholder meetings, focus group and workshops.

I- Selection of sub sectors

For the assessment to be able to develop action plans using an ESE approach, it is necessary to focus on a selected sub-sector allowing the assessment to study a particular production process and to identify a specific group of stakeholders. Indeed the objective of the assessment is to identify ESE interlink ages and ultimately develop action plans that will be incorporated in the ENP planning process. It is thus preferable to design action plans that tackle particular issues and can be easily implemented.

The selection of sub-sector used the following criteria:

1. Strategic trade linkage with the EU (volume of trade, growth potential, tariff reduction, etc.)
- 2- Relevant social implications (e.g., minority groups, women, employment generation, poverty reduction)
- 3- Environmental implication (e.g., soil degradation, water pollution, waste management, sustainability issues)
- 4- Data availability and willingness of stakeholders to co-operate

The choice of criteria used in the selection process is based on the nature of the assessment (integrated) and objective of identifying ESE inter-linkages. Furthermore the assessment will focus on the impact of the Association Agreement and it is thus necessary for the sub-sector chosen to have trade linkages with the EU.

II- In depth analysis of the sub sectors

The analysis of the sub-sector chosen will focus on the production process, the policy environment and trade issues, namely access to foreign markets, import competition. For each component the study will identify relevant economic, environmental and social issues to be focus on in the next stage of the assessment.

The process of data mining will be based on a mapping of available information and studies, followed by consultations with key stakeholders.

III- Identification of main ESE interlink ages

ESE inter linkages will be identified through the development of an impact matrix. The latter will be developed through a participatory process with key stakeholders. The impact matrix will permit the identification of key ESE inter- linkages, it would then identify key ESE indicators that would be monitored and assessed using a trend analysis.

IV- Trend Analysis

The trend analysis will focus on assessing the development of key ESE issues. It will focus on the period 2000-2004. The trends will be developed using extensive stakeholder consultations and data mining. The objective of conducting a trend analysis is to identify the development of the ESE issues and develop proper policy implications that would mitigate negative impacts and enhance positive ones.

V- Identification of policies and policy objective for relevant sustainability issues

Following the trend analysis, a mapping of existing policies and policy objective will be conducted. Again this will be done through research and consultations with policy makers, experts and others. The objective is to establish a link between the trends identified and the policy environment and identify main gaps and strength of the policy environment that could be addressed in the context of the ENP.

VI- Scenario Building

Following the identification of the main policy gaps and strength as well as main ESE issues, scenarios aiming at capturing impacts of changes in policy will be established based on the following:

- zero change in current trade
- enhanced EU trade without additional measures
- enhanced EU trade with measures for compliance to sustainability objectives as identified
- enhanced EU trade with all measures to improve product quality as deemed necessary.

The results of this stage will be derived using stakeholders consultations, data collection and the trend analysis developed earlier.

IV- Design of action plans and validation

Based on the results of the scenario building, action plan addressing key sustainability issues will be developed. Those will be validated during a workshop with key stakeholders.

The methodology used for the assessment of the linkages between trade and the environment will be the one used traditionally by the UNEP. Indeed it will identify with the 5 broad categories of environmental impact namely product, technology, and scale, structural and regulatory effects and will assess the impact of trade on each one of them within the framework of the ENP. .

V- Country report

The following report will start by reviewing briefly the state of the economy including socio-economic indicator such as unemployment and poverty and an overview of the state of the Environment. It will then describe the three main sectors in the economy mainly agriculture, industry and services, focusing on those issues relevant to IA.

4.1-Overview of the economy

The civil war damaged Lebanon's economic infrastructure, cut national output by half, and all but ended Lebanon's position as a Middle Eastern entrepot and banking hub.

By 2000, Lebanon's war-damaged physical infrastructure had been substantially rehabilitated and reconstructed, although new rehabilitation challenges evolved with the liberation of the occupied south. Public services were operating, basic education and health care was being provided, internal security was fully restored, and most of displaced had returned to their homes, and Real GDP doubled from the post war level

Peace enabled the Lebanese government to begin collecting taxes and regain access to key port and government facilities. Economic recovery was helped by a financially sound banking system and resilient small- and medium-scale manufacturers. Family remittances, banking services, exports, and international aid provided the main sources of foreign exchange. Lebanon's economy made impressive gains since the launch in 1993 of "Horizon 2000," the government's \$20 billion reconstruction program.

Real GDP grew 8% in 1994 ,4% in 1997 , but slowed substantially in the following years reaching 1.5% in 2002,only to regain momentum in end of 2002 where it grew by 3% in 2003 and 5% in 2004. During the 1990s, annual inflation fell to almost 0% from more than 100%.

The government nonetheless faces serious challenges in the economic arena. It has funded reconstruction by borrowing heavily - mostly from domestic banks. In order to reduce the ballooning national debt in year 2001, the government began an economic austerity program to rein in government expenditures, increase revenue collection, and privatize state enterprises. The Paris II international donor conference held in November 2002 was a success providing Lebanon with much needed and at low rates and for longer maturities debt instruments. This positive shock created a domino effect leading to substantial reduction in interest rates and significant improvements of the financial/economic accounts. While privatization of state-owned enterprises had not occurred by the end of 2003, massive receipts from Paris II stabilized government finances in 2003-04.

4.2-Overview of unemployment

There has been no official population census since 1932, however a recent academic study estimated the population at 4 million people in 2003 (USJ 2002)

Lebanese population is young with 25.9% of the population below 15 years, and only 18.6% above 50 years. Of the total the 15-19 age category is the single largest accounting for 11.2% of the population. In light of the above, it is obvious that the growth of job creation in the coming decades has to accelerate in order to match the growth of labor supply.

Lebanon has an active population which comprises 35% of total population; but unemployment is unofficially estimated to be around 11.5%. Women and university graduates belonging to 20-29 age category as well as unskilled workers in the main sectors face the highest rate of unemployment. Indeed the rate of female unemployment is twice as high as male unemployment; University holders belonging to 20-24 and 25-29 age categories suffer from unemployment rates of respectively 25.5% and 12.2%.

Like most developing countries, the informal sector in Lebanon is significant in terms of employment generation. Although no official studies has been undergone. Estimation based on available data lead us to believe that the informal sector generate 19% of employment in the Lebanese economy

An unemployed person can stay out of the job market for a year or more. Those that stay the longest period are most often directors and intellectual professional. Willingness to leave current job is highly correlated with income return and job security. Farmers have the highest percentage of willingness to leave. Education does not seem to offer any protection for extended unemployment nor does occupation.

Lebanon is increasingly suffering from a structural unemployment problem. Even with a relatively high segment of the population having access to education, the latter does not meet the needs of the job market. In addition to that, many employees in the private and mainly public and agriculture sector are unable to adapt to new technologies, they either find themselves unemployed or earn lower wages.

4.3-Overview of poverty status

Poverty estimated according to the Unsatisfied Basic Needs Indicator (Mapping of living conditions 1998) concludes that 7.1% of Lebanese households suffer from very low satisfaction of basic needs, whereas 25% of the households have a low degree of satisfaction. Households with intermediate satisfaction represent the largest component with 41.6% and 26.4% are believed to have the highest satisfaction.

Using a different indicator (1.3\$/day), extreme poverty in Lebanon is the case of 6.3% of the population according to a 1995 study (United Nations Development Assistance Framework-A platform for cooperative Action 2002-2006, opcti)

The main problem is one of relative poverty and big income disparities. Studies undergone by the Ministry of Social Affairs in cooperation with the UNDP have identified the following main issues:

Regional disparities in poverty levels are significant with the majority of poor areas being rural and with poverty pockets found within and around cities. The deprived are concentrated in urban areas in particular in the capital and its suburbs. They are mostly from rural areas and have moved to cities and urban centers in search of a better job.

In those areas, poverty is correlated with the absence of public infrastructure and services, lack of employment opportunities, population density, school drop outs, child labor etc. The regions suffering most from deprivation in terms of the ratio of the deprived to total resident population are mostly rural districts.

There is a widening poverty gap between social groups. Disparities in the wages of workers in different economic sectors reveal lower income for workers in agriculture and for unskilled labor. The poorest in 1997 were found in the agriculture sector (12% of deprived households) among skilled workers in machinery (11.5%), unskilled workers and employees in sales and services (10.7%) vendors and sales assistant (9.7%), construction workers (9.1%) and unskilled agricultural workers (9%). A similar composition can be assumed for Lebanon in 2004 with a slight revision in service-based employees who have gone above the poverty line.

The main characteristics of the deprived are a low level of income, followed by a low level of education. Those two fields take priority over the issue of access to water and sewage.

4.4-Overview of the state of the environment

The Ministry of Environment was established in 1993 to address environmental challenges. The mandate is continuously reviewed to strengthen decentralization in addressing environmental sustainability issues. A framework law for the protection of the environment was promulgated in 2002 to ensure the sustainability of the environment as a basic national entitlement and public goal. The following section presents a brief overview of the major environmental sustainability indicator in Lebanon as well as the linkage between trade and environment in the Lebanese context.

Biodiversity

The number of protected areas increased during the past decade to reach 33 in 1999, seven of which established by law. Protected coastal areas are estimated 888 hectares, while forests account for 13.3 percent of total land area.

Green house gases and other emissions

The first GHG inventory in Lebanon in line with the climate change convention regulations indicated carbon dioxide to be one of the most commonly emitted gases with an estimated emission of 13,803,000 tons in 1994. The transport sector is considered the main source of pollution, followed by the energy sector (emissions from this sector increased by 35% between 1994 and 1999, and the industrial sector (responsible for 14% of co2). About 82% of methane gas emissions are due to the disintegration of organic waste, 15% from agriculture and 3% from the energy sector. I

Ozone-depleting substances

The use of ozone-depleting substances peaked in 1993 (around 920 tons), and began to decline with the prohibition of halons in 1998 and the use of alternative materials (to 527.3 tons), as well as the use of methyl bromide alternatives in agriculture.

Water resources

Annual precipitation is estimated at 8,600 million cubic meters and 40 rivers and streams have a total annual flow of 3,900 million cubic meters. Exploitable ground water varies between 400-1,000 million cubic meters. Access to water through public networks is 79% of total dwellings with noted regional variations. The actual daily per capita accessibility is estimated at 60 liters, compared to a theoretical daily average of 160 liters; the disparity is due to seepage from deteriorated networks.

The pollution of water resources, especially as a result of waste-water infiltration to underground water resources, is a national problem. Proliferation of lime constituents and cracks in soil layers allow infiltration of liquid waste into the groundwater; haphazard digging of artesian wells leads to the infiltration of seawater into fresh groundwater, resulting in increased salinity; and the disposal of domestic and industrial solid waste and waste water are polluting factors.

Waste water management

Only 37% of dwellings had access to waste-water networks in 1996, while the remainder, mainly in rural areas depended on septic tanks. In 1997, 58.3% of households had access to public sewage networks while 42.8% used septic tanks. As in the case of other indicators, regional disparities are evident; 23.8% of households in Nabatiyeh have access to public sewage networks, compared to 98.3 % in Beirut.

Solid waste management

Domestic solid waste continues to be a major environment problem, with more than 80% being dumped in landfills.

Trade and the environment

Trade liberalization and deeper economic integration through the Association Agreement and the subsequent ENP is expected to have significant impact on the flow and composition of traded goods and services across Lebanon. The environmental impact of this will largely depend on the technology, structural and regulatory framework accompanying trade agreements. For example the agricultural sector is currently facing enormous pressures ranging from low prices and low revenues to fierce competition from regional countries that enjoy relatively higher subsidies and lower production cost. Moreover, this sector is currently not benefiting from the Association Agreement and the facilities it offers for the entry of agriculture products in the European continent, as a result of the continuous rejections due to the lack of conformity assessment in standards, TBTs and SPS measures. Ultimately, if the agricultural sector applies the standards required by European market in terms of pesticide residues and other SPS measures it will have positive implications on the environment by reducing fertilizers and pesticide use to meet standards.

The Lebanese government has signed numerous conventions and protocols limiting and controlling the impact of trade on the environment. These include the Montreal Protocol that restricts the trade in Ozone depleting substance or in products where ODS are used in production. In addition, the Ministry of Environment has also ratified the Basel Convention that restricts the

trade in hazardous waste, the Cartagena Protocol on Biosafety relating to trade in Genetically Modified Organism (GMOs) and receives Prior Informed Consent (PIC) on imports of Chemical and Pesticides.

Last but not least Lebanon participated in the World Summit for Sustainable Development WSSD which calls on governments to provide incentives for investments in cleaner production and eco-efficiency, to promote the internalization of environmental costs and the use of economic instruments without distorting trade and investment and to develop and adopt consumer information tools that should not be used as a disguised trade barriers. The study will be focusing on the technological, scale, regulatory and structural effects of trade on the environment.

Technological effect of trade is mainly related to the transfer of know-how, technology and skills between trading partners. The Association agreement builds heavily on the capacity building component with respect to trade, and it is thus associated with a big technological effect. The scale effect is not a major component in Lebanon's trade framework since Lebanon is still producing below capacity implying no or minimal scale effect. Structural effect will be largely determined by the results of the CGE. Indeed the model will determine the impact of trade on the structure of trade and thus on the structural effect of the latter on the environment.

4.5- Macro figures for Lebanon

Nominal GDP:	- \$19.5 billion (2004, IMF est.)
GDP - real growth rate	5% (2004 est.)
Inflation rate (consumer prices)	3.2% (2004 est.)
Labor force	1.5 million note: in addition, to an accounted 1 million foreign seasonal foreign workers (2001 est.)
Unemployment rate	11.5%
Public Debt	185.1% of GDP (2004 est.)
External Debt	\$18.760 billion (2004 est.)
Agriculture - products:	citrus, grapes, tomatoes, apples, vegetables, potatoes, olives, tobacco; sheep, goats
Industries and services:	banking; tourism, food processing; jewelry; cement; textiles; mineral and chemical products; wood and furniture products; oil refining; metal fabricating

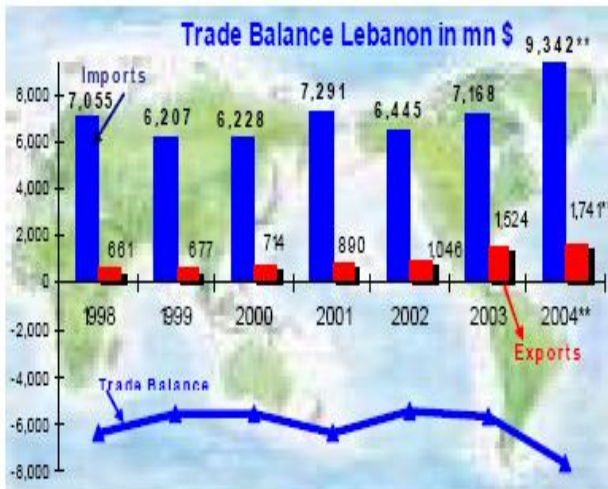
Exports

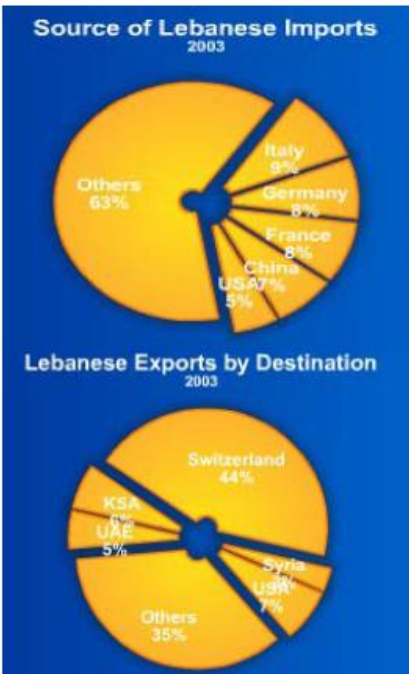
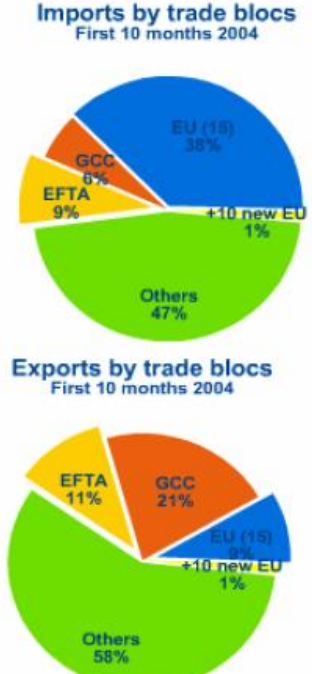
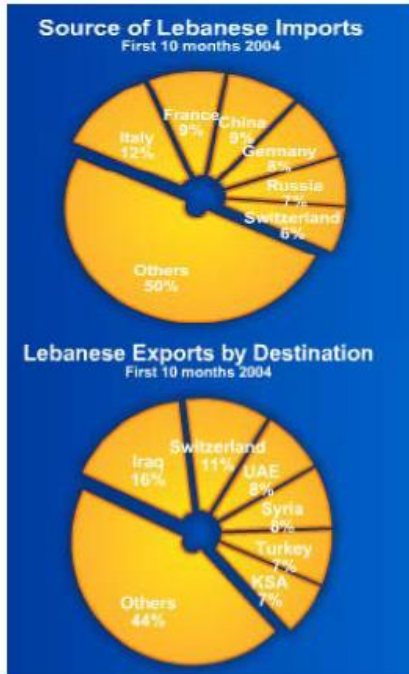
Volume in billion \$	1.524 billion f.o.b (2003 est.)
Main commodities	authentic jewelry, inorganic chemicals, miscellaneous consumer goods, fruit, tobacco, construction minerals, electric power machinery and switchgear, textile fibers, paper
Main destination-country	Switzerland 10.8%, UAE 10%, Saudi Arabia 7.5%, US 7.3%, Turkey 5.5%, Jordan 4.4% (2003)

Imports

Volume in billion\$	6.037 billion f.o.b (2003 est.)
Main commodities	petroleum products, cars, medicinal products, clothing, meat and live animals, consumer goods, paper, textile fabrics, tobacco
Main sources-country of origin	France 13.4%, Germany 11.7%, Italy 10.7%, Syria 5.3%, China 5.2%, UK 4.9%, US 4.5% (2003)

Data on trade analysis (Ministry of Economy and Trade)





*up to August 2004	Imports				Exports			
	2001	2002	2003	2004*	2001	2002	2003	2004*
EU	42%	43%	29%	39%	16%	14%	9%	9%
GCC	6%	4%	5%	6%	23%	24%	19%	20%
EFTA	5%	4%	3%	5%	7%	13%	25%	13%

4.6-Agricultural Sector in Lebanon

1) Economic role

The agricultural sector plays a multiple role in the Lebanese economy. Indeed it contributes significantly to the industrial sector since agricultural products provide a major part of the raw materials for the agro-food industry. Agricultural land covers nearly a quarter of the total surface area of Lebanon. This sector contributed in 1997 around 6% of the GDP (MOET) and employed 6.7% of the total labor force (USJ 2002). Hence, development of the agricultural sector will not only benefit the rural population, but will also promote Lebanon’s overall economic status.

Despite the importance of the agricultural sector, local supply is not sufficient and Lebanon imports (as is the case in most sectors) about 45% of total GDP, to meet local demand. Lebanon has a widening agriculture deficit and growing food dependence. Increased exports should bring in foreign currency and may also trigger more efficient production methods, thus narrowing the agricultural deficit or even eliminating it.

Agriculture constitutes 20 percent of Lebanon's foreign trade, due to significant food imports (cereals, livestock products, etc.), mainly from the EU and the United States. Exports flows are mainly destined to the Arab neighboring countries and they comprise fruits and vegetables, whose composition has exhibited significant variation over the years.

Starting March 2003, Agricultural exports from Lebanon are entering the EU duty free and with the exception of a list of 25 items for which quantitative restrictions and/or specific duties are maintained (e.g., potatoes, tomatoes, cucumbers, artichokes, squash, apples, oranges, and olive oil). However EU standard requirements (as well as ad hoc restrictions) remain a major non-tariff barrier blocking access to the EU market. On the other hand, The Association Agreement allows EU agricultural products to enter Lebanon at reduced rates and in following a gradual timetable, which will be revised in 2008.

Main agricultural produces exported to the EU in 2004 include products of animal origin (HS1) 33.2%, coffee, tea, mate and spices (HS9) (18.6%); animal or vegetable fats and oils (HS15)(30.9%)

Agriculture benefits from relatively low subsidies compared to the EU or its neighboring countries. Product subsidies are currently limited to sugar beet, wheat, and tobacco. Export subsidies through the "Export Plus" Program reimburses part of the transportation costs of agricultural produce exporters, conditional on meeting some quality standards. This scheme was originally intended to target farmers but has proven to benefit traders, and seems not to have improved quality standards. In addition, Lebanon suffers from high production costs due to relatively high labor and input costs compared to neighboring countries which reduces its competitiveness level.

Land use

Land resources in Lebanon are limited and encroachment through urban sprawl is in effect reducing agricultural land;²

Lebanon's agriculture is characterized by small and fragmented land holdings, constraining efficient irrigation and mechanization as well as benefits from economies of scale.

With 195,000 farm enterprises cultivating a total of 248,000 ha, the average farm size measures about 1.27 ha, split into an average number of 2.6 plots per farm (according to the National Agricultural Census, 1999). Three in four (73 percent) farms are smaller than 1 ha. Small farm areas are particularly frequent in the southern districts like Marja'ayoun and Bent Jbayl. Farms in the North, particularly in Hermel, are larger than the national average.

2) Social implications

Food Security

In addition to its economic importance, agriculture plays a considerable role in the food security of any country. According to the agro-biodiversity study done by the Lebanese Ministry of Agriculture, Lebanon is self-sufficient in poultry production, but only produces around 15 % of its wheat consumption, 45 % of its legumes and only 10 % of its sugar needs. Moreover, Lebanon

² The Agricultural Census provides a figure of 250,000 ha.

imports 78 % of its dairy and meat products. Alternatively, it exports fruits and vegetables including apple, potatoes, citrus fruit, tomatoes and other fruits and vegetables.

“Per capita cereal production” statistics provide a rough indication of whether a country is able to feed its population. Lebanon has a low rate of average per capita cereal production with only 24 metric tons per 1000 people (years 1986-88) and 30 (years 1996-98), compared to 310 and 349 metric tons per 1000 people in Syria (years 1986-88 and 1996-98 respectively). In addition, the net cereal imports and food aid represent 90 per cent of the total cereal consumption in Lebanon (in years 1995-97). These figures indicate that the country is far from being self-sufficient in grain production and has to depend on imports (World Resources 2000-2001).

Rural development

In Lebanon, the Bekaa region has the largest area allocated for agriculture in terms of hectares. In reference to the National Human Development Report of Lebanon, human development differs substantially between Beirut and Mount Lebanon on the one hand and North Lebanon, Nabatieh, the Bekaa and South Lebanon on the other. The Bekaa, the North and the South are the regions most involved in agriculture production.

Rural poverty in Lebanon is localized. A recent study published by the Lebanese Ministry of Social Affairs and UNDP has calculated a living condition index (LCI) for all districts of Lebanon. This LCI measures the degree of satisfaction of basic needs for households and individuals residing in Lebanon. It is a composite score from 11 indicators in the four fields of housing, water and sewerage, education, and income-related indicators. Results from this study suggest that the poorest districts in Lebanon are Hermel, and Akkar in the North, Bent Jbayl and Marja'ayun in the South, followed by El Miniye and Baalbeck in the North and Tyre, Hasbayya, Nabatieh, Rachayya, and Jezzine in the South.

In addition to benefiting from low subsidies, that do not target the poorer segment of rural society, the latter does not benefit from effective access to social safety nets.

From a farm-household perspective, farm incomes are rather low, especially in rain-fed agriculture, increasing the motivation to search for alternative income sources, especially among the youth. From a macro-economic viewpoint, agriculture could represent a vibrant sector, if more development in the marketing strategy were to occur; indeed a large part of the value-added has potential to be created after the farm gate (transport, conditioning, packaging, transformation, storage, etc.).

The district of Nabatieh demonstrated the highest percent of households below the threshold of basic needs achievement, followed by the North with 44 %, the Bekaa with 41 % and South Lebanon with 37 %, while the national average was 32 %. Accordingly, in relation to income inequality, the Gini index rates 0.437 in 1997, which is rather high (UNDP 2002)³.

³ “Globalisation: Towards a Lebanese Agenda” National Human Development Report Lebanon 2001.2002 p33.

Table I.2. Lebanon Regional Human Poverty Index, 1996

Beirut	Mount Lebanon	North Lebanon	South Lebanon	Nabatieh	Bekaa	Lebanon
6.3	7.0	14.3	10.4	12.8	11.6	9.7

Source: National Human Development Report Lebanon 2001-2002

The most affected occupational activities in the rural area are wage earners, low skilled farmers and those involved in fishery. They suffer from high level of unemployment rendering them more vulnerable to poverty. In addition, their seasonal dependence is high, and they do not benefit from any social protection.

While agriculture may still be an important income-generating sector for many rural families, farm households, even in largely agricultural areas, generate a substantial amount of their household income outside the agricultural sector and off-farm activities often contribute more to the overall household income than agriculture.

In terms of sustainable development, supporting and developing the agricultural sector, would considerably contribute to improving the living conditions of rural citizens and reducing the imbalances that exist between cities and rural areas. Moreover, promoting and strengthening the agricultural sector contributes to alleviating a major socio-economic and environmental problem, namely rural migration that results in heavy concentrations of populations and production in Beirut and its suburbs, which is unsustainable in terms of development and environment.

Support to the agricultural sector should include improving marketing and distribution schemes, intensifying promotion, finding new markets, enhancing research, imposing pest and disease control, improving training and extension services, providing inspection services and boosting infrastructural services related mainly to electricity and water supply.

3) *Environmental impact of agriculture sector*

The agricultural sector has a considerable impact on the environment. It is by far the largest consumer of water resources. In this respect while the total land area for agriculture has remained fairly constant over the last decades, irrigated lands have more than doubled (from 40,775 hectares in 1961 to 104,009 in 1999 Ministry of Social Affairs- FAO 2000). Irrigation is provided by surface and ground water however one of the main concerns remains gravity irrigation, which accounts for 64 %, it is the predominant method of irrigation with surface water and carries high water losses.

Another major problem is the extensive use of chemicals in agriculture such as pesticides, fungicides, and herbicides. Although Lebanon bans the entry of dangerous pesticides, Lebanese soil is contaminated from persistent use of the chemicals that is mostly a result of many years of unrestricted application of dangerous pesticides and continuous extensive application of the regulated pesticides. This is a result mainly of a lack in training, illiteracy among farmers and inadequate extension services. In terms of waste generation poultry and dairy farms production contribute to a considerable amount of solid and liquid waste whereas abattoirs and poultry houses generate larger quantities of slaughter waste.

4.6-Industrial sector in Lebanon

1) Economic role

The industrial sector in Lebanon has experienced a major expansion since the end of the war. Industrial production rose from \$1.057 billion in 1992 to \$3.162 billion in 2000, an increase of 200%. However the industrial sector share in GDP remained at around 19%. According to the 1998 latest industrial survey, conducted by the Ministry of Industry in cooperation with the German GTZ Group, there are 22,025 industrial firms employing 114,108 workers. The industrial sector employs 14% of the total Lebanese labor force.

There are 23 industrial branches in Lebanon (not including water, power and construction activities). Nearly 89% of industries belong to eight branches only: food and beverage (20%), fabricated metal products (16%), non metallic mineral products (12%), furniture (11%) clothes and dyeing fur (10%), wood products (10%), leather products (6 %) and textiles (4%).

In 2001 industrial exports were valued at \$834 million a rise of more than a 10% compared with 1993, the level rose above \$1.1 billion in 2004. The total value of exports rose by 94% during that period, and the share of industrial exports in total exports rose from 90.3% in 1993 to 93.7% in 2001.

The leading sectors of employment are the construction materials, the food products and beverages and textile.

Exports in the industrial

Agro-industrial products are a composite of an agricultural and an industrial component. Lebanon succeeded in decomposing this product and eliminating the tariff rate on the industrial component and partially the agricultural component.

Lebanon has offered a gradual tariff reduction to EU agro-industrial products without eliminating important excise, minimum duties and without fully removing tariff barriers.

With respect to industrial products, no new import duty or tax having an equivalent effect will be introduced in the exchanges between the EU and Lebanon. The products originating in Lebanon are immediately admitted duty-free. On the other hand Lebanon was granted a 5-year grace period after which tariff rates start to decrease in a uniform way, and on a gradual basis until they reach 0% by year 12.

Main agro-industrial products exported to the EU in 2004 include preparation of vegetables, fruits, nuts (HS20) (14.1%); beverages, spirits and vinegar (HS22) (24%) and tobacco and manufactured tobacco substitutes (HS24) (47.2%)

Main industrial products exported to the EU in 2003 include Salt. Sulphur, earths and stone; lime and cement (HS25) 11.4%, Inorganic chemicals, organic or inorganic compound (HS28) 14.6%, Clothing accessories, knitted or crocheted (HS61), 7.2%; Iron and steel (HS71) 7.8%; Aluminium and articles thereof. (HS76) 8.3%

Even though industrial and agro-industrial exports to the EU are not subject to trade barriers, they face non-trade barriers impeding their ability to be competitive and in conformity with EU standards. Indeed non-trade barriers fall under two main categories, standard and quality requirements as well as administrative procedures. The latter impose substantial barrier to Lebanese exports. Especially that Lebanese industrial sector is mainly composed of small and medium enterprises that do not have the capacity to undergo such administrative procedures or react quickly to regular and ad hoc EU guidelines.

In addition to non-trade barriers affecting negatively the industrial sector, trade liberalization, and competition faced by foreign products entering the local market is forcing major transformation in the industrial structure of Lebanon. Some sectors appear to be uncompetitive on the global market whereas others seem to be able to adapt faster and thus retain and even increase their market share locally and in foreign markets. For example the textile industry is unable to sustain its market share in face of increased competition from neighboring countries as well as China and other Asian economies. Businesses are forced to cut down on production, and thus decrease their employment capacity or even shut down. On the other hand other major sectors such as the agro-food industry are still being able to exploit their comparative advantage and grow in the face of trade liberalization and globalization.

Even though the industrial sector is a major employer of the labor force, it is experiencing a declining trend to the benefit of the booming service sector. Again this is mainly related to the fundamental low competitiveness of the sector and to other structural problems such as imperfect market structures facing the Lebanese economy and notably the industrial sector. It is worth mentioning in this context that this sector is often unable to match foreign competition due to high production costs related to high energy costs and labor costs, its limited access to credit, high barriers to entry imposed on potential competitors. It is also affected negatively by high bureaucratic costs either locally or internationally. This is in turn related to the nature of the Lebanese business dominated by small and medium enterprises unable to take advantage of economies of scale.

2) Social implications

Even if the main sector affected by poverty in Lebanon remains the agricultural one, a portion of industrial employees suffer from poor access to basic needs. Indeed 25.5% of heads of households employed in industry suffer from low access to basic needs. Those are mainly seasonal workers in construction, mining and petroleum who are subject to seasonal unemployment and do not have access to social safety nets or face cheaper foreign labor competition.

In addition, due to the major changes affecting the structure of industry in Lebanon, workers are increasingly faced with risks of losing their jobs, falling into structural unemployment category, get paid lower wages, or lose access to safety nets especially when becoming unemployed.

Even though permanent employees benefit from access to social security, which poses a huge cost on employers and is a major reason to the inflexibility of the Lebanese labor market, competition faced by foreign products is forcing employers to either layoff or decrease wages in order to remain competitive affecting negatively the most vulnerable income category working in this sector.

In terms of labor productivity and skills, the industrial sector suffers from a lack of adequate skills. This is partly due to a system of education that is unable to provide adequate vocational and technical training, emphasizing more on theory and professional degrees that do not match the needs of the job market.

3) Environmental implications of the industrial sector

Industries in Lebanon are frequently blamed for many environmental ills. Industries generate industrial effluents, solid waste and potentially toxic air emissions. Currently most of the liquid solid and gaseous emissions are discharged into the environment without any form of treatment. Industries tap underground water at liberty and the majority is located outside predetermined industrial zones.

Industries considered high risk include tanneries, cement, paper (from pulp), fertilizer, ammunition production plants and gas products. There are 973 of industries in this category employing 4,650 people.

The majority of industries in Lebanon are located outside industrial zones. While existing industrial zones are poorly equipped to collect and /or treat industrial waste, such infrastructure is completely lacking outside industrial zones causing severe environmental pressures. Industrial units located within residential areas pose severe risks to public health and safety. Industries generate special wastes that impact water and soil quality and are major source of air and noise pollution.

4.7-The service sector in Lebanon

The service sector in Lebanon contributes to 67% of GDP (2000) . It is the fastest growing sector and employs up to 40% of the labor force.

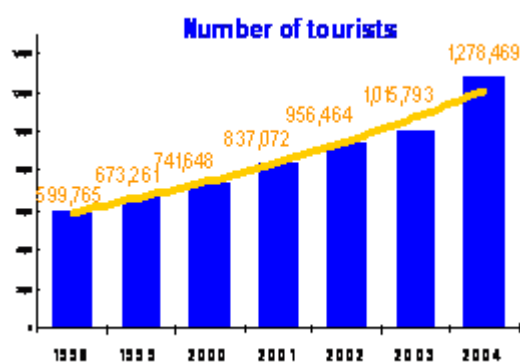
Banking sector

The banking sector in Lebanon plays a significant role in the Lebanese economy. The Lebanese Banking sector currently manages the equivalent of USD 66 billion in assets nation-wide, almost 333% of the GDP for the year 2004. The value-added of the banking sector in the economy is estimated at 4.5% of the GDP in 2003. With 63 active commercial banks and 8 specialized medium and long term credit banks, the Lebanese Banking sector currently employs about 15,200 individuals (1.2% of the Lebanese labor-force) in more than 800 branches conveniently spread throughout the country, while other financial institutions and auxiliaries employed 430 and the central bank 1,400. There has been a rapid increase in percentage of university degree holders. 44% of bank employees held university degrees and 33% had a baccalaureate degree or equivalent at the end of 2000.

- The total assets of the consolidated balance sheet of commercial banks amounted to LBP 99,373 billion (USD 65.9 billion) at the end of November 2004, increasing by 9.7% since the beginning of 2004.
- Total private sector deposits increased by 10.2% during the first 11 months of 2004.

Travel and tourism industry

The travel and tourism industry integrates transport, accommodation, catering, and recreation and services from visitors. Due to the increasing number of tourists this sector is increasingly contributing to GDP growth and employment in Lebanon. The number of tourist arrivals is estimated to have grown substantially in the past few years. In 2004, total tourists visiting Lebanon edged up year-on-year by 26% to 1,278 million (1,015m during last year), of which 43% are Arabs, 27% Europeans, 13.6% Asians and 12% from Latin and North America. The World Tourism Organization estimated the Middle East is the fastest growing destination in the world and will become the fifth biggest destination by 2015. Airport passengers reached a record of 3.3 million in 2004. 2.84 million is the total number of passengers at BIA for 2003 and 2.60m in 2002.



Trade sector

The trading sector accounts for 21.3% of GDP in 1997. It is dominated by small and medium enterprises (3-5 employees) dispersed across Lebanon. Those enterprises rely heavily on imported goods, and because of their size are very vulnerable to price fluctuations, rendering their margins volatile.

As for services in general it benefits from a relatively easier access to credit than industrial and agriculture sectors. However due to the small size of the majority of enterprises operating in trade, the credit tends to be monopolized by the biggest enterprises.

Social impact

As mentioned above, the tourism industry is a booming sector that is labor intensive. It can thus offer job opportunities mainly to the youngest group in the labor force the same one experiencing high level of unemployment. At the moment, seasonal tourism is the dominant activity. The labor force involved in such activity is exposed to seasonal flows, and does not enjoy permanent employment benefits since it is subject to short-term contracts. In addition tourist destinations are usually clustered in certain areas, leaving other rural area already weak untouched by the benefits,

and contributing to rural urban migration. The most vulnerable group is involved in transportation and cleaning among others.

Despite all this, the sector experienced high growth in the order of 20% for the last few years, and seasonal flows have expanded. Moreover, new permanent jobs are created and new services are being offered to become more competitive. Probably tourism is a sub-sector that enjoys the most competitive market structure.

Tourism is increasingly using a skilled labor force, which is specialized among other things in management and customer services. This in turns implies a need for the educational system to provide necessary vocational and technical training.

As all services, the trading sector is labor intensive and employs around 23.9% of the total labor force (USJ 2002). Small and medium enterprises employing a limited number of workers tend to be left out of official social safety nets, specifically the NSSF.

The lower working income bracket employed in trade tends to earn a wage close to the minimum wage (LL.300,000) and have no access to social safety nets, rendering them even more vulnerable. About 21% of head of households working in trade, repair and maintenance suffer from low satisfaction of basic needs. Among other occupations suffering from low access to basic needs are the low skill labor employed in trade services such as vendor (mobile), sales assistant, micro shop owners, and employees in larger shops.

This sector is increasingly requiring a higher skilled labor force able to adapt and use new technologies associated, increase in customers services (after sales etc) as well as the need to automate business activities such as accounting, transactions recordings etc.

Environmental impact

Tourism

Poorly planned tourism contributes to the degradation of many areas of natural and cultural significance in Lebanon, causing the loss of biological and cultural diversities as well as of important sources of income (UNEP/Abu Salman, 2000). The impact of tourists (both national and international) is hard felt in many locations and areas, especially in the coastal zone, in high mountain areas near ski resorts, and along riverbanks.

Tourists impact the environment in special ways because they tend to concentrate in particular areas and during select periods of the year. . International tourists tend to stay in hotels, chalets or resorts, mostly in or near Beirut, and conduct one-way trips to one or more natural and cultural sites. In general, most environmental impacts relate to commuting, accommodation and infrastructure requirement. In addition, recreational activities, especially mechanized sports, may have significant impacts on the environment. In the absence of stringent monitoring and regulations other impacts could include the deterioration of tourist sites (littering, looting/collection of historic and archeological artifacts, wild picking, ect.)

V -Approximation of legislation

The ENP and more importantly its action plan covers a wide range of policy actions, from political, foreign, security and defense policies to environment, transport and energy, networks education, justice and home affairs. The trade and economic chapter remains a main component

of the neighborhood policy ten years after the Barcelona Declaration. This component covers issues such as further market access, regulatory convergence and capacity building in the areas of standard and product legislation, sanitary and phyto-sanitary, rules of origin and trade facilitation, services intellectual property and other related areas.

Lebanon through the AA committed to adopt modern legislation in the following areas:

- Competition (Articles 35-37 of the AA and Articles 27-29 of the Interim agreement (IA))
- Consumer Protection (Article 58 of the AA)
- Protection of intellectual property rights (Article 38 of the AA, Article 30 of the IA and Annex 2 of the Agreement)

The ENP necessitates the trade legislations and regulatory process approximation and harmonization with the EU. In that respect the most significant legislative and regulatory issues cover quality issues, rules of origin and trade facilitation, services intellectual property and other related areas.

VI - Lebanon Pilot Project

6.1- Selection of sub sector: Agro-food

The pilot project will have as main focus the agro-food industry and the paper industry. Within each sub-sector the focus will be on a particular product line such as olive oil and sanitary paper products. At the initial stage the assessment will be done uniquely on the agro-food sector, this will allow the team to focus on one sub-sector and use the lessons learned in the assessment of the paper sub- sector which will be conducted in the second phase of the project.

The aim is to develop IA methodology using the olive oil as the pilot product and then validate the main results on the rest of the fresh fruits industry. The choice of agro-food in general and the olive oil in particular was mainly based on the eligibility criteria stated previously in the methodology. Indeed this sector plays a strategic trade role in the Lebanese economy. A big portion of its market is export-oriented and within the export market the EU is a major trading partner.

Furthermore the growing world demand for ethnic and health-oriented food product has allowed Lebanese olive oil to increase its market share and penetrate niche markets in the world economy. Through the consultations and the workshop main social and environmental issues relating to the olive oil in particular have been identified among others the participation of women and minority groups in the labor force, waste management, usage of fertilizers and pesticides leading to soil and water pollution.

Finally the preliminary consultations through stakeholder meetings and the first national workshop validated the choice of this sub-sector and insured commitment of the private sector and civil society in participating in the Integrated Assessment.

It should be emphasized that this project is a pilot project; the choice of sub-sector although extremely relevant is only secondary to the methodology being used. If the methodology proves to be successful the aim of the project would be to mainstream the IA methodology into the assessment of other sectors with respect to future planning processes.

6.2- Overview of the Agro-food industry

Stakeholders

The food and beverage industry in Lebanon comprises approximately 4,482 enterprises accounting for 20.35 % of total number of factories. Most of the enterprises are SME, with an average number of 6 employees. The industry has syndicate representation through the agro-food syndicate and is an active member of the Chamber of Commerce Industry and Agriculture (CCIA)

Civil society is active in promoting this sector, a large number of non governmental organization and international donors through various schemes (micro-finance, training, clustering, quality programs and other) are engaged in promoting the growth of this sector

The public sector through various bodies such as the ministry of industry, the ministry of agriculture, the ministry of economy and trade, the ministry of environment, among others, has been active in promoting the agro-food industry through various schemes aimed at trade facilitation, quality insurance, labor productivity, environmental sustainability among others.

Economic role

Production of the food and beverage industry is estimated at more than \$1 billion, or 25.58% of the total industrial production. Fixed capital formation in food and beverages industries is estimated 39.63 of total capital formation. This high percentage is mainly due the requirements of continuous improvements, modifications and advanced production systems that are required to comply with quality standards and specification required for exports.

Production costs in the food and beverage industries is estimated to \$695 million with 17.8% incurred on industrial expenses, 16.83% in salaries and wages, 6.7% on natural resources, 62.5% on packaging 5.4% on energy (electricity and fuel) .The number of new industries since 1999 is approximately 348 employing 27.44% of the total new industrial workforce.

Multilateral Trade Agreements

Lebanon is a member the Greater Arab Free Trade Area (GAFTA) and the Euro-Med Partnership; furthermore Lebanon is in the process of acceding to World Trade Organization (WTO) as well as the European Free Trade Area (EFTA)

Greater Arab Free Trade Area (GAFTA)

In 1997 Lebanon committed to establish the GAFTA, so far 16 countries have adhered to the implementation process of the GAFTA. The GAFTA implied a yearly 10% reduction of applied tariffs for each member country until January 2005 where full implementation (0% tariff) took place. GAFTA also implied the removal of all non trade barriers (e.g., administrative, quota based and others).

Accordingly agro-food products enter duty free, however a number of non trade barriers related to quality issues, certification and administrative issues are impeding the Lebanese exports to take full advantage of the GAFTA. GAFTA does not apply on goods that are prohibited from import in Arab countries for religious environmental, health or security reasons.

Euro-Med Partnership

Lebanon signed and ratified the Lebanon –EU association Agreement in 2002; the agreement – as of June 2005 - still awaits the ratification of the Dutch Parliament before entering into force. The trade component of the agreement eliminates tariffs on most industrial products originating from Lebanon including 190 agro-industrial products. Furthermore a list of 41 agro-food products is decomposed into their industrial and agricultural component benefiting from a 0% tariff on their industrial component.

Lebanon was granted a 5 years grace period during which EU imports will not benefit from a reduction of customs duties. After the 5th year, EU industrial goods will follow a gradual and uniform schedule. The reduction of customs duties on EU agricultural imports will not start before the 5th year and for a large basket the decrease will be gradual over a 12 years period. The tariff list for a large number of EU agricultural and agro-industrial products does not reach 0%. This list includes olives, olive oil, beer, arak most fruits etc. Starting the 6th year, the tariff rate reaches 0% on imports which were previously subjected to 5% tariff rate.

European Free Trade Area (EFTA)

EFTA states include Switzerland, Lichtenstein, Norway, Iceland The EFTA-Lebanon Free Trade Agreement (FTA) covers trade in industrial goods, including fish and other marine products, as well as processed agricultural products. The Agreement takes into consideration the different levels of economic development between the EFTA States and Lebanon by providing for an asymmetric tariff dismantling. The EFTA States will eliminate duties and other restrictions for covered products upon entry into force of the Agreement and Lebanon will gradually abolish its duties during a transition period starting in 2008 and ending in 2015.

Agro-industrial products will benefit from the same treatment as under the Association Agreement except that tariff reduction on the agricultural component is not uniform and will vary according to each states agreement,

World Trade Organization (WTO)

In February 1999, the Lebanese government submitted its application for accession to the WTO. Since then the ministry of economy and trade has led the negotiations, a master plan for accession was elaborated, a WTO unit was established at the ministry of economy and trade to oversee the accession process.

6.3- Preliminary results

Preliminary consultations with the private sector, mainly the agro-food syndicate, the chamber of commerce and large enterprises in the agro-food sector allowed the national team to undergo an initial assessment of the agro-food industry in Lebanon. The consultations focused on the involvement of main stakeholders in the Association Agreement planning process, the initial impact of reduction in tariffs on the agro-food industry. The results are still preliminary but allowed the national team to capture the main issues that should be focused on for the purpose of the study.

Assessment of the planning process

The Lebanese government through out the negotiation process of the Association Agreement engaged the main agro-food stakeholder's through regular consultations as well as direct involvement in the negotiation process. In addition to that the Lebanese government engaged in promoting the agro-food sector in foreign markets through among other things the promotion of export fairs, involvement of Lebanese delegation in promotional events such as 'Lebanese Week' and others.

The following main gaps have been identified in the planning process:

- follow up consultations with the private sector are not regular
- Dissemination of information could be improved, indeed there is a need to clarify the consequences and direct impact of EU regulations on the agro-food export activities (RULES OF ORIGINS)
- The absence of monitoring and assessment of the initial impact of the trade liberalization on the agro-food industry
- The delays in the technical assistance aimed at facilitating trade through upgrading programs
- The lack of direct support to the private sector in order to invest in upgrading current production processes that would allow it to face standards, sanitary and quality issues. This could be done through easier access to finance.

Benefits of the trade component of the Association Agreement

- A reduction in transaction costs due to the homogenization of tariffs and regulations across all EU countries.
- Import of EU legislation that could benefit business in the long run, indeed the quality, sanitary, labeling and other requirements to some extent could give some producers a comparative advantage.
- Access to new markets

Impediments to the optimization of the AA

- The agro-food industry is facing competition from neighboring countries benefiting from the same trade agreement with the EU, lower production costs, and larger economies of scale.

- The agro food industry suffers form high production costs mainly due:
 - higher labor costs, upgrading costs and utilities costs
 - Lack of local competition coupled with the appreciation of the euro increased costs of raw material.

- The agro-food sector is a main employer of the industrial sector. A large portion of the labor force employed in this sector is unskilled. The need for training, accessing Arabic training manuals and vocational training center is becoming a necessity in order to insure a labor force that can meet minimal safety, technical and sanitary expertise.

- Agro-food products access the EU market mainly through fairs, many of them organized trough the agro-food syndicate in collaboration with local NGO'S and public entities. The need to have institutionalized and more sophisticated means to access EU markets is needed, this could be achieved trough EU expertise, increase involvement of Lebanese delegations present in the EU.

- The sector did not witness an increase of exports to the EU since the substantive reduction of tariffs partly due to non trade barriers. Among other things, quality issues are impeding agro-industrial products of entering freely the European market. The lack of accreditation and certification, the poor performance of local laboratories, and the high cost of upgrading production processes to meet international standards pose a major challenge to this industry.

Review of data sources:

Lebanon suffers from a lack of statistics. The civil war destroyed much of the pre-existing governance capacity, including the state's statistics agency,' the Central Agency of Statistics, CAS. The result that for many years following the war, Lebanon had to operate with an almost complete lack of statistics on some major issues, especially, issues relating to employment, labor, poverty and other social component. The restructuring coincided with efforts to revive the agency and its role in Lebanon.

The results began to appear soon afterwards with substantial statistical reports and studies beginning to be published towards 1994. The CAS continued to increase the scope of its activities with continued support for the European and World Bank donors. Many important studies and sources of information were made available; however, there is still a lack of regularly published statistics on vital areas of the Lebanese economy. For instance, Lebanon has so far undertaken only one national account calculation and that was one in 2003, for 1997. That year was chosen because of the availability of data was not sufficient to allow for such a calculation prior to that date. In addition, vital statistics about unemployment remain lacking and are officially available only trough the 1997 living condition survey conducted in 1997. Thus the country report faces several challenges in terms of obtaining up to date information regarding the desired themes set out for the IA. The following is a list of available resources that were used in the above report:

- Emigration and labor force entrance condition for Lebanese youth study (University of saint joseph-2002)
- Results of the industrial and trading enterprise census for 1999 (ILO/NEO)
- Results of the Agricultural census (1999) – Ministry of agriculture/FAO
- Living condition survey undertaken by the Central Administration of statistics-1997
- National accounts calculation by the Ministry of Economy and Trade(1997)
- Results of industrial census (1998)
- The labor market survey: results of the household census (national employment office-1997)