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**Implementation of the European Neighbourhood Policy in Lebanon
Progress in 2012 and recommendations for action**

Accompanying the document

**JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL,
THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE
COMMITTEE OF THE REGIONS**

European Neighbourhood Policy: Working towards a Stronger Partnership

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1. OVERALL ASSESSMENT AND RECOMMENDATIONS FOR ACTION

This document reports on overall progress made on the implementation of the EU-Lebanon European Neighbourhood Policy (ENP) Action Plan between 1 January and 31 December 2012, although developments outside this period are also considered where relevant. It is not a general review of the political and economic situation in Lebanon.

The EU-Lebanon ENP Action Plan was adopted in January 2007 for a period of five years. In 2012 Lebanon and the EU jointly drafted a new ENP Action Plan. The negotiations were concluded in October 2012 and the Action Plan will enter into force after legal procedures are completed in early 2013. There was an unprecedented level of cooperation between the EU and Lebanon in the context of the ENP in 2012. An Association Council and eight technical subcommittee meetings were held and there were high level visits of Prime Minister Najib Mikati to Brussels in April and High Representative Foreign Affairs and Security Policy /Vice President (HR/VP) Catherine Ashton to Lebanon in October.

Implementing Lebanon's reform objectives went slowly, against the backdrop of the on-going crisis in neighbouring Syria. Throughout 2012 Lebanon successfully pursued its policy focused on preserving stability and national unity. It officially disassociated itself from the events in Syria, a move acknowledged by all political leaders in the Baabda Declaration made in the context of the National Dialogue in June. Lebanon's internal stability came under threat when there were a number of violent clashes related to the Syrian conflict, in particular in the northern city of Tripoli. The security situation remained fragile and the situation deteriorated in October when General Wissam Al-Hassan, Head of the Internal Security Forces Information Branch, was assassinated. This grave incident exacerbated political divisions and stalled political life for the rest of the year as the opposition decided to boycott the national political institutions and the National Dialogue sessions.

Lebanon hosted and assisted an increasing number of Syrian refugees. The total number reached 180,000 by the end of the year. In December, with humanitarian needs growing, the Government prepared a comprehensive response plan.

In these circumstances, the implementation of most of the ENP agenda stalled. There were some positive steps in the justice sector, notably the carrying out of long-outstanding judicial appointments. The human rights action plan was announced after extensive delays and there was a degree of progress in improving the services of the security agencies and armed forces. However, Lebanon did not succeed in revising its electoral framework ahead of the legislative elections to be held in June 2013. Further progress is needed to tackle a number of governance issues, including the rule of law, decentralisation, administrative reform and corruption. Shortcomings in border management became more evident with the developing crisis in Syria.

Human rights and fundamental freedoms are generally well respected in Lebanon. Freedom of association and religion prevails. The media environment is relatively liberal

and freedom of expression is respected although there have been some isolated incidents of censorship and intimidation. The independence and efficiency of the justice sector need to be further improved. The right to a fair trial is compromised in those cases where civilians are tried by military tribunals. Some death sentences were handed down in 2012. Lebanon generally honoured its commitments towards the Special Tribunal for Lebanon in 2012. Serious deficiencies in prison management persist and the number of pre-trial detainees remains high. Palestinian refugees still face major difficulties and the legislative framework to protect refugees, migrants and asylum seekers has not been addressed. No further measures were taken to enhance the role of women in public and economic life.

The Lebanese economy continues to be seriously affected by the conflict in Syria, in particular through disruptions to trade in services, such as tourism, and agricultural goods. The fiscal situation remains vulnerable with one of the highest public debt-to-GDP ratios in the world and a high central government deficit. The political stalemate had a negative impact on the adoption of the official budget and budgetary reform. However, Lebanon has managed to maintain monetary stability through its large and robust banking sector and significant foreign exchange reserves. The Central Bank imposed certain restrictions on banking deposits with the aim of limiting money laundering.

Lebanon has not yet made progress in its bid to join the World Trade Organisation (WTO). In July the Council of Ministers approved the National ACAA¹ Action Plan and elaborated a phyto-sanitary strategy for 2012-2016. Lebanon has not yet signed the regional Convention on pan-Euro-Mediterranean preferential rules of origin.

There were further delays to much-needed structural reforms in the energy, transport and telecoms sectors. Lebanon took some short-term measures to enhance power supply, but the energy sector has not yet been restructured for the longer term. Transfers to the State-run electricity company continue to impose a heavy burden on fiscal spending. The establishment of the Petroleum Authority and appointment of its members was an important milestone in the exploration of hydro-carbon resources in the Mediterranean Sea. Lebanon improved its legislative and administrative framework for environmental protection. No progress was made towards liberalising the telecommunications sector and telecommunications services remain substandard and expensive.

Short-term ad-hoc steps were taken in the social field, when Lebanon increased the minimum wage for private sector workers at the beginning of 2012 but dialogue with public sector workers was limited and marred by several protests. A substantial salary increase for civil servants was accepted but it remained unclear how it would be funded. There was no tangible progress in either education or healthcare.

In 2012 Lebanon addressed only a few of the key recommendations contained in the last year's ENP progress report by making some overdue judicial appointments. Most of the key recommendations remain valid. On the basis of the assessment of the progress made

¹ Agreement on Conformity Assessment and Acceptance of Industrial Products.

in implementing the ENP in 2012, and taking into account the priorities agreed jointly by the EU and Lebanon in the new ENP Action Plan, Lebanon should focus its efforts in the coming year on:

- Ensuring that the elections in 2013 are conducted in a democratic way, and that compliance of the electoral framework with international standards is improved.
- Enhancing the role of institutions that can contribute to the stability of the country, in particular the Parliament.
- Working on improving the security situation, law enforcement and border management.
- Improving the effectiveness and independence of the judiciary, including through increased computerisation of the courts and independence of judicial appointments;
- Improving the protection of refugees, migrants and asylum seekers, including through the signature of the revised Memorandum of Understanding with the United Nations High Commissioner for Refugees (UNHCR). Providing continued protection and support to people fleeing the violence in Syria.
- Adopting concrete steps to improve Palestinian refugees' living conditions and access to property, employment and social security.
- Taking measures to enhance the role of women in public and economic life;
- Adopting the budget on time and improving management of public finances.
- Taking measures to combat corruption, including the adoption of public procurement legislation.
- Making progress toward membership of the WTO.
- Continuing the efforts made in preparation for ACAA negotiations and complying with sanitary and phyto-sanitary rules.
- Signing and ratifying the regional Convention on pan-Euro-Mediterranean preferential rules of origin.
- Starting to implement a long-term restructuring of the energy sector and setting up a transparent framework for effective and sustainable management of the natural resources in the Mediterranean Sea.

2. POLITICAL DIALOGUE AND REFORM

Towards deep and sustainable democracy

A revised version of the draft **electoral law** approved by the Council of Ministers (the Cabinet) in August 2012 remained under the scrutiny of a parliamentary committee before being voted on by Parliament. Due to its late approval, there is a risk that this law will not be actually implemented by the time of the parliamentary elections expected in June 2013. The date of the poll has not yet been set. The draft law aligns better with international standards and the recommendations of previous EU election observation missions. It provides for pre-printed ballots, stronger campaign regulations and some form of proportional representation. No independent electoral commission has been established, the representation of women cannot be guaranteed (given the requirement only to have at least one representative of each gender on each list), and the constitution has not been amended to lower the voting age from 21 years to 18. Public debate on the draft electoral law has been focused on proportional representation. A lack of political consensus on this issue delayed progress on other aspects of the electoral framework. Civil society was involved only to a limited extent. Generally the work of Parliament is limited with only a few legislative sessions per year.

The **media** in Lebanon is relatively free to comment on all issues. Articles in the penal code prohibit blasphemy and insults against religion. The General Security (GS) censor films and literature in this regard. In April controversial draft legislation to regulate online media organisations was withdrawn for review after heavy criticism from civil society groups. Isolated cases of limitations on people's **freedom of expression** occurred during the reporting period. These included occasional cases whereby journalists, comedy actors and graffiti artists were intimidated, beaten and arrested. There were also restrictions on filming and raids on media institutions. The authorities' poor record in prosecuting such violations is a matter of concern.

The independence of the judiciary needs to be further improved. In May a draft law seeking to strengthen its independence, 'on a gradual basis' was submitted to the Cabinet. The draft legislation increases membership of the Higher Judicial Council and gives it authority over judicial appointments. Nevertheless the Minister of Justice continues to be involved in the appointment of members of the Council. In October the Cabinet approved long-awaited appointments of the Head of the Higher Judicial Council and the State Prosecutor.

The outstanding issue concerning **fair trials** is the continued use of military courts to try civilian cases. In the reporting period several high-profile civilian cases were tried in military courts. Military courts issued sentences including the death penalty for persons found guilty of espionage.

Lebanon continues to face challenges in fighting **impunity**. As a positive step, the Lebanese authorities honoured their international commitments with regard to the Special Tribunal for Lebanon (STL) and its financing. Moreover, the mandate of the Tribunal was extended for an additional three years in January. However there was no progress

made on apprehending the four persons indicted by the STL. Similarly, there was no progress with regard to the missing and forcibly disappeared persons. In February, civil society groups proposed a draft law focusing on the 'right to truth', however it has not been formally endorsed. The assassination of General Wissam El-Hassan, Head of the Internal Security Forces (ISF) Information Branch, in October adds to the challenge of fighting impunity in Lebanon.

Only small developments were noted in the **fight against corruption**. A number of laws linked to combating corruption were prepared in November. Transparency International currently ranks Lebanon as 128th of 174 countries on its corruption perception index.

There was some progress in the first part of the year in the **security and law enforcement sector**. The ISF adopted a new Code of Conduct and the GS renewed its commitment to improve its services to citizens. The tense security situation in the country has made it very difficult to look into more structural issues. The EU is supporting improvements to the organisational capacity and the professionalism of the ISF through an ongoing project. Consultations are ongoing on possible assistance to the GS and its recently developed strategic plan. A lot of work still needs to be done to achieve closer inter-agency cooperation, clarify the mandates of the various security agencies in Lebanon, reduce overlaps and duplications, and be more pro-active in respecting human rights.

As for the **democratic control over the armed forces**, the re-launching of the National Dialogue in June and the discussion on the proposal for a National Defence Strategy presented by President Sleiman in September is a significant development. The proposal seeks to reinforce the Lebanese Armed Forces (LAF). Hezbollah's arms are to be used upon the request of LAF, 'via a decision from the political authority'. Following these initial discussions the Cabinet approved a EUR 1.2 billion plan to increase the LAF's capacity over the next five years and to strengthen the LAF's role as the neutral guarantor of national security. It is unclear how the plan will be financed, as it relies to a large extent on external support. The debate was halted at an early stage due to the political impasse after the assassination of General Wissam Al-Hassan in October

Other human rights and governance-related issues

The Parliamentary Human Rights Committee announced a National **Human Rights** Action Plan on International Human Rights Day 2012. Progress has been impeded due to divisions within the Parliament, most notably regarding Palestinian refugees. The Plan still needs to be voted on by Parliament.

Existing laws criminalise all forms of **torture**, including psychological torture. Lebanon ratified the UN Convention against Torture and the operational protocol to that Convention, but there are no national preventive mechanisms in place. Recently reported incidents, including the arrest and torture of a journalist, and anal examinations performed on men in ISF custody, indicate that such practices continue. Civil society organisations have called on Lebanon's judiciary to investigate and prosecute cases of ill-treatment and abuse of migrant workers by army and intelligence officials.

Lebanon's **prisons** do not meet international standards in terms of space, food and water or hygiene. During the reporting period there were several prison riots including hostage incidents and there were recurrent protests against pre-trial detention. In June the ISF reportedly admitted that 73% of inmates were in pre-trial detention, while the Ministry of Justice reported a figure of 54%. The management and administrative capacity of prisons are weak, with limited monitoring of corruption, misbehaviour or human rights abuses. Lax security arrangements made it possible for some inmates to escape. Despite an official request in 2006 by the Ministry of Interior for the Ministry of Justice to take over responsibility for prison administration, the transfer has not been made and preparations have not been finalised.

There were no new developments on the abolition of the **death penalty**. Several persons accused of espionage were sentenced to death in the reporting period. The total number of those sentenced to death remains unclear.

The situation of **refugees and asylum seekers** remained unchanged. Lebanon is not yet a party to the 1951 Geneva Convention on the Status of Refugees. Negotiations on a revised Memorandum of Understanding between the Office of the United Nations High Commissioner for Refugees (UNHCR) and the GS, which would fill the protection gap, are ongoing but progress has been slow. The Lebanese government and population were commended for extending protection to the large number of people fleeing violence in Syria.

With respect to **migrant** workers, the sponsorship system remains in place without proper legal protection and there are continuing reports of abuse and maltreatment. The EU publicly criticised this situation in a March statement. Detention conditions for migrant workers, asylum seekers and refugees with irregular migrant status are deplorable.

Palestinian refugees in Lebanon continue to have difficulties with their legal situation and rights. There was some progress as regards their freedom of movement when the LAF eased requirements for entry into the Nahr el-Bared Camp in July. Amendments to labour and social security laws, introduced in August 2010, have not been implemented as the relevant decrees have not been issued. The Lebanese Palestinian Dialogue Committee (LPDC) was revived when a new president was appointed in June.

In the area of **women's rights**, the draft law on domestic violence was submitted to parliament following extensive redrafting in order to address forced sexual relations and threats between spouses. Lebanese legislation continues to prevent Lebanese women from passing their nationality on to their children. Female participation in political life remains low. No woman holds a ministerial post and there are only four female members of Parliament. The current draft election law limits the requirement for women on candidate lists to one woman per list.

In the field of **economic and social rights**, the tripartite dialogue began in early 2012 following strikes led by the General Union of Labour Workers (GULW) but this process was not sustained. Later in the year there were further protests by teachers and civil

servants despite the fact that, legally, civil servants cannot unionise. They demanded broad reforms to employment benefits and labour market regulation but only limited salary adjustments were introduced. Measures relating to social protection, healthcare, pensions, labour market regulation and the institutionalisation of tripartite dialogue were dropped. The government agreed in September to a substantial wage increase for civil servants but the financing of the additional expenses has not been approved.

The Office of the Minister of State for Administrative Reform is implementing a strategy for **administrative reform**, to enhance public transparency, accountability and effectiveness. The Cabinet has not yet endorsed the strategy. The Cabinet endorsed legislation to modernise public procurement and it was transmitted to Parliament in December. The EU has provided EUR 9 million in support to these administrative reforms since late 2011.

The Government did not achieve further administrative **decentralisation** or reform of the Independent Municipal Fund. The Minister of Interior created a committee to draft a decentralisation law but its work has not yet been delivered. A financing agreement for an EU project to support municipal finance reforms and the Municipal Development Fund (EUR 20 million) was signed in January. However, the project is being implemented slowly due to a low level of commitment by the Ministry. **Civil society** have not been systematically consulted on or involved in Government work. One positive development was the consultation concerning the new EU-Lebanon Action Plan.

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

The Government remained committed to implementing the relevant UN Security Council Resolutions, mainly no. 1701 and no. 1757. It also maintained its commitment to working with the UN Interim Force in Lebanon (UNIFIL) on implementing UNSCR 1701, and on a joint strategy for LAF and UNIFIL. Following UNIFIL's strategic review (completed in March), the LAF worked on a roadmap to increase its capabilities in the South. Limited progress was made in this regard, as the LAF's operational capacities were stretched following the redeployment of one third of the LAF brigades from the South to other parts of the country in response to security needs. The security situation in the UNIFIL area remained calm in 2012.

The UN, supported by the EU, calls on Lebanon to advance implementation of the provisions of UNSC Resolution 1701 on the disarmament of all armed groups and full control of arms distribution and ownership by the authorities. Several incidents took place in 2012 that demonstrated that possession of light weapons is widespread among the various communities and is largely uncontrolled. This situation could worsen the instability in Lebanon.

Syria continued to be of concern for the region. The mainstream political leaders in Lebanon sought to maintain internal stability and avoid any spill-over of the conflict. Officially Lebanon 'disassociates' itself from the Syrian crisis. Several cross-border

incidents, including shelling and the reported transfer of weapons were problematic for Lebanese-Syrian relations.

The Lebanese Government, however, continued to help people fleeing violence in Syria to enter Lebanon and provided much-needed assistance. By the end of the year around 180 000 Syrian refugees were registered or were being processed by the UNHCR in Lebanon. In December the Lebanese Government stepped up its involvement in the expanding refugee situation in Lebanon and announced its EUR 137 million national response plan. The recent crisis highlighted the need to strengthen Lebanon's ability to deal with conflict prevention and crisis management. In providing the necessary assistance the Government is working in close coordination with international partners, particularly the UNHCR but also the EU. In 2012 the EU allocated EUR 44.8 million to the support of Syrian refugees in Lebanon through the European Community Humanitarian Office (ECHO) and the European Neighbourhood and Partnership Instrument (ENPI). Two ENPI support packages of EUR 5 million and EUR 10 million were paid out in June and December respectively.

3. ECONOMIC AND SOCIAL REFORM

Macroeconomic framework and functioning market economy²

The conflict in Syria continues to affect the Lebanese economy, in particular through disruptions to trade in agricultural goods and services (e.g. tourism). Notwithstanding its non-intervention policy on Syria, the perceived risk that Lebanon may be drawn into the conflict has adversely affected economic activity through lower tourism, investments (notably in the real estate sector) and bank deposits. In addition, the increasing number of refugees may strain the Lebanese budget. **GDP growth**, which slowed from 7.0% in 2010 to 1.5% in 2011, is projected to only partially recover in 2012 to 2%. **Inflation** accelerated to above 6%³ in 2012, reflecting higher food prices and a backward-looking increase of residential prices. Strong demand on basic products and on some Lebanese-manufactured items from the disrupted Syrian economy also exerted inflationary pressures.

The fiscal situation remains vulnerable and there is a clear need for fiscal consolidation. The government deficit was 8.3% of GDP in 2011 and was expected to remain high in 2012(it amounted to 6% of GDP in January-October). Political disagreements both within the Cabinet and in the Parliament hindered fiscal reforms. The most debated and contentious budgetary issue was the possible increase in public salaries by close to 40%. **Public debt** remains among the highest in the world at approximately 130% of GDP in 2011, the same level as at the end of 2011.

² Figures on GDP, inflation, trade and employment are generally from Eurostat based on data supplied by the national statistical offices; or IMF or Commission Staff estimates, as indicated in the Statistical Annex. When other data sources are used these are then indicated.

³ The Central Administration of Statistics of Lebanon included the change in housing prices since 2009 in the calculation of the 2012 Consumer Price Index, thus overestimating the inflation for the year.

Lebanon's widening trade deficit, combined with a negative net income due to low returns on foreign reserves and high external debt payments, only partly mitigated by remittances and other foreign funds, translated into a large **current account deficit** (14% of GDP in 2011). The country's large **foreign exchange reserves** (USD 35.1 billion as at the end of October 2012) help protect its financial stability and give credibility to the currency peg against the US dollar.

The banking sector is large and influential. Total bank assets grew by 8% over 2012 and amounted to more than 350% of GDP at the end of the year, while deposits grew by around 7% between end-June 2011 and end-June 2012 and exceeded USD 145 billion to over 300% of GDP.

Unemployment, most notably youth unemployment, is expected to remain a problematic issue, as 51% of the Lebanese population are below the age of 30.

The Ministry of Labour, through the revived National Employment Office, provided first-time jobseekers with accelerated training, complemented with traineeships in companies. This initiative was carried out in cooperation with the World Bank. Companies are exempt from social charges (paid by the Government) for the first six months of **employment** if they hire the trainees at the end of their traineeship.

There was no progress with regard to **social protection** reforms. The reactivation of the tripartite dialogue was unsuccessful. Although the Government committed to reactivate the Social and Economic Council, so far no progress has been achieved.

Regarding **poverty**, 28% of the population live with less than 4 dollars per person per day, and 8% live under the extreme poverty line with 2 dollars or less per day. The Ministry of Social Affairs with the World Bank continued to implement the "National Poverty Targeting Programme" This is the first national programme specifically targeting poverty in Lebanon; the Social Ministry estimated that 18 000 households (or about 84,000 people) benefitted from the programme. This approach of targeted social support does not replace the need for integrated and inclusive socio-economic policies, including expanded social safety nets.

4. TRADE-RELATED ISSUES, MARKET AND REGULATORY REFORM

The EU is Lebanon's main trading partner accounting for 33.5% of its trade volume in 2011⁴. **Bilateral trade** flows increased and during the first eleven months of 2012 amounted to EUR 6.35 billion. EU exports to Lebanon increased and consisted mainly of machinery and transport equipment, energy products, agricultural products and chemicals. EU imports from Lebanon decreased and consisted mainly of semi-manufactured products, agricultural products, fuel and mining products, chemicals, machinery and transport equipment.

⁴ Data for 2012 was not available at the time of writing.

Lebanon is yet to notify the EU of the completion of internal procedures for the entry into force of the Protocol on the Dispute Settlement Mechanism signed in November 2010. Lebanon did not make any progress towards joining the WTO. Lebanon has yet to adopt a number of laws and make progress in bilateral services negotiations in the context of WTO accession. The EU continued to provide assistance for Lebanon's accession to the WTO – a precondition for any further deepening of bilateral trade relations with the EU.

In February 2012, Lebanon imposed restrictions on the importation of certain EU meats into Lebanon following the outbreak of the Schmallenberg virus in several EU countries. Although the restrictions were relaxed over time, some remain in place.

In the area of **customs**, some of the objectives of the first Action Plan like simplification of legislation and procedures, strengthening co-operation between customs and other agencies working at the border or reinforcing customs controls on imports and exports of pirated or counterfeit goods have been achieved. However, some operators faced problems due to the lack of a defined coordination mechanism between responsible authorities at the port of entry. This has created problems for the entry of goods, particularly agri-food products, into Lebanon. The functioning of the free zone in Beirut also created some difficulties with regard to certification of origin. Lebanon has not adopted the pan-Euro-Med protocol rules of origin with the EU. Lebanon is yet to sign and ratify the regional Convention on preferential rules of origin. Lebanon regularly participated in the meetings of the pan-Euro-Med Working Group, which is currently discussing the revision of the rules of origin in the framework of the Regional Convention.

With respect to the **free movement of goods** and **technical regulations**, progress was made in the preparations for negotiations on an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA). In July the Cabinet of Ministers approved a National ACAA Action Plan to implement the Palermo Action Plan. It identifies three priority sectors: electrical products, pressure equipment and construction materials. The Commission provided comments on submitted draft laws on technical regulations and conformity assessment procedures, and metrology. The EU is providing EUR 4.2 million to support quality infrastructure with technical assistance and twinning in 2012 to 2015. The National Metrology Council was established in August 2012 with EU support.

Regarding **sanitary and phyto-sanitary issues**, Lebanon adopted and started implementation of a phyto-sanitary development strategy for 2012 to 2016. Work resumed on the EU-supported draft law on food safety. The file is currently under discussion in the parliament, but has not made any significant progress. In June, Lebanon became eligible for exports of honey to the EU. Lebanon participated in a Commission/European Food Safety Agency/TAIEX supported Mediterranean seminar on animal identification and disease control measures.

Lebanon's **business climate** deteriorated further due to the regional situation. Compared to the previous year, Lebanon fell to the 115th place (out of 185) in the ease of doing business ranking in the World Bank's 'Doing Business 2013' annual report. The high

cost of logistics, labour and land in urban areas, poor supply of energy, difficulty in acquiring construction permits, and the unpredictability of administrative and juridical decisions continued to inhibit investors. The World Economic Forum's Global Competitiveness report 2012-13 also highlighted Lebanon's relatively poor internet service provision, low level of investment in infrastructure, government inefficiency, instability and corruption.

Although of the relevant law was passed in 2011, the National Council for Financial Markets in Lebanon, a **financial services** regulator, has yet to be established largely due to delays in making the relevant administrative appointments. There were no significant developments can be reported in the area of **movement of capital**.

As for **company law**, the Ministry of Justice started a close cooperation with the International Finance Corporation (IFC) and EU to modernize the Commercial Registry of Beirut, simplifying the registration of companies and giving the possibility of registering online. A second area of reform will be to strengthen the regime for debt resolution and insolvency, in order to promote business continuity and save jobs. The third objective is to create a modern legal framework for bank lending to SMEs, whereby loans could be secured by movable property and accounts receivable. As in many other areas, the relevant draft legislation is part of the backlog in Parliamentary decision-making.

Lebanon does not have a comprehensive **enterprise policy** beyond the measures outlined above, but participated in 2012 in the Euro-Mediterranean industrial cooperation and shared knowledge, tools and good practice to spur entrepreneurship and promote SMEs in areas covered by the Euro-Mediterranean Charter for Enterprise and in specific sectors: textiles and clothing, tourism, raw materials and space.

Other key areas

There was limited progress in the area of **taxation**. The EU helped the Lebanese Tax Administration to modernise and upgrade. A EUR 1.85 million twinning project for 2012-2014 aims to increase tax revenue and improve tax governance.

The Central Administration for **Statistics** (CAS) worked to improve the availability and quality of national accounts, trade data and social statistics, and, with the support of the EU, studied the feasibility of setting up a business register. The Statistical Master Plan was being updated thanks to World Bank grant. The CAS continued to suffer from a chronic lack of resources, but is committed to working with the EU in the following areas: internal capacity building, national accounts and social, migration and household data.

In December, the Government submitted to the Parliament a new **public procurement** law, drafted with EU support.

There were no significant developments in the areas of **competition policy and state aid, intellectual property or consumer protection**.

There were no developments in 2012 in the regulatory framework for public finance management and **public internal financial control**, but the Institute of Finance developed two guides for Parliament on strengthening financial oversight in Lebanon within a European Union funded project.

Lebanon substantially increased its utilisation of the EU TAIEX instrument: study visits and workshops were held in a wide range of domains, e.g. consumer protection, market surveillance, food safety, judicial cooperation, statistics, scientific research, drug prevention, environment and customs.

5. COOPERATION ON JUSTICE, FREEDOM AND SECURITY

No progress was made the development of a comprehensive, integrated **border management** (IBM) strategy. The border between Lebanon and Syria is not adequately delineated or controlled and incursions into Lebanon by Syrian armed forces continued. Given the security situation and the political sensitivities at stake, it seems unlikely that significant progress on delineation will be made in the short or medium term. The arrival of large numbers of Syrian throughout 2012 further exposed the inability of the security agencies to secure and control the border in accordance with international standards. In addition to the support provided to relieve the humanitarian situation of Syrian refugees, the EU provided assistance to Lebanon on IBM in the framework of "Developing national capability for security and stabilisation" programme. The specific IBM project started on 1 October; a kick-off meeting took place to explore the need for adjustments to the project in light of the crisis in Syria.

The Lebanese authorities indicated their intention to move towards issuing of biometric passports in the coming years. General Security is in charge of the process, but the high costs involved may prove to be prohibitive.

After adopting an anti-**human trafficking** law in 2011, further consideration should be given to the prevention of trafficking and the situation of children, which are not covered by this law.

Following the blacklisting of a Lebanese bank by the US Department of the Treasury in 2011 as a "financial institution of prime-**money laundering** concern", authorities planned to place tighter restrictions on the movement of capital. The Central Bank announced plans to significantly increase the level of capital money exchangers must hold in order to operate, which would eliminate many of the smaller money exchange operations. New regulations, which were subject to consultation, will also oblige money exchangers to have at least one compliance officer, to invest in anti-fraud software, and to report suspicious transactions.

No progress was made in relation to the draft law on cybercrime prepared in 2010. A visit by the EU Counter-**Terrorism** Coordinator in July highlighted the need for Lebanon to review operational mandates and improve inter-agency cooperation between the relevant security services. Several individuals were arrested on charges of links to terrorist organisations, but there have been no successful conviction. Up to 200 individuals on

terrorist charges remained in pre-trial detention. A small number of them were released in June in response to violent protests in Tripoli.

The absence of a National **Drug** Policy meant that actions to reduce drug supply and demand were not systematic. Reduced numbers of trained personnel, limited resources and a lack of reliable data made the work of the ISF Counter-Narcotics Bureau difficult, despite their strong commitment. The authorities destroyed some opium and cannabis plants. However, there was only a slight reduction in the overall territory used for illicit crops. Over the summer, eradication operations were halted following clashes and protests in the Bekaa region. The Government decided to form a committee to examine the issue of drug cultivation and sought to develop programmes for people in the affected areas. In August, the Council of Ministers approved EUR 12 million in funding, including for subsidies for alternative crops. These were several high-profile drug seizures at Beirut ports. Lebanon attended the multi-country workshop on Drug Prevention and Monitoring: Situation and Perspectives in the ENP Southern Partnership Countries organised by the European Commission and the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) under the auspices of the Cypriot EU Presidency, which took place in Cyprus in October. The EU-Lebanon Dialogue on Drugs took place in Brussels in October.

There was no significant progress in the field of **judicial and law-enforcement cooperation** and a number of international conventions regarding family law, and particularly children, remain unsigned. The EU will assist the Ministry of Justice / Office of the General Prosecutor in setting up a bureau for more effective international cooperation in judicial affairs.

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

Coordination on priority **transport** projects between the relevant authorities (Ministry of Public Works and Transport (MoPWT) and the Council for Development and Reconstruction (CDR)) was often weak. In order to respond to this challenge, an EU-funded project to strengthen institutional capacity, improve coordination and leadership is ongoing. The EIB financed the construction of the Arab Highway and Tripoli Ring Road. Preparations were made to carry out feasibility studies for a cruise ship port in Jounieh and a Syria-Tripoli rail connection. Within the implementation of the Regional Transport Action Plan, the European Neighbourhood Instrument (ENI) financed EuroMed projects on land transport and on the promotion of road safety and traffic code enforcement. The restoration and upgrading of the **rail** network into a multimodal service remained at a standstill. There was no progress on the establishment of a Civil **Aviation** Authority. The EU's attempts to reactivate negotiations on the EU-Lebanon Aviation Agreement were not successful. Lebanon collaborated with the Mediterranean Aviation Safety Cell (MASC) within the European Aviation Safety Agency (EASA) on regulatory convergence in the field of safety. In September 2012, the MoPWT approved a Country Action Plan on 'Motorways of the Sea' aiming to facilitate trade by developing an integrated port community system (IPCS) and dry port facilities.

Lebanon's **energy** demand continued to outstrip supply, leading to daily power cuts of up to thirteen hours. Those who can afford it rely on fuel-operated backup generators. In line with the energy strategy, the Government aims to achieve around-the-clock services by 2014. Despite the lack of available resources, this requires substantial investment in the rehabilitation of old power plants and the construction of new ones. Lebanon plans to leverage private sector financing for this purpose. There are plans in the private sector to launch a wind farm project in 2013. Lebanon took some short-term measures including the preparation of power supply from offshore barges. Lebanon plans to increase the proportion of renewable energy in its energy mix to 12% by 2020. With EU assistance, it prepared a comprehensive scheme for investment in renewable and energy efficiency. The first projects were launched in June. Projects are continuing on energy efficiency in SMEs, solar water heaters and efficient lightning. No substantial progress has been noted on the unbundling of Electricité de Liban (EdL) or on the establishment of an Electricity Regulatory Authority. Treasury transfers to EdL continued to impose a substantial burden on the national budget. Lebanon continued to search for possible off-shore hydrocarbons resources. The structure of the Petroleum Authority was agreed in February and its six members were nominated in November. The first hydrocarbon licensing round is expected in early 2013. The Authority's independence and technical competence will be important for the future management of any hydrocarbons discoveries. There is no agreement yet on how possible revenues would be used; the Petroleum Law provides for the establishment of a Sovereign Wealth Fund.

As regards **climate change**, Lebanon established an inter-ministerial committee, composed of the Ministers of Environment, Foreign Affairs, Social Affairs and Economy and Trade, to complete the national report for RIO+20. Lebanon launched a debate with NGOs and academia to develop its position for the United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties in Doha. Lebanon is encouraged to build capacity and engage in the new carbon market mechanism to be developed following the 17th and 18th sessions of the UNFCCC Conference of the Parties. With the support of the newly launched regional technical assistance project for climate change and related matters, Lebanon is encouraged to devise a low-carbon development strategy. Additional efforts should be made to fully implement the Cancun and Durban agreements.

In the field of the **environment**, the institutional capacity of the Ministry of Environment was strengthened, including through the appointment of five heads of service. The Cabinet approved legislation establishing an environmental prosecutor. The National Council for the Environment was established, bringing together Lebanese authorities and non-governmental bodies. The Council of Ministers established a ministerial committee to draft a water code. The Cabinet approved laws and decrees related to quarrying, nature reserves and hunting, and a plan to combat pollution in the Qaraoun Lake (Lebanon's largest body of fresh water). Draft legislation on integrated solid waste management was approved and funds were allocated to reduce the use of hydrochlorofluorocarbon (HCFC). A strategy on marine protected areas was completed. Lebanon launched preparations for a strategic environmental assessment of the petroleum sector, and issued decrees on oil spills.

Lebanon participated actively in ENPI-financed regional projects namely, the Sustainable Water Integrated Management (SWIM) project and those falling under the Horizon 2020 depollution initiative (the Mediterranean Environment Programme and the Shared Environmental Information System support project led by the European Environment Agency). Under the pollution reduction project component of Horizon 2020, the extension of the Al-Gahdir waste water treatment plant is one of the four leading projects of the Mediterranean Hot-Spot Identification (MeHSIP) Programme's Project Preparation Implementation Facility (PPIF), financed under FEMIP and managed by the EIB.

Lebanon actively participated in the **Integrated Maritime Policy** (IMP-MED) technical assistance project under the ENPI South programme.

In the area of **civil protection**, the flagship programme for Prevention of, Preparedness for, and Response to natural and man-made disasters (PPRD South) contributed to the establishment of a regional framework of disaster management authorities that could intervene collectively in the event of disasters overwhelming the affected country. Indeed, sustainable development requires adequate disaster risk reduction efforts. Lebanon is among the 168 governments that adopted in 2005 the "Hyogo Framework for Action: Building the Resilience of Nations and Communities to Disasters", which emphasizes the central role of disaster risk reduction for all development policies. However, work on Disaster Risk Reduction (DRR) and climate adaptation is only at the beginning and it will require considerable further support to develop capacities and processes. DRR policy is fostering dialogue with Civil Society and NGOs, thus contributing to a more sustainable democracy. Analysis of the regulatory and institutional frameworks started with the aim of strengthening capabilities and inter-ministerial coordination in the second phase of the programme.

In the **information society**, the communications sector continued to be highly politicised as it remained one of the few consistently revenue-generating sectors. The State remained the sole owner of the mobile and fixed line networks and no progress was made towards liberalisation of the sector. The Ministry of Telecommunications continued to act as a licensing authority. The Telecommunications Regulatory Authority (TRA) is still not financially independent and its decision-making power remained suspended. Internet access remained relatively expensive and slow by international and regional standards, despite recent improvements. As regards **audiovisual policy**, the role of *Conseil National de l'Audiovisuel* remains purely consultative and decisions on licences for electronic/audiovisual media are taken by the Council of Ministers.

Lebanon has a small and dispersed but diverse **research** and **innovation** community. Despite low public spending on research and the fact that no ministry is in charge of this area, Lebanon's its research and innovation potential is considered to be good due to its highly educated and skilled human capital. According to the Global Innovation Index 2012, Lebanon ranked 61st in the world ranking of innovation, and in the 11th place among North African and Western Asian countries. Lebanon has taken some steps towards elaborating a strategy for transforming the country into a regional pole for innovation. Some centres nurturing innovation are active, such as Berytech, which has already provided venture capital for technology start-ups and brings together research and

entrepreneurial development. On the other hand, lack of significant developments in the field of IPR can be an obstacle to innovation. The lack of reliable statistics continues to be a problem for the development of research and innovation programming. Under the EU's Seventh Framework Programme for Research and Technological Development (FP7), 11 private and public Lebanese institutions participate in 17 projects. The EU contribution to these projects amounted to EUR 45 million of which more than EUR 2 million went to Lebanese participating entities. Lebanon participated actively in FP7 programmes in the areas of food, agriculture and fisheries, ICT, health, the environment, international cooperation, science in society and research potential.

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

The public **education** system includes a network of some 1,360 schools spread across the Lebanese territory and welcoming students from all backgrounds. Only 37% of the Lebanese pupils are enrolled in the public education system and the quality and internal efficiency of the system are poor. There continued to be significant discrepancies between the standard in the private and public education systems and disparities in quality between regions.

In 2012, the influx of Syrian refugees in Lebanon was a particular challenge for the education system. Over 50% of those who registered with the UNHCR in Lebanon are children and around 32% are of school age (5-17 years). By the end of September this concerned around 25,600 children of school-going age. Although enrolment figures remained low, this nonetheless put a considerable strain on the public education infrastructure in parts of the country that were already poor.

The EU provided assistance in two areas under the National Education Strategy, namely retention and achievement and citizenship education. The current administration's commitment to this plan has yet to be fully tested. A four-year plan to improve the quality of learning in public schools was launched in November. In October, the Cabinet ratified a loan agreement signed with the World Bank. The aim of the "Education Sector Development Plan" is to improve the quality of teaching and the learning environment in public schools from preschool to secondary level, and the capacity of the Ministry of Education and Higher Education.

The **higher education** student population was around 195,000 of whom 53% were females. The enrolment rate for tertiary education was 51.6%. The Lebanese University is the only public university in the country but caters for 39% of the entire student population. The governance of the sector continued to be highly centralised. Adequate quality assurance and accreditation mechanisms have yet to be put in place. Two draft laws were submitted to Parliament concerning the organisation of higher education and the establishment of a Quality Assurance Agency for Higher Education.

The public **vocational education** system fell short of meeting the needs of individuals and business needs. Problems included the absence of a comprehensive vocational education and training (VET) policy framework, the highly centralised system of

governance, poor coordination and management, weak links with employers and outdated curricula and course materials. The European Training Foundation (ETF) supported the Ministry of Education and Higher Education in the design and implementation of a National Qualification Framework, and with the inclusion of entrepreneurship as key competence in VET and general education. The ETF also repeated its participatory, evidence-based analysis of the VET system, which led to an updated report in 2012. The recommendations of the Torino Process report have partly fed into the new VET reform strategy. In June, some progress was made when the Council of Ministers approved the decree on the reorganisation of VET concerning learning areas and certificates. The President issued the decree in August.

Lebanon continued to be active in **Tempus IV**, and was involved in 23 projects, representing 21% of all accepted projects in the Southern Mediterranean region to date. Newly accepted projects increased to seven thanks in part to a budget increase for the Southern Mediterranean region. Tempus helped the authorities to take more responsibility for modernisation agenda by involving the Ministry of Higher education in defining priorities in line with higher education strategies. Tempus also encouraged cooperation between very diverse Lebanese higher education institutions, which had had little experience of working together. Quality had become a priority issue following the rapid expansion of the higher education sector in the 1990s. Lebanon benefitted from five new scholarships for **Erasmus Mundus** joint masters courses and from a further 173 mobility grants. 16 Lebanese researchers have benefitted from **Marie Curie** funding since 2007, with one Lebanese institution receiving EUR 381000. Lebanon should make greater efforts to promote this funding opportunity, which helps to support researchers' training, mobility and career development.

Lebanese youth and youth organisations continued to benefit from the **Youth in Action Programme**. In 2012, 30 projects were selected involving 106 young people and youth workers.

The Ministry of **Culture** continued to suffer from a chronic lack of resources. The majority of the budget was spent on administration, building expenses and small direct grants to Lebanese artists. The Ministry's role and tasks were therefore severely limited. The EU and Member States were involved in a range of cultural activities in Lebanon throughout 2012. Lebanon is not yet a party to the 2005 UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions.

Lebanon continued to work on **health** reform inter alia by focusing on prevention. Out-of-pocket payments to health professionals remained widespread. The implementation of the Tobacco Control Law, which entered into force in September, is going well, particularly in Beirut, despite resistance from the restaurant sector. The law restricts, for example, smoking in public places. In October a draft Mental Health Act was submitted to Parliament. Lebanon continued participation in the EU supported 'Episouth Plus' project aimed at increasing health security in the Mediterranean region and South East Europe. Lebanon participated in a Commission/ European Centre for Disease Prevention and Control conference and training course aiming to strengthen capacity building for communicable diseases prevention and control in the Mediterranean. The aim is to jointly

explore the scope for developing a regional training programme on intervention epidemiology.