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**Accompanying the
Communication from the Commission to the Council and the European Parliament**

‘Implementation of the European Neighbourhood Policy in 2007’

Progress Report Lebanon

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1. BACKGROUND

Lebanon and the European Community first established contractual relations in 1977 through a Cooperation Agreement, which entered into force in 1978. The Euro-Mediterranean Partnership inaugurated at the 1995 Barcelona Conference established a policy with ambitious long-term objectives. The Association Agreement with Lebanon which entered into force in 2006 sets out in more detail the specific areas in which the objectives of the Euro-Mediterranean Partnership can be developed bilaterally. On this basis, the EU-Lebanon Action Plan was adopted in January 2007, for a period of five years.

Initial institutional cooperation through the EU–Lebanon Association Council, the EU–Lebanon Association committee and ten sub-committees, seven of which have already met, has enabled both sides to make progress with the implementation of the Association Agreement and start the implementation of the Action Plan.

This document reports on overall progress made on the implementation of the EU – Lebanon Action Plan between January 2007 and 31 December 2007, although developments outside this period are also considered when deemed relevant. It is not a general review of the political and economic situation in Lebanon.

On the eve of the “Paris III” International Donor Conference (January 2007), the government of Lebanon adopted an agenda entitled “recovery, reconstruction and reform”. The EU-Lebanon ENP Action Plan came into force at the same time. The EU and Lebanon have agreed to use the implementation of the Action Plan as a tool to accompany the economic, social and institutional reforms to which Lebanon committed itself at the Conference.

Despite the difficult political circumstances, the Lebanese government has undertaken efforts to get the process of ENP Action Plan implementation started. This varies significantly depending on the sector. The government has so far focused on areas with a direct link to the Paris III process (e.g. economic and financial reforms, certain trade issues); progress in other fields (human rights, judicial reform, social sector reform) is much slower. Several reforms (including competition policy, VAT and income tax) have been agreed by the Council of Ministers but could not be enacted.

The on-going political turmoil in Lebanon hampers the accomplishment of the reform agenda. Although the legitimate government of Lebanon continues to exercise its functions, the ongoing political crisis paralyses many of the country’s public institutions: the Parliament has not met since autumn 2006. Since President Lahoud’s mandate ended in November 2007, Lebanon is without a President. Developments in Lebanon during the reporting period have to be interpreted in the light of this situation and in view of the circumstances, no overall assessment of progress in Action Plan implementation is provided here.

2. ENHANCED POLITICAL DIALOGUE AND REFORM

In substance, the political dialogue has so far addressed initiatives to solve the ongoing political crisis in Lebanon, the implementation of UNSC Resolutions 1559 and 1701 in all their aspects, the establishment of the Special Tribunal on Lebanon under UNSCR 1757, reform of electoral legislation, the response to the Nahr el Bared crisis, relations with Syria and Iran as well as the Middle East Peace Process.

Democracy and the rule of law

Objectives in this area include: promoting the shared values of democracy and the rule of law including good governance and transparent, stable and effective institutions; fighting against corruption; reform of the electoral law and the electoral framework; enhancement of the independence and impartiality, the capacity and efficiency of the judiciary; and upgrading its quality and administrative capacity.

In 2005, the EU Election Observation Mission of the Parliamentary Elections concluded that a fundamental overhaul of Lebanon's **electoral legislation** was an urgent priority. The draft for a new electoral law presented by the Boutros commission in 2006 reflects a number of recommendations by the EU EOM 2005, but remains blocked at the level of the Council of Ministers. During the meeting of the subcommittee on human rights, governance and democracy in April 2007, it was agreed to promote a public debate on the basis of the work of the Boutros commission. Although there is public recognition of the importance of electoral reform, no progress on this point was possible in 2007 in view of the political standoff. A civil campaign currently underway to explain the Boutros proposals to the population has so far had only limited impact

The Office of the Minister of State for Administrative Reform prepared an **administrative reform** strategy for all government departments aiming to create a transparent, accountable and effective public administration with a focus on oversight and control. Progress on implementation of the administrative reform strategy has been launched in specific areas, inter alia tax, streamlining of business procedures, but the size and cost of public administration remains a central concern for governance reform.

Lebanon is not yet a party to the UN Convention against **Corruption**. Works continued on streamlining and automating public administration to reduce corruption risk in key areas such as cadastre, customs and taxation. As an initial step, the Ministry of Finance signed a Memorandum of Understanding with the Lebanese Transparency Association in October 2007.

In the area of **judicial reform**, a project aiming at supporting the efficiency and independence of the judiciary is currently under formulation. The results of this project will largely depend on the continued political will to tackle this issue. Furthermore, a project was launched in October 2007 to further support the Judiciary Training Institute and training activities for all judiciary staff. In the human rights subcommittee, Lebanon renewed its pledge to implement the legislation that provides for a gradual transfer of prison management from the Ministry of Interior to the Ministry of Justice.

Human Rights and Fundamental Freedoms

Objectives in this area include: supporting freedom of the media and freedom of expression; supporting freedom of assembly, association and the development of Civil Society; fighting against torture including implementation of UN Conventions; promotion of the rights of women and children; fighting against discrimination, racism, religious intolerance, xenophobia and racial hatred discourse; and promotion of fundamental social rights and core labour standards.

The ratification of a number of **international human rights conventions** was blocked in 2007 due to the absence of normal parliamentary activity.

Although a law creating the office of a **human rights Ombudsperson** was adopted in 2005, the nomination of an office-holder has still not taken place.

Lebanese **media** enjoys a relatively high level of freedom of expression but is often closely associated with specific political blocs or views and also polarised around the key questions that also in 2007 divided the country. As such it is not always fully independent or objective. The development of Lebanese media is currently assisted by the EC through projects aiming at capacity-building, training and legislation.

In the area of **freedom of association** no progress was achieved in the reporting period. Civil society in Lebanon is active but its ability to influence the authorities is limited due to the political situation in Lebanon and a historically weak tradition of consultation by central government (*see also section 7*).

Among the **ILO fundamental conventions and core labour standards**, Lebanon has not yet ratified the ILO Convention on Freedom of Association and the Right to Organise. This convention is part of the 1998 Declaration of Fundamental Principles and Rights at Work which is one of the priorities of the ENP Action Plan. There is no trade union representing the public service and other trade unions must seek authorisation prior to registration. The 1948 labour code is being revised with the assistance of ILO.

Lebanon confirmed that it will maintain the already existing moratorium on the **death penalty**, but no steps towards its formal abolition are currently under consideration.

Several allegations of **torture** were recently brought to the attention of the EU diplomatic missions in Beirut by NGOs.

Lebanon has not lifted reservations to the Convention for the Elimination of all Forms of Discrimination Against Women (CEDAW) to which it is a party. These reservations concern the transmission of nationality and marriage rights. Discussions on this issue have however taken place as foreseen in the ENP Action Plan in the framework of the first sub-committee on social affairs. Issues such as domestic violence, female and child labour remain a concern. The personal status of women and the code of nationality remain highly sensitive and often have a negative impact on gender equality.

As regards the protection of the **rights of children**, Lebanon agreed to design a national plan for children and to ratify the optional protocol to the UN Convention on the Rights of the Child.

Lebanon recognised the problems linked to the status of migrant domestic workers and agreed to establish a technical dialogue between the EU and Lebanon on steps to protect the rights of migrant workers.

The objective of improving the situation of **Palestinian refugees in Lebanon**¹, is a key issue. Some progress has been noted, including, but outside the reporting period, in terms of efforts to regularize the status of the non-identified refugees of Palestinian origin in 2008. However, the 2007 conflict between Lebanese security forces and the Islamist militia Fateh al Islam destroyed the Nahr el Bared refugee camp in north Lebanon and displaced many thousands of

¹ This cooperation is without prejudice to the settlement of the Palestinian question in the framework of the regional peace process.

refugees, whose situation is very poor. The Lebanese – Palestinian Dialogue Committee was tasked with preparing the reconstruction of the destroyed camp together with UNRWA. The European Commission is taking part in works on the ground.

Cooperation on foreign and security policy, regional and international issues, conflict prevention and crisis management.

Objectives in this area include: cooperation on foreign and security policy, regional and international issues, conflict prevention and crisis management and common security threats in accordance with national law; non-proliferation of weapons of mass destruction (WMD) and their means of delivery and illegal arms exports; and cooperation on preventing and combating terrorism.

Dialogue in this area has so far mainly focused on implementation of the major UNSC resolutions relevant for and relating to Lebanon.

Lebanon is not equipped with a strong counter terrorism apparatus; and there is only a weak tradition of sharing intelligence by the different agencies active in this domain. Efforts to improve working methods are currently supported by the EC, which is working with the internal security forces as well as with the Ministry of Justice to reinforce their capacity of investigation. Work to promote integrated border management along the northern border is also ongoing.

3. ECONOMIC AND SOCIAL REFORM

The government adopted in January 2007 a medium-term programme of socio-economic reforms which aims to increase Lebanon's growth potential and reduce the debt stock to a sustainable level. It addresses both short-term threats to stability and long-term structural challenges. The international community endorsed the programme at the International Donors' Conference on Support for Lebanon (Paris III) and pledged € 5.8 billion, part of which was conditional upon progress in reforms. Generally speaking, implementation of the economic chapter of the EU-Lebanon ENP Action Plan reflects the extent to which the commitments undertaken by the government at the Paris III Conference have been met. The EU and Lebanon continue to hold a regular dialogue on economic and financial matters.

Macroeconomic framework and functioning market economy

Lebanon is the world's most **indebted** middle-income country with a debt-to-GDP ratio of 173 %. In 2007, the government continued to strike a careful balance between reconstruction and social needs, and the challenges resulting from the large public debt overhang. The authorities undertook efforts to make progress on economic reforms and successfully ensured **macroeconomic stability**.

Real GDP **growth** remained between 2 % and 3 %. **Inflation** declined compared to 2006 despite the depreciation of the US dollar, to which the Lebanese pound is pegged. Money demand remained robust. Reflecting reconstruction needs, the current account deficit was expected to increase to 10.4 % of GDP, largely financed by official inflows and foreign direct investment. The **budget deficit** deteriorated in comparison with 2006, but less than initially expected due to stronger revenue collection.

The government's reform efforts focused on budget formulation and execution, as well as medium-term planning and prioritisation of expenditures across ministries and other public agencies. Measures aiming at improving cash management and implementing the single treasury account are a key part of the government's medium term public financial management reform action plan. A global income tax law was adopted by the Council of Ministers in November 2007, but still requires parliamentary approval.

Lebanon pursued its programme of **structural reforms**, centred on privatisation, improvements in the business climate and opening of markets. However, the difficult political context and the paralysis of legislative activity limited progress in many fields. The government took steps to prepare the ground for reforming the energy and social sectors, with the aim of limiting open-ended transfers from the budget while protecting capital and social expenditures. Addressing power sector losses will contribute to fiscal sustainability. In the telecommunication sector measures were taken to prepare for the corporatisation of *Liban Telecom* and for the privatisation of the two mobile operators. A telecommunication regulatory authority was also created to ensure proper competition in the sector, but progress in this field has been controversial and slower than expected.

Employment and social policy

The first meeting of the sub-committee on social and migration policies took place in July 2007. In line with the priorities established by the Action Plan, it initiated a dialogue on social and employment issues as well as on key related challenges facing Lebanon.

In January 2007 Lebanon adopted a **social action plan** with the aim of improving the efficiency of social spending and reducing poverty. The plan, developed under the aegis of an inter-ministerial coordination body, entails recommendations for implementing social safety nets for the very poor and most vulnerable groups. Five per cent of the Lebanese population falls within the category of extreme poverty while almost a quarter of Lebanese live below the national poverty line.

A social strategy has also been developed by the Ministry of Social Affairs in 2007, but consultations have yet to be launched. Progress in designing and implementing the instruments of the social action plan was hampered by the difficult political situation, the lack of resources and coordination between the ministries concerned as well as the non-participation in government of the Minister of Labour since November 2006.

Social dialogue is still under-developed and the Economic and Social Committee set up in 2000 has never effectively played a substantial role. The ILO and the Lebanese authorities are working to elaborate a country programme by mid-2008.

The **employment situation** in Lebanon is marked by high unemployment, particularly among youth, low participation of women in economic life, a large informal sector and a noticeable presence of foreign worker, especially in low paid sectors. Lebanon aims to promote the role of labour inspectors and reinforce training courses at the national institute of administration and at the Ministry of Justice. However, the labour inspection human and administrative resources are very limited.

Moreover, Lebanon intends to promote a comprehensive reform of the **pension and social security systems**. Currently two projects have been sent to the Parliament, one drafted with

the support of the World Bank and approved by the Council of Ministers, the other by independent experts.

There is no holistic approach to **women's** participation in social and economic life, which is subsequently very weak. Women are the first victims of poverty and negative developments on the labour market. A National Commission aimed at increasing women participation in the economy has been set up but has not yet yielded meaningful results (*see also section 2*).

Concerning **agriculture**, the Council of Ministers approved in May 2007 a law on geographical indications. Moreover, a draft law covering the production, distribution, export and import of organic products was finalized. Lebanon is also working at enhancing the propagation of disease-free material for better quality production with external support. There is, however, no coherent national agricultural policy.

On **sustainable development**, the “*Schéma Directeur d’Aménagement du Territoire Libanais (SDATL)*”, completed in 2004, is a comprehensive document on which a strategy of sustainable development could be based. However, it has not been developed as a policy management tool since then.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU remains the first trading partner of Lebanon. In the first nine months of 2007, there was a slight increase in total **trade** compared to 2006, with a significant trade deficit for Lebanon. The process of accession to the WTO is ongoing. The fifth meeting of the WTO working party on Lebanon's accession took place in May 2007. Lebanon is currently working on the reply to the questions received. Preparations for the implementation of the commitments in the framework of the Association Agreement have taken place and the progressive dismantling of tariffs on European industrial and certain agricultural products will start as foreseen from March 2008. Lebanon has continued its involvement in the development of a dispute settlement mechanism with the aim of creating effective arrangements to be applied to trade between the EU and Mediterranean partners. Negotiations on the liberalisation of trade in agriculture, processed agriculture and fishery products have not yet been launched.

Progress was made in the simplification of import procedures, with the reduction of the number of steps from fourteen to four, the use of a standardised automated document and the establishment of a one-stop shop procedure at the Port of Beirut with the presence of the **customs** and the Ministry of Agriculture. Restrictions on the activities of foreigners to engaging in import and export were removed in April 2007.

On **free movement of goods and on technical regulations**, Lebanon made significant progress and confirmed its commitment to negotiate an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) and indicated the possible priority sectors to be included therein. Following the establishment of the ACAA committee in 2005, work is underway to assess problems to export to the EC market. Several Committee meetings were held with European experts and Lebanese stakeholders in the industrial sector. A number of actions were undertaken, among which the creation of a basis for compliance of leading laboratories and companies with international standards and the spreading of awareness on quality related matters. Further, a draft law on standardisation was finalised by the Lebanese Standards Institute which became member of ISO in July 2006. The

transposition of European standards into Lebanese law started in those priority sectors specified by the ACAA Committee. On market surveillance, a consumer protection law upgrading the existing one was adopted. Also, draft regulations dealing with defective products liability and general product safety were prepared to be in conformity with relevant EU legislation.

Lebanon made some progress on **sanitary and phyto-sanitary** issues including by working towards the establishment of a food safety agency. The government submitted a draft food safety law to the Parliament. Lebanon participated in workshops under the European Commission's "Better training for safer food" programme.

As regards **company law and the right of establishment**, the Ministry of Economy and Trade is preparing amendments to legislation in order to facilitate establishment in Lebanon. In particular, registration fees will, subject to approval of the draft budget law 2008, no longer be charged for the establishment of foreign branches. The Ministry is also working on the simplification of procedures for the establishment of Lebanese companies. Further work is needed to simplify the registration procedures and to establish a public register of companies. New laws on mergers and acquisitions as well as on corporate governance are also in the process of adoption.

Lebanon is also working, with EC assistance, towards facilitating its **business climate** through the preparation of a new business code and a new bankruptcy law. The government embarked on a series of structural reforms aiming at improving the operation of capital markets. Preparatory work was initiated on a new capital market law and to set up the organisational structure for the capital market authority. A Lebanese investment development authority exists. However, several key issues, such as difficulties in enforcing contracts, an absence of commercial courts and lack of an independent judiciary, hamper efforts to promote foreign investments in Lebanon. A series of bilateral agreements for the promotion and protection of investments have been signed between Lebanon and some EU Member States granting MFN treatment to investors and investments.

Concerning **services**, Lebanon has taken part in the regional phase of negotiations on the framework protocol for the liberalisation of services and right of establishment. In the field of financial services, the Ministry of Finance started preparatory work to enhance the functioning of the Beirut Stock Exchange. Lebanon continued the implementation of the recommendations of the IMF Financial Services Assessment Programme (FSAP).

Other key areas

Progress was made in the area of **taxation**. The 2008 budget law, approved by the council of ministers in October 2007 foresees an increase of the VAT rate from 10 % to 12 % in 2008. These measures are nevertheless currently blocked pending resolution of the political crisis and their adoption by the Parliament. A new VAT department was set up within the Ministry of Finance. Taxation of interest is planned to increase from 5 % to 7 % beginning in 2008 in order to increase revenue. The global income tax law was approved by the Council of Ministers in November 2007. The law, which will aggregate the taxpayer's sources of income and introduce a fairer distribution of the tax burden, is aimed at significantly improving the tax system. However, important details are left to be specified by ministerial decrees. Several tax incentives were developed by the Ministry of Finance to support private sector enterprises and reduce the burden of the 2006 conflict. In August 2007, the Ministry of Finance prepared nine decisions for simplification and clarification of tax inspection procedures and a decree to

reorganise regional tax offices was issued by the Council of Ministers. A decree allowing for electronic registration of taxpayers was issued and the relevant systems and procedures were developed. Declaration of income tax by post and payment through commercial banks are now available.

A new draft of the **competition** law was adopted by the Council of Ministers and submitted to the Parliament. Preparatory work started for the establishment of an independent national competition council whose competences will apply to both private and public undertakings. Lebanon has established a list of existing state aids. Lebanon intends to develop a mechanism to exchange information on the total amount and distribution of state aid granted so as to ensure transparency.

In the area of **intellectual property rights**, Lebanon initiated a number of legislative steps to further align its legislation with the requirements of the Action Plan, in particular by adopting at the level of the Council of Ministers, new draft laws on trademarks, industrial designs and copyright. A draft law on geographical indications was approved by the Cabinet. However, due to the difficult political circumstances, Lebanon has not yet acceded to a number of international agreements and conventions necessary to comply with the Association Agreement and the TRIPS agreement. Implementation of IPR legislation and the lack of deterrent enforcement by courts remain an area of concern. The administrative capacity of the Ministry of Economy of Trade, and in particular its Intellectual Property Protection Office, should be strengthened to allow it to perform efficiently its role of enforcement body. A well-designed national awareness-raising campaign was launched but the level of piracy and counterfeited goods on the market remains high.

The new draft **public procurement** law was finalised in September 2007 and awaits parliamentary approval. This law aims at harmonising the way tenders are organised and should create a regulatory body to help and assist public institutions in implementing the new legislation. Adequate administrative capacity will be a key factor in ensuring the full implementation and dissemination of the new provisions. Lebanon is conducting a pilot project for the establishment of e-procurement procedures.

Different training activities in the framework of the Euro-Med regional MEDSTAT II programme are in process to increase the quality and harmonisation of data in the production of **statistics**. Lebanon is preparing, with the assistance of the World Bank and through the MEDSTAT II programme, an assessment of its statistics capacities and needs in the format of a statistical master plan. A first assessment visit took place in October 2007. In addition, the NSI of Lebanon, the Central Agency for Statistics (CAS), received IT hardware through the MEDSTAT II programme in order to improve its infrastructure.

In the area of **public internal financial control**, work continued on the development of a new audit strategy for public income based on risk selection criteria in line with international practice. Audit compliance teams were established in many line ministries to monitor and control expenditure. An auditor for the National Social Security Fund was appointed in July 2007 though a Central Audit Coordination Unit within the Ministry of Finance has yet to be established.

On **enterprise policy**, Lebanon continued the implementation of the Euro-Mediterranean Charter for Enterprise. In this context, a meeting involving all stakeholders, public and private, was organised with the European Commission in Beirut in November 2007. Lebanon agreed to participate, together with the other Mediterranean partner countries, in a pilot

project aiming at assessing the progress achieved in the ten sectors covered by the Charter. In addition, several actions were undertaken in this field among which a survey on the business environment for SMEs and on the legal bottlenecks for businesses; the establishment of two EC-financed Business Development Centres and the facilitation of access to finance. The *Banque Nationale du Liban* embarked on enhancing access of businesses to credit through a number of measures such as interest subsidy schemes and several programmes have been launched to encourage banks to lend to SME clients through risk-sharing facilities.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

In August 2007, the Council of Ministers established a Common **Border** Force headed by the Army for the northern border bringing together the four agencies present at the border, including customs. The pilot project to help Lebanon manage its northern border was officially launched in December 2007. A Common Operations Centre was established in Tripoli and training of staff is ongoing.

Migration issues (legal and illegal migration, readmission, visa, and asylum)

As regards **migration**, Lebanon hosts around 50 000 Iraqi refugees. NGO reports from December 2007 criticise the Lebanese government's failure to provide a legal status for the refugees and detail the impact of this policy on the refugees' lives. A Memorandum of Understanding (MoU) between the UNHCR and the General Security was not applied in 2007 to Iraqis by the Lebanese authorities. However, the Lebanese government announced at the beginning of 2008 that an ad hoc solution will be put in place: providing temporary visas for Iraqi refugees, although at a considerable cost.

Lebanon ratified the UN Convention on **Trans-national Crime** and its Protocols in 2006 but no specific progress has been made towards realisation of the objectives of the Action Plan in this area.

Lebanon is a party to the UN Convention on Illicit Traffic of Narcotics and Psychotropic Substances since 1996. However, the National Council on **Drugs** foreseen under current legislation remains dormant, hampering efforts to develop and implement a national anti-drugs action plan. While gains have been made in the volume of seizures, drugs work does not seem to be an immediate policing priority. A Mini-Dublin Group meeting on drugs took place in December 2007. The internal security forces postponed the eradication of hashish in the Beqaa scheduled for the second half of 2007 due to violence by drug growers against eradication teams. Lebanon requested more international technical and financial support.

With regard to work to prevent **money laundering**, the Special Investigation Commission within the Bank of Lebanon continued its oversight and monitoring of financial institutions and transactions in line with FATF and IMF recommendations and the provisions of the 2001 law. In addition, its Financial Investigation Administration Unit provided training to judges and private sector financial actors on the legislative framework for work to combat money laundering and terrorism financing in cooperation with the Association of Bank in Lebanon.

In the area of **police and judicial cooperation**, the cooperation between the Lebanese security forces and their European counterparts is gaining momentum, both bilaterally with individual Member States as well as through a European Commission-funded programme on

the improvement of criminal investigation. Further activities to develop the capacity of the judiciary to manage cases efficiently were agreed.

6. TRANSPORT, ENERGY, ENVIRONMENT, THE INFORMATION SOCIETY, RESEARCH AND DEVELOPMENT

There are several national plans related to infrastructure (water and sanitation, solid waste management and spatial planning) but a coherent national framework is missing and local stakeholders were not always involved in the elaboration of such plans.

Lebanon is in the process of developing a land and maritime **transport** policy. It started to reform road transport operations as regards licensing, allowable tonnage and axle loads as well as the reorganisation of the freight forwarders profession. An integrated road safety plan was adopted. Plans to reform public transport services (urban and intercity) were made in 2007; a licensing system was introduced. A draft law establishing a land transport authority was prepared two years ago but the Authority is still not operational.

Plans of Lebanon to reconstruct the railroad line linking the Port of Tripoli to the northern border crossing at Abboudieh have been put on hold. There is also a need to complete the reconstruction of the airport facilities. An autonomous Civil Aviation Authority, replacing the Directorate-General of Civil Aviation as a pure regulator, has still not been established. Lebanon is in the process of developing a maritime transport policy to help clarifying the respective roles of port administrations, regulatory institutions, and the private sector. Lebanon is also reviewing the port management in Beirut and Tripoli in order to clarify the functions of port administration and is also preparing an investment programme for both ports. Furthermore Lebanon prepared a draft law, establishing an autonomous Maritime Transport Authority charged with the regulation of maritime transport services and non-port coastal assets that was submitted to Parliament for approval. Once established, the maritime authority needs to step up flag state control in order to remove the Lebanese from the black list of the Paris Memorandum of Understanding on port state control.

Lebanon's difficult **energy** situation (dependence, growing energy needs, high energy import bill) call for a swift reform. In particular the debts of *Electricité du Liban* (EdL) and the heavily subsidised energy prices remain a serious burden for the country. The government, which confirmed at the Paris III Donors' Conference its commitment to reform, established an inter-ministerial committee to tackle the challenges in a socially sustainable manner.

Lebanon took steps to gradually implement the sector reform. It nominated external advisers to assist in EdL's restructuring and progressed on the auditing of EdL's accounts. It started the development of a master plan on energy production and transportation and prepared the creation of a National Control Centre. It amended the electricity law to allow the licensing of independent power producers. The government signed agreements for the construction of two private power plants. Lebanon continued the rehabilitation and completion of electricity networks which is very much necessary in view of regular blackouts and network losses. It improved bill collection rates. Lebanon wishes to introduce gas into its economy, in particular for electricity production. The gas pipelines, including "GASYLE I" for Syrian imports, are ready, but gas is not yet flowing. Lebanon agreed with Egypt on gas imports and continued to study possibilities to construct an LNG import terminal. Lebanon sustained participation in the EC supported Euro-Mashraq gas centre in Damascus, which is facilitating the

development of an Euro-Mashraq natural gas market. Lebanon pursued to study the future of its refineries including the possibility to build a new one.

Lebanon aims to increase the use of renewable energy sources, to reduce its energy bill by 20 %. In June 2007, Lebanon established, together with UNDP, a National Centre for Energy Efficiency.

At regional level, Euro-Mediterranean energy ministers enhanced cooperation through the endorsement of a priority action plan for 2008-2013. The plan includes, inter alia, a list of priority interconnection and infrastructure projects of common interest.

Key **environment** issues concern threats related to climate change, air quality, water quality, water resource management, waste management, nature protection, land use, coastal and marine pollution. Lebanon made progress on climate change, as national structures were set up, and procedures for the Clean Development Mechanism (CDM) adopted. A second national communication is under preparation. One CDM project has been prepared, but not yet registered at the UN level.

Lebanon participates in the Euro-Mediterranean Horizon 2020 Initiative on environmental measures in the Mediterranean area, including the identification of key environment infrastructure issues in the fields of municipal waste, urban waste water and industrial pollution as well as appropriate financing sources and mechanisms. Work will need to continue to identify Lebanese projects having the best chance to be bankable. Lebanon also participates in activities under the EU Water Initiative.

A national environment action plan has been prepared but not yet adopted. Reform of the water sector is ongoing. The ten year strategic plan for the water sector is being updated and an integrated water sector strategy and national water master plan are under preparation. Work is ongoing to implement existing strategies and plans, but continued attention is required. Overall, framework legislation and sectoral legislation is in place in many areas, but require further development, in particular with regard to implementing legislation on environmental impact assessment, access to environmental information and public participation. Some new laws on environmental impact assessment, strategic environmental assessment, water, ozone depleting substances, rehabilitation of quarries, protected areas, solid waste management, industrial waste management, air quality and bio-safety are under preparation.

While administrative structures on environment are in place, a major challenge is to strengthen administrative implementation capacity at all levels of the country, including coordination between authorities. In the field of water, a challenge is also to take further steps to apply a fully integrated water resource management, including related institutional responsibilities. There are some efforts to integrate environment considerations into other policy sectors such as energy and agriculture. Monitoring as well as enforcement require special attention. Lebanon is preparing an update of its 2002 state-of-the-environment report. Lebanon carries out some activities to inform and involve the public, but, access to information nevertheless requires further attention. In the framework of environmental impact assessments, public consultation is not widely ensured.

Lebanon has ratified relevant international and regional conventions and protocols, except the amendments to the Barcelona Convention and its Protocols on Land-Based Sources and Dumping. Lebanon has not yet signed the new Emergency Protocol or the Specially Protected

Areas and Biodiversity Protocol. Lebanon participates in the Mediterranean Action Plan. The European Commission and Lebanon continued cooperation and information exchange, in particular some local activities were undertaken in terms of promoting the water and coastal zone management at selected municipalities (Sarafand, Damour, Naqoura, Jbail and Latakia).

As regards **information society**, Lebanon appointed the board of the Telecommunications Regulatory Authority, which is completing its internal organisation and human resources. In April 2007, it issued a “Strategic plan for the next 12 months”. In the market for mobile telephony, the authority proposed an auction process for granting 20 years licences for the two state-owned networks to provide GSM, mobile broadband and international services. The networks are currently managed by private companies. The procedure for the partial privatisation of the state owned fixed telephony operator was launched in November 2007. The implementation schedule for the privatisation of both fixed and mobile telephony services was subject to delay and has proved controversial. The Office of the Minister of State for Administrative Reform has redesigned the strategy for e-government services adopted in 2002, which will be applied all ministries. Access to internet via a broadband network was introduced in 2007 in parts of Beirut and limited other regions of Lebanon.

Regarding the establishment of an independent regulatory authority in the **audiovisual sector**, the *Conseil national de l'audiovisuel* has only a consultative role and cannot therefore enforce rules. There is a need to provide an autonomous status to this body in order to enable it to regulate efficiently and independently.

Research and innovation activities in Lebanon remain modest. Although the National Council for Scientific Research, which promotes and oversees research and related activities in Lebanon, has developed a plan for science, technology and innovation policy the absence of a national policy is noticeable. There is a need for the development of a coherent national research and innovation policy. The small and varied Lebanese research community has actively participated in the first calls under the 7th Research Framework Programme but is showing a low success rate. Research infrastructure upgrading is ongoing, for example with a view to allowing the Industrial Research Institute to achieve international accreditation.

7. PEOPLE-TO-PEOPLE CONTACTS, EDUCATION AND HEALTH

The Ministry of Education and Higher Education finalised a national strategy for education with a focus on facilitating access to quality **education** with particular measures to combat school drop out from students from low income families as well as a policy commitment to provide free secondary education. A review of the primary school curriculum took place in October 2007 while reform of teacher training is ongoing. In the area of higher education, the Ministry promoted reform in the area of accreditation and quality assurance in line with national policy and with the Bologna Process. Tempus was instrumental in supporting these reforms and improving quality management and assessment mechanisms in higher education institutions. It helped to create three doctoral schools at the Lebanese University, thus paving the way for more structured research activities. A national Tempus office focused on active promotion of Lebanese participation in the Tempus IV programme and should capitalise upon the results of earlier projects. In addition, the Erasmus Mundus External Cooperation Window was promoted while individual students benefited from the Erasmus Mundus programme and from scholarships to the College of Europe. Greater attention is needed to ensure the adaptation of higher and vocational education provision to the needs of the labour market in

consultation with all relevant stakeholders, including the social partners. Policy dialogue on education and training needs to be substantially improved.

Lebanon participated actively in the Euro-Med **Youth** III programme through the Ministry of Youth and Sport by providing support for the development of informal education, enhanced youth exchanges and intercultural dialogue. A dialogue on sport has yet to emerge. At the same time, Lebanese young people, youth workers and organisations can benefit from the opportunities offered by the Youth in Action programme.

The Ministry of **Culture** actively participated in the Euro-Med regional programme to create a data base for architectural heritage. Since January 2007, Lebanon is party to the Convention for the Safeguarding of the Intangible Cultural Heritage. Yet the signature and ratification of the 2005 UNESCO Convention on the Protection and Promotion of Cultural Expressions is still pending due to the political situation. In addition, the participation of the National Commission for UNESCO in the work of the Anna Lindh Foundation could be more active.

A new law on NGOs was drafted and presented for approval in December 2007 though discussions continue with **civil society** on the issue of registration. The Ministry of Economy and Trade proposed and secured adoption of a law on consumer protection whose implementation will be complemented by a twinning with the UK.

Lebanon pursued **health** sector reform, which aims, inter alia, at increasing accessibility (in particular to the most vulnerable), efficiency and quality of care. Lebanon addresses health reform inter alia in the context of the social action plan “Towards strengthening social safety nets and access to basic social services” and the document “Recovery, reconstruction and reform”, submitted to the Paris III Conference. The country participated in the Euro-Mediterranean workshop on communicable diseases and health systems, in preparation of a ministerial conference. Lebanon participated in the EU Network of competent authorities in health information and knowledge as well as in the “EpiSouth” network for EU, Mediterranean and Balkan countries on communicable diseases.

8. FINANCIAL COOPERATION – 2007 KEY FACTS AND FIGURES

Since 2007 financial assistance to Lebanon is mainly provided through the European Neighbourhood and Partnership Instrument (ENPI). The new instrument has a marked policy driven character, more funds at its disposal, and allows using new cooperation mechanisms such as twinning and TAIEX (Technical Assistance Information Exchange).

Due to the fact that Lebanon’s socio-economic development was much affected by the 2006 hostilities, the European Community assistance reflects a twofold strategy. Part of the support was geared towards responding to the reconstruction needs arising from the military conflicts and aiming at the reinvigoration of the economy, while the rest focused on key policy objectives outlined in the ENP Action Plan. This is embedded in the National Indicative Programme 2007-10 (NIP) through which the Community makes available to Lebanon € 187 million.

Under the 2007 Annual Action Programme, Lebanon was granted € 50 million addressing economic recovery, political reforms, access to finance, de-mining and clearance of unexploded ordnance as well as support to education for the Palestinian refugees in Lebanon. This includes a € 15 million European Commission grant linked to a € 100 million European

Investment Bank global loan in support of Small and Medium size Enterprises directly or indirectly affected by the conflict.

Additional European Community assistance was also provided through other Community Instruments. € 4.7 million were provided for immediate humanitarian relief to the victims of the fighting that erupted in and around the Nahr el Bared refugee camp. Under the Instrument for Stability (IFS), funding was provided for the reconstruction of the camp (€ 6.8 million) and for a border management pilot project in Northern Lebanon (€ 2 million) and to help improve criminal investigation techniques (€ 0.4 million).