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COMPETITION ISSUES IN LEBANON

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Executive Summary

It is quite surprising that in today's globalized world, Lebanon still lives in the past as far as modern competition issues are concerned. Lebanon has not been able to join the WTO as its economy has not integrated yet fully the global economy. This paper discusses competition issues in Lebanon using the telecommunications sector as a case study and ends with a set of recommendations.

Since the end of the war in 1989, the consecutive Lebanese governments have been trying to rebuild the economy and bring Lebanon back on the road to prosperity. Due to huge investments in infrastructure and in real estate, the Lebanese economy was able to grow at very high rates during the first half of the 90s. As Lebanon and specially Beirut overbuilt, events in the region started to become increasingly tense and foreign investments slowed down. Also, the consecutive Lebanese governments were unable to implement deeply needed policies such as economic and financial reforms, public administration reform, privatization of public enterprises, social security reform, institutional and legal modernization and so on. The task was and still is overwhelming and efforts made so far were not up to the challenges.

Economic growth in Lebanon has been hindered partly by weak competition in most sectors. Economists believe that the best market from a general economic point of view is the one of perfect competition. The worst market for general economic welfare is monopoly. Competition issues are therefore an important ingredient for economic growth and social welfare. Lebanon has not entered the WTO yet, but as it prepares itself to do so it must review its policies on competition to respect WTO spirit and regulations.

Competition policy determines the rules of the game by which competition takes place in the economy. Its economic goal is to improve efficiency by creating an economic environment in which firms can improve their economic performance, and consumers can derive the benefits that the market can deliver. Since competition policy is applied to a certain economic situation, it should be carefully designed as to take into consideration the special characteristics of the market into which it is applied. The small size economy such as Lebanon is less able than its larger counterparts to afford a competition policy that is prepared to sacrifice economic efficiency for other broader social objectives.

The Lebanese economy is characterized by oligopolistic markets in Banking, Insurance, Imports of goods, telecommunications and otherwise. In Insurance, one company completely dominates the life insurance business and the top five insurance companies dominate the non-life part. Lebanon has few importers of food and medical drug products who dominate the business and set prices with and without collusion. In telecoms, the government has a monopoly over the fixed line system. Five data transmission-ISP companies dominate the market and 2 mobile companies control a duopolistic market.

The number of banks in Lebanon is 68, of which 61 are commercial banks. Banking activity is largely concentrated with the top 10 banks. They share the large majority of the market as follows: 67.82% of total deposits, 62.07% of total loans, 69.01% of consolidated assets and 82.2% of profits. Although this concentration is quite strong, it is still far better than many countries in the region. In Kuwait, for example the National Bank of Kuwait (NBK) covers 30% of total banking assets. In Bahrain, the Arab Banking Corporation is dominant. In Saudi Arabia, 50% of total bank assets are concentrated within 2 major banks: AL-Ahli Bank and the Saudi American Bank.

Lebanon should soon start privatizing its main public enterprises, from electricity, telephone, water and otherwise. The purpose of the privatization program is to improve the productivity of these institutions and lower the mounting public debt. For privatization to succeed, it should be accompanied by proper regulations regarding competition. Lebanon has therefore an interest in adopting strong competition policies, the main pillar of which should be a liberal trade and FDI policy stance. Antitrust legislation may also be required to maximize the benefits or minimize the costs of certain WTO agreements. That said, competition law is not a panacea. Enforcement is neither costless nor simple, and can impose a great deal of uncertainty on firms if it is not clearly defined and enforced constantly.

Lebanon should abolish the commercial exclusive rights which act against the interest of government, SMEs, customers and general economic welfare. It should seek to ensure that its competition laws and related regulations aim at safeguarding the competitive process, which includes sustaining free trade and avoiding the creation of monopolies through perverse regulation or by ill-conceived privatization. The key principle underlying an active competition policy stance is to rely on market forces to determine the allocation of productive resources, subject to the constraint of ensuring that social equity objectives are realized as efficiently as possible. Lebanon should create an independent competition agency or authority, set up a research center for regulation and competition and establish a code of business practices.

In telecommunications, competition provides the incentives for greater investment and thus expanded service, greater efficiency, and lower prices. Technological advances have extended the potential for competition in the telecommunications sector. Regulation is necessary to ensure and preserve competition. The positive impact of telecoms on economic development has been proven worldwide. Our recommendations for creating and increasing competition in the Lebanese telecommunications sector can be summarized as follows:

I. Regarding the fixed system: Break it into 3 entities or more which compete and then privatize. The Brazilian experience is an excellent model which provided the government with great revenues and the customers with excellent services.

II. Regarding the cellular system: Auction 4 new licenses for 15 years each. The Lebanese government should have learned from its experience and not fall again in the "cellular trap". Technology changes very quickly and therefore the licenses should be designed accordingly. The Lebanese mobile market has a potential of one million customers in 2005 which provide the commercial cover for 4 competitors.

III. Regarding the data transmission sector the government should organize entry into the sector and make sure that competition is alive to the benefit of consumers. The sector lives currently in a state of disarray as anybody, anywhere can open an internet company and close it weeks or months later. The customer is always the loser or the victim. Illegal operations should be shut down permanently.

IV. The Lebanese telecommunications sector can benefit from lower local and international tariffs which could help Lebanon become again a main financial center in the region. The government should play the role of regulator which preserves competition for the benefit of the customers. Consumers in Lebanon need to be empowered so their voice can be heard. Finally, competition first and then privatization.

Introduction

Competition policy determines the rules of the game by which competition takes place in the economy. Its economic goal is to improve efficiency by creating an economic environment in which firms can improve their economic performance, and consumers can derive the benefits that the market can deliver. Since competition policy is applied to a certain economic situation, it should be carefully designed as to take into consideration the special characteristics of the market into which it is applied. The small size economy such as Lebanon is less able than its larger counterparts to afford a competition policy that is prepared to sacrifice economic efficiency for other broader social objectives.

The effect of size on institutional and technological change is open to debate. Kuznets argues that small economies enjoy relative flexibility and responsiveness in policy-making based upon a high degree of social cohesion and identity. Possibly greater homogeneity and closer internal ties may make it easier to make social adjustments needed to take advantage of modern technology and economic growth. Edwards, on the other hand, argues that small size will most likely inhibit technological change. He argues that in large economies the breadth and diversity of the economy facilitates private efforts to create new and better products. In a large economy there are more resources to invest in research, a field of experiment wide enough to try a greater number of new products, and more trained people who may develop new ideas. All else equal, the dynamic forces of variety and change that foster competition tend to be stronger in large economies than in small ones. This last argument is limited by the flow of technologies from one economy to another as the Lebanese experience shows. Yet where the acceptance of a new product by consumers is uncertain, a manufacturer in a smaller economy faces higher risks than a manufacturer operating in a large economy given the different magnitudes of potential demand.

The small size of an economy may place a handicap on its economic performance. Trade policy aimed at enlarging the scope of the market and introducing competition into it, and competition policy, aimed at reducing the obstacles to competition in a small market and at regulating firms' conduct in order to achieve economic efficiency, thus have a crucial role to play in a small economy. Lebanon should therefore develop competition policies which reduces obstacles to competition and benefit consumers of all products and services. Globalization, WTO entrance, more open markets benefits small economies such as Lebanon.

Competition policy plays a triple role for a small country such as Lebanon. First it has an important role in facilitating trade by reducing barriers to the entry of imports and to the export of products. Competition policy also has a role in preventing anti-competitive conduct of foreign firms trading in the domestic market as well as anti-competitive agreements between domestic and foreign firms which affect its markets. Second, competition policy plays a critical role where unrestricted exposure to international trade is not sufficient to solve a small economy's efficiency problems. These efficiency concerns remain, due to factors such as high adaptation and transportation costs, timeliness of supply, and the inherent nature of service markets. Thus, measures to reduce seller concentration, entry barriers, or firms' opportunities to collude still hold promise for securing more efficient allocation of resources. Third, where trade barriers are not reduced, competition policy is a second-best alternative for regulating closed or semi-closed small markets. For all these reasons, Lebanon should formulate specific competition policies for its markets.

Lebanon, which adopted the market economy system since its independence, does not have a proper set of competition laws and regulations. The consecutive Lebanese governments preserved the free market economy in an Arab region which was collectively moving to a socialist economic system. Although the Lebanese economy is quite open to the rest of the world as its balance of trade shows, it has been insulated from it as far as its impact on the economic indicators. When prices outside Lebanon go up, the price of imported goods in Lebanon certainly go up too, but not necessarily by the same proportion. When prices outside Lebanon go down, the price of imported goods in Lebanon do not necessarily follow, due to the lack of competition in the most important sectors.

It is quite surprising that in today's globalized world, Lebanon still lives in the past as far as modern competition issues are concerned. Lebanon has not been able to join the WTO as its economy has not integrated yet fully the global economy. This paper discusses competition issues in Lebanon and is divided into 4 Sections. Section one describes briefly the most recent developments in the Lebanese Economy. Section 2 elaborates the importance of competition policy for the economic development of Lebanon. In Section 3, the Lebanese telecommunications market is developed as a case study in competition. In final Section 4, we present our recommendations and conclude the study with a summary matrix.

Section One: THE LEBANESE ECONOMY

Since the end of the war in 1989, the consecutive Lebanese governments have been trying to rebuild the economy and bring Lebanon back on the road to prosperity. Due to huge investments in real estate and to the development of the Beirut City Center "Solidere" project, the Lebanese economy was able to grow at very high rates during the first half of the 90s. As Lebanon and specially Beirut overbuilt, events in the region started to become increasingly tense and foreign investments slowed. Also, the consecutive Lebanese governments were unable to implement deeply needed policies such as a public administration reform, privatization of public enterprises, social security reform, institutional and legal modernization and so on. The task was and still is certainly overwhelming, but efforts made were not until now up to the challenges. Many mistakes were made on the road such as increasing customs duties when Lebanon didn't have to, implemented some timid reforms when it was too late, ignored serious dialogues with labor and the business sector and so on.

The current economic situation of Lebanon is quite difficult as it is especially affected by negative developments in the region and by accelerating internal social, political and economic problems. In the following table 1 we show several important indicators for the Lebanese economy for the last five years.

Table 1: Indicators for the Lebanese Economy

	1996	1997	1998	1999	2000
Growth rate of GDP	4 %	3 %	3%	-1%	-2%
Inflation rate	8.9%	7.8%	3.8%	1.5%	-0.89%
Balance of Payments ($US.m)	786	420	-488	266	-289.1
Trade Deficit ($US.m)	6,825	6,814	6,344	5,529	5,514
Public Debt/GDP	98.9	102.7	114.1	136	145.3
Debt Service/GDP	13	14.8	13.7	14.6	15.4
Debt Service/Revenues	75.1	90	75.3	74.4	91.7
Deficit/Total Expenditure	-51.1	-52.5	-43.73	-42.41	-56.33

Sources: Bank of Lebanon, Lebanese Banking Association, Government data.

Lebanon's economic problems are quite visible from table 1. Economic growth declined from 4% in 1996 to become negative in 2000, as well as inflation due to a prudent monetary policy. These figures show that the real economic situation remained stagnant in 1999 and 2000. Economic growth in the 1990s generated mainly from heavy investments in infrastructure and real estate. Lebanon needed to modernize its infrastructure destroyed during the war, or became obsolete due to technological developments. Investments in real estate usually has only short term effects on economic growth. Lasting growth can only result from investments in the real economy, i.e. in agriculture, manufacturing and all kinds of productive services. Lebanon was not able to attract enough of the last type of quality investments due to the internal and regional political situation and due to its weak public, legal, economic, and social institutions and infrastructure.

The Balance of Payments which was historically positive due mainly to remittances from Lebanese living and working abroad and to other capital flows, showed a deficit in 2000 due to smaller inflows. The trade deficit was always quite high as the Lebanese people continue to rely on imports for most of its consumption. Lebanon's major economic problem is the high budget deficit and consequently the mounting public debt which has reached alarming levels. This vicious circle of high deficit-high debt-high debt service and the policy of stable Lebanese Pound/US dollar exchange rate raised substantially interest rates, slowed investments and crippled the budget. The economy is heavily dollarized as the uncertainty regarding the economic and political situation in Lebanon and the region remains high and confidence low. The economic situation of 2001 is expected to improve only slightly on the previous year.

The current government's strategy to deal with the situation can be summarized as follows: Privatize to improve the institutions and lower the public debt and its service in the budget, rationalize expenditures through an effective public administration reform and improve revenue collection. The government intends to open up the country further to foreign competition through lowering customs duties, implementing an open skies policy and simplifying administrative procedures. Although government policies can be defended on theoretical and logical grounds, implementation has been so far timid or slow due to political, economic and management reasons. Preparing Lebanon to enter the WTO is on going in all sectors especially after the law on intellectual property protection has been adopted for a few years now. International and regional organizations advise the Lebanese government to speed up the implementation of economic and institutional reforms and strengthen governance and the transparency of its operations.

Section Two: COMPETITION ISSUES IN LEBANON

The size of an economy necessarily affects the optimal competition policy that should be adopted by it. However, the goals of competition policy aimed at creating and maintaining the conditions for workable competition in order to maximize social welfare, are similar in both large and small economies. Yet the comparative prevalence of concentrated market structures in a small economy creates a set of trade-offs that may require a different set of rules to regulate the conduct of market participants. Lebanon is undoubtedly a small economy, so its competition issues should be evaluated carefully as such.

Competition policy has an important role to play in Lebanon, both in promoting a competitive environment and in building and sustaining public support for a pro-competitive policy stance by the government. Liberal trade and investment policies are a key element of a good competition policy, and priority should be given to eliminating barriers to trade and FDI. However, in many sectors of the economy the threat of foreign competition will remain limited, and there is a need to apply competition law to preserve the existence of small and medium enterprises SMEs and ensure that large firms do not behave collusively. Competition is the driving force of market economies and competition laws belong to the basic rules of the game for functioning markets. If economic agents are allowed to engage in collusive practices, create artificial barriers to market entry and abuse dominant market positions, economic efficiency will suffer and governments will be tempted to intervene with regulations which are an inferior alternative to reliance on market forces. Competition law promotes the public interest in preserving structurally competitive markets and provides a set of rules to resolve disputes among market operators and to protect consumer interests.

Economic growth in Lebanon has been hindered partly by weak competition in most sectors. Economists believe that the best market from a general economic point of view is the one of perfect competition. The worst market for general economic welfare is monopoly. Competition issues are therefore an important ingredient for economic growth and social welfare. Lebanon has not entered the WTO yet, but as it prepares itself to do so it must review its policies on competition to respect WTO spirit and regulations. The following facts clearly show the importance of having a proper competition policy in Lebanon.

I. ***Rationale for Competition policy in Lebanon***

During the 1996 Ministerial Conference in Singapore, ministers decided to set up 2 working groups to look more generally at the relationships between trade, on the one hand, and Investment and competition policies on the other. As government barriers to trade and Investment have been reduced, there have been increasing concerns that the gains from such liberalization may be thwarted by private anti-competitive practices. There is also a growing realization on the part of the Lebanese government that mutually supportive trade and competition policies can contribute to sound economic development, and that effective competition policies help to ensure that the benefits of liberalization and market-based reforms flow through to all citizens.

Approximately 80 WTO member countries, including some 50 developing and transition countries, have adopted competition laws, also known as "antitrust" or " anti-monopoly" laws. Typically, these laws provide remedies to deal with a range of anti-competitive practices, including price fixing and other cartel arrangements, abuses of a dominant position or monopolization, mergers that limit competition, and agreements between suppliers and distributors that foreclose markets to new competitors. The concept of competition policy includes competition laws in addition to other measures aimed at promoting competition in the national economy, such as sectoral regulations and privatization policies.

The Goals of liberal trade and competition policies are the same: Increase consumer welfare via-enhancement of efficiency. More competition in markets fulfils a necessary condition for more rapid total productivity increases which we desperately need in Lebanon. Whereas the WTO creates a common set of principles and standards to which the trade law and policies of all WTO member nations are meant to conform, there are no such common international principles and standards for competition policy.

With the exception of the United States and Canada which enacted competition legislation at the turn of the last century, competition law is a relatively recent phenomenon. Within Europe it started playing a modest role in the immediate post-war period mainly as an adjunct to price controls and other economic regulations. Competition laws at that time were not viewed as economic policy instruments but rather as a means for policing markets and protecting competitors against unfair behavior. Provisions directed against refusals to deal or below-cost selling are typical examples of this approach.

While experience with the application of the Treaty provisions developed, competition laws and policies within Europe continued to suffer from significant deficiencies. Governments themselves frequently disregarded competition policy principles by authorizing, encouraging or even mandating anti-competitive behavior of domestic enterprises (e.g., export cartels, voluntary export restraints and market regulation by professional associations). At the beginning of the 1980s a strong drive towards deregulation developed in many industrialized countries. Regulatory reform was motivated mainly by the poor performance of regulated industries; numerous studies have shown that deregulation can produce significant efficiency gains. In parallel to these reforms the application of competition laws and policies was extended to formerly regulated sectors.

As regulatory reforms proceeded, competition laws and enforcement procedures were strengthened in a number of countries like Canada, France, Sweden, Finland and Ireland. Italy introduced a competition law modeled upon the EC Treaty provisions and the EC itself took an important step forward with the adoption of its merger control regulation. The disintegration of the communist regimes in Central and Eastern Europe opened a new era for competition law. Demonopolisation, privatization and the creation of competitive markets have become key factors in the transition of these countries to market economies. Today competition policy ranks high on the agenda of the debate on strengthening the rules of the game for international economic relations. Markets, enterprises and business activities are increasingly globalised.

There is now a consensus that economic efficiency is the primary objective of competition policy and this view is shared not only by OECD member countries but also by an increasing number of countries from Central and Eastern Europe and developing countries. Decentralised decision-making by enterprises within competitive markets promotes efficient allocation of scare resources, increases consumer welfare and creates dynamic efficiency in the form of innovation, structural change and progress in the economy as a whole. Whereas US competition law concerns itself almost exclusively with private practices that might reduce competition in markets and does not concern itself with government practices of policies that might have the same effects, European law does grant competition authorities some competence in the latter. In particular, the European authorities have powers to regulate the use of state aids to industries or regions and even to order such aids to be paid back if the effect of these is to distort competition.

Indeed, perhaps the biggest difference in general between competition policy and trade policy is that the former deals mostly (even in Europe) with private practices that impede market contestability whereas the latter deals with government measures, that have the same effect. Neither set of policies is equipped however to deal with competition distortions that result from some combination of private practice and government law or policy that enables or even fosters that practice. Conflicts between nations regarding competition and market access are likely to proliferate over time. The reasons are several. First, mergers and acquisitions once took place largely within national boundaries of particular countries, but these are becoming more and more international. Second, markets for many products are becoming increasingly global, even in sectors where cross-border mergers do not figure. And, third, those sectors where government regulation figures importantly, for example, telecommunications, financial services, pharmaceuticals, are among those sectors that are most rapidly becoming globalised. Many of these cases show the strong linkages between trade and competition policy.

Competition policy, when it works well, often involves a delicate balance between how much market power should be allowed on the part of one firm and the efficiencies that this market power might enable the firm to realize. Specific rules to guide determination of what is the correct balance are infeasible. It is widely noted that the GATS has put the WTO into the competition policy business. The WTO should not embark upon a course whereby its role is expanded towards becoming a worldwide competition agency. Rather, what needs to be done in the near-term is to ensure that the competition role that has already been defined for the WTO is combined effectively with the nascent network of competition agency cooperation arrangements, so that the latter works with, and not apart from, the WTO. Lebanon should indeed learn from the experiences in the West and implement a relevant and efficient set of competition rules.

II. <u>Market Conditions in Lebanon</u>

It is clear that international trade is assuming an increasingly greater role as a vehicle for economic growth. Six areas need immediate attention in Lebanon to enhance its participation in the global world. They are: Customs, transport, banking and insurance, information for trade, trade practices and telecommunications. Lebanon cannot fully benefit from globalization unless most or all countries in the region join the global world through the implementation of the Arab Free Trade Zone. Trade efficiency becomes effective only when Arab countries act together not only through more coordination and cooperation but also through the creation of a monitoring mechanism which all agree to adopt and support.

The Lebanese economy is characterized by oligopolistic markets in Banking, Insurance, Imports of goods, telecommunications and otherwise. Although the banking sector for example is composed of about 70 banks, very few dominate the market. Similarly in Insurance and as table 2 shows, one company completely dominates the life insurance business and the top five insurance companies dominate the non-life part. It is expected that fewer and fewer insurance companies will be operating in the market as the Ministry of Economy and Commerce, for safety reasons, is imposing stringent capital requirements and therefore encouraging them to merge. It would be beneficial to the sector if about 30 strong companies remain in the market as it also opens up further to FDI. This will contribute to improving overall efficiency due to technology and knowledge transfers which will benefit everybody. Lebanon has few importers of food and medical drug products who dominate the business and set prices with and without collusion. In telecoms, the government has a monopoly over the fixed line system. Five data transmission-ISP companies dominate the market and 2 mobile companies control a duopolistic market.

The medical drugs market is tightly controlled by fewer and fewer importers effectively controlling the US$270 million annual market and realizing large markups. As social security in Lebanon is not universal, the price of drugs becomes extremely important for everybody, especially for the poor and old people. With the exception of the Banking and Insurance markets, data on all sectors especially when it goes to competition and market shares is unavailable or hidden for obvious reasons. The number of importers is decreasing as mergers of medical drugs companies are happening internationally and therefore affecting internal competition. All importers of goods face barriers especially in customs which remain run in an inefficient way. Delays due to ancient procedures and high corruption effectively hurt the business of all importers and lower their productivity. This is especially important for perishable products such as drugs and food, increasing business risk and therefore justifying parts of the markups. Also, importers need to get the approval of the relevant ministries, such as Health for drugs and Agriculture for food products, therefore adding to their problems and negatively affecting their efficiency.

Other non-tariff barriers to trade include the time needed to set up a new company which could take a couple of weeks compared to few days in the Gulf. Also receiving social security benefits and getting government clearances on many issues such as import of labor, authorization to import or export goods including the certification of origin are all time consuming due to the inefficiency of public administration and institutions. Lebanon does not have however foreign exchange restrictions, quotas, prohibitions, and administered pricing. Public employees and officials should also be continuously trained to new procedures and technologies so they could implement them efficiently. Although customs tariffs are decreasing in preparation for entrance into the WTO, non- tariff barriers to trade remain significant in Lebanon. Reforms have to encompass all ministries and public institutions, or otherwise would remain ineffective.

Lebanon adopted since 1997 a new automated system for customs data clearing called ASYCUDA developed by UNCTAD. Although the situation has improved, customs still suffer from bureaucracy, delays and corruption which increase the costs of importers and exporters and therefore affect negatively their performance and productivity in the local, regional and international markets. Also, the quality of the goods found in the market place could suffer as a consequence of these delays. Some unfortunate and illegal practices by businesses have been detected such as changing the brand name of prohibited products or extending the expiration date on perishable goods to facilitate their sale even at the expense of consumers' health. Ministries should improve their consumer protection services by inspecting the quality of products before they are sold to the public. The Lebanese Ministry of Economy and Commerce in particular has been active recently in this respect, but more resources should be devoted to discovering these dangerous anomalies and punishing this criminal behavior.

Information for investment and trade remains scarce in Lebanon especially when it goes to understanding and evaluating competition and profit. Investors need all kinds of information on institutions, rules, laws and regulations before they act. Transport among Arab countries remain also difficult and slow due to all kinds of regulations and administrative procedures which delay the flow of goods, capital and people and increase the costs of imports and exports. Lebanon needs more investment in its in transport sector especially road transport to speed up movements of goods and people and make it safer. Lebanon cannot fully benefit from globalization unless it enters the WTO and skillfully deal with improving the institutional, economic and legal framework and all other related issues.

Integrating the global world implies too developing a good culture of governance and transparency on the parts of government and the private sector. The Lebanese government should simplify procedures and laws in trade, labor, taxes, real estate and otherwise thus diminishing the role and costs of the middlemen. Statistics on economic and business activity should be regularly published whether they help or hurt the popularity of government and business leaders. Lebanon did set up decades ago a Directorate for Statistics without ever providing it with the needed human and material resources. It is quite unacceptable that data on population, employment and unemployment remain unavailable as Lebanon enters the new millennium. Increasing transparency in the public and private sectors and improving governance are prerequisites to entering the global economy.

Table 2

Insurance Industry

Market Share Concentration

In Billions of Lebanese Pound - 1999

	COMPANY	LIFE	% life	% Cumulative	Non-Life	% non-life	% Cumulative	TOT Ins	% Total	% Total Cumulative
1	ALICO	77.60	64.95	**64.95**	16.10	6.18	**6.18**	93.70	24.67	**24.67**
2	S.N.A.	15.20	12.72	**77.67**	22.70	8.72	**14.90**	37.90	9.98	**34.64**
3	BANKERS	1.40	1.17	**78.84**	30.70	11.79	**26.69**	32.10	8.45	**43.09**
4	LIBANO SUISSE	4.40	3.68	**82.52**	18.30	7.03	**33.72**	22.70	5.98	**49.07**
5	S.L.F.	1.00	0.84	**83.36**	19.00	7.30	**41.01**	20.00	5.26	**54.33**
6	LIBANO ARABE	2.30	1.93	**85.29**	13.50	5.18	**46.20**	15.80	4.16	**58.49**
7	AL MASHREK	1.60	1.34	**86.63**	14.00	5.38	**51.57**	15.60	4.11	**62.60**
8	CUMERLAND	0.00	0.00	**86.63**	12.70	4.88	**56.45**	12.70	3.34	**65.94**
9	FIDELITY	0.40	0.33	**86.96**	11.10	4.26	**60.71**	11.50	3.03	**68.97**
10	L'UNION NATIONALE	1.90	1.59	**88.55**	8.10	3.11	**63.82**	10.00	2.63	**71.60**
11	ALIG	0.60	0.50	**89.05**	9.20	3.53	**67.36**	9.80	2.58	**74.18**
12	AROPE	1.40	1.17	**90.22**	6.80	2.61	**69.97**	8.20	2.16	**76.34**
13	ASSUREX	1.10	0.92	**91.14**	6.40	2.46	**72.42**	7.50	1.97	**78.31**
14	COMMERCIAL	0.30	0.25	**91.40**	6.50	2.50	**74.92**	6.80	1.79	**80.10**
15	ADIR	3.20	2.68	**94.07**	3.30	1.27	**76.19**	6.50	1.71	**81.81**
16	AL FAJR	0.20	0.17	**94.24**	5.60	2.15	**78.34**	5.80	1.53	**83.34**
17	SOFRACE	1.00	0.84	**95.08**	4.10	1.57	**79.91**	5.10	1.34	**84.68**
18	U.C.I.C.	0.40	0.33	**95.41**	4.30	1.65	**81.56**	4.70	1.24	**85.92**
19	PHENICIENNE	0.05	0.04	**95.46**	4.65	1.79	**83.35**	4.70	1.24	**87.16**
20	AL NISR	0.01	0.01	**95.46**	3.99	1.53	**84.88**	4.00	1.05	**88.21**
21	AMECO	0.30	0.25	**95.71**	3.50	1.34	**86.23**	3.80	1.00	**89.21**
22	CIE. LIBANAISE	1.90	1.59	**97.30**	1.80	0.69	**86.92**	3.70	0.97	**90.18**
23	ARAB LIFE	0.80	0.67	**97.97**	2.70	1.04	**87.95**	3.50	0.92	**91.11**
24	CONFIDENCE	0.40	0.33	**98.31**	2.80	1.08	**89.03**	3.20	0.84	**91.95**
25	EXPRESS	0.01	0.01	**98.32**	3.01	1.16	**90.18**	3.02	0.79	**92.74**
26	ISKAN	0.00	0.00	**98.32**	3.00	1.15	**91.34**	3.00	0.79	**93.53**
27	ARABIA	0.50	0.42	**98.74**	2.10	0.81	**92.14**	2.60	0.68	**94.22**
28	UNITED ASSUR.	0.00	0.00	**98.74**	2.30	0.88	**93.03**	2.30	0.61	**94.82**
29	ALPINA	0.00	0.00	**98.74**	2.20	0.84	**93.87**	2.20	0.58	**95.40**
30	AMANA	0.30	0.25	**98.99**	1.76	0.68	**94.55**	2.06	0.54	**95.94**
31	BYBLOS	0.20	0.17	**99.15**	1.80	0.69	**95.24**	2.00	0.53	**96.47**
32	INTERNATIONAL	0.30	0.25	**99.41**	1.60	0.61	**95.85**	1.90	0.50	**96.97**
33	OVERSEAS	0.00	0.00	**99.41**	1.67	0.64	**96.49**	1.67	0.44	**97.41**
34	CAPITAL	0.10	0.08	**99.49**	1.57	0.60	**97.10**	1.67	0.44	**97.85**
35	UFA	0.10	0.08	**99.57**	1.49	0.57	**97.67**	1.59	0.42	**98.27**
36	LUI	0.00	0.00	**99.57**	1.09	0.42	**98.09**	1.09	0.29	**98.55**
37	KAFRA	0.00	0.00	**99.57**	0.85	0.33	**98.41**	0.85	0.22	**98.78**
38	AL MADINA	0.40	0.33	**99.91**	0.42	0.16	**98.58**	0.82	0.22	**98.99**
39	ASSICURAZIONI	0.10	0.08	**99.99**	0.70	0.27	**98.84**	0.80	0.21	**99.21**
40	L'HORIZON	0.01	0.01	**100.00**	0.77	0.30	**99.14**	0.78	0.21	**99.41**
41	LEADERS	0.00	0.00	**100.00**	0.66	0.25	**99.39**	0.66	0.17	**99.58**
42	I.T.I.	0.00	0.00	**100.00**	0.60	0.23	**99.62**	0.60	0.16	**99.74**
43	CONTINENTAL	0.00	0.00	**100.00**	0.50	0.19	**99.82**	0.50	0.13	**99.87**
44	CREDIT GENERAL	0.00	0.00	**100.00**	0.48	0.18	**100.00**	0.48	0.13	**100.00**
	TOTAL	**119.48**	**100.00**		**260.41**	**100.00**		**379.89**	**100.00**	

63 insurance companies presently operating

On the other hand, the number of banks in Lebanon is 68, of which 61 are commercial banks. As table 3 shows, banking activity is largely concentrated with the top 10 banks. They share the large majority of the market as follows: 67.82% of total deposits, 62.07% of total loans, 69.01% of consolidated assets and 82.2% of profits. Although this concentration is quite strong, it is still far better than many countries in the region. In Kuwait, for example the National Bank of Kuwait (NBK) covers 30% of total banking assets. In Bahrain, the Arab Banking Corporation is dominant. In Saudi Arabia, 50% of total bank assets are concentrated within 2 major banks: AL-Ahli Bank and the Saudi American Bank.

The banking sector has benefited over the years from high quality FDI. This has improved operations and introduced technology and efficiency in the sector. Lebanon's Central bank is encouraging banks to merge to improve the safety of these institutions. Basle regulations are skillfully enforced by the Banking Supervision Commission, enhancing therefore the quality and safety of services. Lebanon can be very well served by a sector of about 30 strong banking institutions offering a diversified set of services including trade and project finance. Banks in Lebanon are investing heavily in treasury bills because of their high returns and not lending enough to the private sector, especially to SMEs. In a small economy such as Lebanon, making funds available to SMEs is of great importance as it contributes to enhancing economic growth and strengthening competition. Sectoral lending is heavily biased towards services, with agriculture getting only 1.61% of total credits and industry 12.64%. Also, Beirut has the lion's share of credits or 81.65% of the total. Clearly the banking sector with the help, supervision and guidance of the Central Bank should deal with these anomalies which are creating uneven development and growth in Lebanon.

Although Lebanese laws do not discriminate against SMEs, they are at a disadvantage compared to large firms when it goes to trade and finance. The Lebanese internal markets cannot become truly competitive if SMEs do not play a larger role in production and exports. The Lebanese government should elaborate a clear policy towards them such as developing a comprehensive strategy for production development and export promotion. Lebanese SMEs cannot prosper unless government helps them decrease their costs trough adequate financing and an export credit insurance policies. This strategy will help enhancing their contribution to overall economic development and the stimulation of overall exports. The private sector organizations should assist the government in developing these policies.

Lebanese companies should continue to improve their production and develop an export strategy to integrate further into the international economy. The Lebanese government can provide businesses with good extension services so it helps them decide for themselves what, how and when they should produce. Lebanon's comparative advantage is in producing high quality and expensive agricultural goods for exports such as exotic fruits and flowers and import cheaper goods such as regular food products. In industry, Lebanon can choose among a wide list of products which satisfy its comparative advantage in high quality labor. Lebanon can easily increase its exports of jewelry, software and some high-tech products developed with the help and cooperation of universities. Some technology centers are in the process of being developed for that purpose. Lebanon should be especially able to provide the region with high quality services, such as sophisticated financial services, excellent higher education and advanced high quality health care. Lebanon's place or role in the region is to be a major provider of these services. The public and private sector should join hands in facilitating production and opening new markets for the Lebanese products.

Table 3

Banking Industry
Market Share Concentration

In Billions of Lebanese Pounds - 2000

	Name	Assets	% of Total	Cumulative %	Credit & Loans	% of Total	Cumulative %	Deposits	% of Total	Cumulative %
1	BLOM	8730	12.28	12.28	1812	7.72	7.72	7555	12.94	12.94
2	Mediterranee	6186	8.70	20.98	3039	12.95	20.67	4842	8.29	21.23
3	Byblos	6138	8.63	29.61	1629	6.94	27.61	4776	8.18	29.41
4	Audi	5785	8.14	37.75	1365	5.82	33.43	4788	8.20	37.60
5	Libano-Francaise	5147	7.24	**44.99**	1790	7.63	**41.05**	4309	7.38	**44.98**
6	Fransabank	4476	6.30	51.28	1104	4.70	45.76	3613	6.19	51.17
7	Soc. Generale	3839	5.40	56.68	1323	5.64	51.40	2938	5.03	56.20
8	Bk of Beirut	3111	4.38	61.06	801	3.41	54.81	2390	4.09	60.29
9	Credit Linbanais	3002	4.22	65.28	699	2.98	57.79	2420	4.14	64.44
10	Saradar	2649	3.73	**69.01**	1006	4.29	**62.07**	1976	3.38	**67.82**
11	BBAC	2341	3.29	72.30	454	1.93	64.01	2008	3.44	71.26
12	Arab Bank	2102	2.96	75.25	506	2.16	66.16	1923	3.29	74.55
13	BNPI	2061	2.90	78.15	711	3.03	69.19	1856	3.18	77.73
14	BLC	1915	2.69	80.85	668	2.85	72.04	1561	2.67	80.40
15	ABN-AMRO	1259	1.77	**82.62**	445	1.90	**73.94**	955	1.64	**82.04**
16	Beirut Riad BK	1104	1.55	84.17	496	2.11	76.05	961	1.65	83.68
17	HSBC	1040	1.46	85.63	273	1.16	77.21	950	1.63	85.31
18	Lebanon & Gulf	899	1.26	86.90	363	1.55	78.76	808	1.38	86.69
19	Lebanese Canadian	739	1.04	87.94	229	0.98	79.73	639	1.09	87.79
20	Bq. Misr Liban	676	0.95	**88.89**	111	0.47	**80.21**	110	0.19	**87.98**

	Assets	% of Total	Credit & Loans	% of Total	Deposits	% of Total
Total Top 20 Banks	63199	**88.89**	18824	**80.21**	51378	**87.98**
Total Industry	**71100**		**23469**		**58400**	

68 Banks presently operating

III. Competition Policy, Lebanon and the WTO

Although Lebanon has a great interest in pursuing an active domestic competition policy, this can and should be done independently of the WTO. Given the mercantilist basis of multilateral trade negotiations, the WTO is less likely to be a powerful instrument to encourage adoption of welfare-enhancing competition rules than it is a forum for the abolition of border measures. An example is illustrative of the sad state of competition in Lebanon. Lebanon has an exclusive distribution law that gives agents the right to request Customs to block entry of "nonauthorized" goods. On a trip in Germany a businessman buys a batch of second-hand dentist chairs made by a well known manufacturer from a university, which has used them for training purposes. On import into Lebanon, the shipment was blocked because the local agent had not approved it. In the end the businessman was obliged to pay the agent a large fee and was forced to pay customs duty on the chairs on the basis of the value of new chairs, in effect wiping out his anticipated profit. Clearly, Lebanon should abolish these exclusive rights which act against the interest of government, customers and general economic welfare. These exclusive commercial rights are of the past and cannot be justified in this millennium. The current government has promised to abolish them but has failed to do so for now.

Lebanon should seek to ensure that its competition laws and related regulations aim at safeguarding the competitive process. Where institutional enforcement capacity is limited, it is desirable for political structures to do all they can to make conditions as favorable as possible for pro-competitive behavior, which includes sustaining free trade and avoiding the creation of monopolies through perverse regulation or by ill-conceived privatization. We recommend that Lebanon pursues a broad-based competition policy – defined to encompass all actions governments may take to promote competition, including trade liberalization, measures to facilitate domestic entry into industry and services, de-monopolization of sectors, and imposition of hard budget constraints on public enterprises. Well-managed privatization and encouragement of foreign direct investment are additional important dimensions of competition policy. The key principle underlying an active competition policy stance is to rely on market forces to determine the allocation of productive resources, subject to the constraint of ensuring that social equity objectives are realized as efficiently as possible, and that mechanisms exist through which attempts to create monopolies and exploitation of market power can be addressed.

Lebanon should soon start privatizing its main public enterprises, from electricity, telephone, water and otherwise. The purpose of the privatization program is to improve the productivity of these institutions and lower the public debt. For privatization to succeed, it should be accompanied by proper regulations regarding competition. Lebanon has therefore an interest in adopting strong competition policies, the main pillar of which should be a liberal trade and FDI policy stance. Competition law is required to ensure markets are contestable, especially in nontradable sectors. It also has a role to play in controlling anticompetitive practices, which as Adam Smith already noted over two centuries ago, businessmen will always have an incentive to pursue. Antitrust legislation may also be required to maximize the benefits or minimize the costs of certain WTO agreements, the TRIPs agreement being one example, antidumping being another. That said, competition law is not a panacea. Enforcement is neither costless nor simple, and can impose a great deal of uncertainty on firms if it is not clearly defined and enforced constantly.

These measures should precede privatization not just to ensure a more efficient telecommunications sector, but also in order for the privatization process itself to proceed smoothly. In the absence of regulatory certainty, the government will not be able to attain a fair market value for the assets; potential purchasers will insist on a risk premium to compensate them for bearing this regulatory risk. It is also politically easier to introduce competition in advance of privatization. The basic principles – competition prior to privatization, and using regulation to prevent the exercise of monopoly power in one part of a sector from being translated into a stranglehold over another part of the sector – are very simple and very robust.

A well designed privatization, where a good regulatory framework already exists, can raise enormous revenue as it increases services and lowers prices. Brazil recently obtained $19 billion after a careful preparation of its privatization and significant progress in the definition of its regulatory regime. The low revenues obtained from the partial privatization in Russia demonstrate how poorly designed privatizations can turn over valuable national assets to the private sector for a fraction of their potential value. In some countries, privatization has been followed by increases in the scope of telephone coverage and reductions in price. In other countries, the experience of privatization has been more disappointing.

The importance of competition rather than private ownership has been most vividly demonstrated too by the comparison between the experience of China and that of the Russian Federation. China extended the scope of competition without privatizing state-owned enterprise. In contrast, Russia has privatized a large fraction of its economy without doing much to promote competition. The contrast in performance of the two economies could not be greater, with Russia's output more than 50 percent below the level attained almost a decade ago, while China sustained double-digit growth for almost two decades. Though the differences in performance may be only partially explained by differences in the policies they have pursued, both the Chinese and Russian experiences challenge traditional economic theories.

IV. Code for Fair Business Practices

The prohibition or the gradual abolition of tariff and non-tariff barriers to trade is on its own, not sufficient for the liberalization of international trade. The Lebanese markets are also distorted by unfair trade practices from enterprises. Lebanon needs a "Code for fair business practices" or a "Code on restrictive business practices" which will not put at risk the liberalization of international trade. The following restrictive practices have to be banned:

- price fixing for import and export;

- understandings in respect of public tenders (collusive tendering);
- market or customer allocation arrangements;
- collective sales refusal;
- abuse of a dominant economic position which can be:

  * elimination of competitors through below-cost pricing;
  * price discrimination;
  * mergers and acquisitions;
  * restrictions on the importation of goods which have been marked abroad with a legitimate trademark.

Dumping is introducing products of one country into the commerce of another country at less than the normal value of the products. Dumping is only prohibited when it causes material injury to an existing sector or business or hinders considerably the setting up of a new industry in the country of importation. The affected state may then introduce anti-dumping duties. Lebanon needs too an "anti-dumping Code". The subsidizing of exports by a state can have the same effect as dumping by an enterprise: the price abroad is kept artificially low. The country of import can apply countervailing duties in case of export subsidies by another state. Lebanon is in the process of introducing an export subsidy for its agricultural products. Clearly, this is not recommended at a time where the government is negotiating Lebanon's entrance into the WTO. Lebanon's agricultural and industrial policy should concentrate on extension and on supporting, research and development.

Economic analysis has shown that protecting competition as a process may sometimes conflict with the protection of individual interest such as competitors, small business, retailers and licensees. The ability of the innovator to capture the surplus generated by his innovation benefits competition in the long run by encouraging others to innovate as well. In fact, the effective enforcement of competition policy depends not only on the strength of substantive legal provisions but also on the independence of competition agencies from political pressures, on adequate human and financial resources and, last but not least, on the availability of adequate remedies. For all these reasons, Lebanon is qualified to set up an independent competition agency.

The development of competition laws over the last 20 years highlights the increasing importance of these laws as tools for public policy. In addition the interaction between competition policy and other areas of public policy has become stronger as competition authorities become involved in economic and trade policy formulation. In today's globalised economy, competition and trade policies are closely interrelated. Within market economies, these policies should share a common objective which is to remove restrictions to market entry – whether of an official or private nature – and to help create the conditions for an efficient functioning of both national and international markets. In reality conflicts do arise. Where trade policy measures are designed to protect or promote domestic industries, they limit the role of foreign competitors in national markets and weaken competition in those markets. On the other hand, permissive attitudes by national competition authorities vis-à-vis anti-competitive practices of domestic enterprises can significantly affect international trade and frustrate trade liberalization.

Section Three: CREATING COMPETITION IN LEBANESE TELECOMMUNICATIONS

Over the last two decades competition policy has affirmed itself as an intrinsic part of a nation's economic policy framework. It still suffers from imperfections and compromises accepted by governments for other policy reasons like the protection of domestic industries. Competition authorities may not always prevail and in fact often lose in the struggle against regulators and organized sectorial interests. But the principle value of competition as a foundation of any market economy is no longer contested. Competition policy is taken into account in discussion on national trade policy and is likely to become part of future multilateral trade negotiations.

I. Rationale for Competition in Telecommunications

Competition policy is superior to economic regulation because it allows the free play of market forces while creating the necessary framework for markets to function efficiently. Regulatory reforms can only succeed if they are accompanied by vigorous competition law enforcement to prevent monopolistic market structures from re-emerging through anti-competitive mergers, abuses of dominant positions and collusive practices. In sectors like basic telecommunication services which display some natural monopoly features, it is important to ensure that abusive practices (e.g., predatory pricing and cross-subsidization) of the incumbent monopoly do not prevent new entry into the structurally competitive parts of the industry (e.g., the equipment market and value added services).

One indication of the scale of telecommunications privatization in developing countries is the fact that the sector raised $31 billion from privatization between 1990 and 1996 – more than any other sector of the economy and one-fifth of all privatization revenues. In some countries, privatization has been followed by increases in the scope of telephone coverage and reductions in prices. In other countries, the experience of privatization has been disappointing. What explains the differential effects of privatization? And what can countries do to ensure that they reap the largest possible benefits from privatization? Competition should be the single most important principle for telecommunications reform.

Competition provides the incentives for greater investment and thus expanded service, greater efficiency, and lower prices. Technological advances have extended the potential for competition in the telecommunications sector. In too many countries, however, exclusive contracts and other less obvious barriers to entry continue to support a single private or public monopolist. Even when these barriers are swept away, regulation will still be necessary to ensure competition in the telecommunications industry. The positive impact of telecoms on economic development has been proven worldwide. Within the new economy, the impact of telecommunications on economic growth is increasing as knowledge is becoming a predominant factor of production.

II. ***Lack of Competition in Lebanese Telecommunications***

Lebanon has invested billions of dollars in modernizing its telecommunications infrastructure. The fixed line system owned by the state can serve over one million customers. Currently, however, only 700 thousand lines are operational as the Lebanese preferred the mobile system to serve their needs. Calling through the fixed system is far cheaper than using mobiles. However, the very mobile Lebanese population has developed a strong taste for cellulars. The 2 mobile companies, operating under a BOT license, namely Cellis and Libancell, serve also about 700 thousand customers which makes their market share the fifth highest worldwide. It is an awkward attitude on the part of the Lebanese at a time where the economy is in recession or at least stagnant. Living above their means has always been the way of life of most Lebanese.

In the Data Transmission business, few companies are competing to serve the needs of business and people. The price of the internet connection services remains quite high as the international tariffs set by the Lebanese Government remain expensive. As table 4 shows, the final cost of internet service for an average of 60 hours dial-up access per month is about three times higher in Lebanon than in the UAE and twice as high as in Oman. The figures are computed as the summation of the monthly fixed open internet access fee plus the telephone charges for a 60 hours dial-up.

Table 4- Final Cost of Internet Service by Country for an average of 60 hrs dial-up access per month($)*

Country	Cost ($)
Syria	184
Saudi Arabia	152
Lebanon	101
Qatar	80
Kuwait	65
Bahrain	57.6
Egypt	57
Oman	55
UAE	35

With the big variation in Internet access options offered by ISPs and other factors contributing to the final cost for consumers, the survey added the rates of the best offers to the cost of local calls per hour to arrive at the most accurage comparison between Arab countries

These fees are effectively limiting the expansion of internet services to the middle and poor classes, and also to students and rural areas in Lebanon and the Arab world as table 5 shows. The internet is not a luxury anymore. It is in fact an enabling technology, a powerful set of tools that can be used, in almost any industry and as part of almost any strategy. It tends to alter industry structures in ways that dampen overall profitability, and it has a leveling effect on business practices, reducing the ability of any company to establish an operational advantage that can be sustained. The question is not whether to deploy Internet technology, but how to deploy it.

Table 5- No. of Internet Subscribers/Users by Country

Country	No.of Subscribers	No. of Users per Account	Total Number of Users	User per 1000 population	% of Total
UAE*	160,000	2.5	400,000	150	21.06%
Qatar	18,000	2.5	45,000	61	2.37%
Bahrain	15,000	2.5	37,500	60	1.97%
Lebanon	65,000	3.5	227,500	57	11.98%
Kuwait	40,000	2.5	100,000	50	5.26%
Oman	20,000	2.5	50,000	20	2.63%
Jordan	25,000	3.5	87,500	19	4.61%
Saudi Arabia	100,000	3	300,000	14	15.79%
Tunisia	22,000	5	110,000	12	5.79%
Egypt	55,000	8	440,000	6.5	23.16%
Morocco	15,000	3.5	52,500	1.7	2.76%
Libya	1,500	5	7,500	1.6	0.39%
Syria	4,000	5	20,000	1	1.05%
Yemen	3,000	4	12,000	0.7	0.63%
Sudan	2,000	5	10,000	0.28	0.53%
Total	**545,500**	**3.5 (total average)**	**1,899,500**		100.00%

(Source:DITnet)

UAE rate compares with some European countries in terms of the number of users per total population, which now stands at 15% comparable with 16% in France.

III. Introducing Competition to Lebanese Telecommunications

In 1996, the US Congress passed the Telecoms Act which deregulated the telecoms industry and promoted competition in a market that had operated a monopoly in the past. A key component of the Act was a new federal funding program designed to help fund telecoms improvements at rural schools, libraries and health facilities. Recent advances in telecoms can help address the rural concerns and help mitigate the negative effects of shifting demographics on rural education. Advanced telecoms can help rural places attract and retain new residents who might otherwise leave because of schooling. The school and library pays a portion of the actual price and the government pays the rest. Discounts go from 20 to 90% depending on the school or library and its location. Lebanon and Arab countries should learn from this useful US experience to develop rural areas. The internet usage in Lebanon and Arab countries remain below western averages and constitute therefore a major obstacle to joining the new economy. In fact, while more than 30% of the US population and 15 to 16% of Europeans have access to the internet, only 5 to 6% of the Lebanese enjoy the service. In the Arab World, the average figure is between 1 and 2% only.

Briefly, in the fixed system Lebanon has a public monopoly called OGERO in charge of providing fixed lines to customers. In the mobile sector, Lebanon has a duopoly as 2 companies namely cellis and Libancell provide lines to the public with almost equal market share. In the data business, Lebanon has an oligopoly as few players dominate the market although statistics on the relevant market shares remain quite unreliable. Clearly more competition needs to be introduced to the Lebanese telecommunications sector. In fact, in the past, telecommunications was viewed as a natural monopoly. Most countries took the position that the only, or at least the best way to prevent abuse of monopoly power was for governments to operate the telephone system. The government prevented the entry of competitors, allegedly on the grounds that they would just wastefully duplicate existing facilities or engage in cream skimming, thus inhibiting the government's ability to provide service broadly at reasonable prices – often called universal service.

There was, however, a marked discrepancy between the theory and reality. When companies have no incentive for efficiency, they are likely to dissipate the economies of scale in inefficiencies. Although governments claimed that only a monopoly could capture the economies of scale and scope, many developing countries were paying a capital cost of $4,000 per line – three or four times higher than the achievable cost. Inefficiency and under investment meant that in all too many instances, universal service meant universally lousy service, and little or no service to the poor or rural areas.

Low prices ensured low revenues and, given the government's budget constraints, limited expansion. The low prices generated rents for those who had access. Access was given by a political process, usually to the powerful, rich, and influential. The ability to allocate scarce lines bred corruption. Thus, a system allegedly designed to help the poor and protect consumers did neither. The lack of service inhibited economic growth, since effective telecommunications is an essential aspect of infrastructure, and an important complement to private investment. In retrospect, the most important underlying cause of these problems was not government ownership, but the lack of competition combined with ineffective government regulation. This was the case of Lebanon until the early 90s. However when Lebanon invested in its fixed system as of 1992, it did not cover the whole Lebanese territory. The distribution of lines was biased for multiple administrative, political, social and economic reasons. Also, the contracts awarded to the mobile companies happened concurrently which also limited the expansion of the fixed system. Although Lebanon got rid of corruption as far as line distribution is concerned, the investment from a technological, economic and sociological points of view was not a brilliant success. Today, the fixed system is falling behind technological advances, and what Lebanon is spending on now may be obsolete before the Lebanese ever use it. Only the private sector has the sufficient flexibility to adapt to new developments.

There may have been a technological basis for a single telecommunications company. But today, changes in technology have provided the opportunity and the necessity for a change in the way telecommunications services are provided. Satellites have long provided a relatively low fixed cost option for long distance service. But today, cellular phones, wireless local loops, and even television cables all provide alternatives even for local service. These alternatives are even more important in Lebanon who does not have extensive landlines on all its territory. Technological changes may have undermined too the natural monopoly in telecommunications, but an effective regulatory structure is also required for vibrant competition in this sector. But the point of regulation should be to promote and ensure competition as with new technologies such as satellite telephones, governments will be able to maintain their monopolies only with repressive measures. The expansion of telecommunications through private capital can fuel economic growth. Competition is also likely to drive down prices – increasing access for the poor. Lebanon intends to adopt a telecommunications law which will allow for privatization and competition. The final form of that law remains to be seen, as discussions in Parliament are bound to be very tense.

IV. Principles of Reform

Lebanon can promote and sustain in the long run all of the basic objectives of reforms in telecommunications – lower prices, increased efficiency, rapid expansion of services, more universal access, and more diversity – by establishing the appropriate regulatory structure. Such a structure has several key ingredients:

- In some segments of each industry, it may be some time before competition arises on its own. It is therefore important to have a regulatory structure which both protects consumers – by making sure that firms with monopoly power do not exercise that power to raise prices excessively and that ensures that the monopoly power in one segment is not used to achieve power over other segments. As Lebanon privatizes its telecommunications sector, the government may still be responsible for delivering service to remote or rural areas as private sector companies may not be motivated commercially to do so. One has to be careful, that the government's role remains as such and does not extend to other services too.

- There is a need for regulatory stability. There is a need for a substantial increase in the levels of investments in telecommunications infrastructure in Lebanon. Lebanon should look to the private sector to provide that investment, and should seek to create an environment which attracts that investment. An indispensable precondition for sustained large-scale investment is a stable regulatory process. Frequent changes in the regulatory regime can have the same effect as expropriation of sunk investments. Private telecommunications operators that are vulnerable to administrative intervention can be expected to invest less than the optimal amount.

- But not only must the regulatory structure be stable, the regulations must be enforced fairly and efficiently. Typically, there needs to be judicial oversight. This is a reason why Lebanon should continue to work to create the rule of law. In the meanwhile, Lebanon can rely on internal and international arbitration to solve commercial conflicts.

- International service providers and investors are essential sources of services and financing for the telecommunications sector. As part of joint ventures, they can bring advanced technology and managerial and organizational skills. It is very important for the development and expansion of export industries. In fact, many foreign companies are already present in the telecommunications markets. Sodetel, a Lebanese - French – Italian joint venture in telecommunications has been present in the Lebanese market since 1968. France Telecom is a major partner in Cellis, the mobile operator. Finland telecommunications is a partner in Libancell and so on. More foreign direct investment is always desirable and foreign-local partnerships can provide the cover for commercial success.

Private property and competition are the two essential ingredients of a market economy. The order in which they are introduced, however, is very important. Allowing private companies to compete with a monopoly state-owned enterprise can put pressure on it to become more efficient and eventually could lead to its privatization. But while competition may well lead to privatization, the opposite is not true. To the contrary, a privatized monopoly will often attempt to use its money and political influence to stifle reforms, especially ones that threaten to introduce greater competition. The result will be that rents are transferred from the public sector to the private sector, with little gain in efficiency, lower prices, or broader service.

This consideration suggests several important principles for privatization in Lebanon:

- First, it should be preceded by the establishment of an effective regulatory structure to ensure that competition is maintained and no monopoly pricing.

- Second, wherever possible it should be preceded by the introduction of greater competition, possibly through the extension of licenses to new private companies or by splitting up the telecommunications company.

- Third, it may be easier to introduce competition by privatizing only part of the system.

- Finally, regulations need to ensure that privatization and monopoly power, whether exercised by the state or privately, do not restrict diversity through ownership restrictions for example.

Many countries have gone in the wrong direction: to attract private interest, they have given away temporary monopoly rights. This is a fundamental mistake as the cellular contract in Lebanon shows. The BOT contract in Lebanon created a duopoly which could not be maintained as profits soared at a time when the international telecommunications market was declining. When the contract was signed in the early 90s between two companies and the government, nobody could forecast the number of users nor the potential technological developments. As these events unfolded, problems started to arise and the two companies had no interest in renegotiating their golden contracts. The Lebanese government had to deal with this abnormal situation and cancel the contracts as it intends to compensate the companies. Given the legacy of a lack of competition, and the inefficiencies to which that gave rise, it is even more imperative to introduce quickly competition to Lebanese telecommunications.

Competition is central to the success of any economy. But we should also recognize that firms in general do not like competition. Competition in any economy does not have any natural organized constituency. Its benefits accrue largely to consumers, whose voice is often not heard clearly in the halls of power. We recommend the establishment of a Lebanese center for regulation and competition which will be a champion for competition for the consumer. Many world reforms were undermined by the lack of competition, where the benefits of lower tariffs do more to increase profits of the monopoly than to lower prices for the ultimate consumer, or privatizations in which the new private monopoly has shown greater efficiency in exploiting the consumer than in reducing cost of production. The Lebanese government through its regulatory power and with the help of a proper competition policy set can face these threats and eventually help its citizens.

Given the importance of telecommunications, and given the opportunities for enrichment of the lives of the poor that telecommunications today brings, it would be a disaster if two groups developed, the "have" and the "have-nots", those with and those without access to modern telecommunications. The digital divide can develop not only among countries but also within countries. The intention of universal service is to ensure that this does not occur. Few observations need to be made:

* The lower prices associated with a competitive telecommunications sector have probably done more to achieve the objectives of universal service over the past few years than government policies over previous decades, and the future holds even greater promise. The experiences in the United Kingdom, Chile, Brazil and Argentina prove the case.

* The market has been taking advantage of these lower rates to devise low cost ways of providing much greater access. In many situations governments may wish to go further. For instance. South Africa's Universal Service Agency has been leveraging poor people's willingness to pay for telecommunications services by providing some of the start-up costs for community information centers. Chile's experiment with competitive bidding for rural pay telephone subsidies is particularly instructive. It was estimated that more than 97% of Chileans had access to basic telecommunications by the end of 1998. Lebanon could use part of the proceeds of the sale to create community information centers in rural areas.

* The new technologies are like a wider pipe, they allow a greater flow of ideas, more diversity. There are some who fear competition in the market place of ideas just as they fear competition in the market place of products. Access to modern telecommunications services can push for social change and speed up the democratic process. Private citizens are entitled to develop their ideas and no government should be in a position to limit their intellectual maturity.

* Government revenues and employment. Restructing ownership would not necessarily reduce government revenues and employment in the sector. On the contrary the impact could be quite the opposite. In poor countries, with governments starving for revenues and seeing few alternative sources, and in economies with already high levels of employment, both of these are understandable concerns. Privatization has typically led to firing workers from the old telephone monopoly. Some, and in numerous cases many, of the monopoly rents were shared with the workers rather than with the country more broadly. But more than offsetting this effect are the gains in employment from the rapid expansion of the sector which has followed privatization and the introduction of competition. There will be further gains to employment as the lower telecommunications costs help provide one of the essential ingredients required for broader expansion of the private sector. We believe this will be the case of Lebanon.

* It is far preferable to have an open and transparent tax on telecommunications services, provided efficiently by a competitive, regulated private sector than to have the hidden and often discriminatory taxes associated with government monopolies. The Lebanese government understands clearly this statement.

* Lebanon should learn from the numerous examples of privatization which have been implemented worldwide. It is true to say that many developing countries have found telecommunications reform extremely difficult. Lebanon needs to recognize the difficulties of the transition problems. There are rents associated with the existing monopoly, some of them go to finance government activities. Lebanon should not underestimate the importance of transitional issues, and should not let them be a barrier to change. Lebanon needs a transition strategy. The revenues generated in the process of restructuring ownership and spectrum auctions may, for example, provide revenues to finance the transition and address other associated costs. Anyway, the transition costs should be small compared to the gains from pursuing an aggressive telecommunications policy. Reforms promise greater efficiency, more employment, improved technology, and greater access. There is every reason to believe that such policies will lead to more investment, more and better service, and lower prices. And because of the strong complementarily between telecommunications and other investments, it will stimulate the overall growth of the Lebanese economy.

Based on our statements above, our recommendations for creating and increasing competition in the Lebanese telecommunications sector can be summarized as follows:

1. Regarding the fixed system: Break it into 3 entities or more which compete and then privatize. The Brazilian experience is an excellent model which has provided the government with great revenues and the customers with excellent services. Specifically, we can break up for example OGERO, the fixed line agency into 3 independent and autonomous entities, one for greater Beirut, the second for Mount Lebanon and the North, and the third for the Bekaa and the South. Any customer can have the choice between at least 2 providers of services, therefore creating competition among them.

2. Regarding the cellular system: Auction 4 new licenses for 15 years each. The Lebanese government should have learned for its experience and not fall again in the "cellular trap". Technology changes very quickly and therefore the license should be designed accordingly. The Lebanese government is planning on tendering only 2 licenses for 20 years each. This would be wrong as it creates again a duopoly for 20 years and would not generate sufficient revenues for the transition stage. Why not tender 4 licenses for 15 years each and let competition be the rule of the game. The Lebanese mobile market has a potential of one million customers in 2005 which provide the commercial cover for 4 competitors.

3. Regarding the data transmission sector, the government should organize entry into the sector and make sure that competition is alive to the benefit of consumers. The sector lives currently in a state of disarray as anybody, anywhere can open an internet company and close it weeks or months later. The customer is always the loser or

the victim. The government should elaborate conditions for setting up an internet company (e.g. capital requirements, management qualifications, etc...) and should make sure that they pay their dues to the government. Competition should be preserved on a level playing field with reliable service providers. Illegal operations should be shut down permanently.

4. Generally speaking, the Lebanese telecommunications sector can benefit from:

- Lower local and international tariffs which could help Lebanon become again a main financial center in the region.

- .The government should play the role of regulator which preserves competition for the benefit of the customers. Consumers in Lebanon need to be empowered so their voice can be heard. Consumers are not organized in Lebanon, so businesses can get away with wrong policies and decisions.

- Competition first, and then privatization.

Section FOUR: RECOMMENDATIONS AND CONCLUSION

The Lebanese government has to concentrate its efforts on improving the economic conditions for the Lebanese. Lebanon clearly needs to rethink its competition issues. New policies and law should be introduced to protect competition in all sectors. The government needs to set up an independent competition agency which does so. In telecommunications, compete first and then privatize to the benefit of the Lebanese citizens. Our recommendations are divided in three groups, the first relate to the general economic situation in Lebanon, the second relate to general competition issues and the third set is relevant only to the telecommunications market.

I. Recommendations regarding the economic situation

The rescue could certainly happen if we implement fast and correctly the following polices:

1. It is important that Lebanon opens up to all countries, starting from neighbouring Arab countries to the European Union and so on to the rest of the world through its joining the WTO. The Public sector, through the help of Ministries and Embassies, can open new markets to the private sector.

2. Lebanon was always a high quality center for education and other social services. It is critical that the Lebanese government stops authorizing the opening up of new Universities and new Faculties so the current ones could improve the quality of their services. Lebanon should strengthen too its technical education system.

3. Promoting exports to lower the trade deficit via a good marketing campaign implemented jointly by the private and public sectors. For Lebanese exports to increase, agriculture and manufacturing should be creative and innovative. The Government can provide good quality extension services to small and medium enterprises.

4. Improve the legal and institutional framework so foreign and local investments can flow in to the economy, and therefore creating growth.

5. The Lebanese financial markets need to be developed to increase liquidity, efficiency and transparency. The Beirut Stock Exchange (BSE) remains in its preliminary stages and relies almost exclusively on the trading of the shares of Solidere. BSE should be strengthened in human and technical resources.

6. Lower the budget deficit through rationalizing expenditures, improving revenue collection and lowering the cost of debt service.

7. Lower the stock of debt through a privatization program which includes all sectors. Since selling public enterprises can happen only once, it is recommended that Lebanon improves its economic and administrative management before executing the privatization program. This would enhance the financial benefits of the program on the Lebanese economy. Preparation of the privatization process should continue with full speed, however it is far better to privatize well and late than to do it hastily and poorly.

8. Implement a public administration reform with the help of international organizations.

9. The cost of Lebanon's production of goods is higher than in neighboring countries due to higher costs of energy, labor and land. For example the average retail price (LP/Kg) of apples is 1315 in Lebanon compared to 1179 in Syria. It is 977 in Lebanon for Tomato compared to 491 in Syria and so on. Lebanon cannot and should not produce the same agricultural and industrial products as Syria. Lebanon should specialize in high quality, expensive products.

10. Lebanon cannot prosper without developing a culture of transparency and good governance. Therefore, developing our national statistics is key to entering successfully into the new millennium. Lebanon needs to elaborate and publish all kinds of statistics on the economy.

11. Last but not least, Lebanon needs today, more than ever, good economic management and qualified economic leadership. Time is running out especially that many countries in the region are doing their

homework far better, and therefore will increasingly challenge Lebanon. Lebanon's role in the region will remain a provider of high quality social and economic services. This should never mean neglecting the other sectors, but their role would remain logically and realistically only a supporting one.

II. Recommendations on Competition Policy

Our recommendations regarding the general competition policy issues in Lebanon can be summarized as follows:

1. Lebanon should abolish the commercial exclusive rights which act against the interest of government, customers and general economic welfare.

2. Lebanon should seek to ensure that its competition laws and related regulations aim at safeguarding the competitive process, which includes sustaining free trade and avoiding the creation of monopolies through perverse regulation or by ill-conceived privatization.

3. The key principle underlying an active competition policy stance is to rely on market forces to determine the allocation of productive resources, subject to the constraint of ensuring that social equity objectives are realized as efficiently as possible, and that mechanisms exist through which attempts to create monopolies and exploitation of market power can be addressed.

4. Lebanon should soon start privatizing its main public enterprises, from electricity, telephone, water and otherwise. The purpose of the privatization program is to improve the productivity of these institutions and lower the public debt. For privatization to succeed, it should be accompanied by proper regulations regarding competition.

5. Lebanon should create an independent competition agency or authority, set up a research center for regulation and competition and establish a code of business practices.

6. Competition law is not a panacea. Enforcement is neither costless nor simple, and can impose a great deal of uncertainty on firms if it is not clearly defined and enforced constantly.

III. Recommendations on competition in Telecommunications

Our recommendations for creating and increasing competition in the Lebanese telecommunications sector can be summarized as follows:

1. Regarding the fixed system: Break it into 3 entities or more which compete and then privatize. The Brazilian experience is an excellent model which has provided the government with great revenues and the customers

with excellent services. Any customer can have the choice between at least 2 providers of services, therefore creating competition among them.

2. Regarding the cellular system: Auction 4 new licenses for 15 years each. The Lebanese government should have learned for its experience and not fall again in the "cellular trap". Technology changes very quickly and therefore the licenses should be designed accordingly. The Lebanese mobile market has a potential of one million customers in 2005 which provide the commercial cover for 4 competitors.

3. Regarding the data transmission sector the government should organize entry into the sector and make sure that competition is alive to the benefit of consumers. The sector lives currently in a state of disarray as anybody, anywhere can open an internet company and close it weeks or months later. The customer is always the loser or the victim. Illegal operations should be shut down permanently.

4. The Lebanese telecommunications sector can benefit from lower local and international tariffs which could help Lebanon become again a main financial center in the region. The government should play the role of regulator which preserves competition for the benefit of the customers. Consumers in Lebanon need to be empowered so their voice can be heard. Customers are not organized in Lebanon, so government and businesses can get away with wrong policies and decisions. Finally, competition first and then privatization.

In the following matrix, we show the main problems, issues and recommendations we discussed in this paper.

SUMMARY MATRIX – COMPETITION ISSUES IN LEBANON

PROBLEMS	ISSUES	RECOMMENDATIONS
* Weak growth	* Slow implementation of reforms	* Privatization * Increase the productivity of economic sectors and find new markets for exports * Enhance the contribution of SMEs
* Trade Deficit	* Wrong economic policies	Minimize tariff and non-tariff barriers to trade
* Budget Deficit	* Weak economic management	* Public Administration Reform * Rationalizing Expenditures * Improve revenue collection
* Public Debt * Low productivity		* Privatization * Institutional and sectoral Development * Transparency and Governance * Open dialogue with Business and labor
* Weak competition in most sectors	* Low productivity	* Set an independent competition agency or authority
* Ancient laws limiting competition	* High prices	* Join the WTO * Set up a research center for regulation and competition.
	* Weak economic efficiency	* Set a proper competition policy
	* Corruption	* Abolish exclusive commercial rights * Establish a code of business practices.
* Monopoly in the fixed system	* Higher tariffs	* Competition then Privatization
* Duopoly in the mobile sector.	* Ancient laws and regulations	* Break the monopoly into 3 parts or more which compete and then privatize
* Oligopoly in the data transmission sector	* Consumers are not well served	* Tender 4 mobile licenses for 15 years each
	* Weak competition	* Rationalize entrance into the data transmission business

		* Lower tariffs * The government preserves competition. * Address the rural areas concerns regarding education and migration by extending internet services to them.

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