

MONOPOLY IN THE LEBANESE TOBACCO  
INDUSTRY

Vahe Karyergatian

Submitted in partial fulfillment of the  
requirements of the degree of Master of  
Business Administration in the Department  
of Business Administration of the American  
University of Beirut, Beirut, Lebanon

February, 1965

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Mr. Ombarji has generously given of his time and effort for advice and guidance throughout this study. His valuable criticisms, suggestions as well as comments have greatly contributed towards improving this research work both in content and presentation.

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Finally, I would like to thank all the officials and heads of various departments at the Régie, who gave of their valuable time, in supplying data and information for this thesis.

## PREFACE

Related to one of the most important industries operating in Lebanon, the present topic has hitherto been neglected, or only partially treated as a field of research and study. The major objective of this thesis therefore, is the collection, classification as well as interpretation of primary data, pertaining to the structure and forms of operation of the tobacco industry in Lebanon.

A detailed analysis and an evaluation of all the operational aspects of the Lebanese Tobacco Monopoly is beyond the scope of this thesis. In fact, each one of these operational areas, and especially those pertaining to the cultivation, manufacturing, costing and pricing, are extensive enough to be treated as different research projects, or subjects fit for thesis writing. This study is limited to outlining the main features of the industry, and highlighting the merits of the monopoly form of structure now prevailing in the Lebanese tobacco market.

### ABSTRACT

The tobacco industry in Lebanon is since 1935 being exploited by a legal Monopoly. Established by the Government, the Monopoly is conceded to a private company, the Régie Co-interesses Libanaise des Tabacs et Tombacs.

The Monopoly covers all the phases of the industry. The production of tobacco leaves, the manufacturing of tobacco goods, imports and exports of tobacco goods and leaves as well as local marketing of tobacco goods are all regulated by the 'Tobacco Monopoly Law of January 1935 !

Are monopolistic regulations prolific to the tobacco industry in Lebanon? or/and, is the continuation of the status quo preferable to the adoption of a free enterprise system in the industry?

Before the enactment of monopolistic regulations, the industry enjoyed a free-enterprise system for a period of five years (1930-1935), without yielding however, any adequate result. Yet, a condemnation of the free-enterprise system on the grounds that it has failed in the past is as precipitant as its defence would have been on the premises that it has succeeded in a number of free-world countries. Whereas the past failure of the free-enterprise system in Lebanon might have been the outcome of unfavourable factors, economic and social, co-existing with the system and not necessarily

intrinsic to it<sup>1</sup>, its success in some of the free-world countries may as well be attributed to favourable conditions hitherto absent in Lebanon.

Hence, for all practical purposes, the sole criterion upon which such a choice could be based is the evaluation of the present system, in view of finding out its adequacy with respect to the present needs of the industry, and the expectations of the Government from the industry. Thus, the questions to be answered are: whether the tobacco receipts of the Government are maximized through the present system of legal Monopoly? is the social policy of the Government adequately implemented through such a system?

The maximization of the government tobacco receipts bears two aspects; first, their basic source, namely taxation, and second, the need to overcome evasion from such taxation.

Assuming that the maximization of tobacco receipts is primordial to the Government, both as a matter of economic need and ultimately as a matter of fiscal policy, then the present money burden of taxation is likely to continue under any other system envisaged. Such a high rate of taxation may as well be looked

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<sup>1</sup>For the causes of the failure of the free-enterprise system in Lebanon, see: Section C. of Chapter II of this thesis.

<sup>2</sup>Two of the most important factors contributing to the success of the free-enterprise system in the tobacco industry, are: a) a larger tobacco goods' market, which would allow for a greater number of entrants into the industry, operating at optimum levels of production; b) an adequate fiscal administration to check tax evasion.

upon favourably by government authorities in the case of a free-enterprise system of the tobacco industry, as a means to maximize tobacco receipts beyond any level reached by the Monopoly system, and this on the grounds of the belief that free competition and the offering of many brands to the public might enhance sales over and above any level reached under the Monopoly system.

Granting the latter argument to be true, yet it does not apply to the case of Lebanon, merely because of the second aspect of maximization of tobacco receipts, namely the lack of adequate means to overcome tax evasion. The present rate of tax evasion prevailing in Lebanon would reduce almost to half the amount of government receipts from tobacco, even after assuming that the same rate of taxation and higher volumes of sales will prevail under a free-enterprise system.

As to the social policies achieved by the Government, they are prolific in their incidence and they should be continued in the future by all means. The following up of policies like subsidizing the farmers, using more labor intensive methods of production and manufacturing, regulating the prices of tobacco goods, in an attempt to adjust the real burden of taxation upon various consumer groups, on the one hand, and to maximize government tobacco receipts, on the other, need necessarily a great deal of intervention into the industry, even in the case where the latter is granted the freedom of enterprise, in the sense of the presence of more than one



firm in the industry.

Yet, if such regulation and intervention is regarded upon to be inevitable for implementing adequately the government social policies, then there is no better way except the short-cut, namely the legal Monopoly formula to be applied to the industry in Lebanon.

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## CHAPTER I

### THE WORLD OF TOBACCO

#### A. Development of the Cultivation and Production of Tobacco

The plant Nicotina Tabacum is indigenous only to America. Its leaves were used by the Indians of the Western Hemisphere for ritual, social and medicinal purposes.

The rapidity of the expansion of the commercial culture of tobacco over the world was phenomenal; "by 1531, less than forty years after the discovery of America, Spaniards were cultivating the crop on a large scale in the West Indies; by 1560, it was being grown in Europe as an ornamental plant and for its medicinal qualities; by 1580, its commercial culture had extended to Cuba and Venezuela, and by about 1600, to Brazil. By 1600 or 1605 mariners and traders had introduced it into China, Japan, South Africa, and many other countries."<sup>1</sup>

The tobacco plant varies remarkably from area to area. Its variations arise partly from differences in climate and partly from differences in soil.

Leaf tobacco throughout the world ranks in flavor from the neutral Flue-cured grown in most tropical countries to the very strong Rustica of India and the Middle East; in size, from the tiny leaves of the better aromatic varieties of the Near East to the extremely large leaves of the American cigar tobacco.

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<sup>1</sup>Tobacco in the United States, United States Department of Agriculture-Agricultural marketing service, Washington 25 D.C. Miscellaneous Publications No. 867, July 1961, p.1.

a. Production of the various types of leaves.-

The tendency of the leaf tobacco plant to vary greatly according to environmental conditions, has led to classifying of leaf tobacco primarily on the basis of curing methods.<sup>1</sup>

Major classes of tobacco leaf ranging in order from mild to strong are: Flue-cured, Light-cured, Light air-cured, Light sun-cured (excluding Oriental and Semi-Oriental), Dark air-cured, Dark sun-cured, Fire-cured and Oriental. These in turn are broken down into many types; for example, Light air-cured includes Burley and Maryland types in the United States and several other types in the rest of the world.

b. World Cigarette Output.-

World cigarette output during the last decade has risen about 63 percent, or at an annual average of 6.3 percent.<sup>2</sup>

The substantial rise in cigarette production is attributed to various factors. Greater industrialization and urbanization, rising incomes and a higher standard of living on the one hand, and the introduction of new blended brands containing high-quality imported leaf, filter tips and greater availability of the American blended brands, either imported or produced domestically, on the other, have enhanced cigarette sales significantly in a number of countries.

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<sup>1</sup>The three major curing methods are, air-curing, flue-curing and fire-curing; while air-curing refers to the processing of the tobacco leaves under natural weather conditions, flue-curing refers to the processing of tobacco leaves at elevated temperatures, without subjecting however, the raw tobacco to smoke or odors; finally, fire-curing refers to the curing of the tobacco leaf with wood fires, in a way that the smoke comes in contact with it.

<sup>2</sup>Foreign Agricultural Circular, U.S. Department of Agriculture-Foreign Agricultural Service, Washington D.C. - F.T., 10-62, July 1962, p.2.



LEAF TOBACCO: WORLD PRODUCTION BY KINDS, AVERAGE 1955-59, ANNUAL  
1960, 61, 62 - FARM SALES WEIGHT (1,000 POUNDS)

Kind	Average 1955-59		1960		1961		1962	
	Index base of 1955- 58	% of tot.	Index base of 1955- 59	% of tot.	Index base of 1955- 59	% of tot.	Index base of 1955- 59	% of tot.
Flue-cured <sup>a</sup>	2,917,076	100	3,315,592	113	3,399,159	116	3,469,699	119
Burley <sup>b</sup>	596,723	100	616,681	103	696,069	116	748,804	125
Other Light air-cured <sup>c</sup>	96,235	100	97,316	101	78,430	81	81,997	85
Light sun-cured <sup>d</sup>	801,557	100	813,311	101	809,002	102	845,914	105
Oriental and Semi- Oriental <sup>e</sup>	1,106,362	100	1,028,866	93	950,807	86	1,062,657	96
Dark air-cured <sup>f</sup>	2,001,613	100	1,846,601	92	1,827,634	91	1,826,367	91
Dark sun-cured	856,086	100	826,713	96	869,266	101	922,680	107
Fire-cured <sup>g</sup>	140,639	100	112,285	80	104,728	74	119,683	85
Total	8,516,291	100	8,657,365	102	8,735,095	103	9,077,801	107

Source: "Foreign Agricultural Circular", U.S.D.A., Foreign Agricultural Service,  
FT. 13-62, Dec. 1962, p.4.

<sup>+</sup>About 10 percent above dry weight normally reported in trade statistics.

a. The largest producers are the United States, Communist China and Japan, accounting together for more than 45 percent of the world output of Flue-cured.

b. The largest producer is the United States with 85 percent of world output.

Table 1 Cont'd

- c. The United States, Madagascar and Italy are the major producers and exporters of this type of leaf.
- d. Most of this type of leaf is produced in Asia, especially in Communist China, Japan, India, Republic of Korea and Pakistan, but some is also grown in Mexico, Paraguay, Algeria and few other countries.
- e. "Oriental and Semi-Oriental leaves are light coloured, are collected by types of leaves and are dried in the sun. Before the World War II, they were mainly used for the production of straight oriental cigarettes. In the post-war period, however, they are mostly mixed with other types of tobacco in the production of blended cigarettes." A. Koutsoyanni Kokkova, An Econometric Study of the Leaf Tobacco Market of Greece, (Athens, 1962) p. 18.
- The major producers of Oriental Tobacco are by rank of importance. Turkey, Greece, Bulgaria, Yugoslavia, Syria and Lebanon. The major producer of Semi-Oriental varieties is the U.S.S.R.
- f. Is produced in Mexico, Dominican Republic, Philippines, Brazil, Colombia and Italy.
- g. The United States, Italy and Nyasaland account for nearly all production of this type, but small amounts are also grown in Uganda, Tanganika, Southern Rhodesia and few other countries.

The leading world producing countries of cigarettes during 1962, in rank of importance were the United States, Mainland China, U.S.S.R., Japan, the United Kingdom, West Germany, Brazil, Italy, Poland, France, India, Indonesia, Mexico, Canada, Turkey, Spain, Rumania, Yugoslavia, Argentina and the Philippines. These twenty countries, during 1962 accounted for 82 percent of world output.<sup>1</sup>

#### B. World Trade in Tobacco

International trade in tobacco reflects consumer preferences for various kinds of tobacco products. Governmental measures of control however, always have played an important role in shaping consumer preferences for tobacco products and hence for the types of tobacco used in their manufacture.

Governmental restrictions on international trade have continued to increase over the years, and now constitute the most important factor influencing such trade. The operation of government tobacco monopolies, quotas and tariff walls, bilateral trade agreements, preferential duties and export subsidies, which will be discussed towards the end of this chapter, have all tended to limit the amount of international trade in leaf tobacco and tobacco goods.

##### a. World Trade in Tobacco Leaves. -

The major types of tobacco leaves entering the channels of international trade are by rank of importance, Flue-cured, Oriental, Maryland and other Light Light-air-cured types and fire-cured types.

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<sup>1</sup>"Foreign Agricultural Circular", U.S. Department of Agriculture Foreign Agricultural Service, Washington D.C. - FT., 15-63, July 1963, p. 2.

TABLE II

CIGARETTES: ESTIMATED OUTPUT BY CONTINENT, AVERAGES  
1951-55 AND 1955-59, ANNUAL 1960-62

Continent	Average 1951-55			Average 1955-59			1960			1961			1962		
	Million pieces	Index base: 1951-55	Percent of total	Million pieces	Index base: 1951-55	Percent of total	Million pieces	Index base: 1951-55	Percent of total	Million pieces	Index base: 1951-55	Percent of total	Million pieces	Index base: 1951-55	Percent of total
North and Central America (a)	486,193	100	30.07	531,273	109	27.36	600,899	123	26.90	623,132	128	26.72	630,109	129	26.38
South America (b)	88,916	100	5.50	100,995	112	5.20	116,580	131	5.22	123,149	138	5.28	127,280	143	5.33
Europe (Western) (c)	321,385	100	19.88	377,308	117	19.43	420,738	131	18.84	444,127	138	19.04	460,176	143	19.26
Europe (Eastern, including U.S.S.R)	278,181	100	17.20	344,198	123	17.73	378,450	136	16.94	390,390	140	16.74	396,950	142	16.62
Africa (d)	46,635	100	2.88	57,037	122	2.93	64,684	138	2.89	65,980	141	2.83	68,095	146	2.85
Asia (Including Mainland China)	386,092	100	23.88	513,918	133	26.47	630,678	163	28.24	663,368	171	28.44	682,803	176	28.54
Oceania (e)	9,053	100	0.56	16,448	181	0.84	21,135	233	0.94	21,673	239	0.93	22,716	250	0.95
World Total	1,616,455	100	100.00	1,941,177	120	100.00	2,233,164	138	100.00	2,331,819	144	100.00	2,388,129	147	100.00

SOURCE: "Foreign Agricultural Circular", U.S. Department of Agriculture - Foreign Agricultural Service, Washington D.C.  
 FT, 15-63, July 1963, p.p. 4-5.

(a) The United States, Mexico, and Canada account 97 percent of total output in this area.

(b) The three largest producers in this area are Brazil, Argentina and Colombia. Combined output of these three countries represented 83.5 percent of total output in this area in 1962.

(c) The largest cigarette producers in West Europe are: the U.K., Italy, W. Germany and France.

(d) The largest producers are Egypt, the Republic of South Africa, Algeria, the Canary Islands, and the Federation of Rhodesia and Nyasaland.

(e) Australia is far the largest producer of cigarettes, followed by Fiji and New Zealand.

The Flue-cured leaf tobacco is by far the largest export type with nearly one third of world output entering international trade. The bulk of exports are from the United States, Federation of Rhodesia and Nyasaland, Communist China, India and Canada.

World exports of Maryland and other Light-air-cured types is rising; approximately 35 percent of total production has moved in international trade.

In the last ten years, about 45 percent of total production of oriental and semi-oriental tobacco has entered international trade channels with the bulk of exports supplied by Turkey, Greece, Bulgaria, Yugoslavia, Italy, Syria and Lebanon.

Finally, Fire-cured exports amount for 35 to 40 percent of total production. The United States, Nyasaland and Italy are the principal exporters.

b. World Trade in Cigarettes.-

World trade in tobacco products is considerably less important than that in leaf due largely to extreme protectionist policies of governments in favoring their own domestic manufacture and labor. For example, "the United Kingdom during the 1920 enjoyed a substantial export trade in cigarettes with China. This was supplanted by domestic Chinese manufacture utilizing U.S. leaf tobacco and later by the manufacture of cigarettes made largely from leaf produced within China itself."<sup>1</sup>

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<sup>1</sup>"World Tobacco Analysis - International Trade Issue" - U.S. Department of Agriculture, Circular FT-8, May 1956, p. 1.

The total export market for cigarettes has been declining, and is expected to continue to decline in the future as areas such as Africa and Asia become more industrialized. While this transition may increase to some extent the demand for leaf tobacco, leaf requirements will mostly be met by expanded domestic production wherever feasible. The cost of imported leaf tobacco is less expensive per unit than the cost of imported cigarettes.<sup>1</sup>

Principal Exporting Countries -<sup>2</sup> The principal Free World cigarette exporters are the United Kingdom, the United States, Algeria, Switzerland, Malaya (largely re-exports) Belgium, France, Ireland and Hong-Kong (largely re-exports).

Combined exports from the United Kingdom and the United States compose more than 70 percent of total world cigarette exports. During recent years such countries like Switzerland, Japan, W. Germany, Italy Ireland, Angola, Cameroon and Australia have expanded their exports, but the increase has not offset declines from the United States, the United Kingdom and Algeria.

Principal Importing Countries -<sup>2</sup> Major world cigarette importers are Malaya, Australia, Belgian Congo, Hong-Kong, Venezuela and Arabia Peninsula States.

Malaya (the Federation of Malaya and Singapore) imports more cigarettes than any country in the world; the United Kingdom, the

<sup>1</sup>"World Tobacco Analysis - Consumer Marketing" - U.S. Department of Agriculture - Feb., 1958, p. 5.

<sup>2</sup>"World Tobacco Analysis - Consumer Marketing" - U.S. Department of Agriculture - June, 1963, p.p. 12, 13, 14, 15.

United States and Ireland are the principal sources of Malayan cigarette imports.

Belgian Congo imports are declining due to increased domestic production. Cigarettes are imported mainly from the United Kingdom, with smaller quantities from the United States, Belgium and the Federation of Rhodesia and Nyasaland.

About 25 percent of Hong-Kong's imports are channeled to re-exports, and the net imports during the recent years have been increasing. The major sources of Hong-Kong's cigarette imports are the United States, the United Kingdom and Mainland China.

Venezuelian imports are declining due to an upward trend in domestic cigarette output, while the Arabia Peninsula States (includes Kuwait, Bahrein, Saudi Arabia, Yemen, Muscat and Oman) imports have shown a steadily rising figure for the last few years.

Countries in Europe stepping up their imports of cigarettes include France, Denmark, Italy, the Netherlands, Spain and the United Kingdom. Markets in the Western Hemisphere increasing their cigarette imports are Bermuda, British Honduras, Jamaica, Ecuador, Peru and Uruguay. Other markets increasing their import requirements are Ethiopia, Madagascar, Sierra Leone, Iraq and New Zealand.

#### C. Consumption of Tobacco Goods. -

Tobacco knows no geographic boundaries, no class distinction, no language barriers. It is universally accepted and consumed in its consumer sized, branded products. Despite this universality of

smoking, there is variation from country to country, between the sexes, and according to certain other breakdowns. "The countries with the highest consumption of tobacco are the United States with 8.6 pounds per capita, Canada, 7.2 pounds; Netherlands 6.0 pounds, Belgium, 5.8 pounds; Australia, 5.5 pounds; Switzerland, 5.3 pounds; Denmark, 5.2 pounds; Ireland, 5.1 pounds; U.K., 4.9 pounds; New Zealand, 4.6 pounds; W. Germany, 3.9 pounds; and Norway, 3.0 pounds."<sup>1</sup>

a. Consumption habits.-

Tobacco marketing and consumption today are primarily carried in terms of cigarettes, already composing 70 percent of total consumption.

Just twenty years ago, only one third of consumption was in cigarettes, other major forms of consumption being pipe smoking, cigars, chewing and snuff.

The growing popularity of cigarette smoking at the expense of other types of tobacco was due primarily to the intrinsic characteristics of cigarettes; they are self contained (there is no need of carrying additional instruments), they hold a desirable amount of tobacco for one smoke, they are clean and consumed by themselves (any remaining is disposable).

Consumer demand for cigarettes as to blend and brand varies greatly around the world. The factors determining the type of blend produced and consumed in a country are availability of specific types of leaves, fluctuations in domestic supplies, prices of imported leaf,

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<sup>1</sup>"International Trade in Tobacco and its effect on United States Leaf Production" - U.S. Government Printing Office, Washington, 1959, p.27.



tax policies and various government trade interventions.

The most important blends available today in world markets are the American, English, Dark, Oriental and Swiss blend.

The American blend is the most popular blend now in the world; as produced in the United States and most of the rest of the world it is composed of flue-cured, 50 to 60 percent; burley, 30 to 40 percent; Maryland, 2 to 3 percent; and Turkish or oriental 5 to 10 percent. The most important consumers of this type of blend are the United States, Japan, Belgium, Mexico, Brazil and Denmark.

The English blend is second in importance, it normally includes only flue-cured leaf with little added humectants. These cigarettes are most popular in the United Kingdom, Australia, Canada, Netherlands, India, Taiwan, Korea, Ireland, Thailand, Pakistan and the Union of South Africa.

Dark blends vary from the straight to blended cigarettes usually of dark air-cured leaf. They are usually made of domestic tobaccos. These cigarettes lead sales mainly in Spain, Cuba, France, Chile and Colombia.

The oriental blend is the oldest blend. It normally contains a high percentage of Oriental leaf. Consumption is high in the producing countries of Greece, Turkey, Yugoslavia, Iraq, Iran, Syria and Lebanon.

Finally the Swiss blend contains about 30 percent oriental, 30 percent U.S. Maryland leaf, 30 percent of Virginia and 10 percent

of Burley. It is important in Switzerland and is gaining more importance in France.

Next to cigarettes, pipe smoking is the second most popular. The popularity of pipe smoking over the other types of tobacco consumption other than cigarettes, arises from the fact that pipe smoking is the only product which offers the consumer control of blend of leaf and denseness of packing (which affects burning rate).

Cigars, which appeal to the connoisseur, probably more than any other form of tobacco, come next to cigarettes and pipe smoking in popularity. Making of quality cigars is far more intricate than that for any other product; many subtle flavors are possible through the hundreds of blends, shapes, and sizes available in the cigar line.

Chewing tobacco is offered as sauced cigar leaf scrap. It supplies nicotine and a chewing satisfaction without the unpleasant combustion by-products that accompany smoking. Heavy grades of dark air-cured leaves are usually used for the production of this tobacco good.

#### D. Government Regulatory Policy of Tobacco in the World.

##### a. Regulation of the tobacco industry in various countries.-

Trade barriers have a profound effect on international trade in unmanufactured tobacco and tobacco goods in general. Such barriers control the level and direction of trade. By their use, governments attempt to overcome the natural trade advantages that suitable soil

and climate give to some areas for the production of desirable types and qualities of leaf tobacco.

The principal trade barriers used for such purposes are bilateral trade agreements, license and exchange requirements, mixing regulations, export subsidies and government operated monopolies.

Bilateral agreements refer to trade agreements between an importing country and exporters, providing for the importation of tobacco of a specified quantity or value from specific exports.

Licenses or quotas are quantitative restrictions on tobacco imports, aiming at the encouragement of the domestic culture or/and manufacture.

Mixing regulations require the manufacturers of cigarettes and other tobacco products to use certain percentages of domestic leaf in the manufacture of those products.

As to export subsidies they usually take either of the two following forms; tax exemption of exported goods, or refund of taxes already paid by the manufacturers, and the "provision of a very favorable exchange rates for tobacco exports."<sup>1</sup>

Lastly, in many countries, most phases of the tobacco industry are controlled by a government or quasi-governmental agency. The government in a monopoly country is in a point to direct consumers'

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<sup>1</sup>"Non-Tariff barriers to the Movement of Tobacco in Free World Countries." United States Department of Agriculture, FAS - M - 146, May 1963, p. 6.

tastes toward certain domestic and imported brands, without due regard paid to preferences or traditional manufacturing and trade patterns. In this respect monopolistic regulations of the tobacco industry in many countries act as a non-tariff barrier to the movement of tobacco leaf or tobacco products.

b. Tobacco as a source of public revenue.-

In most countries in the world, tobacco has been a popular item for taxation. Proceeds from taxation of tobacco goods has always represented a high proportion of indirect tax receipts.

In underdeveloped countries in particular, where indirect methods of taxation are thought to be more productive, tobacco goods has two important aspects; first, the relative price inelasticity of demand for tobacco goods and second, the unequal incidence of taxation upon various consumer groups.

The demand for tobacco goods is price inelastic; "an increase in the general level of prices of tobacco goods will not discourage consumption in general; such an increase, it is true, will result in reduction of consumption by the middle class smokers, yet any reduction will more than be offset by an expansion of the smoking habit among the numbers of the new generation."<sup>1</sup>

The second important aspect of tobacco taxation is its regressive nature. Although the incidence of tobacco taxation falls

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<sup>1</sup>Gannagé Elias - Limposition des Tabacs au Liban. Librairie Générale de droit et de Jurisprudence, Paris, 1956, p. 15.

TABLE III

MAJOR TRADE BARRIERS TO IMPORTS OF UNMANUFACTURED TOBACCO, 1962

Country	Monopoly and State Trading	Mixing Regulations	Preferential Duties	Import Licenses or Quotas <sup>1</sup>	Bilateral Agreements Purchase Commitments <sup>1</sup>
African Associates EEC			x		
Argentina				x	
Australia		x	x		x
Austria	x				x
Benelux					x
Bolivia		x			
Ceylon			x		
Colombia	x			x	
Cyprus			x		
Ecuador		x		x	
Egypt				x	x
France	x				x
French Guiana	x				
Germany, West		x			x
Haiti	x				
Hong Kong			x		
India				x	
Iran	x				
Iraq	x				
Israel				x	
Italy	x				x
Japan	x				
Jordan				x	
Korea	x				
Lebanon	x			x	
Libya	x				
Malaya			x		
Morocco	x				x
New Zealand		x			
Paraguay	x				
Peru	2				
Philippines				x	
Portugal		x	x		
Singapore			x		
Somalia	x				
South Africa	3		4	x	x
Spain	x				
Syria	x				
Taiwan	x				
Thailand	x				
Tunisia	x				x
Turkey	x				
United Kingdom			x		x
Uruguay		x			
Venezuela				x	

Source: "Prospects for foreign Trade in Tobacco, U.S. Department of Agriculture, F.A.S., Dec., 1962, p. 13.

TABLE III CONT'D

1. Many other countries have such arrangements but are not listed if these controls have little effect or if other more effective controls are used.
2. Operated by private company.
3. Manufacturing is operated by company but all imports are controlled by the tobacco board.
4. For imports from federation of Rhodesia and Nyasaland only.

unequally upon various consumer groups, the tax burden being naturally heavier on lower income groups, yet the governments of many countries have continued to regard tobacco taxation as a major source of public revenue.

In the United State, for example, where the Federal tax applies to all manufactured tobacco, the yield from the tobacco taxation is greater than what farmers receive from their entire tobacco crops; "cigarette tax is now bringing the Federal government more than 2 billion dollars, and the state governments 1 billion dollars a year."<sup>1</sup>

In underdeveloped countries, in general, where the indirect methods of taxation are more popular because of their higher yields, tobacco tax receipts constitute a major source of government revenue. In Lebanon, for example, where 60 percent of total government revenue is raised through indirect methods of taxation, receipts from the operations of the Tobacco Monopoly rank second after the customs duties among the indirect tax receipts, and third, after customs duties and income tax receipts, among total government receipts.<sup>2</sup>

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<sup>1</sup>"U.S. News and World Report." Jan., 20, 1964, p. 45.

<sup>2</sup>Salem, Khalil, I. The Lebanese Tax System, mimeographed, 1962.

## CHAPTER II

### DEVELOPMENT OF THE TOBACCO INDUSTRY IN LEBANON

#### A. Regulation of the Industry under the Ottoman Empire

Before September 1920, Lebanon in its present boundaries comprised two political units; the wilaya of Beirut, composed of Tripoli, Akkar, Bekaa Valley, Sour, Saidon, Hasbaya and Rashaya, and the autonomous province of Mount Lebanon, composed of the Metn, Shouf, Koura, Kesrouan, Zahleh and Djezzine.

While the wilaya of Beirut was considered to be an integral part of the Ottoman Empire, and thus subject to the same fiscal system as applied into the other parts of the Empire, Mount Lebanon enjoyed some political and economic autonomy.

##### a. Regulation in the wilayas.-

The tobacco industry in the wilaya of Beirut was regulated through the Board of Directors of the 'Ottoman Public Debt', a public institution originated by the Decree of the Mouharrem, dated 8/20 December 1881,<sup>1</sup> with the view of regulating the Monopoly of tobacco, salt, stamps, excise duties on alcoholic beverages, and the silk industry.<sup>2</sup>

In 1883, the concession of tobacco exploitation was granted by the 'Ottoman Public Debt' to three financial groups, the first, Franco-British (the Ottoman Bank) the second German (Bleichroedes)

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<sup>1</sup>Gannagé, Elias, La Réforme des Impôts Directs au Liban et en Syrie, Beirut, 1947, p. 303.

<sup>2</sup>Morawitz Charles, "Finances de la Turquie," 1902, p.p. 272-319.



and the third, Austrian (Kreditanstalt), for a period of thirty years, ending April 14, 1914. The new company was organized under the legal name of Régie Co-intéressée des Tabacs de l'Empire.<sup>1</sup>

On August 1913, a few months before the legal end of the first concession, the 'Weyl Convention', held between the Government, the 'Ottoman Public Debt' and the Régie, extended the period of the Concession for another 15 years.<sup>2</sup>

b. Regulation in the Autonomous Province of Mount Lebanon.-

Through the discrete and clandestine coercion of the 'European Powers' upon the Ottoman Empire, Mount Lebanon enjoyed, since 1864, a preferential status and treatment, compared to other countries and regions under the Ottoman rule, with respect to its political and economic administration.

Although the collection of most of the excise duties were still regulated and effected through the 'Ottoman Public Debt', yet the cultivation, manufacturing, sales and exports of tobacco and of tobacco goods were subject to no central government regulation.

A private enterprise system in the tobacco industry was the direct outcome of such a state of affairs; the cultivation of tobacco being free, expanded so rapidly that it reached over 1,000

<sup>1</sup>Gannagé, Elias, "L'imposition des Tabacs au Liban", Paris, 1956, p. 77.

<sup>2</sup>For the details of the initial Agreement between the Ottoman Empire and the Concessionnaire group, as well as about the provisions of the 'Weyl Convention', see: Gannagé, Elias: "L'imposition des Tabacs au Liban", Paris, 1956, pp. 76, 77, 78.

hectares in 1914.<sup>1</sup> The cultivated varieties were the Kourani Lebanese leaves, well renowned in the area for their flavor and aroma, and other types mainly of Turkish origin like, Basma, Cavala, Samsun and Baffra.

The exportation of manufactured tobacco goods being subject to no regulation either, the market was by no means limited to Mount Lebanon alone. Thus, a bigger potential market encouraged many new entrants into the industry, raising the number of tobacco manufacturers to 43, on the eve of the 'Allied Forces' entry into Lebanon and Syria.

#### B. Regulation of the industry under the French Mandate.

The 'Mandate' period started on September 1920, together with the creation of the State of Great-Lebanon, that now included the former wilaya of Beirut and Mount Lebanon as one political unit.

The regulation of the tobacco industry under the 'Mandate' changed consecutively from its former organization under the Ottoman Empire to monopolistic regulations applying only to the wilaya of Beirut, while Mount Lebanon continued to enjoy freedom with this respect, to a unified régime under which the Monopoly regulations were discontinued and the banderole<sup>2</sup>, or the free enterprise system was announced.

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<sup>1</sup>Garnagé, Elias, L'imposition des Tabacs au Liban, Paris, 1956, p. 80.

<sup>2</sup>The banderole is the equivalent of the American oblong strip displayed on the packages of manufactured tobacco products.

a. The period of economic dualism - (1918-1925)

After the start of the 'Mandate' period in Lebanon and Syria, the Régie Co-interessée des Tabacs de l'Empire continued to exploit the Tobacco Monopoly both in Turkey and in the regions now occupied by the Allies.

In 1923, however, in view of safeguarding the interests of the cessionnaire -s, and this under the moral coercion of the Allies upon the Turkish government, the latter party came to the following agreement with the Régie; the Turkish government would acquire all the assets and assume all the liabilities of the Régie, in return of a down payment equal to the amount of the capital invested by the cessionnaire's into the project.

Thus, beginning March 1st 1925, date at which it was liquidated in Turkey, the Régie restrained its operations to Syria and Lebanon.<sup>1</sup> Since some of the assets of the former venture were still in use by the Régie, another agreement, dated Nov., 1926, provided for a lump sum payment of T. £ 1,065,000 to the Turkish government, in return to the right to possess and utilize them in Syria and Lebanon.<sup>2</sup>

b. The period of Monopoly - (1925-1930)

Shortly after the takeover of the tobacco industry in Lebanon and Syria by the Régie, two problems remained still unsettled; the first pertaining to the capital of the company and the second to the profit distribution method between the Governments

<sup>1</sup>Gannagé, Elias, L'imposition des Tabacs au Liban, Paris, 1956, p. 86.

<sup>2</sup>Ibid, p. 85.

and the company. Both of these problems were settled through the Agreement between the Régie and the French High-Commissioner in October 1927;<sup>1</sup> the capital was fixed at L.L.S. 720,000, and the profit distribution method was to be effected as follows; a) L.L.S. 20,000 would be paid as an annual fixed payment by the Régie to the governments of Lebanon and Syria; b) the company would be allowed to deduct 8 percent of the value of its assets from the year end profit figure; c) the balance would be divided between the company and the States of Lebanon and Syria, according to a predetermined schedule.<sup>2</sup>

While the Régie controlled all aspects of the tobacco industry in the ancient wilayas of Beirut and Damascus, Mount Lebanon, now an integral part of the State of Lebanon still enjoyed some freedom with this respect. Nevertheless, a tax applied to all produced tobacco, amounting to L.S.P. 50 per oke, was effective since April 1921, on all the Lebanese territory, including Mount Lebanon.

However, a very high rate of tax evasion in the latter region, induced the Lebanese government to think in terms of unifying the fiscal system governing the tobacco industry in the State of Lebanon. The initiation and application of the banderole device,

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<sup>1</sup>Ibid, p.p. 88-90.

<sup>2</sup>The profit sharing schedule as provided by the Agreement of October 1927 reads as follows:

For the first L.L.S. 200,000 of profits	70% to the States 30% to the Company
For the following L.L.S. 150,000 " "	80% to the States 20% to the Company
For anything over and above	90% to the States 10% to the Company

within the framework of a free enterprise system was the direct outcome of such an aim.

c. The Banderole period - (1930-1935)

"In 1930, when the former Ottoman Monopoly of the Régie ceased to operate, and the privilege of Mount Lebanon was abolished, the unification of the régime governing the tobacco industry was proclaimed on the entire territory of Lebanon. The law of May 24, 1930, provided for certain conditions and restrictions of an administrative nature on the one hand, and proclaimed the freedom of cultivation, manufacturing and marketing of tobacco, on the other."<sup>1</sup>

The new law of May 24, 1930 provided for two major types of taxation; registration and license fees for the manufacture and marketing of tobacco and tobacco goods, and a consumption tax varying in proportion with the quality and quantity consumed, perceived through the usage of a banderole. A third minor type of tax applied was 'tariff duties'. Tariff walls were raised in view of protecting the local industry.

Registration and License Fees - The acquisition of rights to warehousing and marketing of tobacco and of tobacco goods was subject to a license delivered upon the payment of a certain sum per semester.<sup>2</sup> An annual license fee of L.L. S. 500 was initially paid by the manufac-

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<sup>1</sup>Mouchawar, Amin, Précis de Législation Fiscale Libanaise, Beirut, 1944, p. 109.

<sup>2</sup>This sum was fixed at L.L.S. 250 per semester by the Law of Dec. 16, 1930. Later on it was reduced to L.L.S. 150 by the Legislative Decree No. 26/L of August 3, 1932; and ultimately to L.L.S. 75, by the Arreté No. 127/LR of August, 26, 1932.

turers of tobacco goods.<sup>1</sup> This rate however, was later on revised according to a new structure, which was based upon the degree of intensiveness of invested capital in the operations of the firms. Thus, the tax amounted to L.L.S. 750, annually for firms whose operations were considered to be completely mechanized; to L.L.S. 500, annually, for those whose operations were considered to be quasi-mechanized; and lastly to L.L.S. 150, annually for those whose operations were qualified to be labor intensive.<sup>2</sup>

License fees paid annually by vendors of tobacco goods varied between L.L.S. 1 to L.L.S. 20, depending upon the locality of the distributor.<sup>3</sup>

Consumption Tax- A consumption tax was levied through the usage of a stamp on each package of manufactured tobacco good. The tax rate was progressive, reaching 40 percent of the value of any tobacco good, or box of 20 grs., or package of 20 cigarettes, selling over and above P.L.S. 25.<sup>4</sup> As far as cigars and tombac were concerned, a 40 percent ad valorem tax was levied on cigars, and 25 percent on tombac.<sup>5</sup>

#### Customs and Excise Duties on Imported Tobacco and Tobacco Goods

While customs duties varied between P.L.S. 25 and P.L.S. 50

<sup>1</sup>Law of Dec. 16, 1930.

<sup>2</sup>Legislative Decree No. 26/L of August 3, 1932.

<sup>3</sup>Law of Dec. 16, 1930.

<sup>4</sup>For more details about the actual schedule of the consumption tax, see: Legislative Decree No. 26/L of August 3, 1932.

<sup>5</sup>Legislative Decree No. 26/L of August 3, 1932.

per kilo of unmanufactured tobacco, and between P.L.S. 75 and P.L.S. 125 per kilo<sup>1</sup> of cigarettes;<sup>2</sup> excise duties also levied by the customs administration, and this, over and above the customs duties, varied between P.L.S. 60 per kilo of unmanufactured tobacco to P.L.S. 500 per kilo of better quality imported cigarettes.<sup>3</sup>

C. Regulation of the Industry after 1935.

a. Regulation of the Industry between 1935-1960.-

The regulation of the tobacco industry through the banderole or 'free enterprise' system did not offer the expected results. In fact, it proved to be ineffective and inadequate; declining annual government receipts from the industry, increased smuggling of tobacco and of tobacco goods from Lebanon to Syria due to a difference in prices,<sup>4</sup> over-production of leaf tobacco resulting in declining leaf prices, excessive number of entrants into the industry, were only some of the important symptoms and ultimately the causes why the system did not survive more than what it did.<sup>5</sup>

After a whole year of studies carried out under the auspices of the Ministry of Finance, the reestablishment of the Monopoly was decided during November 1934. A committee was set up for that purpose

<sup>1</sup>or 1,000 cigarettes.

<sup>2</sup>For more details see: Gannagé, Elias: "L'imposition des Tabacs au Liban", Paris, 1956, p. 101.

<sup>3</sup>For more details about the excise duty see: Himadeh, Said B., Economic Organization of Syria, Beirut, American Press, 1936, p. 377.

<sup>4</sup>The difference in prices of tobacco and tobacco goods was primarily due to a difference in the tax rates applied to these commodities in Lebanon and Syria.

<sup>5</sup>For more details about the period concerned, see: Gannagé, Elias. "L'imposition des Tabacs au Liban," Paris, 1956, p.p. 100-105.

to outline, on the basis of the previous years' experience and present needs, the new 'Tobacco Monopoly Law' that would lay down the general legal and administrative framework, within which the tobacco industry would operate.

In January 1935, the Loi de Monopole<sup>1</sup>, pertaining to the organization, and the Cahier des Charges<sup>2</sup>, pertaining to the functioning of the Monopoly were issued under Governmental Decree, Arreté No. 16/LR of January 30, 1935,

The new 'Tobacco Monopoly Law' conceded the exclusive right to the procurement, manufacture and marketing of tobacco and of tobacco goods, as well as of tombac and of any close substitute, for a period of twenty-five years ending December 31, 1960, to a private corporation, the Societe Anonyme Régie CO-Interressée Libano-Syrienne de Tabacs et des Tombacs<sup>3</sup>, which would exploit the tobacco industry, on behalf and under the constant control of the Government in consideration of a percentage in the net profit.<sup>4</sup>

<sup>1</sup>From hereon referred to as 'The Tobacco Monopoly Law of January 30, 1935'. The original text used as reference in this thesis, is: The Tobacco Monopoly Law, Arreté No. 16/LR of January 30, 1935, with its Modifications (Itany Press, Beirut, 1950).

<sup>2</sup>From hereon referred to as 'The Tobacco Monopoly Agreement of January 30, 1935'. The original text used as reference in this thesis: The Tobacco Monoply Agreement, Arreté No. 16/LR of January 30, 1935, (Azar Press, Beirut, 1944).

<sup>3</sup>Article 1, 'The Tobacco Monopoly Law' of Jan., 30, 1935.

<sup>4</sup>For the details about the Government - Régie profit-sharing method and its modifications since 1935, see: Appendix II of Chapter V.



On February 19, 1935, the Government conceded the Monopoly to the following group: the Lebano-Syrian Tobacco Company, Osman Sharabati (from Damascus), Jean Kassouf and Bros. (from Beirut), S. Sawaya & Son (from Beirut), Mounib el-Soukari (from Damascus). The cessionnaire group was supposed to organize the private corporation above mentioned, the Société Anonyme de Régie Co-Intéressée Libano-Syrienne des Tabacs et des Tombacs, within a period of four months, starting March 1st 1935.<sup>1</sup> The capital of the company was fixed at L.L.S. 1,250,000, divided into 25,000 shares of L.L. 50 each. Sixty percent of the shares were offered to the manufacturers of tobacco, that held operations until January 1935; another ten percent was offered for public subscription, and the balance of thirty percent was acquired by the cessionnaire group.<sup>2</sup>

The statutes of the company were finally approved by the authorities in July 1935<sup>3</sup>, and the company started its operations at the beginning of 1936.

There has been since and this until December 31, 1960, date of the legal expiration of the period of the concession, some important amendments to the initial provisions of the 'Tobacco Monopoly Law' and the 'Tobacco Monopoly Agreement.' These modifications

<sup>1</sup>Art 11, The Tobacco Monopoly Agreement of January 1935

<sup>2</sup>Mouchawar, Amin, op.cit., p. 118.

<sup>3</sup>By Law No. 2056 of July 13, 1935, and Arrêté No. 170/IR of July 16, 1935 of the French High Commissioner.

relate themselves to changes in Government control procedures over the company operations,<sup>1</sup> changes in the operating procedures per se,<sup>2</sup> and changes in the finances of the company.<sup>3</sup> Such changes along with the initial legal provisions, and changes brought about after December 31, 1960, will be discussed in the following three chapters. Yet, a major change, worth of mentioning at this stage and which has affected the status of the company, was in March 1950, when with the break of the economic union of Lebanon with Syria, the Société Anonyme de Régie CO-Intéressée Libano-Syrienne des Tabacs et des Tombacs gave way to two autonomous and independent companies, the Régie Syrienne des Tabacs et des Tombacs in Syria, and the Régie CO-Intéressée des Tabacs et des Tombacs,<sup>4</sup> in Lebanon.

#### b. Regulation of the Industry after 1960.-

The regulation of the industry after 1960, remained much the same as before. The Régie continued its operations in accordance to the provisions of the 'Tobacco Monopoly Law' and the 'Tobacco

<sup>1</sup>These refer mainly to changes brought about in December 1943 and March 1950. In December 1943, on the eve of the Lebanese Independence, the authority of control and supervision attributed to the French High Commissioner, by virtue of the provisions of the Tobacco Monopoly Agreement, was transferred to the 'Conseil Supérieur des Intérêts Communs', a council whose membership included the representatives of the independent States of Lebanon and Syria, to be ultimately invested in the respective Ministries of Finance, with the break of the 'Intérêts Communs' period in March 1950.

<sup>2</sup>These refer mainly to changes in the regulation of exports and imports of leaf tobacco and tobacco goods.

<sup>3</sup>These refer mainly to changes in the capital structure, Government-Régie profit sharing methods, and bonuses paid to the Régie (e.g. Prime de rendement, and Prime sur l'exportation des tabacs en feuillés).

<sup>4</sup>From here on referred to as the 'Régie'.

Monopoly Agreement' of January 1935, with their amendments, until June 1964, when a new agreement<sup>1</sup> covering a period of ten years, ending December 31, 1973 and retroactive from January 1st, 1964, was reached between the Concessionnaire and the Government.<sup>2</sup>

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<sup>1</sup>Refers to the Cahier des Charges Planifié of June 1964; from hereon referred to as the 'planned Tobacco Monopoly Agreement' of June 1964. It is given the additional attribute 'planned' due to the fact that the first five year plan (1964 through 1968) prepared by the Régie, and as provided for in Art. 1 of the new agreement, is annexed to the same agreement, and constitutes an integral part of it.

<sup>2</sup>Art. 1, the 'Planned Tobacco Monopoly Agreement' of June 1964.

## CHAPTER III

### THE TOBACCO MONOPOLY (THE REGIE)

#### A. Organizational Structure of the Régie.

The regulation of the tobacco industry is implemented through two systems of administrative and financial control; the first refers to the formal organization and control of the Régie by the company's top management, and the second refers to the direct supervision and control of management decisions by government authorities.

##### a. Management.-

On the eve of its first organization, the Régie was headed by a Board of Directors comprising seventeen members.<sup>1</sup> The General Manager, who controlled all the activities of the Régie in Syria and Lebanon, was under the direct line authority of the Board.

The company was organized on a functional basis into the departments of cultivation, manufacturing, marketing (including the foreign marketing division), general control and accounting. Each department was headed by a manager directly reporting to the General Manager.

With the cessation of the interets communs period with Syria, in March 1950, the general management was substituted with a local management in Lebanon, but continued to be run on the same functional basis as before.

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<sup>1</sup>Gannagé, Elias, L'imposition des Tabacs au Liban, Paris, 1956, p. 27.

b. Government Control.-

Initially carried out through a 'Permanent Committee of Tobacco and Tombac,' a government commissioner and a financial controller, government control was after June 1959<sup>1</sup>, achieved by the Ministry of Finance, replacing the 'Permanent Committee of Tobacco and Tombac,' along with the latter two organisms above mentioned.

'The Permanent Committee of Tobacco and Tombac' and the Ministry of Finance - With the start of monopolistic regulations of the tobacco industry, a 'Permanent Committee' was set up to control the activities of the Régie, within the framework of the provisions of the 'Tobacco Monopoly Law' and the 'Tobacco Monopoly Agreement'. The committee then, included the Heads of the Finance Departments, as well as the Financial Advisors to the States of Syria and Lebanon, and was presided over by the Financial Adviser to the French High Commissioner.<sup>2</sup>

At the end of the French Mandate the committee membership was reduced to include the General Directors of the respective Ministries of Finance in Syria and Lebanon<sup>3</sup>, and with the cessation of the

<sup>1</sup> Date at which the legislative Decree No. 151, of June 12, 1959, defining the present Régie-Government relations was issued. All the provisions in the Decree are identical to those in the 'Planned Tobacco Monopoly Agreement' of June 1964. Thus, any reference, in this section, about the Government-Régie relations is made to both.

<sup>2</sup> Mouchawar, Amin: op.cit., p. lll.

<sup>3</sup> Gannagé, Elias: L'imposition des Tabacs au Liban, Paris, 1956, p. 28.

'interets communs' period with Syria, in March 1950, it included the Director General of the Ministry of Finance and the Government Commissioner in Lebanon.<sup>1</sup>

Throughout all these changes in the committee membership, the areas of authority attributed to the 'Permanent Committee' in the Tobacco Monopoly Law of January 1935, remained almost the same, yet the application of such authority became to be more and more inadequate and ineffective, due to the reduced committee membership and the overlapping authority lines between the Committee, the Government Commissioner and the Board of Directors of the Régie.<sup>2</sup>

After June 1959, Government control over the Régie operations was achieved by the Ministry of Finance<sup>3</sup>, replacing the 'Permanent Committee', a Government Commissioner, and a Financial Controller.<sup>4</sup>

The Minister of Finance, after taking the consent of the Director General of the Ministry and the Government Commissioner

<sup>1</sup>Art. 7, Formant avenant au cahier des charges du Monopole des Tabacs et Tombacs, of the January 31, 1951, Convention between the Government and the Régie.

<sup>2</sup>Overlapping authority lines existed due to the inclusion of the Government Commissioner into the 'Permanent Committee' membership. The Government Commissioner who controlled some of the aspects of the Régie's operations in his own capacity, was able to bull doze the committee into any decision and thus control practically all the aspects of the Régie's operations, except the financial aspect, relieving the 'Permanent Committee' from its raison d'être.

<sup>3</sup>The Ministry of Finance thus inherited all the areas of authority previously invested in the 'Permanent Committee' by virtue of the provisions of the Article 5, of the 'Tobacco Monopoly Law of January 1935, and as revised by the legislative Decree No. 151 of June 1959.

<sup>4</sup>Art. 1, Legislative Decree No. 151 of June 1959.

has now the authority to determine the following:<sup>1</sup>

1. The areas to be cultivated and their distribution among the farmers.
2. The purchase price of the crop.
3. Selling prices of tobacco goods, both produced in and imported to Lebanon.
4. Amount and prices of leaf tobacco to be exported.
5. Classification of vendors' outlets, license fees collected from the tobacco goods distributors, and the discounts allowed to them.
6. Customs duties of tobacco imports by individuals.
7. Selling prices of tobacco seeds and seedlings.

Over and above these, the Minister of Finance has the additional authority to approve the budget.<sup>2</sup>

The Government Commissioner is appointed by a Ministerial Decree, from among the employees of the Ministry of Finance, of second category at least.<sup>2</sup> The areas of authority attributed to the Government Commissioner are aimed at controlling all the operations

<sup>1</sup>Art. 3, Legislative Decree No. 151 of June 1959.

<sup>2</sup>On October 31, the latest of every year, the Régie should submit for approval to the Minister of Finance its forecasted income statement. The budget is first examined by the Financial Controller and the Government Commissioner and submitted to the Director General of the Ministry of Finance for further study. Then, the budget is examined by a committee, presided over by the Director General of the Ministry of Finance, and including, the Government Commissioner, the Financial Controller and a representative of the Régie, after which it is submitted to the Minister of Finance for approval. (Art. 29, the Planned Tobacco Monopoly Agreement of June 1964).

<sup>3</sup>Art. 2, Legislative Decree No. 151, of June 12, 1959.

of the Régie with the view of ensuring the application of the various procedures and methods as defined in the 'Tobacco Monopoly Agreement'; with this respect, the Government Commissioner has the right to examine all the details of the operations, to audit the accounts and other legal documents pertaining to the exploitation of the Monopoly, to review the minutes of the Board meetings, to visit the various plants and shops of the Régie, and report the results of his investigations to the Ministry of Finance.<sup>1</sup>

Besides this control of a general nature, the Government Commissioner upon the suggestion of the Régie, decides upon the following:<sup>2</sup>

1. The appropriation of funds to special budgets.
2. Determination of penalties.
3. The amount of donations to charitable institutions.
4. The issuance of licenses to local distributors.

The Financial Controller is appointed by a Ministerial Decree, from among the employees of the Ministry of Finance, of at least the third category. His main responsibility is to supervise the financial operations of the Régie and report the results of his findings to the Ministry of Finance.<sup>3</sup> With this respect the Régie has to present to the Financial Controller every year, quarterly, the financial results

<sup>1</sup>Art. 2, Legislative Decree No. 151 of June, 1959; and Art. 35, of the Planned Tobacco Monopoly Agreement of June, 1964.

<sup>2</sup>Art. 7, Legislative Decree No. 151 of June, 1959.

<sup>3</sup>Art. 8, Legislative Decree No. 151 of June, 1959.



of its operations, and all financial statements and legal documents pertaining thereto.<sup>1</sup> In his turn, the Financial Controller has to present his annual report, before the 31 of July, of every year, to the Director General of the Ministry of Finance, who in turn transfers the report to the Minister of Finance, along with his suggestions and recommendations, after hearing the advice and the comments of the Government Commissioner, the Financial Controller and the Director General of the Régie.<sup>2</sup>

#### B. Operations of the Régie

##### a. Determination and Control<sup>3</sup> of Tobacco Cultivation.-

Every year in July, upon the proposal of the Régie, the Minister of Finance determines the areas to be cultivated by variety of tobacco and toubac.<sup>4</sup> The areas allotted are determined on the basis of the average yield of the last seven years' crop, as compared with the estimated demand for leaf tobacco of the current year.<sup>5</sup>

Once the areas determined, farmers are required to apply for an authorization to cultivate tobacco or toubac between July the 25th and August the 20th to the Moukhtar, and after August the 25th to the Ca'imacam. Usually before October the 15th, the Ministry of Finance prepares for each village or town a list, indicating the

<sup>1</sup>Art. 9, Legislative Decree No. 151 of June, 1959; and Art. 36, of the 'Planned Tobacco Monopoly Agreement' of June, 1964.

<sup>2</sup>Art. 5, Legislative Decree No. 151 of June, 1959.

<sup>3</sup>The control of tobacco cultivation is still regulated by Art. 10, of the 'Tobacco Monopoly Law' of January, 1935.

<sup>4</sup>Art. 3, Legislative Decree No. 151 of June 1959.

<sup>5</sup>Art. 5, The Planned Tobacco Monopoly Agreement of June, 1964.

names of farmers and the areas they are authorized to cultivate. A duplicate of this list is sent to the Régie on October the 23rd the latest.

Sowing is usually done at the end of March. The farmers are required to purchase the seeds from the Régie at a price determined by the Minister of Finance.<sup>1</sup>

The tobacco seedlings are grown in hotbeds called seedbeds, which are covered with cloth for protection against the uncertainties of weather conditions, Germination begins when the temperature gets around 25° c., and the seedlings are ready for transplanting to the fields when they have developed four to six leaves and are fifteen to twenty cm. high.

Dates for transplanting range from May the 15th to June the 20th. The transplanting is usually done through the handsetting method whereby one worker drops the seedlings in the proper places in the rows, and one or sometimes two others follow to set the plants. During the transplanting period, the agents of the Régie make an inventory of seedlings and see to it that the plants are spaced in the fields according to a predetermined number per hectare, which varies according to the types cultivated.

When the plants begin to mature, and this about August the 15th, usually at or before flowering, it is 'topped', that is, the top or crown is broken off at about the third branch below the seed head, so as to cause the rest of the plant to develop more fully.

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<sup>1</sup>Art. 3, Legislative Decree No. 151 of June 1959.

For some types of Lebanese tobacco, several of the bottom leaves are also removed at 'topping time'. During 'topping time', the agents of the Régie pay another visit to the plantations to ensure that 'topping' is carried out according to harvest regulations.

Just before the harvest, and this generally before July the 15th in the plain region, and September the 15th in the Mountain region, the farmers must produce a declaration of harvest, indicating the estimated amount of dry leaf tobacco that they expect to supply with the Régie.

After such a declaration, the agents of the Régie proceed to assess the quantity of the harvest themselves; if this assessment is not accepted by the farmer, it is repeated, but this time finally, by a committee composed of three experts, one representing the Ministry of Finance, another the Régie and a third, the farmer. Any expense incurred by the Committee for carrying out its task is provided for by the party whose initial estimate is the farthest from the third assessment.

When the crop is mature, it is harvested by one of the two methods; by priming, when the leaves are picked individually from the plant from time to time as they ripen, or by stalk cutting, when the entire plant or stalk is cut out.

The leaves are then strung onto strings and transported to the barns where they are dried. Once dried, they are weighed in the presence of an agent of the Régie and the Moukhtar. The bales

are then sealed off and numbered. If the weights found are 10 percent less than the weights declared in the initial estimate, then, this has to be justified by a written statement addressed to the Régie. If not justified, the farmer will have to pay a fine.

b. Procurement of Leaf Tobacco.-

Local Leaf Tobacco - The Régie is bound to purchase the entire crop of local leaf tobacco, harvested from the authorized and cultivated areas.<sup>1</sup> The dried leaf tobacco is purchased by the Régie through a procurement committee, delegated to each region where tobacco is cultivated. The committee is composed of two tobacco experts, a storekeeper, a weigher, an accountant, a controller and a cashier.

At the time when the tobacco leaves are delivered at the regional warehouses of the Régie, a voucher is prepared acknowledging receipt and indicating the quantities that will be purchased by the Régie, and those destined for exports, as well as the grades of leaves, the serial number of bales, and the prices of respective grades as determined by the Minister of Finance. Farmers are then paid on the spot by the procurement committee.

Foreign Leaf Tobacco - Foreign leaf tobacco is imported

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<sup>1</sup>Art. 3, the Tobacco Monopoly Agreement of Jan. 1935. This provision was later on amended by the Decree Law of January 4, 1938, stipulating the compulsory amount to be bought to the extent of not more than 20 percent of the amount anticipated by the Régie while determining the cultivated areas.

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mainly for blending purposes. The better quality domestic cigarettes contain varying portions of foreign tobacco, which give the singular its aroma and distinctive taste.

There is however, along with tariff walls and customs duties, a legal restriction to the importation of foreign leaf tobacco, limiting such imports to a maximum of 10 percent of needs of the Régie for the local consumption.<sup>1</sup> All imported leaf tobacco is subject to the approval of the Government Commissioner and the Minister of Finance, for the sources, varieties and amounts, as well as to the prices paid for such imports.<sup>2</sup>

Manipulation and Fermentation of Leaf Tobacco - After the delivery of tobacco leaves to the Régie and before manufacturing of tobacco goods, tobacco leaves undergo the manipulation and aging processes. Manipulation consists in sorting out the leaves into different grades according to varieties and quality of leaves. Aging refers to the storage of the leaf tobacco for a period of time, during which the tobacco leaf undergoes a delicate fermentation. The natural result is that the tobacco becomes milder and acquires its typical aroma.

After manipulation and fermentation, the leaf tobacco is transported to the various plants, where they are blended with

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<sup>1</sup>Art. 6, The Planned Tobacco Monopoly Agreement of June, 1964. This maximum was initially fixed at 5 percent of the needs of the Régie for the local consumption, by virtue of the provisions of Article 55 of the 'Tobacco Monopoly Law' of January 1935, and Article 5 of the Tobacco Monopoly Agreement of January 1935.

<sup>2</sup>Art. 7, Legislative Decree No. 151 of June 1959.

imported exotic tobacco of mostly Turkish and Greek origin. The leaf tobacco destined for exports once manipulated are stored at the warehouses of the Régie.

c. Manufacturing Operations.-

Manufacturing operations are carried out in four plants, the first and the largest, which extends over an area of 80,000 sq. meters, at the outskirts of Beirut in Hadat, comprises also the manipulation center, the tobacco warehouses and the Régie Administration headquarters. The second largest is the Bikfaya plant in Mount Lebanon, at a distance of 23 kms. from Beirut; and the third is the Khonshara plant, also in Mount Lebanon, at a distance of 33 kms. from Beirut. In addition to those, the Régie has constructed only recently a new plant in Tripoli, for the manipulation, storing and packing of tobac.

While the Hadat and Bikfaya plants have specialized in the production of local cigarettes, the Khonshara plant now produces tobacco used in rolling cigarettes and snuff.

The total number of workers employed in the manufacturing operations amounts to 2362; 2018 employed in Hadat, 220 and 124 in Bikfaya and Khonshara respectively.<sup>1</sup>

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<sup>1</sup>It is interesting to note at this stage, the high proportion of females to the total number of workers. In the Hadat plant, out of 2018 workers, 1320 are females and 698 males; in the Bikfaya plant, out of 220 workers, 184 are females and 36 males; in the Khonshara plant, out of 124 workers, 94 are females and 30 males; totalling up together to 2362 workers employed in the manufacturing operations, 1598 or almost 68 percent females and 764, or almost 32 percent males. Over and above these, the Régie counts 424 administrative employees, 287 'correspondent de culture' and 108 in the combating section; thus, raising the total number of employees and workers to 3183, excepting the seasonal workers, amounting to 400 - 500, hired for one or two months, annually during the manipulation time. (Source: Régie, official records, Personnel Department, as of August, 15, 1964).

The major line of production of the Régie is cigarettes, which amounts to more than 80 percent of total production; tobacco used for rolling cigarettes, snuff and tobac accounting for the rest.<sup>1</sup>

d. Imports of Tobacco Goods.-

The importation of manufactured tobacco goods, tobac, cigarettes, cigars, snuff tobacco, chewing tobacco, that the Régie wishes to introduce in the local market, shall be subject to customs and excise duties prevailing at the time of their importation.<sup>2</sup> The customs duties now amounts to L.L. 2.08 per Kilo of cigarettes, cigars and pipe tobacco.<sup>3</sup>

Over and above the customs duties, the importation of cigarettes is subject to the following legal restrictions:<sup>4</sup> the importation of oriental flavoured cigarettes shall not be authorized; the importation of foreign brands shall not be authorized except from the country of origin, or from a subsidiary of the company operating in the country of origin; the total of the number of imported brands shall not exceed 13, by January 1967, of which 8 American aromatic brands, 3 French brands of black tobacco, and 2 British or American

<sup>1</sup>As of September 1964, the Régie produced 17 brands of cigarettes, 8 brands of Tombac and 6 brands of tobacco for rolling cigaretted. For more details about the varieties of brands with their respective prices, as of September 1964, see: Appendix IV to Chapter III.

<sup>2</sup>Art. 7, The Planned Tobacco Monopoly Agreement of June, 1964.

<sup>3</sup>Information secured from Marketing and Procurement Department, Régie.

<sup>4</sup>Until May 22, 1964, the importation of cigarettes was regulated through the Arreté No. 1800 of July 3, 1962. The new regulations discussed in this section, were enacted in May, 1964, through the Arreté No. 2349 of May 22, 1964.



brands of Virginia tobacco; the manufacturer-exporter should purchase from the Régie, Lebanese leaf tobacco of an amount equivalent to the value of its cigarette exports to Lebanon; the manufacturer-exporter should guarantee the following minimum amounts of sales in Lebanon, for the first 18 months; 1,500 Kilos during the first six months, 3,000 Kilos during the next six months, and 4,000 Kilos during the next six months; after the trial period of 18 months the manufacturer-exporter should guarantee a minimum amount of 10,000 Kilos of annual sales.

From now on and this until January 1967, new brands may be imported, however their number should not exceed the number of brands that sold less than 7,000 Kilos in 1963.<sup>1</sup>

e. Marketing Operations.-

Local Distribution - Manufactured tobacco goods are distributed to the ultimate consumers through authorized vendors, or Débitants. They are first moved from the general warehouse to the various Régie operated agencies, 19 in number, in the five Mohafazats of Lebanon. Manufactured tobacco goods are then distributed to the 'Débitants', either directly from the agencies or through the wholesalers, or Chefs - Débitants, 89 in number in Lebanon.<sup>2</sup> Their services are used mostly

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<sup>1</sup>In 1963, there were 18 imported brands in the Lebanese market; 12 American, 5 French and 1 English. The number of brands that sold less than 7,000 Kilos was 5, they were: Parliament, Camel, Celtiques, Philip Morris and York. (Source: Régie, Official Records, Marketing Department and Procurement).

<sup>2</sup>For more details about the number and location of agencies and 'Chefs-débitants', as well as the distribution of 'débitants' and sales in L.L. effected through them, by area for the year 1963, see Appendix II to Chapter III.

in the remote areas of the country, where direct distribution from agency to Débitants is difficult and costly. In return to their services rendered, the 'Chefs-Débitants' are remunerated with a commission varying between 0.75 percent to 2 percent of sales value, depending upon the transportation and storage expenses incurred by them. As shown in App. II, while only 19 percent of sales were effected through the 'Chefs-Débitants' in Beirut, in 1963, they accounted for 50 percent, or half of sales value in Lebanon, in the same year.

All manufactured tobacco goods vendors, or Débitants should be authorized by the Régie. In order to qualify for such authorization, they should apply to the Régie, pay an annual or semesterial tax, in return to the license secured.<sup>1</sup> The tax rate on the license is fixed by the Ministry of Finance, and is issued in the form of a Government Decree.<sup>2</sup>

The license tax and the distributors' surtax are not uniform; they vary according to the location of dealers. For this purpose, a classification of selling outlets into different categories according to location is prepared by the Régie, subject to the approval of the Director General of the Ministry of Finance.<sup>3</sup>

Before 1960, and this in order to enjoy the rights of a Débitant, prospective distributors paid as a lump sum, a surtax varying between L.L. 25 in the least inhabited village, and L.L.3,000

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<sup>1</sup>Art. 43, Tobacco Monopoly Law of January, 1935.

<sup>2</sup>Art. 45, Tobacco Monopoly Law of January, 1935.

<sup>3</sup>Ibid.

in Zone I of Beirut, the first year; and continued to pay an annual license tax, varying between L.L. 5, in the least inhabited village and L.L. 90 in Zone I of Beirut.

After 1960, so as to secure a wider distribution of manufactured tobacco goods in the remote regions in particular and in the cities in general, the license tax and the surtax were combined and collected in installments, during a period of 10 years, after which the Débitant would pay the annual license tax only. In villages of less than 1,000 inhabitants the Débitants were completely exempted from both the license tax and the surtax. Thus, for the first 10 years a Débitant now pays the Régie between L.L. 25, in villages counting 1,000 to 2,500 inhabitants, and L.L. 550 in Beirut, 'Hors Zone', in terms of the license tax and surtax, and continues to pay annually between L.L. 15 and L.L. 90, in the respective locations above mentioned in terms of the license tax only.<sup>1</sup>

Distributors' Discounts - For their services rendered and promotional efforts, the Débitants are remunerated with a distributors' discount varying between 8.25 and 8.60 percent of the selling price of manufactured tobacco goods.

The Tobacco Monopoly Agreement of January 1935, provided for a 10 percent distributors discount on the fixed selling price of all manufactured tobacco goods sold.<sup>2</sup> In 1945, an Army Tax, amounting

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<sup>1</sup>For more details about the license tax and the surtax, before and after 1960, see: Appendix I to Chapter III.

<sup>2</sup>Art. 6, The Tobacco Monopoly Agreement of January, 1935.

to 15 percent of selling price, the proceeds of which would go to finance the National Defense budget, was imposed on all manufactured tobacco goods.<sup>1</sup> While the Débitants continued to receive the same amount of commission, the percentage of the distributors' discount was automatically reduced from 10 to 8.5 percent, due to the 15 percent increase in the selling price. Upon the strong protest of the Débitants, the Ministry of Finance accorded an additional 0.30 percent (or 2 percent of the 15 percent Army tax) on the discount rate<sup>2</sup>, thus fixing it at a level of 8.8 percent of selling price.

In March 1964, the Ministry of finance, through a 'New Law on the Municipal Taxes', raised the prices of all manufactured tobacco goods, selling P.L. 75 and above by P.L. 5<sup>3</sup>. The increase in the selling prices, reduced the distributors' discount on manufactured tobacco goods now selling P.L. 80 and above, below 8.80, but not lower than 8.25 percent.<sup>4</sup>

<sup>1</sup>Information secured from Official Records, Finance Section, Accounting Department, Régie.

<sup>2</sup>Same as No. 1

<sup>3</sup>Le Commerce du Levant, 'La Nouvelle Loi Libanaise sur les Taxes Municipales', (Société de la Presse Economique, S.A.L.) No. 44, of April 15, 1964; p. 51) and Arreté No. 15677 of March 4, 1964.

<sup>4</sup>In order to illustrate the impact of the increase in price upon the distributors' discount, the discount rates of the following representative brands are calculated; Baffra, Hanoum, Marlboro and Capstan pipe tobacco:

Brand	Price Before March 1964	Price After 1964	Discount Rate before March '64	Discount Rate After 1964
	P.L.	P.L.	%	%
a. Baffra	65	65	8.8	
b. Hanoum	75	80	8.8	$\frac{8.8 \times 75}{80} = 8.25$
c. Marlboro	160	165	8.8	$\frac{8.8 \times 160}{165} = 8.53$
d. Capstan Pipe Tobacco	510	515	8.8	$\frac{8.8 \times 510}{515} = 8.71$

Exports - The Tobacco Monopoly Agreement of January 1935, provided for no restriction, or for that matter, for no obligation on behalf of the Régie to export Lebanese leaf tobacco.

Exportation of unmanufactured tobacco then, and this until 1950, enjoyed a free market system; "it could be exported either through an agent-exporter or the Régie itself".<sup>1</sup> In the first case the agent-exporter took title of the goods stored at the Régie, in return to a payment made to the farmer-supplier, and assumed himself all the marketing functions in exporting the Lebanese leaf tobacco abroad; while in the second case, the Régie was given a free hand to export leaf tobacco on its own account, after taking the consent of the Ministry of Finance as to the types and varieties exported as well as to their export prices.<sup>2</sup>

This state of affairs continued until 1950, when at the time of the "economic cessation" with Syria, the Lebanese Government made clear to the officials of the Régie, that there was an urgent need to encourage by all possible means, Lebanese leaf exports, to take advantage of a growing potential market for oriental leaf in the United States and Europe, on the one hand, and to improve the country's balance of trade position through cash or/and baster exports of Lebanese leaf.

Such a line of thinking was materialized in the resolutions of

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<sup>1</sup>Arts. 30, 31, 32, The Tobacco Monopoly Law of January, 1935.

<sup>2</sup>Art. 5, The Tobacco Monopoly Agreement of January, 1935.

the January 1951 Convention, held between the Ministry of Finance and the Régie. The Convention provided for a legal obligation on behalf of the Régie to export a minimum of 500 tons of leaf tobacco annually, for the years 1952 through 1955,<sup>1</sup> and deploy all possible efforts to increase this volume to a level of 1,100 tons annually by 1960.<sup>2</sup>

The Planned Tobacco Monopoly Agreement provided for the following regulations of exports; "The Régie shall export leaf tobacco and tobac, as well as manufactured tobacco goods. The selling price of exports shall be fixed by the Minister of Finance, upon the proposal of the Régie, and allowance made for a 10 percent margin, lower or higher, The exports effected through the application of the former clause, with or without barter arrangements, shall be subject to the previous consent of the Government Commissioner in case when the Régie feels that it is more convenient to apply the lower 10 percent margin. In case of any disagreement, the matter shall be referred to the Director General of the Ministry of Finance, who shall take the final decision."

"The quantities that the Régie should export annually, are fixed in the five-year plans".<sup>2</sup>

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<sup>1</sup>Article 4, 'Formant avenant au cahier des charges du Monopole des Tabacs et Tombacs'. Convention, of January 31, 1951.

<sup>2</sup>Article 4, 'Deuxieme additif a la Convention du Cahier des Charges du Monopole des Tabacs et Tombacs', February 3, 1955.

<sup>3</sup>Article 8, 'The Planned Tobacco Monopoly Agreement, of June, 1964. The first five-year plan, provides for the following, as far as the amounts of Lebanese leaf exports are concerned: "The Régie shall take all the necessary steps to increase the annual exports of leaf tobacco, from 2 million Kilos, as it was in 1962, to 3.5 or 4 million Kilos in 1968. If it seems to be possible to trespass these quantities, the Régie shall take all the necessary steps to meet the growing demand." Clause 3, 'The First Five Year Plan', annexed to the Planned Tobacco Monopoly Agreement of June, 1964.

APPENDIX TO CHAPTER III

APPENDIX I TO CHAPTER IIILICENCE FEES AND DISTRIBUTORS' TAX , BEFORE  
AND AFTER 1960

		<u>Before 1960</u>		<u>After 1960</u>		
		<u>Licence Tax L.L.</u>	<u>Surtax in L.L.</u>	<u>Licence Tax and Surtax in L.L.</u>		
				<u>During the first 10 years</u>	<u>After</u>	
I. BEIRUT	'Hors Zone'	-	-	L.L. 550 x 10 years	90	
	Zone I.	90	3,000	L.L. 450 x 10 years	90	
	Zone II.	60	1,500	L.L. 325 x 10 years	60	
II. PROVINCE	Number of Inhabitants					
	15,000 to 50,000	Zone I	50	400	L.L. 100 x 10 years	50
		Zone II	35	200	L.L. 60 x 10 years	35
	5,000 to 15,000	Zone I	35	300	L.L. 75 x 10 years	35
		Zone II	20	150	L.L. 40 x 10 years	20
	2,501 to 5,000		20	150	L.L. 40 x 10 years	20
	1,001 to 2,500		15	100	L.L. 25 x 10 years	15
	501 to 1,000		10	50	-----	---
	201 to 500		5	25	-----	--
	1 to 200		-	-	-----	--

Source : Regie, Official Records , Finance Division, Accounting Department .



## APPENDIX II TO CHAPTER III

LOCAL DISTRIBUTION OF MANUFACTURED TOBACCO GOODS BY AGENCIES , " CHEF DEBITANTS "  
" DEBITANTS " AND SALES IN L.L. , IN 1963

<u>Area</u>	<u>Agencies</u>	<u>'Chef Debitants' ( Wholesalers )</u>	<u>'Debitants ' ( Distributors )</u>	<u>Sales (L.L. 1,000)</u>	<u>Percent of Sales through 'Chef Debitant'</u>	<u>Percent of Sales through 'Chef Debitant'</u>	<u>Total Sales 100 percent</u>
I. BEIRUT	1. Basta	-	421	4,547	-	100	100
	2. Bourj	-	356	7,899	-	100	100
	3. Haouz	-	276	6,471	-	100	100
	4. Ashrafieh	-	231	2,106	-	100	100
	5. Jemazieh	-	241	3,196	-	100	100
	6. Ras - Beirut	-	251	648	-	100	100
	7. Nahr & Bourj-Hamoud	6	1,615	7,903	79	21	100
	<b>Total Beirut</b>	<b>6</b>	<b>3,391</b>	<b>32,769</b>	<b>19</b>	<b>81</b>	<b>100</b>
II. PROVINCE	8. Hadat	18	2,517	13,164	100	-	100
	9. Akkar	5	283	543	48	52	100
	10. Baalbeck	5	240	761	24	76	100
	11. Bikfaya	6	657	2,087	77	23	100
	12. Damour	7	514	1,175	100	-	100
	13. Jbeil	4	481	1,196	45	55	100
	14. Jounieh	3	582	1,989	35	65	100
	15. Nabatieh	3	444	944	55	45	100
	16. Saidon	1	690	2,506	12	88	100
	17. Sour	3	321	933	22	78	100
	18. Tripoli	14	1,246	6,746	100	-	100
19. Zahleh	14	1,106	3,745	85	15	100	
<b>Total Province</b>	<b>83</b>	<b>9,089</b>	<b>35,789</b>	<b>80</b>	<b>20</b>	<b>100</b>	
<b>Total Lebanon</b>	<b>89</b>	<b>12,480<sup>1</sup></b>	<b>68,558</b>	<b>50</b>	<b>50</b>	<b>100</b>	

Source : Regie, Official Records, Marketing and Procurement Department .

<sup>1</sup> The total number of 'debitants' amounted to 13,005 , by December 1964

APPENDIX III TO CHAPTER IIIREGULATION OF THE PRICES OF  
MANUFACTURED TOBACCO GOODS  
IN LEBANON(With Special Reference to the Period 1954 through 1964)

Prices of manufactured tobacco goods sold, local and imported are determined by the Minister of Finance, upon the proposal of the Régie, and after taking the consent of the Director General of the Ministry and the Government Commissioner, and are rendered effective after the issuance of an Arreté Ministériel, with this respect.<sup>1</sup>

The reader may acquaint himself with the respective price levels of manufactured tobacco goods in 1954 and 1964, by consulting Appendix IV to this chapter. While the changes in the prices of different brands, local and imported, are presented below, the socio-economic impact of such changes is discussed in chapter 6 of this thesis.

1954, 1955 No change:

1956

Increase in the prices of manufactured tobacco goods, local and imported: P.L. 10 per pack on imported cigarettes; P.L. 5 per pack on local cigarettes, selling P.L. 60 and above.

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<sup>1</sup>Art. 3, Legislative Decree No. 151, of June 1959; and Art. 7 and 10, of the 'Planned Tobacco Monopoly Agreement' of June, 1964.

Arreté No. 3267 of Dec. 28, 1956.

1957, 1958 No change:

1959

Increase in the price of 'Lucky Strike' cigarettes from:  
P.L. 150 to P.L. 160 per pack.

Arreté No. 100 of January 13, 1959

1960

Increase in the price of 'Philip Morris' cigarettes from:  
P.L. 140 to P.L. 150 per pack.

Arreté No. 1945 of June 16, 1960

1961 No change:

1962

a) Increase in the price of 'Philip Morris' cigarettes from:  
P.L. 150 to P.L. 160 per pack.

b) Increase in the prices of all American imported cigarettes  
from: P.L. 150 to P.L. 160 per pack.

c) Decrease in the prices of local cigarettes: Tatli Sert  
fine from: P.L. 40 to P.L. 35; Tatli Sert Grosse from: P.L. 45 to P.L.  
40.

Arreté No. 163 of January 25, 1962.

d) Increase in the prices of pipe tobacco: Capstan, from:  
P.L. 460 to P.L. 510; Three Nuns, from: P.L. 300 to P.L. 330.

Arreté No. 1/1336 of May 8, 1962

1963 No change:

1964

a) Increase in the prices of all manufactured tobacco goods,

local and imported, selling P.L. 75 and above, by P.L.5.

Arreté No. 15677 of March 4, 1964

b) Decrease in the prices of cigars: Corona Major from: P.L. 300 to P.L. 250 + 5; Corona Grandes from P.L. 350 to P.L. 300 + 5; Toppers from: P.L. 225 to P.L. 200 + 5; Eloisas from: P.L. 210 to P.L. 150 +5; Sabrosas from: P.L. 200 to P.L. 175 + 5.

Arreté No. 1/1775 of April 2, 1964

c) Increase in the price of Star from: P.L. 90 to P.L. 100.  
Decrease in the price of O.K. from: P.L. 105 to P.L. 100.

Arreté No. 1/2561 of June 11, 1964.

## APPENDIX IV TO CHAPTER III

LIST OF MANUFACTURED TOBACCO GOODS, LOCAL AND  
IMPORTED, WITH THEIR RESPECTIVE PRICES, 1954 AND 1964<sup>(1)</sup>

	1954	1964	1954	1964		1954	1964	1954	1964
	Price Per Pack P.L.	Price Per Kilo L.L.	Price Per Pack P.L.	Price Per Kilo L.L.	III. Imported Products	Price Per Pack P.L.	Price Per Kilo L.L.	Price Per Pack P.L.	Price Per Kilo L.L.
<b>I. Tobacco</b>									
Marsouin 120 Grs.	240	20.00	245	22.50	Lucky Strike	140	70.00	165	82.50
Marsouin 40 Grs.	80	20.00	80	20.00	L.M.	-	-	165	82.50
Samsoun Extra	30	16.67	30	16.67	Viceroy	-	-	165	82.50
Hamaoui	30	16.67	30	16.67	Marlboro	-	-	165	82.50
Samsoun Ordinaire	20	8.50	30	12.75	Chesterfield	140	70.00	165	82.50
Tabacs a Priser	40	10.00	40	10.00	Ph. Morris	140	70.00	165	82.50
					Camel	-	-	165	82.50
<b>II. Tombac</b>					Winston	-	-	165	82.50
Ispahani 1000 Grs.	2250	22.50	2230	22.30	Parliament	-	-	165	82.50
Ispahani 500 Grs.	1125	22.50	1130	22.60	Kent	-	-	165	82.50
Ispahani 100 Grs.	225	22.50	230	23.00	Salem	-	-	165	82.50
Persan 40 Grs.	75	18.75	80	20.00	York	-	-	165	82.50
Bouquet de Perse 500 Grs.	625	12.50	630	12.60	Gold Star	-	-	135	67.50
Bouquet de Perse 100 Grs.	125	12.50	130	13.00	Gold Leaf	-	-	155	77.50
Premiere 100 Grs.	100	10.00	105	10.50	Gouloises	80	40.00	95	47.50
Premiere 60 Grs.	60	10.00	60	10.00	Gitanes	100	50.00	115	57.50
					Celtiques	100	50.00	115	57.50
<b>III. Local Cigarettes</b>					Tabacs Capstan 114 Grs.	460	40.35	515	44.31
Coktail 100 Grs.	550	55.00	605	60.50	Three Nuns 57 Grs.	-	-	335	59.10
Jockey Club	100	50.00	115	57.50	Prince Albert 46 Grs.	-	-	175	39.30
Extra Extra	95	47.50	105	52.50	Briggs	-	-	175	-
Yenidje	95	47.50	105	52.50	Revelation	-	-	175	-
O.K.	-	-	100	50.00	Corona Grandis	--	-	305	-
Premiers Grosses	85	42.50	95	47.50	Corona Major	200	-	255	-
Premiers Fines	80	40.00	90	45.00	Topper	-	-	205	-
Zeina	-	-	90	45.00	Eloisas	-	-	155	-
Star	75	37.50	100	50.00	Sabrasos	-	-	180	-
Hanoum	70	35.00	80	40.00	S. Diplomat	-	-	115	-
Baffra 20 Grs.	70	35.00	65	32.50	Blue 7 Grs.	100	-	125	-
Deuxieme Extra	60	30.00	65	32.50	Micros Cigarillos	25	-	30	-
Zodiac	60	30.00	65	32.50	Tiposillo	-	-	50	-
Tatli Sert G.	45	22.50	40	20.00					
Tatli Sert Fines	40	20.00	35	17.50					
Karim	-	-	20	10.00					
R.D.T.	2160	6.30	-	-					

Source : Regie, Official Records, Finance Division, Accounting Department .

(1) As of September 1964

## CHAPTER IV

### SOME PECULIAR ASPECTS OF THE LEBANESE TOBACCO MARKET

#### A. Supply of Tobacco Leaves

##### a. Cultivated Varieties.-

Most varieties of tobacco grown in Lebanon have originated in Bulgaria, Turkey and Greece.

Other than tobac, leaf tobacco grown in Lebanon may be classified into three major groups; oriental, semi-oriental and exotic. The highly aromatic oriental group mainly includes Bulgare and Baffra, and other local varieties like, Jezzine, Kourani, Maouch, Izmirly and yellow seed. The semi-oriental, group, less aromatic but much stronger than the oriental, includes mainly chack-ej-bent and trabizond. Lastly, the exotic varieties count Burley and Virginia, introduced only recently in 1962, and cultivated on a very small scale for experimental purposes.

##### b. Cultivated Area, Production and Per Decare Yields.-

The total area cultivated with tobacco amounted to almost 47,000 decares in 1963, or over 80 percent of the area cultivated in 1951. Production of leaf tobacco increased by more than 90 percent thus, accusing a sensible increase in the yields per decare, which from an average of 63 Kilos in the three earliest years of 1950-s, increased to an average of 90 Kilos during the first three year of 1960-s.

TABLE IV

## ACREAGE, YIELD AND PRODUCTION BY TYPE,

(CHACK-EL-BENT AND TOMBAC, AND OTHER LEAF TOBACCO VARIETIES), ANNUAL, 1951-1963

Year	Acreage Harvested		P R O D U C T I O N						Yield	
	Decars	Index Base 1951	Chack-el-Bent and Tombac		Other Varieties		Total		per	
			Kgs:	% of Total	Kgs.	% of Total	Kgs.	%	Decare	
								Index Base:	Kgs	
		1951						1951		
1951	25,463	100	29,707	1.5	1,990,251	98.5	2,019,958	100	100	79
1952	27,850	109	74,670	4.4	1,638,075	95.6	1,712,745	100	85	61
1953	27,979	110	102,592	5.8	1,671,141	94.2	1,773,733	100	88	63
1954	30,171	118	127,190	5.8	2,068,507	94.2	2,195,697	100	109	73
1955	30,040	118	128,574	5.3	2,319,917	94.7	2,448,491	100	121	81
1956	31,027	122	245,093	10.0	2,206,935	90.0	2,452,028	100	121	79
1957	38,746	152	629,320	18.0	2,863,270	82.0	3,492,590	100	173	90
1958	39,216	155	590,575	19.7	2,413,133	80.3	3,003,708	100	149	76
1959	39,688	156	624,837	16.8	3,105,652	83.2	3,730,489	100	185	94
1960	38,875	153	479,593	14.6	2,809,746	85.4	3,289,339	100	163	85
1961	39,543	156	492,874	13.2	3,263,205	86.8	3,756,079	100	186	94
1962	42,004	165	391,080	9.9	3,539,032	90.1	3,930,112	100	194	94
1963	46,859	184	212,604	5.5	3,675,396	94.5	3,888,000	100	192	83
1964										

The areas authorized amounted to 65,000 decares in 1964.

While the total production has increased from an average of 2 million Kilos in the early 1950-s, to an average of 3.9<sup>1</sup> million Kilos in the early 1960-s, or an increase of 93 percent, production of chak-el-bent and tombac has increased by 84 percent, during the same period, the balance of 9 percentage points being accounted by the increase in the production of the latter varieties, which only 1.5 percent of total production in 1951, have increased to a high of 19.7 percent in 1958, and dropped again in 1963, to represent only 5.5 percent of total production in that year.

Distribution of cultivated area - It is interesting to find out, at this stage, about how the total area authorized by the Minister of Finance, is actually distributed between regions, on the one hand, and among planters, on the other.

Since the early years of the Tobacco Monopoly's operations, South Lebanon accounted by far the highest share of authorized area cultivated; thus, more than 70 percent of the total area authorized in 1940; more than 80 percent in 1949; more than 70 percent in 1959, South Lebanon accounted for almost 65 percent of the total area authorized in 1963.

North Lebanon ranks second in order of importance; 14,10 and 23 percent only in 1940, 1949 and 1959 respectively, North Lebanon accounted for almost 27 percent of total area authorized in Lebanon

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<sup>1</sup>The estimated production for 1965 is around 6 million Kilos, or 300 percent its 1951 level.



TABLE V

GEOGRAPHICAL DISTRIBUTION OF THE AUTHORIZED AREA , BY DECARES , 1940 AND 1949 ,  
AND BY DECARES AND NUMBER OF PLANTERS 1959 AND 1963

R e g i o n	1 9 4 0		1 9 4 9		1 9 5 9		5 9		1 9 6 3		3	
	Acreage Authorized		Acreage Authorized		Acreage Authorized		Number of Planters		Acreage Authorized		Number of Planters	
	Decares	% of Total	Decares	% of Total	Decares	% of Total		% of Total	Decares	% of Total		% of Total
Mount Lebanon	1,470	11.9	1,186	5.7	2,570	6.4	1,686	12.1	4,183	7.02	2,075	7.59
North Lebanon	1,832	14.2	2,089	10.3	9,110	22.7	4,647	33.2	16,049	26.94	8,817	32.25
South Lebanon	9,270	73.9	17,416	84.0	28,230	70.5	7,600	54.4	39,013	65.48	16,277	59.55
Bekaa	-	-	-	-	140	0.4	39	0.3	335	0.65	166	0.61
T o t a l	12,572	100.0	20,691	100.0	40,050	100.0	13,972	100.0	59,580	100.00	27,335	100.00

Source : Official Records , Department of Cultivation , Regie

in 1963.

Lastly, Mount Lebanon and Beka'a are relatively unimportant regions, as far as tobacco plantations are concerned; while Mount Lebanon's share has decreased from a high of 11.9 percent in 1940 to 7.02 percent in 1963, Beka'a, where cultivation has started only after the 1950-s, has gained a slight importance with this respect.

Another aspect of the distribution of authorized areas between various regions, is the distribution of areas by number of planters in each region.

As indicated in Table V, in South Lebanon, where 60 percent of the total number of planters in Lebanon cultivated almost 66 percent of total area authorized in 1963, there is a greater concentration of authorized area per plant, than in North Lebanon, where 32 percent of planters cultivated 27 percent of the area authorized. Mount Lebanon too, is characterized by a lower degree of concentration of area per planter as compared with South Lebanon.

Still another aspect of the distribution of the cultivated area, is the distribution by acre and by planter for the whole Lebanon.<sup>1</sup>

A close look to Table VI, reveals that 56 percent of planters

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<sup>1</sup>The following discussion and the Table, pertain to the year 1960, recent statistics not being available with this respect. However, according to pieces of information secured from the Department of Cultivation at the Régie, all the statistics pertaining to 1960, with this respect are still valid for 1963, except those pertaining to one decare or below. In 1961, the Ministry of Finance discontinued the practice of authorizing planters to plant less than a decare, thus, the statistics pertaining to a decare or below in Table will have to be applied to the bracket '2 decares or below', in order to bring the Table up to date.

TABLE VIDISTRIBUTION OF CULTIVATED AREA BY  
ACRE AND BY PLANTER, YEAR: 1960

<u>Acreage in Decares</u>	<u>Percent of Total Number of Planters</u>	<u>Percent of Total cultivated Area</u>
0-1	55.69	20.41
1-2	17.95	10.39
2-3	6.57	8.13
3-4	4.87	6.40
4-5	3.46	5.84
5-10	5.87	15.27
10-15	1.63	7.38
15-20	0.66	4.21
20-25	0.35	2.91
25-30	0.28	2.34
30-35	0.17	2.01
35-40	0.11	1.50
40-45	0.08	1.41
45-50	0.03	11.19
Over 50	0.33	
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

Source: Régie, Official Records, Department of Cultivation.

have cultivated 20 percent of the total area authorized, composed exclusively of a decare or below, while almost 18 percent have cultivated 10 percent of the total area authorized, composed of 1 to 2 decares. Or summing up together, 74 percent of planters have cultivated almost 30 percent of the total area authorized, 2 decares and below, in 1960.

The following may be concluded from the above Table; while the majority of planters (74 percent) have cultivated smaller holdings (2 decares and above), which has amounted to almost 70 percent of the total area authorized in 1960.

Carrying the analysis one step further by comparing the findings in Table V and VI, it may also be concluded that this minority of big tobacco land holders are concentrated in South Lebanon, more than in any other region in Lebanon.

c. Purchase price of local leaf tobacco.

In purchasing its supplies of leaf tobacco, the Monopoly is faced by a very complex problem of fixing the price to be paid for the domestic crop; this is a particularly thorny matter in Lebanon, where, as discussed in the previous chapter, the Monopoly has to take the whole of the domestic crop. It is thus impossible to allow for supply and demand to equate and fix prices automatically, as in a free market system. Rather complex and arbitrary methods therefore have to be employed, such as dictation of prices paid to the farmers by the Minister of Finance, based on considerations such as, the estimated cost of production, the opportunity cost of tobacco cultivation and the desir-

TABLE VII

AVERAGE PRICE PER KILO OF LEAF TOBACCO, PAID TO THE FARMERS FOR CHACK-EL-BENT  
AND TOMBAC, AND FOR OTHER TOBACCO VARIETIES, 1951-1963 ANNUAL

	Production Kilos			Value of Crop in L.L.			Average per Kilo Paid for, in P.L.					
	Chak-el-Bent and tombac	Other tobacco varieties	Total	Chak-el-Bent and tombac	Other tobacco varieties	Total	Chak-el-Bent and tombac	Index base 1951	Other tobacco varieties	Index base 1951	Total	Index base 1951
1951	29,707	1,990,251	2,019,958	66,860	4,491,377	4,558,237	225.04	100	225.66	100	225.38	100
1952	74,670	1,638,075	1,712,745	164,569	3,707,759	3,872,345	220.04	98	226.37	100	226.09	100
1953	102,592	1,671,141	1,773,733	221,033	3,914,958	4,135,991	215.45	96	234.26	104	233.18	103
1954	127,190	2,068,507	2,195,697	251,937	5,571,051	5,822,988	198.08	88	269.32	119	265.20	117
1955	128,574	2,319,917	2,448,491	310,816	6,724,922	7,035,738	241.74	107	289.80	128	287.35	127
1956	245,093	2,206,955	2,452,028	711,539	7,717,062	8,428,601	290.31	129	349.81	155	343.74	152
1957	629,320	2,863,270	3,492,590	1,528,149	10,217,082	11,745,231	242.82	108	356.77	158	336.29	149
1958	590,575	2,413,133	3,003,708	1,532,307	9,600,325	11,123,632	257.94	115	397.91	176	370.33	164
1959	624,837	3,105,652	3,730,489	1,467,359	12,050,068	13,517,427	234.84	104	388.71	172	362.35	160
1960	479,593	2,809,746	3,289,339	1,278,852	13,199,502	14,478,354	266.65	118	469.77	208	440.16	195
1961	492,874	3,263,205	3,756,079	1,173,490	14,491,883	15,665,373	238.09	106	444.00	197	417.03	185
1962	391,080	3,539,032	3,930,112	987,836	16,106,127	17,093,963	252.59	112	455.00	202	435.00	193
1963	212,604	3,675,396	3,888,000	506,382	17,428,618	17,935,000	238.18	106	474.00	210	461.00	204

SOURCE: Official Records, Department of Cultivation, Régie.

ability to subsidize tobacco planters.

The average price paid to the farmers for all types of unmanufactured tobacco, including Chack-el-Bent and tombac, amounted to P.L. 461 per Kilo, in 1963, or 204 percent of the average price paid in 1951.

While the average price paid for Tombac and Chack-el-Bent has increased from a low of P.L. 225.04 per Kilo in 1951 to a high of P.L. 238.09 per Kilo in 1963, or an increase of 6 percent, the average price paid for tobacco other than tombac and Chack-el-Bent has more than doubled during the same period, from a low of P.L. 225.66 per Kilo to a high of P.L. 474 per Kilo.

As mentioned earlier in this section, the Régie purchases the leaf tobacco at a much higher price than what it would be if the free market forces of supply and demand were left free to operate.

This policy of price fixing has had the effect of raising the average revenue to the planters, to a level of L.L. 341 per decare in 1959,<sup>1</sup> whereas the average revenue per decare for other crops was in a descending order, for lemon and orange, L.L. 351; apples, L.L. 150; olive and olive oil L.L. 85; grapefruits, L.L. 45.<sup>2</sup>

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<sup>1</sup>For more details about the average revenue per decare, average subsidy per decare, for the years 1951 through 1963, see Appendix B to chapter IV.

<sup>2</sup>Report of the Committee assigned as per Arrêté No. 22, of June 2, 1960, to classify the tobacco cultivable land in Lebanon, p. 2

It would be erroneous to conclude that tobacco is the second best remunerative crop among the above mentioned cultivable substitutes, without studying the cost aspect of each; yet, such an attempt would also be superfluous if the opportunity cost of the tobacco cultivation, which is probably the highest among the above mentioned crops is taken into account.

Whereas the opportunity cost of the tobacco cultivated land is relatively very low, due to the poor quality of soil required, the opportunity cost of the human resources needed for the production of tobacco, and this especially for the production of oriental tobacco<sup>1</sup> is high; so high in fact, that it ultimately makes the total cost of production exceed the cost of all other cultivable substitutes.

Moreover, the further expected rise in the opportunity cost of tobacco cultivated land, due to the availability of 290 m<sup>3</sup> of irrigation water per year, in the future 15 years, through and after the execution of the Litani project<sup>2</sup>; and also the expected increase in the opportunity cost of labor in the production areas, due to a continuous trend of migration of farmers towards the urban and suburban areas of Lebanon, will further increase the total cost of production to a level where tobacco cultivation will become to be no more profitable even when subsidized heavily by the Government.

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<sup>1</sup>The production of oriental tobacco is labor intensive. In Lebanon, a decare of tobacco cultivated land requires around 80 man-days of labor. Assuming that the opportunity cost of the farmers' services is L.L. 100 per month, then the opportunity cost of the labor engaged in the production of tobacco is  $\frac{80}{90} \times 300 = \text{L.L. } 266$ .

<sup>2</sup>L'orient - The Litani Irrigation Project, May 7, 1964, p. 1.

Should the Government follow the present policy of subsidizing the farmers in the future? and should it encourage by doing so, the production, and more so, the exportation of a crop, in the production of which, Lebanon happens to have no comparative advantage, over the other Oriental tobacco producing countries?

These questions are discussed in the following section.

d. Exports of Leaf Tobacco.-

Exports of leaf tobacco have increased more than eight times their 1951 level. A very small amount at the beginning years of the Régie's operations (only an average of 22,000 Kilos exported annually), and about 300,000 Kilos, or 15 percent of total local production, exports of leaf tobacco represented about two third of the local crop, or more than 2.5 million Kilos in 1963.

While U.A.R., Syria and East Germany were important outlets for Lebanon during the early 1950-s, and France and Germany are as usual markets for smaller quantities of tobacco from Lebanon, the U.S.A. and the Socialist Countries are at present the most important outlets for the Lebanese leaf exports.

Tobacco leaf exports to the U.S. have increased steadily since the early 1950-s; only about 40,000 Kilos, or 12 percent of the total in that year, exports to the U.S.A. amounted to 1.2 million Kilos, or 46 of total exports in 1963.

This steady growth in the exports to the U.S., has been the outcome of the restrictions set by the Régie upon the importation of



TABLE VIII

## LEAF TOBACCO EXPORTS, BY DESTINATION,

ANNUAL, 1951 TO 1963

	United States		U.S.S.R.		France		West Germany		East Germany		U.A.R.		Indo China		Syria		Netherlands		Hungary		Others		Total			
	Kgs.	% of Total	Kgs.	% of Total	Kgs.	% of Total	Kgs.	% of Total	Kgs.	% of Total	Kgs.	% of Total	Kgs.	% of Total	Kgs.	% of Total	Kgs.	% of Total	Kgs.	% of Total	Kgs.	% of Total	Kgs.	% of Total	% of Local Production	
1951											160,610	51									154,191	49	314,801	100	15.6	
1952					35,000	9					120,000	29			244,000	60					6,000	2	405,000	100	23.6	
1953	39,810	12									170,303	51			120,000	37							330,113	100	18.6	
1954	134,710	30			40,000	9					121,540	27	31,506	7	124,000	27							451,756	100	20.5	
1955	11,278	3			225,568	64	1,409	(a)			33,835	9			78,950	23							352,449	100	14.3	
1956	177,450	20	266,101	30	159,720	18			9,899	1	201,665	23			71,680	8					493	(a)	886,515	100	36.1	
1957	197,310	32					308	(a)	16,648	3	401,835	65									493	(a)	616,594	100	17.7	
1958	495,547	56	158,716	18	49,378	6			107,576	12					70,540	8							881,757	100	29.3	
1959	772,924	72	168,676	16			125,974	12															1,067,574	100	28.6	
1960	1,000,000	74	186,266	14	81,344	5	92,000	7															1,359,610	100	41.3	
1961	986,110	82	140,660	12	50,000	3	1,782	(a)													30,109	(b)	2	1,208,661	100	32.2
1962	1,249,421	65	300,000	16	50,000	2.5	100,000	5									15,000	(a)	240,300	12			1,954,721	100	49.7	
1963	1,188,100	46			50,000	2	590,170	24	100,017	4							23,423	(a)	241,000	10	388,361	(c)	13	2,581,071	100	66.4

(a) Less than 1 percent.

(b) To Mainland China, 20,000 Kgs., to Jordan 10,069 Kgs., to Switzerland 40 Kgs.

(c) To Belgium 263,221 Kgs., Great Britain 140 Kgs., Kuwait 55,000 Kgs.,

Finland 50,000 Kgs., Mainland China 20,000 Kgs.

American cigarettes, otherwise than through barter agreements with the cigarette exporting companies, requiring the latter to import Lebanese leaf tobacco of an equivalent value of their cigarette exports to Lebanon.<sup>1</sup>

The second largest outlet for the Lebanese leaf exports, since the mid 1950-s, has been the U.S.S.R. Exports to the U.S.S.R. have fluctuated between 150 and 300 thousand Kilos, annually after 1956, accounting for an average of 15 percent of Lebanese leaf exports between 1958 through 1962.

Other important markets for Lebanese leaf exports before 1957, were Egypt, Syria, and France, importing each an average of 150,000 Kilos per year. While exports to Egypt and Syria have ceased since 1958, exports to France, a relatively small amount or 50,000 Kilos annually exported at present, are likely to increase in the near future, due to an increase in the consumption of imported French cigarettes, which are also subject to barter regulations.

Other markets of growing importance for Lebanese leaf exports are West Germany, East Germany and the Netherlands.

Cash and Barter Exports, and their terms of trade - Barter exports accounted for almost the half of the total leaf exports in the early 1950-s; the other half being naturally exported on a cash basis. However, due to increasing restrictions on foreign cigarette imports, while aggregate exports increase absolutely, barter exports increased

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<sup>1</sup>Art. 7, "The Planned Tobacco Monopoly Agreement of June, 1964".

TABLE IX

LEAF TOBACCO EXPORTS BY TYPE  
CASH EXPORTS, AND BARTER EXPORTS  
ANNUAL, 1951 TO 1963

Year	Total Exports		Cash Exports		Barter Exports			
	Kgs.	Index base 1951	Kgs.	% of Total	Exchanged for Leaf Tobacco		Exchanged for Cigarettes	
					Kgs.	% of Total	Kgs.	% of Total
1951	314,80	100	160,801	51	154,000	49	-	-
1952	405,000	128	161,000	40	244,000	60	-	-
1953	330,113	104	209,809	64	120,304	36	-	-
1954	451,756	143	31,000	7	124,518	27	296,238	66
1955	352,449	111	2,506	1	69,775	20	280,168	79
1956	886,515	281	277,950	31	70,000	8	538,565	61
1957	616,594	195	17,582	3	-	-	599,012	97
1958	881,757	280	274,923	31	58,000	6	548,834	63
1959	1,067,574	339	250,005	23	-	-	817,569	77
1960	1,359,610	431	204,000	15	-	-	1,155,610	85
1961	1,208,661	384	160,660	13	-	-	1,048,001	87
1962	1,954,721	620	555,300	28	100,000	5	1,299,421	72
1963	2,581,07	820	786,089	30	-	-	1,794,982	70

Source: Official Records, Marketing and Procurement Department, Régie.

relatively to reach a high of 97 percent of total exports in 1957, and settled down in the neighborhood of 70 percent during the early 1960-s. And while the entire volume of barter exports were exchanged with leaf tobacco in the early 1950-s, barter exports after 1958, were exchanged mostly, not to say exclusively with foreign cigarettes.

In order to evaluate fully the export promotion policy of the Régie, through cash and especially barter agreements, it is imperative that the terms of trade of such exports are first laid down.

Being a marginal supplier of Oriental leaf tobacco, Lebanon has to charge for its exports, prices determined by the forces of demand and supply in the international tobacco market. However, the mere fact of requiring American, British, and French cigarette manufacturing companies, dealing with Lebanon, to purchase Lebanese leaf tobacco, suggest the fact that prices charged in the barter trade of leaf exports are higher than what they would have been if no barter requirements existed, and for that matter, higher than the prices charged for cash exports. In other words, the terms of trade of the barter exports are more favorable to Lebanon than those of the cash exports.

Although improved through barter regulations, the terms of trade of the Lebanese leaf exports have been adverse to date; while the average price per Kilo of exports have fluctuated since the early 1950-s, between a low of L.L. 2.35 and a high of L.L. 4.35, to settle down at slightly more than L.L. 3 per Kilo, in 1963; the average cost

TABLE XAVERAGE LOSS PER KILO INCURRED ON EXPORTS  
1951 to 1963, ANNUAL

Year	Total Exports Kgs.	Total Receipts from Exp. L.L.	Average Price of Exports per Kg. L.L.	Total Cost of Exports L.L.	Average Cost per Kg. Ex-ported L.L.	Total Loss in-curred L.L.	Average Loss per Kg. L.L.
1951	314,801	927,963	2.95	a	b		
1952	405,000	1,032,058	2.55	a	b		
1953	330,113	1,101,737	3.35	a	b		
1954	451,756	1,682,356	3.70	1,744,934	3.84	62,578	0.14
1955	352,449	1,132,450	3.20	1,193,803	3.37	61,353	0.17
1956	886,516	3,278,813	3.70	3,599,642	4.06	320,829	0.36
1957	616,595	2,655,233	4.30	3,059,812	4.96	404,579	0.66
1958	881,757	3,493,942	3.95	4,396,212	4.97	902,270	1.02
1959	1,067,574	4,654,413	4.35	6,478,086	6.05	1,823,673	1.70
1960	1,359,610	5,656,308	4.15	8,453,039	6.20	2,796,731	2.05
1961	1,208,661	3,970,174	3.28	6,563,674	5.43	2,593,500	2.15
1962	1,954,721	6,284,025	3.22	11,054,867	5.65	4,770,842	2.44
1963	2,581,071	7,913,814	3.07	15,451,746	5.98	7,537,932	2.92

a) Not available

b) No loss was incurred in those years

Source: Derived by the writer.

of exports has almost doubled to reach a level of L.L. 6 per Kilo, during the same period, thus accusing a deficit in the Régie's export sales operations during the period 1954 through 1963.

If losses are incurred in the exportation of Lebanese leaf tobacco, the question arises as to why to export at all?, or more likely, why to produce for exports?

The answer lies in the Government's desire to subsidize the tobacco growers by authorizing them to cultivate more than what is needed for the local consumption and by compelling the Régie to buy the whole of the crop at high prices. This desire has two important motives; first, to reduce the migration of farmers from villages to the cities, in search of employment opportunities, by raising the standard of living in these areas, and second, to satisfy the political leaders in various regions, aiming at securing this subsidy to their supporters.

Granting these facts, it is the contention of the writer that while the farmers should be subsidized until further employment opportunities are provided for them, and until the opportunity cost of the tobacco cultivated land is raised through the execution of the 'Litani' irrigation project, production destined for exports should not be encouraged, and should by no means exceed its present level, in the future.

The reason why Lebanon has to continue exporting on a cash basis, although the terms of trade of cash exports are less favorable than

those of the barter exports, seems to be the fact that cash exports are ultimately a better yardstick to measure the efficiency of the local tobacco production on the one hand, and the amount of the Government subsidy, on the other.

Lastly, two reasons why barter exports should not be encouraged any further, are; first, as already mentioned, losses are incurred in them, and second, more important than the first, the many barter agreements with the American cigarette manufacturers-exporters, may place them in a monopsonistic situation, whereby, they are in a position to dictate the prices at which they are willing to purchase Lebanese leaf tobacco, and this after due regard given to the Lebanese imported cigarette market. Hence, the reason why the terms of trade of the barter exports have been so far more favorable than those of the cash exports, is the existing competition between the various American brands in the imported cigarette market, and for that matter, the inability of the exporters-manufacturers to act as a monopsonist group.

However, if for any reason whatsoever the situation should be reversed, and the American manufacturers-exporters decide to act as a monopsonist group, the local leaf tobacco will not be having a readily available market, and will be ultimately marketed at

tremendous amounts of losses.

While such a possibility seems to be very remote, yet it is the contention of the writer, not to subject more than one third of the local crop at the mercy of the manufacturers-exporters, since the Régie is in no position to retaliate. The Régie is not in a position to retaliate by cutting down cigarette imports first, due to the well established American imported cigarette market, and second, because of the Régie's belief that at this stage, it can import American cigarettes more inexpensively than it can manufacture similiar quality products in Lebanon.

e. Imports of Leaf Tobacco.-

For the manufacture of the better quality local brands, small quantities of, what has been called by Oriental tobacco expert, noble tobacco are imported for blending purposes; Baffra Samsun and Dusjé from Turkey; Zihna and Mahala from Greece, Zlatograde from Bulgaria, and Magasol from Africa.<sup>1</sup>

Recently, with the increasing demand for American blended

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<sup>1</sup>Mainly from Rhodesia and Nyasaland.



TABLE XI

LEAF TOBACCO IMPORTS, BY COUNTRY OF ORIGIN, AND  
BY VARIETY OF TOBACCO IMPORTED, 1960 to 1963, ANNUAL

Country of Origin	T U R K E Y				G R E E C E			U. S. A			B U L G A R I A		A F R I C A		Grand Total of Imports
	Baffra	Samsun	Dusdje	Total	Samsun Pierias	Zihna	Mahala	Total	Virginia	Burley	Total	Zlatograde	Total	Magasol	
<u>Years</u>															
1960					17,274	23,830	16,126	<u>57,230</u>				8,000	<u>8,000</u>		<u>65,230</u>
1961	6,000	12,000	6,000	<u>24,000</u>	23,767	9,985	9,992	<u>43,744</u>	65,424	32,796	<u>98,220</u>	10,000	<u>10,000</u>		<u>175,964</u>
1962	12,000	36,000		<u>48,000</u>		21,188	22,740	<u>43,928</u>	7,999	3,752	<u>11,751</u>	6,000	<u>6,000</u>	10,336	10,336
1963	25,000	50,000	3,002	<u>78,002</u>		24,000	48,500	<u>72,500</u>						<u>14,598</u>	14,598
															<u>165,100</u>

SOURCE: Official Records, Marketing and Procurement Department, Regie.

locally manufactured brands, like O.K. and star, the Régie started to import small quantities of American leaf tobacco, namely Virginia sun-cured, and Burley flue-cured.

Over and above these varieties, the Régie imported in 1964, smaller quantities of kentucky flue-cured types, used in the manufacture of tobacco for rolling cigarettes. The sources of these imports were, Rhodesia-Nyasaland, Argentina and the U.S.A.

#### B. Demand for Tobacco Goods in Lebanon

Sales of manufactured tobacco goods in Lebanon, reached a pick of almost 2.3 million Kgs. in 1963, or 176 percent of the 1951 sales level; gross receipts in L.L., from sales totalled up to more than L.L. 70 millions, in the same year.

The average price per Kg. of tobacco goods sold, increased from L.L. 20, in the early 1950-s, to a high of L.L. 30, or an increase of 50 percent, in 1963. The increase in the average sales price was partly due to an increase in the selling price of all kinds of tobacco goods, on the one hand, and partly to a higher sales proportion of the more expensive, American and French imported brands.

Four market segments of unequal importance, yet differentiated by the type and quality of tobacco goods consumed or/and the origin of tobacco marketed, or the type and class of consumers, make up for the whole of the tobacco market in Lebanon.

The four market segments are in rank of importance, the market for the locally manufactured tobacco goods, the market for the imported

TABLE XII

SALES OF MANUFACTURED TOBACCO GOODS IN LEBANON,  
BY VARIETY, TOBACCO AND TOBAC, LOCAL CIGARETTES, IMPORTED CIGARETTES, ANNUAL 1951 TO 1963

Tobacco and Tombac			Local Cigarettes			Imported Cigarettes			Total Sales		Receipts From Sales	Average Price per Kg. of Sales	Tobacco Sales Price Index	
Kilos	Index: Base 1951	% of Total Sales	Kilos	Index: Base 1951	% of Total Sales	Kilos	Index: Base 1951	% of Total Sales	Kilos	Index: Base 1951	L.L.	L.L.	Base: 1951	
1951	318,458	100	25	916,628	100	70	62,849	100	5	1,297,935	100	26,451,575	20.38	100
1952	305,700	96	24	914,573	99	71	64,711	103	5	1,284,984	99	26,211,031	20.39	100
1953	314,515	99	24	962,541	105	71	64,635	103	5	1,341,691	103	27,268,633	20.32	99
1954	311,097	98	23	962,651	105	71	82,566	131	6	1,356,314	104	28,352,692	20.90	102
1955	328,519	103	23	985,111	107	69	107,383	171	8	1,421,013	109	31,166,432	20.90	102
1956	345,426	108	23	1,044,256	114	68	147,236	234	9	1,536,918	118	35,355,474	23.00	113
1957	379,478	119	23	1,077,047	117	65	201,269	320	12	1,657,794	127	42,100,885	25.39	124
1958	371,992	117	23	1,043,329	114	64	216,494	344	13	1,631,815	125	42,684,304	26.14	128
1959	390,581	123	22	1,149,449	125	66	204,664	326	12	1,744,694	134	45,661,400	26.17	128
1960	407,609	128	22	1,219,958	133	64	269,308	428	14	1,896,875	146	51,771,077	27.34	134
1961	426,120	134	21	1,260,191	137	61	363,573	578	18	2,049,884	158	58,966,378	28.77	141
1962	407,082	128	19	1,290,062	141	62	394,814	628	19	2,091,958	161	60,525,531	28.77	141
1963	419,885	132	18	1,346,059	147	59	521,161	829	23	2,287,075	176	70,218,296	30.70	151

SOURCE: Official Records, Department of Marketing and Procurement, Regie.

tobacco goods, the market for smuggled tobacco, which comprises, on the one hand, local leaf tobacco consumed mostly by the farmers themselves, and smuggled foreign cigarettes into Lebanon, on the other; and lastly the consumption by Diplomats, ships and Airliners.

a. Demand for the local manufacture.-

The local manufacture comprises in turn, tobacco and tombac on the one hand, and local cigarettes, on the other.

Both tobacco and tombac, and locally manufactured cigarette sales have appreciably increased, yet the extent of this increase has been less than the increase achieved in the total sales volume of tobacco goods sold, including foreign cigarettes; while the sales of tobacco and tombac have increased by 32 percent, and that of local cigarettes by 47 percent, total sales have increased by 76 percent, during the period 1951 through 1963, thus accusing a very high rate of increase in the consumption of imported cigarettes during the same period.

b. Demand for imported products.-

Due to a rise in the standard of living, increased urbanization and communication, the consumption of foreign cigarettes has increased more than 8 times, between the period 1951 and 1963; representing about 63,000 Kilos, or 5 percent of the total local consumption in 1951, sales of imported cigarettes reached a high of 521,000 Kilos, 23 percent of the total consumption in 1963, The offering of many barter agreements to foreign, and for that matter, mostly to American exporters, as well

as the Régie's feeling that it can now import American cigarettes more inexpensively, than it can manufacture locally American blended brands, have induced the importation, and thus, enhanced the consumption of foreign cigarettes, which on a per Kilo basis, brings the Régie more revenue than any other brand of the local manufactures.<sup>1</sup>

Lastly, the consumption of imported cigars, and pipe tobacco is very small in quantity; only about 1,000 Kilos consumed in 1956, consumption of cigars and pipe tobacco accounts for 5,000 Kilos annually.

#### c. Smuggling.-

The market for smuggled tobacco and of tobacco goods is differentiated from other market segments on two criteria; that it lies outside the sphere of control of the Régie, on the one hand, and the customs administration, on the other.

The smuggled leaf tobacco and tobacco goods' market, in turn is made up of local tobacco illegally consumed by farmers, and of foreign cigarettes smuggled into Lebanon from mainly, Gibraltar,

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<u><sup>1</sup>Régie Profit on Imported American Cigarettes</u>		L.L.
Selling Price per Kg. (or 50 packs) - 165 x 5		82.50
Cost Price:		
F.A.S. New York per Kg.	\$ 4.72	
Approximate freight and insur.		
10 %	<u>0.48</u>	
	5.20	or L.L. 15.60
Customs duties		2.08
Miscellaneous expenses		<u>0.05</u>
		17.73
Army tax: 14.7% of selling price, exclusive of the municipality tax		11.76
Distributors' Discounts: 8.8% of selling price exclusive of the municipality tax		7.04
Municipality tax P.L. 5 per pack		<u>2.50</u>
		39.03
Net profit per Kg.		<u>39.03</u>
Net profit per one pack: 43.47 x 50 = P.L.	<u>86.94</u>	<u>43.47</u>

Tangiers and Hong-Kong.

While the smuggled local leaf tobacco is primarily destined for personal consumption by farmers and families living near tobacco plantations, smuggled foreign cigarettes are mainly destined for resale to the public, by people engaged in the illegal procurement and distribution of foreign cigarettes in Lebanon.

The consumption of foreign smuggled cigarettes in Lebanon, amounted to about 40 percent of the annual sales volume of the legally imported foreign cigarettes by the Régie, or an estimated amount of 100,000 Kgs. smuggled into Lebanon annually, from 1959 through 1963, and this up to September 1963, when strict measures were taken by the government authorities to combat and ultimately discontinue this practise.

d. Consumption by Diplomats, Airliners and Ships.-

Although outside the sphere of the direct control of the Régie, consumption by diplomats, airliners and ships is distinguished from the smuggled leaf tobacco and tobacco goods market, on the criterion that it is supervised and controlled by the customs administration.

While airliners are supplied directly by the foreign cigarette exporting companies, dealing with their respective agents in Lebanon, and this under the supervision of the customs administration at the airport, diplomats and ships are supplied through a concessionnaire appointed by the Régie. The goods are first stored at the warehouses of the Régie in the Free Zone, and then delivered to the concessionnaire,

under the control of the customs administration. The estimated sales of tobacco goods sold by the airliners and ships to passengers landing to Lebanon, and sales to Diplomats amounts to 200,000 Kilos annually.<sup>1</sup>

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<sup>1</sup>As estimated by the Department of Marketing and Procurement, Régie.

APPENDIX TO CHAPTER IV



APPENDIX I TO CHAPTER IV

ACREAGE AUTHORIZED AND NUMBER OF PLANTERS AUTHORIZED  
TO CULTIVATE TOBACCO IN LEBANON, 1951-1964 ANNUAL

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Year	Acreage Authorized Décares	Number of Planters Authorized to Cultivate leaf Tobacco
1951	26,108	7,122
1952	29,168	7,776
1953	29,764	8,586
1954	30,600	10,197
1955	30,600	9,969
1956	31,700	10,662
1957	39,700	15,814
1958	39,900	15,599
1959	40,050	13,972
1960	40,050	14,315
1961	40,000	19,000
1962	46,000	18,770
1963	59,580	27,335
1964	65,000	31,500

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Source: Official Records, Department of Cultivation,  
Régie.

APPENDIX II TO CHAPTER IV

CHANGES IN THE PURCHASE PRICE OF LOCAL LEAF TOBACCO, AND ITS  
EFFECT ON THE LEVEL OF GOVERNMENT SUBSIDY TO THE FARMERS SINCE  
1951<sup>1</sup>

As the Lebanese Régie assumed its independent operations, the Ministry of Finance proceeded to fixing the purchase price of all locally produced varieties.

The price was fixed in a manner that its 25% represented the Government Subsidy to the farmers, and the balance of 75%, the real price of the tobacco leaf, ruling at that time in the international tobacco market. Later on, however, the basic price was increased by 15,12 and 4,814 percent, in 1956, 1959 and 1963 respectively, representing ultimately a 35 percent increase over the basic price paid to the farmers in 1951.

As a result of these alterations, the percentage of Government subsidy increased from 25% in 1951, to 44.44% in 1963, while the real worth of the crop decreased from 75% of the price paid to the farmers in 1951, to 55.56% in 1963 .

Régie's computation of the extent of the Government subsidy is presented below, subject to the limitation that it assumes a constant level of leaf tobacco prices ruling in the international tobacco market, since 1951.

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<sup>1</sup>Source: Official Records, Finance Section, Accounting Department, Régie.

APPENDIX III TO CHAPTER IV

ACTUAL RATE OF GOVERNMENT SUBSIDY TO THE FARMERS 1951-1963, ANNUAL

PERIOD	BASIC PRICE as determined by the Ministry of Finance in 1951	ACTUAL PRICE as a Percent of Basic Price	BASIC SUBSIDY Subsidy as a Percent of 'ba- sic price'	ACTUAL SUBSIDY Subsidy as a Percent of 'ac- tual price'	BASIC WORTH OF CROP Worth as a per- cent of 'basic price'	ACTUAL WORTH OF CROP Worth as a per- cent 'actual price'
	%	%	%	%	%	%
<u>1951 through 1955</u>	100	100	25	25	75	75
<u>1956 through 1959</u> (Increase of 15%)	100	115	40	<u>34.78</u>	75	65.22
<u>1960 through 1962</u> (Increase of 12%)	100	128.6	53.8	<u>41.77</u>	75	58.23
<u>1963</u> (Increase of 4.814%)	100	135	60	<u>44.44</u>	75	55.56

Source: Derived by the writer on the basis of information secured from Finance Division, Accounting Department, Régie.

APPENDIX IV TO CHAPTER IV

By applying the above actual subsidy-rates to the value of the crop paid to the farmers, during the period 1951 through 1963, the Government subsidy is estimated as follows:

Year	Total Value of crop.	Actual rate of Subsidy	Estimated Total Government Subsidy
	L.L.	%	L.L.
1951	4,558,237	25	1,139,559
1952	3,872,345	25	968,086
1953	4,135,991	25	1,033,997
1954	5,822,988	25	1,455,747
1955	7,035,738	25	1,758,935
1956	8,428,601	34.78	2,931,467
1957	11,745,231	34.78	4,084,991
1958	11,123,632	34.78	3,868,799
1959	13,517,427	34.78	4,701,361
1960	14,478,354	41.77	6,047,608
1961	15,665,373	41.77	6,543,426
1962	17,093,963	41.77	7,140,148
1963	17,935,000	44.44	7,970,314

Source: Derived by the writer.

Such an analysis could be carried one step further to derive the average subsidy per decare. As derived by the writer the average revenue per decare, the average subsidy per decare, and the average revenue net of subsidy per decare were the following, for the period 1951 through 1963;

Year	Average Revenue per Decare (a)	Average Subsidy per Decare (b)	Average Revenue Net of Subsidy per Decare (c)
	L.L.	L.L.	L.L.
1951	178	44.75	133.25
1952	138	34.76	103.24
1953	147	36.95	110.05
1954	193	48.25	144.75
1955	233	58.55	174.45
1956	272	94.48	177.52
1957	303	105.43	197.57
1958	281	98.65	182.35
1959	341	118.46	222.54
1960	374	155.56	218.44
1961	396	165.47	230.53
1962	407	170.00	237.00
1963	382	169.02	212.92

- a) Value of total crop divided by acreage harvested.  
 b) Total subsidy divided by acreage harvested.  
 c) (a) - (b)

## CHAPTER V

### OPERATING AND FINANCIAL RESULTS OF THE LEBANESE TOBACCO MONOPOLY (1951-1963)

Since 1935, the date at which the Tobacco Monopoly was established in the States of Lebanon and Syria, there has been some major changes in the structure of the capitalization account of the Monopoly. As these changes have had a direct bearing on the operations and financial results of the Tobacco Monopoly, it is reasonable to trace such developments before any attempt is made to describe and evaluate the operating and financial results.

#### A. Capitalization

When organized, the capital of the Régie was fixed at L.L.S. 1,250,000, divided into 25,000 shares of L.L.S. 50 par value each. In June 1938, an additional 2,500 shares of L.L.S. 50 par value each, were issued<sup>1</sup>, thus raising the capitalization account to L.L.S. 1,375,000 divided into 27,500 shares of L.L.S. 50 par value each.

As all the assets of the Régie would become the property of the governments at the end of the concession period, ending December 31, 1960<sup>2</sup>, the Régie was allowed to deduct from the total net profit figure, as determined in the Profit and Loss account of the Monopoly,

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<sup>1</sup>Art. 6, 'Modified Statutes', in application of Clause 2, of the Agreement of June 5, 1938, between the French High Commissioner and the Régie, and ratified by the Lebanese Government.

<sup>2</sup>Art. 1, The Tobacco Monopoly Law of January 1935.

a fixed annuity to amortize part of its shares and pay interest at 5 percent on the outstanding shares.<sup>1</sup> The amortized shares, called actions de jouissance would be entitled to regular dividends, while the unamortized shares, called actions de capital would receive L.L. 2.5, or 5 percent of the par value per share, over and above the regular dividends.

On the basis of the above provisions of the Tobacco Monopoly Law of 1935, the Régie amortized its shares regularly, according to a predetermined schedule of capital amortization.<sup>2</sup> By the legal end of the tobacco Monopoly's concession, in December 31, 1960, all of the capital was fully amortized, all the shares having been transformed to Jouissance shares.

In March 1950, after the break of the 'interêt commun' period with Lebanon, the Syrian Government bought the Syrian part of the Lebanese-Syrian Régie, upon the payment of a certain sum. Both the Assets and Liabilities and capital of the Régie were divided between the 'New Lebanese Régie', and the 'New Syrian Régie', on the basis of 45.81 percent to Lebanon and 54.19 percent to Syria.

These ratios, taken as a basis for dividing the capital and

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<sup>1</sup>Art. 14, The Tobacco Monopoly Law of January 1935.

<sup>2</sup>The planned schedule of capital amortization was modified in 1953, when the Régie amortized 6,862 shares, or 54.19 percent of the total number of shares outstanding at that date. The total value (at par) of the newly amortized shares were equivalent to the sum received from the Syrian Government, in return for the assets it acquired after the separation of the Syrian Régie from the Lebanese Régie. These 6,862 shares were in addition to the amortization of shares of the Lebanese Régie, in that year. For more details see Appendix I to Chapter V.

Liabilities on the one hand, and the Assets, on the other, were representative to the ratios for distributing the Monopoly profits to the Governments of Lebanon and Syria, before the separation.<sup>1</sup>

Thus, effective March 1950, the Capital of the Lebanese Régie was fixed at L.L. 629,887.50, or 45.61 percent of the initial L.L. 1,375,000.<sup>2</sup>

#### B. Facts and Figures of the Operating Results

The analysis of the operating results of the Tobacco Monopoly, through the use of standard ratios, lends itself, from the outset, to a detailed examination of the facts and figures of the Profit and Loss account<sup>3</sup>, and the balance sheet of the Monopoly.

The analysis of the Profit and Loss account provides the analyst with enough information about the profitability aspect of operations, and that of the balance sheet about the general financial condition of the Monopoly. However, a combined analysis of both statements is necessary to highlight the efficiency and earning power aspects of operations.

<sup>1</sup>Profit sharing between the two Governments was, in turn, based on their respective contribution to total Monopoly sales in L.L.S., in Lebanon and Syria.

<sup>2</sup>The capital of the Régie is still reported in the balance sheets, as L.L. 1,375,000, divided into 27,500 shares of L.L. 50 par value each; the balance, namely the amount of L.L. 745,112.50, or the capital of the Syrian exploitation, appears as a contra account, on both sides of the balance sheet.

<sup>3</sup>The reader should be reminded here, that the profit and loss account of the Monopoly, constitutes a separate legal and financial entity from the Profit and Loss account of the Régie. This concept will be clarified in a subsequent discussion about the Régie and Government accounts, in this chapter.



a. Profit and Loss Account Items.-

Revenues - The most important item under 'Revenues', is 'sales revenue' from manufactured tobacco goods sold. About 98.8 percent of total Monopoly revenues in 1953, amounting to more than L.L. 27 millions, revenues from sales of manufactured tobacco goods sold has increased to more than L.L. 70 millions, or an increase of over 158 percent, to represent 99.02 percent of total revenues in 1963.

Expenses - Among the major 'Expenses' items are, in rank of importance; cost of manufactured tobacco goods sold, general operating expenses and sales discounts and distributors' commissions.

The cost of manufactured tobacco goods sold includes both the cost of the local manufacture and that of the imported tobacco goods sold in the local market. Around L.L. 8 millions in 1953, it has increased by 176 percent to reach a level of L.L. 23 millions in 1963, but its proportion to the total of Monopoly revenues has remained constant around 30 percent.

The 'General Operating Expenses' item, which includes mainly losses incurred in the exports of Lebanese leaf tobacco and depreciation charges on total fixed assets, has increased from a low of L.L. 1.5 millions, in 1953, to a high of almost L.L. 12 millions in 1963, or an increase of 752 percent representing about 17 percent of total revenues in 1963.<sup>1</sup>

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<sup>1</sup>In order to have a closer understanding of the abnormal development in this expense item, the reader will have to refer to chapter 4, section on 'Losses incurred in the Lebanese Leaf exports.'

TABLE XIII

## P. &amp; L. ACCOUNT OF THE TOBACCO MONOPOLY

ANNUAL, 1953 TO 1963

L.L.	1953		1954		1955		1956		1957		1958		1959		1960		1961		1962		1963		L.L.	
	Percent of total Revenue	Index Base: 1953	Percent of total Revenue	Index Base: 1953	Percent of total Revenue	Index Base: 1953	Percent of total Revenue	Index Base: 1953	Percent of total Revenue	Index Base: 1953	Percent of total Revenue	Index Base: 1953	Percent of total Revenue	Index Base: 1953	Percent of total Revenue	Index Base: 1953	Percent of total Revenue	Index Base: 1953	Percent of total Revenue	Index Base: 1953	Percent of total Revenue	Index Base: 1953		
<b>REVENUES:</b>																								
Sales of manufactured tobacco products (a)	27,268,633	98.80	100	98.87	104	98.51	114	98.82	130	98.74	154	99.12	156	98.62	167	98.92	190	99.10	216	98.90	222	99.02	258	70,218,296
License fees earned	210,769	0.80	100	0.86	117	0.87	130	0.88	148	0.80	161	0.62	127	0.92	203	0.75	187	0.54	153	0.64	153	0.61	139	433,102
Receipts from forfeitures and confiscations of smuggled tobacco and tobacco goods (b)	75,147	0.30	100	0.17	67	0.49	206	0.14	62	0.16	85	0.08	46	0.17	100	0.02	14	0.08	65	0.16	129	0.08	76	56,918
Miscellaneous revenue (c)	32,917	0.10	100	0.10	94	0.13	160	0.16	172	0.30	410	0.18	236	0.29	408	0.31	493	0.28	509	0.30	554	0.29	615	202,591
<b>Total Revenues</b>	<b>27,587,466</b>	<b>100.00</b>	<b>100</b>	<b>100.00</b>	<b>104</b>	<b>100.00</b>	<b>115</b>	<b>100.00</b>	<b>130</b>	<b>100.00</b>	<b>155</b>	<b>100.00</b>	<b>156</b>	<b>100.00</b>	<b>168</b>	<b>100.00</b>	<b>190</b>	<b>100.00</b>	<b>215</b>	<b>100.00</b>	<b>222</b>	<b>100.00</b>	<b>257</b>	<b>70,910,909</b>
<b>LESS EXPENSES:</b>																								
Cost of manufactured tobacco products sold (d)	8,354,620	30.28	100	30.41	104	30.27	114	32.24	138	31.01	158	31.18	161	30.18	167	31.63	198	31.79	226	31.28	229	32.54	276	23,073,618
Discounts and Distributors' commissions (e)	2,725,759	9.88	100	9.88	104	9.84	114	9.87	129	9.87	154	9.92	157	9.85	167	9.89	190	10.76	235	10.82	243	10.95	285	7,768,273
Expenses on manufactured tobacco	176,755	0.64	100	0.70	113	0.74	132	0.77	156	0.86	207	0.77	187	0.74	192	0.76	224	-	-	-	-	-	-	-
Selling expenses (f)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1.14	100	1.18	107	1.13	118	797,731
Control and Inspection of crops	346,762	1.26	100	1.31	109	1.30	119	1.31	135	1.17	143	1.40	174	1.31	173	1.28	194	1.16	202	1.11	196	0.91	186	645,614
Development and research expenses (g)	649,289	2.35	100	2.77	122	2.74	132	2.73	150	2.71	178	2.67	177	2.86	204	2.72	219	2.94	269	3.97	374	3.69	403	2,615,258
Salaries expenses	969,828	3.51	100	3.51	104	3.53	115	3.68	136	3.36	148	3.73	165	3.73	178	3.72	201	5.35	328	3.88	245	3.38	247	2,394,659
Employees' benefits (h)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.45	100	0.51	116	0.41	107	290,657
Insurance expense	46,869	0.17	100	0.18	113	0.17	114	0.17	133	0.17	158	0.20	185	0.20	202	0.13	148	0.09	114	0.11	147	0.10	153	71,758
Bonus to the Regie (i)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.22	100	0.34	152	0.36	190	259,156
Fixed annuity for interest and redemption of shares	44,874	0.16	100	0.16	100	0.14	100	0.13	100	0.11	100	0.11	100	0.10	100	0.08	100	-	-	-	-	-	-	-
Fixed financial obligations (j)	1,010,000	3.66	100	3.52	100	3.19	100	2.82	100	2.37	100	2.37	100	2.18	100	1.93	100	1.70	100	1.65	100	1.42	100	1,010,000
General expenses (k)	1,402,544	5.08	100	5.56	114	7.08	159	7.19	183	8.62	262	10.11	310	11.34	374	13.04	487	12.82	543	13.81	602	16.85	852	11,947,774
<b>Total Expenses</b>	<b>15,727,302</b>	<b>56.99</b>	<b>100</b>	<b>58.00</b>	<b>106</b>	<b>59.13</b>	<b>119</b>	<b>60.91</b>	<b>138</b>	<b>60.25</b>	<b>163</b>	<b>62.46</b>	<b>171</b>	<b>62.49</b>	<b>184</b>	<b>65.18</b>	<b>217</b>	<b>68.42</b>	<b>259</b>	<b>68.66</b>	<b>267</b>	<b>71.74</b>	<b>323</b>	<b>50,874,503</b>
Profit to be divided between the Government and the Regie	11,860,165	43.01	100	42.00	102	40.81	109	39.09	118	39.75	143	37.56	136	37.51	146	34.82	154	31.58	158	31.34	154	28.26	169	20,036,406

TABLE XIII CONT'D

- a. Excluding the army tax, or 15 percent of total sales value.
- b. This, in fact, represents only one third of the total value of penalties imposed and confiscations seized; the balance of two thirds being evenly distributed, as a bonus, between the 'informer', and the 'security agent', who has seized the 'smuggled' merchandise.
- c. Includes all other revenues, such as; receipts from the sales of rejects and scrap, interest income from cash in bank, tax receipts from imports, by individuals, of tobacco other than that sold in the local market, (the Monopoly imposes a tax of L.L. 50 per kg. of such tobacco imported), and finally, receipts from crops of 'pilot plants'.
- d. Includes: Cost of local manufacture sold, and cost of imported products sold. The cost of the local production, in turn, comprises: cost of leaf tobacco, expenses incurred in manipulating such tobacco, labor cost, cost of packaging, general expenses (e.g. electricity, rent, maintenance), and cost of the procurement department. Excludes depreciation expenses. The cost of imported tobacco products sold includes; the invoice price, insurance expenses, customs duties (L.L. 2.08 per kg. of cigarettes and cigars, and L.L. 0.83 per kg. of pipe and snuff tobacco), customs clearance expenses and transportation costs to warehouses.
- e. Distributors' Discounts amount to between 8.25 to 8.8 percent of selling price. This general rule, however, excludes sales to Army cooperatives, that are offered a 30 percent discount (except on R.D.T.), and sales to the Régie employees', who are offered a 40 percent discount on imported cigarettes and a 60 percent discount on local cigarettes.  
  
Distributors' Commissions amount to between 3/4 to 2 percent.
- f. Includes: employees' salaries in all agencies (19 in number), transportation expenses and overhead costs incurred in those agencies, plus all direct and indirect expenses incurred in operating the 'Central Warehouse' at the Hadat plant.
- g. Expenses incurred in operating technical centers, e.g. the Saadiyat.
- h. Includes: Fringe benefits to employees, such as medical care

birth, marriage and decease allowances extended to employees and their families.

- i. Includes: 'Prime de rendement' and 'Prime sur L'exportation des tabacs en feuilles'.
- j. L.L. 10,000 represents the expense budget of the Régie board of Directors.
- k. Includes: losses incurred in leaf tobacco exports, depreciation expenses on total fixed assets, interest expenses on accounts payable to government after date of maturity (at 5 percent), and administrative and general expenses.

Source: Derived by the writer, from: 'Régie co-intéressée Libanaise de Tabacs et Tombacs, Rapports présentés par le Conseil d'Administration et par les Commissaires de Surveillance, exercices 1953 through 1963.

Finally, 'Discounts and Distributors' Commissions' has about tripled from a low of L.L.2.7 millions in 1953 to a high of L.L. 7.7 millions in 1963, yet its proportion to total revenues has almost remained constant, around 10 percent.

b. Balance sheet items.-

Assets - The most significant growth on the 'Assets' side of the balance sheet has been achieved in the 'net fixed assets' item, which has reached to L.L. 14 millions in 1963, or more than 34 times its 1953 level. The major factor accounting for this growth has been the construction of the Hadat plant, with administrative headquarters located nearby, and which has costed the Monopoly around L.L. 8 millions.

As to current assets, they have increased by 273 percent since 1953, an increase not sufficient though, to match the increase achieved in the current liabilities, which have increased by 467 percent during the same period.

Liabilities and stockholders' equity - As indicated in Table XIV, the major change in the liabilities item, apart the growth in the current liabilities already mentioned, has been the introduction of a new item in 1955, namely, annual installments payable to the Government in yearly installments. It amounted to more than L.L. 6 millions in 1963.

While there has not been any additions in the capital account of the Monopoly since 1953, yet the increase in appropriations from retained earnings, from reserves for employees indemnities and advances have boosted the stockholders equity section by almost three times its

## BALANCE SHEET OF THE TOBACCO MONOPOLY

1953 TO 1963 ANNUAL

A S S E T S	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
	L.L.	L.L.	L.L.	L.L.	L.L.	L.L.	L.L.	L.L.	L.L.	L.L.	L.L.
<b>CURRENT ASSETS:</b>											
Cash on hand and in bank (a)	950,337	1,698,756	2,082,667	3,809,537	4,249,826	3,213,092	4,225,155	3,697,134	4,222,853	3,847,085	6,860,306
Accounts Receivable (b)	570,166	856,125	1,312,037	1,649,623	1,551,382	1,969,629	1,673,540	2,827,717	4,184,006	5,283,470	6,632,505
<b>Inventories:</b>											
Raw materials, Goods in process, Supplies	9,303,376	8,825,179	12,178,291	12,696,699	17,127,012	22,000,213	22,243,535	23,444,352	24,713,660	28,815,328	26,230,446
Finished Goods	569,346	746,384	495,904	1,005,691	2,027,709	1,473,423	1,988,307	2,771,104	2,757,681	2,490,748	2,832,711
Total Inventories	9,872,722	9,671,563	12,674,194	13,702,390	19,154,721	23,473,636	24,231,842	26,215,456	27,471,341	31,306,076	29,063,157
Total Current Assets	11,393,226	12,226,444	16,068,898	19,161,551	24,935,929	28,656,357	30,130,537	32,740,307	35,878,200	40,436,631	42,555,968
<b>SUNDRY ASSETS</b>											
Unused Assets at scrap value (c)	32,640	32,640	32,640	32,640	32,640	32,640	13,653	13,653	13,653	13,653	13,653
<b>FIXED ASSETS:</b>											
Monopoly Premises (d)	-	355,903	472,833	2,124,726	6,540,911	7,718,360	8,339,938	8,624,276	9,080,050	9,829,979	12,024,849
Less Accumulated Depreciation	-	11,863	29,910	100,735	316,559	547,538	818,553	1,093,536	1,368,520	1,643,503	1,918,770
Net Monopoly Premises	-	344,040	442,923	2,023,991	6,224,352	7,170,822	7,521,385	7,530,740	7,711,530	8,186,476	10,106,079
Machinery, Equipment and Vehicles	1,322,107	1,515,230	1,537,802	1,611,452	1,782,714	2,364,798	5,054,589	5,737,759	6,390,594	7,207,698	7,768,009
Less Accumulated Depreciation	921,671	1,193,744	1,327,979	1,422,329	1,476,564	1,663,667	1,977,720	2,372,129	2,749,989	3,156,437	3,593,744
Net Machinery, Equipment and Vehicles	400,436	321,486	209,821	189,121	306,150	701,130	3,076,869	3,365,630	3,640,605	4,051,261	4,174,255
Total Fixed Assets	400,436	665,526	652,744	2,213,112	6,530,502	7,871,952	10,598,254	10,906,370	11,352,135	12,237,737	14,280,344
Total Assets	11,826,304	12,924,609	16,754,284	21,407,305	31,498,671	36,560,950	40,742,444	43,650,329	47,243,988	52,688,022	56,849,965
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>											
<b>CURRENT LIABILITIES: (e)</b>	6,132,508	6,836,104	8,276,881	11,060,973	17,353,294	20,681,481	20,888,556	24,363,301	26,429,090	29,849,257	34,759,464
<b>LONG TERM LIABILITIES:</b>											
Annual Installments Payable to Government (f)	-	-	1,174,572	2,305,945	3,292,317	5,116,255	7,259,268	7,105,521	6,832,734	6,559,948	6,287,162
Total Liabilities	6,132,508	6,836,104	9,451,453	13,366,918	20,645,611	25,797,736	28,147,824	31,468,822	33,261,824	36,409,205	41,046,626
<b>STOCKHOLDERS' EQUITY</b>											
Capital Stock (Lebanese exploitation)	629,887	629,887	629,887	629,887	629,887	629,887	629,887	629,887	629,887	629,887	629,887
Reserve for employees' indemnities	3,327,989	3,960,973	5,051,022	5,966,679	7,504,591	8,624,328	9,369,091	9,685,377	11,312,595	11,987,557	13,166,019
Reserve for employees' advances (g)	-	-	-	-	-	-	-	486,000	986,000	986,000	986,000
Undivided Profits	1,735,919	1,497,643	1,621,920	1,443,819	2,718,381	1,508,996	2,595,642	1,380,242	1,053,682	2,675,371	1,021,433
Total Stockholders' equity	5,693,796	6,088,504	7,302,830	8,040,387	10,853,060	10,763,213	12,594,620	12,181,507	13,982,164	16,278,816	15,803,339
Total Liabilities and Stockholders' equity	11,826,304	12,924,609	16,754,284	21,407,305	31,498,671	36,560,950	40,742,444	43,650,329	47,243,988	52,688,022	56,849,965

TABLE XIV CONT'D

- a. Also includes documentary credits.
- b. Includes: receivables from sales, employees, forfeitures, advances on purchases, bad debts, receivables from planters.
- c. This amount represents the scrap value of assets bought at the beginning of the Monopoly concession, from the owners of tobacco plants, previous to the establishment of the tobacco Monopoly.
- d. Includes: constructions in process for the years, 1961, 1962, 1963.
- e. Almost 60 percent of this account, represents, for every year, accounts payable to the Government (government's share in the Monopoly profits), another 35 percent represents receipts from army tax, collected by the Régie, payable to the Government. Includes also, income tax payable, accounts payable to planters, employees and indemnities payable to seasonal workers.
- f. This account was set up with the construction of the new Hadat Plant. As the Monopoly spent on constructions, the Government authorized the Monopoly to reduce the 'accounts payable to government' by the same amount of expenditures incurred every year, and credit this account, which would be amortized every year by an amount equal to one thirtieth of the value of the new plant.
- g. Reserve for employees' advances is an appropriation from the 'Reserve for employees' indemnities.

Source: Régie CO-intéressé Libanais des Tabacs et Tombacs, Rapports présentés par le Conseil d'Administration et par les commissaires de Surveillance, exercices 1953 through 1963.

1953 level, amounting to L.L. 16 millions in 1963.

### C. Ratio Analysis of the Operating Results

Ratios, discriminately calculated and wisely interpreted can be useful tools for financial analysis. They point out in arithmetical terms the relationships between figures drawn from financial statements, and they are useful to the extent that there exists a significant relationship between the figures selected for ratio analysis.

The attempt in this, and part of the following section will be to find out through the usage of ratio analysis some of the more important financial features of the Régie company, and to assess, to the extent that it will be possible, the developments of those main features since 1953.

The more important financial yardsticks considered in this section are: a) measures of profitability; b) measures of asset use, or efficiency; and c) measures of financial condition.

Measures of Profitability - The absolute figures for profit take on more meaning when compared to sales. Widely used as a measure of profitability is the percentage ratio of net income to net sales, or the profit margin ratio. The profit margin ratio of the Tobacco Monopoly has decreased considerably during the last decade, from a high of 43.49 percent to an ever lower 28.53 percent, thus accusing a larger cut in the percentage of the sales L.L. consumed by operating expenses, which as discussed in the previous section, have more than tripled their ratio to total revenues, during the same period of time.



While the profit margin ratio highlights a static relationship between sales revenue and net profits on the one hand, and sales revenue and total operating expenses on the other, it lacks to show the more dynamic relationship between profits and the resources employed in generating them.

More important gauges of profitability are the rate of return on capital, and the earning power ratio.

Both rates have dropped considerably since 1953; the rate of return on capital (or on owners investment) from a high of 208 percent in 1953, to a low of 125 percent in 1963; and the earning power ratio, from a high of 103 percent to a low of 34 percent.

While the major cause of the decrease in the rate of return on capital has been the equally decreasing rate of profit margin - since, the capital turnover has remained more or less constant around 4 times - the causes of the drop of the earning power ratio appears to be twofold; a marked drop in the profit margin ratio, similar in the case of the rate of return on capital ratio, accompanied with a large drop, almost 50 percent, in the assets turnover ratio, thus indicating clearly that the decreasing profitability of the Monopoly's operations has been the outcome of a lower margin of profit per L.L. 1 of sales, on the one hand, and a lower assets turnover per L.L. 1 of sales, on the other.

Measures of assets use or efficiency - The use of the earning power ratio as an ultimate gauge of profitability, leads the financial analysts, although indirectly, into the field of operating efficiency.

As indicated earlier, the earning power ratio is nothing but the product of the profit margin ratio and assets turnover ratio, which in turn, and considered alone, is a measure of efficiency. Thus, the higher the assets turnover in proportion to sales, the more efficient are the operations of the firm, and the higher are the overall profits; and the lower the ratio, the less efficient are the operations and the lower are the overall profits.

Yet, in order to pin point inefficiencies in specific areas of operations of the Monopoly, one has to compare individual assets to total annual net sales. Such an attempt will be made in this section with respect to inventories.

In order to optimize profits by minimizing cost of storage and other risk factors, there exists always an optimum relationship between the level of inventories and sales.

Measures of inventory use for annual sales can be highlighted through the use of two significant ratios, the percentage of inventories to sales, and second, which gives the same relationship in a more accurate manner, the inventory turnover ratio.

In the case of the tobacco Monopoly under discussion, the inventory of raw materials, goods in process and supplies, only 34.11 percent in 1953, has increased to a level of 37.36 percent of total year end net sales in 1963, passing through inventory boom periods, in 1958, 1959 and 1962, when this ratio was high up to 51.54 percent, 48.71 percent and 47.61 percent, respectively.

TABLE XV

## OPERATING RESULTS OF THE TOBACCO MONOPOLY, 1953 TO 1963, ANNUAL

Year	Measures of Profitability				Measures of Asset Use			Measures of Financial Condition			
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
	Profit Margin	Capital Turnover	Assets Turnover	Rate of Return on Capital	Earning Power	Total Inventory Turnover	Finished Goods Inventory Turnover	Current Ratio	Acid Test Ratio	Total Debts to Assets	Net Worth to Total Debts
(%/o)	(Times)	(Times)	(%/o)	(%/o)	(Times)	(Times)	(Times)	(Times)	(Times)	(%/o)	(%/o)
1953	43.49	4.8	2.3	208	103	0.84	14.67	1.85	0.25	0.52	0.93
1954	42.48	4.7	2.2	199	93	0.91	11.68	1.78	0.38	0.53	0.89
1955	41.48	4.3	1.9	178	79	0.75	19.29	1.94	0.41	0.56	0.77
1956	39.54	4.4	1.6	174	63	0.84	11.47	1.73	0.49	0.62	0.60
1957	40.25	3.9	1.3	157	52	0.69	6.50	1.43	0.33	0.65	0.52
1958	37.90	4.0	1.2	152	45	0.57	9.10	1.38	0.25	0.71	0.42
1959	38.03	3.6	1.1	137	42	0.58	7.00	1.44	0.28	0.69	0.44
1960	35.18	4.2	1.2	148	42	0.63	6.00	1.34	0.27	0.72	0.38
1961	31.87	4.2	1.2	134	38	0.68	6.80	1.35	0.32	0.70	0.42
1962	30.09	3.7	1.1	111	33	0.61	7.60	1.35	0.31	0.69	0.44
1963	28.53	4.4	1.2	125	34	0.79	8.10	1.21	0.39	0.72	0.38

(a) Profits divided by sales (net of army tax).

(b) Sales (net of army tax) divided by total stockholders's equity.

(c) Sales (net of army tax) divided by net operating assets (total assets minus sundry assets).

(d) Is computed by multiplying (a) x (b).

(e) Is computed by multiplying (a) x (c).

(f) Cost of sales divided by average total inventories (total inventories include: raw materials, goods in process, supplies and finished goods).

(g) Cost of sales divided by finished goods.

(h) Current assets divided by current liabilities.

(i) (Current assets - total inventories) divided by current liabilities.

SOURCE: Derived by the writer from "Regie Co. interessees Libanaise des Tabacs et Tombacs, Rapports presentes par le Conseil d'Administration et par les Commissaires de Surveillance, exercices, 1953 through 1963.

The ratio of finished goods inventory to total year end sales has also increased; only 2.08 percent in 1953, only 2.08 percent in 1953, it has almost doubled and represented 4.03 percent of total year end sales in 1963.

To express the same relationship of inventories to sales, through a more sophisticated manner, the inventory turnover ratio might be handy. While the total inventory turnover has almost remained constant, around an average of 0.75 times, during the last decade, the finished goods inventory turnover has decreased from a high of 14.67 times, in 1953, to a low of 8.1 times in 1963, thus, accusing a large increase in the level of the finished goods inventories stored at the Monopoly warehouses.

At first thought, this sharp decline in the finished goods inventory turnover might seem to indicate a sign of unsound merchandising policies and/or inefficient merchandising procedures, yet it can easily be explained by the fact that, the introduction of new brands, locally manufactured and imported, have warranted a larger finished goods inventory to be stored at the Monopoly warehouses, during the last decade.

Measures of Financial Condition - Measures of financial condition resume themselves to short and long term measures.

Short term measures are achieved through the use of the current ratio, the ratio of current assets to current liabilities, indicating the ability of the concern to meet its current obligations

through the liquidation of its current assets; and, the 'acid test' ratio, the ratio of current assets net of inventories to current liabilities, measuring the actual solvency of the concern, as contrasted to the technical solvency, measured through the former ratio.

In the case of the Tobacco Monopoly, the current ratio has consistently declined from 1.85: 1, in 1953, to 1.21: 1, in 1963, thus accusing a larger increase in the size of the current liabilities, than that of the current assets. The acid test ratio has remained constant, but at a very low level, around 0.30 percent, highlighting the fact that although technically solvent, the Monopoly has been far away from actual solvency.

But, does the situation call for immediate remedy? Since the bulk of current liabilities are liabilities payable to the Government for its share in the profits, army tax receipts, and income tax receipts, and since, in the event of any liquidation of Monopoly's operations, both the assets and liabilities will be transferred to the Government, then, a higher rate of increase achieved in the current liabilities as compared to that of the current assets, is not at all alarming.

As to long term measures of financial condition, the 'net worth to total debts' ratio seems to be the most significant one. In the Monopoly's case, this ratio has decreased from a high of 0.93 percent in 1953, to a low of 0.38 percent in 1963, thus accusing a sharper rise in the size of the total debts, than the boost achieved in the equity account during the decade 1953 through 1963.

100

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through the liquidation of its current assets; and, the 'acid test' ratio, the ratio of current assets net of inventories to current liabilities, measuring the actual solvency of the concern, as contrasted to the technical solvency, measured through the former ratio.

In the case of the Tobacco Monopoly, the current ratio has consistently declined from 1.85: 1, in 1953, to 1.21: 1, in 1963, thus accusing a larger increase in the size of the current liabilities, than that of the current assets. The acid test ratio has remained constant, but at a very low level, around 0.30 percent, highlighting the fact that although technically solvent, the Monopoly has been far away from actual solvency.

But, does the situation call for immediate remedy? Since the bulk of current liabilities are liabilities payable to the Government for its share in the profits, army tax receipts, and income tax receipts, and since, in the event of any liquidation of Monopoly's operations, both the assets and liabilities will be transferred to the Government, then, a higher rate of increase achieved in the current liabilities as compared to that of the current assets, is not at all alarming.

As to long term measures of financial condition, the 'net worth to total debts' ratio seems to be the most significant one. In the Monopoly's case, this ratio has decreased from a high of 0.93 percent in 1953, to a low of 0.38 percent in 1963, thus accusing a sharper rise in the size of the total debts, than the boost achieved in the equity account during the decade 1953 through 1963.

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To blend the results and comments drawn from the P & L., as well as the balance sheet accounts, for a more compact single statement of the results of our ratio analysis, the following generality could be stated.

The overall profitability of the operations of the Tobacco Monopoly has substantially declined during the last decade. Two factors, mainly responsible for this drop, have been, the reduced profit margin on sales, and a drop in the sales to assets turnover.

Whereas the major cause of the reduced profit margin could be traced back to the increased level of operating expenses in general, and losses incurred in leaf tobacco exports in particular, the reason of the adverse assets turnover rate may be explained by the consistent and large increase in the level of fixed assets. And since the growth in assets has been financed through debt instead of equity capital, and as indicated by an ascending debts to assets ratio, and a descending net worth to debts ratio, the general long term financial moves of the Monopoly have been adverse.

#### C. Facts and Figures of the Financial Results

After having discussed the operating results of the Monopoly, we now turn to its financial results.

The financial results of the Monopoly will be discussed in terms of the Government account, describing the sources of total government tobacco receipts, and Régie account, describing the sources of total Régie receipts. A section will also be devoted to evaluate



dividend receipts of Régie shareholders.

However, before starting such a task, it is imperative that the profit sharing methods in use, in the past, present and future are described.

a. The evolution in the profit sharing method

Profit sharing between the Government(s) and the Régie has passed through four stages, since the early days of the Monopoly operations. Gradual at the first two stages, the profit sharing has become to be a flat percentage during the next two.<sup>1</sup>

During the Lebanese-Syrian exploitation of the Tobacco Monopoly (January 1935 to March 1950), the profits were distributed on a gradual basis; for the first L.L.S. 750,000, 85 percent went to the Governments, the balance of 15 percent being left to the Régie, and for the following L.L.S. 250,000 profit brackets, this percentage went high up to 95 percent, for anything over and above the third L.L.S. 250,000 profit bracket.

On March 1950, after the separation of the Lebanese Régie from the Syrian Régie, the profit sharing schedule was revised in Lebanon. While the percentages applying to the respective profit brackets remained the same, the profit brackets were reduced to 45.81 percent of their pre-1950 level.

On January 1951, the entire system of profit sharing was changed to a new flat 95 to 5 percent basis, and the difference to the advantage of the Government, arising from the former and the new

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<sup>1</sup>For more details on profit sharing methods, see appendix II to Chapter V.

methods of profit sharing, of L.L. 51,536.25 was credited to a special account to subsidize possible losses incurred in the Lebanese leaf exports.

Lastly, according to the provisions of the Planned Tobacco Monopoly Agreement of June, 1964, the profit sharing method for the next ten years, ending December 31st 1973, is defined as follows:

The annual government subsidy actually paid to the farmers shall be added to the profit figure, as drawn from the P & L. account; it will be deducted from the figure thus arrived at, L.L. 20 per kg. of imported manufactured tobacco goods sold in the local market, to arrive at the 'adjusted' profit figure.

"The Régie, then shall have 4 percent of the 'adjusted profit figure, while the Government shall receive the total of the 'unadjusted' figure net of the Régie share."

It will be interesting at this stage, to evaluate the terms of each method, but because of limitations of time and space, such an attempt is made for the last two methods in the Appendix to this chapter.

b. Government tobacco receipts by source.-

Total Government tobacco receipts are by no means limited to the Government's share in the Monopoly profits. Over and above its share, the Government receives a fixed annual payment, army tax revenues, and income tax receipt, the latter being imposed on the total profits of the Régie.

Fixed annual receipts - The fixed annual receipts, imputed to the Monopoly P & L. account, has changed in amount since 1935,

TABLE XVI

GOVERNMENT TOBACCO RECEIPTS BY SOURCE , FROM THE EXPLOITATION OF THE TOBACCO MONOPOLY

1951 TO 1963 ANNUAL

Year	Total Monopoly Profits (a)		Government's Share (b)		Fixed Annual Receipt (c)		Army Tax Receipts (d)		Total Before Income Tax Receipts (e)		Income Tax (f)		Total Government Receipts (g)	
	L.L.	Index Base: 1951	L.L.	Index Base: 1951	L.L.	Index Base: 1951	L.L.	Index Base: 1951	L.L.	Index Base: 1951	L.L.	Index Base: 1951	L.L.	Index Base: 1951
1951	12,145,344	100	11,538,077	100	1,000,000	100	4,586,876	100	17,124,953	100	229,813	100	17,354,766	100
1952	11,378,081	95	10,809,177	95	1,000,000	100	4,537,530	99	16,346,707	95	235,773	102	16,582,480	95
1953	11,860,165	98	11,267,157	98	1,000,000	100	4,719,927	103	17,210,478	101	223,396	97	17,433,874	100
1954	12,044,535	99	11,442,308	99	1,000,000	100	4,907,789	106	17,350,097	101	228,360	99	17,578,457	101
1955	12,929,488	106	12,283,013	106	1,000,000	100	5,392,824	117	18,675,837	109	248,271	108	18,924,108	109
1956	13,981,475	115	13,282,401	115	1,000,000	100	6,123,524	133	20,405,925	119	266,532	116	20,672,457	119
1957	16,947,720	140	16,100,325	140	1,000,000	100	7,287,639	159	24,387,964	142	329,772	143	24,717,736	142
1958	16,176,070	133	15,367,266	133	1,000,000	100	7,363,126	160	23,730,392	138	369,111	161	24,099,503	138
1959	17,365,625	144	16,497,344	144	1,000,000	100	7,882,507	172	25,379,851	148	353,389	154	25,733,240	148
1960	18,213,546	151	17,302,868	151	1,000,000	100	8,883,663	194	27,186,531	159	438,448	190	27,624,979	159
1961	18,790,284	155	17,850,770	155	1,000,000	100	10,179,687	222	28,972,122	169	415,432	181	29,445,889	170
1962	19,172,212	159	18,213,602	159	1,000,000	100	10,424,126	227	29,602,577	173	358,060	156	29,995,788	173
1963	20,036,406	166	19,034,586	166	1,000,000	100	12,118,895	264	32,153,481	188	383,955	168	32,537,436	187

Source : Derived by the writer from : Regie Co. interessee Libanaise des Tabacs et Tombacs, Rapports presentes par le Conseil d'Administration et par les Commissaires de Surveillance , exercices 1951 through 1963

with the changes affecting the profit sharing methods. Amounting to L.L.S. 1,100,000 during the Lebanese-Syrian common exploitation period, it has undergone few changes to reach the amount of L.L. 1,000,000 payable to the Lebanese Government after the separation and until 1963, and finally, the amount of L.L. 2,000,000, effective from January 1964 to December 1973.

Army tax receipts - imposed for the first time in 1945, as a fixed sum of P.L. 5,10 and 15, on the selling price of tobacco goods, it was revised to be a fixed proportion of the selling price, amounting to 14.7 percent since 1947.

Yielding more than L.L. 4.5 millions to the treasury in 1951, Army tax receipts have increased by more than 160 percent to reach a record level of L.L. 12 millions in 1963.

Income tax receipts - imposed on the profits of the Régie, as a industrial enterprise, income tax receipts amounted to more than L.L. 200,000 in the early 1950-s, and yielded close to L.L. 400,000 to the treasury in the early 1960-s.

Another source of government receipts, that will interest the future financial analyst are the Municipal tax receipts, which as estimated by the present writer will yield the treasury an additional L.L. 2.5 millions in 1964.<sup>1</sup>

As shown in Table XVI, the total profits figure to be divided between the Government and the Régie amounted to more than L.L. 20

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<sup>1</sup>The municipal tax was imposed on April 1964. For more details about it, and its ultimate yield, see appendix III to chapter V.

millions in 1963, representing an increase of 66 percent over the profits available for sharing in 1951.

The Government share being a fixed proportion of the total profits it has naturally increased to the same extent since 1951, to reach a high of more than L.L. 19 millions in 1963.

While the amount of the 'Fixed annual receipts' has remained constant, army tax receipts, which bear a proportional relationship with the total sales in L.L., have increased by over 160 percent to represent the amount of L.L. 12 millions in 1963.

As to the total share of the Government<sup>1</sup> in the Monopoly profits, it has increased from a low of L.L. 17 millions in 1951, to a high of L.L. 32 millions in 1963, thus, indicating an increase of 88 percent during the period 1951 through 1963.

At first thought, the financial results of the Government account of the Monopoly seem to be satisfactory, yet the only criterion to judge and evaluate these results, would be through the computation of the 'coefficient of yield', the ratio of total Government receipts to total sales in L.L., and analyze its evolution.

As presented in Table XVII while the total Government receipts have increased by 88 percent, total sales in L.L. have increased by 164 percent, thus accusing a very sharp drop in the 'coefficient of yield' to the Government from L.L. 1 of sales. The 'coefficient of yield' has decreased from a high of 55.17 percent in 1951, to a low of 39 percent

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<sup>1</sup>Excluding income tax receipts.

TABLE XVII

'COEFFICIENT OF YIELD' TO THE  
GOVERNMENT, ANNUAL, 1951 to 1963.

	(a) Total Government Receipts (excluding income tax (L.L.)		(b) Total Sales Revenue (Inclu- ding Army tax (L.L.)		(c) Coefficient of Yield.  (Percent)
1951	17,124,933	100	31,038,451	100	55.17
1952	16,346,707	96	30,748,561	99	53.16
1953	16,987,083	100	31,988,559	103	53.10
1954	17,350,097	101	33,261,996	107	52.16
1955	18,675,837	109	36,559,256	118	51.08
1956	20,405,925	119	41,478,998	133	49.19
1957	24,387,964	142	49,388,524	158	49.38
1958	23,730,392	139	50,047,431	160	47.42
1959	25,379,851	148	53,543,907	172	47.40
1960	27,186,531	158	60,654,740	194	44.82
1961	28,972,122	169	69,146,065	222	41.90
1962	29,602,577	172	70,949,657	228	41.72
1963	32,153,481	188	82,337,191	264	39.05

Source: Derived by the writer.

in 1963.

The reason for this large drop, as the reader might guess, is that a higher proportion of operating expenses have cut into the profit margin of the Monopoly, and thus, adversely affected the share going to the Government, which, if not for the fixed annual receipts, and the army tax receipts bears a fixed relationship with the overall Monopoly profits.

c. Régie Revenue by Source.-

The total revenue of the Régie, from the operation of the Tobacco Monopoly, in turn, comprises four types of receipts, namely, its share in the Monopoly profits, bonus on local sales, bonus on export sales and lastly statutory interest until 1960.

The Régie's share in the Monopoly profits was discussed earlier together with the discussion related to the Government's share. The remaining three types of receipts, all of which are imputed into the Monopoly's P & L. account, will be discussed in this section.

Bonus on local sales - the bonus was set up as a measure to encourage the sales of both the local and the imported manufacture, in the local market.

Before 1951, during the Lebanese-Syrian common exploitation period of the Tobacco Monopoly, it amounted to P.L. 2 per kg. for any amount sold exceeding 2.5 million kgs. a year.<sup>1</sup>

After the separation, it amounted to P.L. 2 per Kg. for any amount sold exceeding 1.2 million kgs. a year.<sup>2</sup>

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<sup>1</sup>Art. 16, The Tobacco Monopoly Agreement of Jan. 1935.

<sup>2</sup>Art. 3, Convention, July 2, 1952.

TABLE XVIII

## REGIE RECEIPTS BY SOURCE , FROM THE

EXPLOITATIONS OF THE TOBACCO MONOPOLY , ANNUAL , 1951 TO 1963

Year	Regie's Share In Total Monopoly Profits		Bonus on Local Sales		Bonus on Exports		Statutory Interest		Total Share Before Income Tax		Income Tax		Total Share After Income Tax	
	L.L.	Index Base: 1951	L.L.	Index Base: 1951	L.L.	Index Base: 1951	L.L.	Index Base: 1951	L.L.	Index Base: 1951	L.L.	Index Base: 1951	L.L.	Index Base: 1951
1951	607,267	100	4,895	100	41,426	100	17,325	100	670,913	100	229,813	100	441,100	100
1952	568,904	94	2,988	61	48,740	118	15,948	92	636,580	95	235,773	102	400,807	91
1953	593,008	98	2,833	58	72,862	176	14,503	84	683,206	102	223,396	97	459,810	104
1954	602,227	99	3,126	64	94,693	228	12,983	75	713,029	106	228,360	99	484,669	110
1955	646,474	106	4,420	90	86,164	208	11,388	66	748,446	111	248,271	108	500,175	113
1956	699,074	115	6,738	137	162,176	391	9,715	56	877,703	131	266,532	116	611,171	139
1957	847,386	140	9,158	187	132,761	320	7,155	41	997,260	149	329,772	143	667,488	151
1958	808,803	133	8,636	176	104,815	253	6,110	35	928,364	138	369,111	161	559,253	127
1959	868,281	143	10,894	223	139,632	337	4,172	24	1,022,979	152	353,389	154	669,590	152
1960	910,677	150	13,937	284	169,690	409	2,137	12	1,096,441	163	438,448	190	657,993	149
1961	939,514	155	16,998	347	119,105	287	--	-	1,075,617	160	415,432	181	660,185	150
1962	958,610	158	17,839	364	188,521	455	--	-	1,164,969	174	358,060	156	806,909	183
1963	1,001,820	165	21,742	444	237,414	573	--	-	1,260,976	188	383,955	168	877,021	199

Source : Derived by the writee from : Regie Co. interressee Libanaise des Tabacs et Tombacs, Rapports presentes par le Conseil d'Administration et par les Commissaires de Surveillance, exercices 1951 through 1963 .



By virtue of the provisions of the 'Planned Tobacco Monopoly Agreement, this amount is raised to P.L. 4 per kg. for any amount sold, per year<sup>1</sup>, for the future ten years ending December 31, 1973.

Bonus on export sales - amounted to 10 percent of the value of exports before 1951. It was later modified, and paid to the Régie, on a descending scale, depending on the percentage of loss incurred in the movement of the Lebanese leaf tobacco abroad; thus, the lower the percentage of loss incurred, the higher the percentage of bonus was.<sup>2</sup>

Finally, according to the provisions of the Planned Tobacco Monopoly Agreement, the bonus will be paid on a flat percentage basis, regardless to the percentage gain or loss incurred. It will amount to 3 percent of the value of exports.<sup>3</sup>

Statutory interest - was a special appropriation, imputable to the P. & L. account of the Monopoly, and payable to the Régie. It represented 5 percent of the par value of the unamortized shares, and hence, was discontinued after 1960, date at which, all of the Régie's shares were amortized. "The Régie is no more entitled to a statutory interest, since its capital is fully amortized."<sup>4</sup>

<sup>1</sup> Art. 23, sec. 1 - The Planned Tobacco Monopoly Agreement, June 1964.

<sup>2</sup> Percent of loss	Percent of Bonus earned
Exports without loss	10
1 to 9	7.5
10 to 19	5
20 and above	3 (Art. 4, sec. 8,

Convention of Jan., 1951).

<sup>3</sup> Art. 23, sec. 2, The Planned Tobacco Monopoly Agreement of Jan., 1964.

<sup>4</sup> Art. 20, The Planned Tobacco Monopoly Agreement of June, 1964.

The Régie's share in the Monopoly profits has naturally increased to the extent of the Monopoly profits and/or the Government's share in the Monopoly profits, since it bears a fixed relationship with both.

While the 'bonus on local sales', and the 'bonus on exports' have increased about 4 times and 6 times respectively, their 1951 level, statutory interest receipts have decreased consistently with the approach of the Monopoly's legal end of operations. And while the gross receipts have increased by 88 percent, equal to the percentage increase achieved in the total receipts of the Government, net receipts of the Régie (after payment of income tax) have almost doubled during the same period of time, thus, revealing a less heavier burden of income taxation towards the end of the period under discussion.

After having discussed the various profit sharing methods since 1935, and the features of the actual receipts of each contractual party from the exploitation of the tobacco Monopoly, since 1951, and before concluding this section, it will be interesting to find out the actual ratio of profit distribution between the Government and the Régie, as opposed to the theoretical ratios, provided in the various laws issued to date.

A close look to Table XIX, will reveal that, throughout the period 1951 to 1962, the total receipts of the Government, excluding the income tax receipts, have never been below 97 percent of the total Monopoly profit figure available for distribution, and by the same

TABLE XIX

ACTUAL PERCENTAGE DISTRIBUTION OF  
THE MONOPOLY PROFITS  
BETWEEN THE GOVERNMENT AND THE REGIE

	Total Profits available for distribution L.L.	% of total	Total share of the Government (excluding in- come tax) L.L.	% of total	Total share of the Régie (After income tax) L.L.	% of total
1951	17,566,053	100	17,124,953	97.50	441,100	2.50
1952	16,747,514	100	16,346,707	97.60	400,807	2.40
1953	17,446,893	100	16,987,083	97.36	459,810	2.64
1954	17,834,766	100	17,350,097	97.28	484,669	2.72
1955	19,176,012	100	18,675,837	97.39	500,175	2.61
1956	21,017,096	100	20,405,925	97.09	611,171	2.91
1957	25,055,452	100	24,387,964	97.33	667,488	2.67
1958	24,289,645	100	23,730,392	97.70	559,253	2.30
1959	26,049,441	100	25,379,851	97.43	669,590	2.57
1960	27,844,524	100	27,186,531	97.64	657,993	2.36
1961	29,573,972	100	28,972,122	97.96	660,185	2.04
1962	30,374,335	100	29,602,577	97.46	806,909	2.54
1963	33,030,502	100	32,153,481	97.34	877,021	2.66

Source: Derived by the writer.

token, the net total receipts of the Régie have never exceeded the proportion of 3 percent.

Thus, while the 'cahier des charges' and the amendments brought to it, have stipulated a profit sharing method of 95 to 5 percent, the results of the various financial obligations of the Monopoly to the two contractual parties have been such, as to let the profit sharing method to operate on a 97 percent or more, and 3 percent or less basis, since 1951.

d. Return to stockholders.-

After having presented the receipts of each party from the Monopoly profits, we now turn, to the receipts of the Régie stockholders.

In order to evaluate accurately the dividend receipts of the Régie stockholders, in terms of a specific rate of return on their investment, two comparisons seem to be compulsory; a comparison of the average market price with the book value per share, and a comparison of dividends to earnings per share.

Book and market value of the Régie stocks.- The book value per share of the Régie stock has more than doubled during the ten years ended December 31, 1963; only L.L. 217.95 in 1953, it has increased to a high of L.L. 574,66 in 1963.

While the average market value per share of the Jouissance stock has fluctuated widely between a low of L.L. 88 in 1960 to a high of L.L. 188 in 1963, the average market value per share of capital has dropped steadily down from a high of L.L. 197.50 in 1956,

FINANCIAL RESULTS TO THE REGIE STOCKHOLDERS

1951 TO 1963, ANNUAL

Shares of "Jouissance"								Shares of "Capital"						
Book Value per Share (a)	Average Market Price per Share (b)	Earnings per Share (c)	Divid. per Share	Times Divid. Earned	Yield: Divid. and Average Price	Price to Earnings Ratio	Book Value per Share (a)	Average Market Price per Share (b)	Earnings per share (d)	Dividends per share	Times Divid. Earned	Yield: Divid. and Average Price	Price to Earnings Ratio	
L.L.	L.L.	L.L.	L.L.	(Times)	%	(Times)	L.L.	L.L.	L.L.	L.L.	(Times)	%	(Times)	
		16.03							16.14					
		13.40							14.57					
1953	217.95	16.20	14.00	1.15			217.95		16.72	16.50	1.01			
1954	221.40	17.15	13.50	1.27			221.40		17.62	16.00	1.10			
1955	265.55	133.50	17.77	13.50	1.31	10.11	9.88	265.55	184.00	18.18	16.00	1.13	8.70	11.50
1956	292.48	144.00	21.87	14.00	1.56	9.72	10.28	292.48	197.50	22.22	16.50	1.34	8.35	11.97
1957	391.02	133.50	24.00	16.00	1.50	11.98	8.35	391.02	175.50	24.27	18.50	1.31	10.57	9.46
1958	391.38	-	20.11	13.00	1.54	-	-	391.38	-	20.34	15.50	1.31	-	-
1959	458.40	88.50	24.19	16.00	1.51	18.08	5.53	458.40	127.50	24.35	18.50	1.31	14.51	6.90
1960	442.96	177.50	23.84	17.00	1.40	9.58	10.44	442.96	125.00	23.93	19.50	1.22	15.60	6.41
1961	508.44	80.00	24.00	20.00	1.20	25.00	4.00	508.44	-	-	-	-	-	-
1962	591.95	114.00	29.34	20.00	1.46	17.54	5.70	591.95	-	-	-	-	-	-
1963	574.66	188.00	31.85	20.00	1.59	10.64	9.40	574.66	-	-	-	-	-	-

(a) Total stockholders' equity divided by total number of shares.

(b) Simple average of highest and lowest values recorded at the Beirut Stock Exchange during the year.

(c) Total earnings of Regie, less statutory interest, divided by total number of shares.

(d) Total earnings of Regie, divided by total number of shares.

to a low of L.L. 125.00, or to less than the average value of the Jouisance share in 1960.

Earnings and dividends per share - Earnings per share of Jouisance have almost doubled since 1951, from a low of L.L. 16.14 to a high of L.L. 31.85 in 1963. Earnings per share of capital have followed the same pattern of growth but slightly at a higher level.<sup>1</sup>

While dividends distributed to Jouisance stockholders have increased from a low of L.L. 14 per share in 1953, to a high of L.L. 20 per share in 1963, or by an amount less than that achieved in the earnings per share, dividends per share of capital have followed the same pattern of increase, only at a higher level, or L.L. 2.5 per share more, the latter representing the statutory interest paid to capital stockholders at 5 percent of the par value of the share.

To illustrate and highlight the various relationships between the earnings and dividends per share, on the one hand, and dividends and average market value per share, on the other, recourse should also be made to some financial ratios.

The 'times dividends earned ratio', illustrates in an objective manner, the extent to which dividends are distributed from

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<sup>1</sup>As illustrated and explained in Table 8, the earnings per share of capital are computed by dividing the total net earnings of the Régie, including the statutory interest receipts, by the total number of shares. The earnings per share of Jouisance are exclusive of statutory interest receipts.

earnings, or the extent to which dividends distributed to shareholders are actually earned. In the case under discussion, this ratio, as applying to Jouissance shares has increased from a low of 1.11 times in 1953 to a high of 1.59 times in 1963, indicating a higher percentage of retained earnings per share of Jouissance in particular, or total shares in general, during the later years.

The 'times dividends earned' on the capital shares until 1960, has increased steadily, yet, it has always remained at a lower level than its Jouissance counterpart.

While the yield, the ratio of dividends to average market price, of Jouissance shares has fluctuated widely, recording minimum and maximum values of 9.58 percent in 1960, and 25 percent in 1961, the yield per share of capital has shown a steady growth from a low of 8.7 percent in 1955, to a high of 15.60 percent in 1960.

The same relationship between dividends and average market value, could also be conveyed through the price earning ratio, the ratio of average market price to dividends; thus, the lower this ratio, the higher is the yield, and vice-versa.

APPENDIX TO CHAPTER V



APPENDIX I TO CHAPTER V

TABLE OF AMORTIZATION OF THE  
REGIE SHARES

Year	Number of shares amortized		Number of shares outstanding	
	Planned	Actual	Planned	Actual
1935	-	-	25,000	25,000
1936	524	524	24,476	24,476
1937	550	550	23,926	23,926
1938	638	638	25,788 <sup>a</sup>	25,788 <sup>a</sup>
1939	669	669	25,119	25,119
1940	704	704	24,415	24,415
1941	738	738	23,677	23,677
1942	775	775	22,902	22,902
1943	814	814	22,088	22,088
1944	855	855	21,233	21,233
1945	898	898	20,335	20,335
1946	942	942	19,393	19,393
1947	990	990	18,403	18,403
1948	1,038	1,038	17,365	17,365
1949	1,092	1,092	16,273	16,273
1950	1,145	1,145	15,128	15,128
1951	1,203	1,203	13,925	13,925
1952	1,262	1,262 <sup>b</sup>	12,663	12,663
1953	1,327	6,862 <sup>b</sup> + 608	11,336	5,193
1954	1,392	638	9,944	4,555
1955	1,462	669	8,482	3,886
1956	1,535	704	6,947	3,182
1957	1,611	738	5,336	2,444
1958	1,693	775	3,643	1,669
1959	1,777	814	1,866	855
1960	1,866	855	-	-
	27,500	27,500		

- a. After the issuance of 2,500 shares of L.L. 50 per par value each. (June, 5, 1938).
- b. Shares amortized by lottery on June 29, 1953, according to the decision taken on June 26, 1953, by the extraordinary General Assembly of stockholders.

Source: Régie, Official Records, Department of Finance.

## APPENDIX II TO CHAPTER V

## A SUMMARY OF PROFIT-SHARING, BETWEEN THE GOVERNMENT AND THE REGIE

SINCE JANUARY 30, 1935

I JANUARY 30, 1935 - MARCH 31, 1950			II APRIL 1, 1950 - JANUARY 31, 1951			III FEBRUARY 1, 1951 - DECEMBER 31, 1963 (b)			IV JANUARY 1, 1964 - DECEMBER 31, 1973		
Fixed Annual Payment to the Governments of Syria and Lebanon = L.L. 1,100,000			Fixed Annual Payment to the Lebanese Government = L.L. 503,910 (a)			Fixed Annual Payment to the Lebanese Government = L.L. 1,000,000			Fixed Annual Payment to the Lebanese Government = L.L. 2,000,000		
Profit Bracket L.L.S	Percent to Governments	Percent to the Regie	Profit Bracket (a) L.L.	Percent to Government	Percent to the Regie	Profit Bracket L.L.	Percent to Government	Percent to the Regie	Before any sharing, the net monopoly profits are adjusted as follows:		
1 to 749,999	85	15	1 to 343,573	85	15	Any Amount of profit	95	5	(1) the annual subsidy paid to the farmers is added on the profit figure.		
750,000 to 999,999	87.5	12.5	343,574 to 458,097	87.5	12.5				(2) It is deducted from the profit figure thus arrived at, L.L. 20 per Kg. of imported manufactured tobacco goods sold.		
1,000,000 to 1,249,999	90	10	458,098 to 572,622	90	10				The profit sharing is then determined as follows:		
1,250,000 to 1,499,999	92.5	7.5	572,623 to 687,149	92.5	7.5				To the Regie: 4 percent of the 'adjusted' profits.		
1,500,000 or above	95	5	687,150 or above	95	5				To the Government: the total of the 'unadjusted' profits minus the share of the Regie.		

(a) The Fixed Annual Payment and the Profit Brackets are respectively 45.81 percent of the Fixed Annual Payment and Profit brackets, before the separation.

(b) The difference of L.L. 51,536.25 arising from method III of profit sharing, as compared to method II, was allocated to a 'Special Fund', established by the

Monopoly, and approved by Act 1. of the Convention. (January 31, 1951), and signed by His Exc. Mr. Hussein A. Oueini, Minister of Finance, representing the Lebanese Government, and Mr. L. Renaudin, President of the Board of Directors of the Regie Company, representing the Regie Company. The proceeds of this 'Special Fund', of LL 51,536.25 was to be allocated every year for possible export loss subsidies.

Export losses now debited to the 'General operating expenses' item, in the P & L account of the Monopoly are net of this amount.

SOURCE: Method I: Art. 19 of Tobacco Monopoly Agreement of Jan. 1935  
 Method III: Art. 1 of Convention of Jan. 31, 1951  
 Method IV: Art. 24, Tobacco Monopoly Agreement of June, 1964

APPENDIX III TO CHAPTER V

IMPACT OF THE NEW MUNICIPAL TAX ON  
GOVERNMENT TOBACCO REVENUE

Since the law stipulates a P.L.5 tax per pack of cigarettes, pipe tobacco, tombac, or cigar, of a value equal or superior to P.L. 75<sup>1</sup>, and in order to estimate Municipal tobacco tax receipts, it is essential that the proportion of tobacco goods sold at P.L. 75 or above to total sales is first estimated.

Assuming that this proportion will remain the same in 1964, as it was in 1963, and also assuming that sales will increase at a rate of 6 percent,<sup>2</sup> to reach a level of 2,424,300 kgs. in 1964, the Municipal tax receipts in 1964 are estimated as follows:

Sales in 1963 by price range<sup>3</sup>

<u>P.L.</u>	<u>Kgs.</u>	<u>Percent of total</u>
20 to 59	784,946	34.32
60 to 74	540,421	23.63
75 or above	961,708	42.05
	<u>2,287,075</u>	<u>100.00</u>

If the tax will apply to 42.05 percent of total sales, then, 1,049,418 kgs. or slightly more than 50 million packs will bear the incidence of the P.L. 5 municipal tax, thus yielding the Government an additional L.L. 2.5 millions, in terms of municipal taxes.

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<sup>1</sup>Art. 120, "La Nouvelle Loi Libanaise sur les Taxes Municipales" Commerce du Levant, No. 44 - April 1964, p. 51.

<sup>2</sup>The average rate of increase in sales (in kgs) per year, 1951 through 1963.

<sup>3</sup>Information secured from Marketing and Procurement Department, Régie.

APPENDIX LV TO CHAPTER V

NEW FINANCIAL TERMS OF THE CONCESSION  
AGAINST THE OLD TERMS

The following is an attempt to a theoretical determination of respective shares of the Government and the Régie in the profits of the Monopoly exploitation in 1963, on the assumption that the new financial obligations of the Monopoly to the Government (fixed annual obligation) and to the Régie ("Prime de rendement" and "Prime sur l'exportation des tabacs en feuilles"), on the one hand, and the new method of profit distribution, on the other, were applied in the actual computation of their respective shares.

A. Adjusted Monopoly profits (benefices comptables) on the of the new financial obligation.

Before attempting to compute the total share of each contractual party, the results of the Profit and Loss account of the Monopoly will have to be adjusted as to the fixed financial obligation of the Monopoly to the Government, which was raised from L.L. 1 million to L.L. 2 millions, and as to the financial obligations of the Monopoly to the Régie, in terms of "Prime de rendement"<sup>1</sup> and "Prime sur

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<sup>1</sup>Before the issuance of the "New Cahier des Charges", it amounted to P.L. 2/kg. for any amount sold for the local consumption, exceeding 1,200,000 kgs. (Art. 3, Convention, July 2, 1952). As to the new rate of the "Prime de rendement", it amounts to P.L. 4/kg. on any amount sold (Planned Tobacco Monopoly Agreement of June 1964.)

l'exportation des tabacs en feuilles" <sup>1</sup>, both of which will have to be imputed to the Profit and Loss account, before any profit distribution is envisaged.

<u>Adjustments.</u>	(a)	(b)
	<u>Old Financial Obligation</u>	<u>New Financial Obligation</u>
	<u>L.L.</u>	<u>L.L.</u>
Prime de rendement	21,742	91,413
Prime sur l'exportation	237,414	197,036
Fixed annual payment to the Government	<u>1,000,000</u>	<u>2,000,000</u>
	1,259,156	2,288,449

The difference of L.L. 1,029,293, col. (b) - col. (a), will have to be deducted from the Monopoly profits (benefices comptables) of L.L. 20,036,406, in order to determine the profits (benefices comptables) on the basis of the new financial obligation, as provided by the "New Cahier des Charges". Thus, the Monopoly profits will be reduced to a level of L.L. 19,007,113.

**B. Impact of the New Method of profit distribution on the respective shares of the Government and the Régie.**

As provided by Art. 24 of the "New Cahier des Charges", the Régie's share will be computed as follows:

.4 x [ (total Monopoly profits + Government subsidy) - L.L. 20/kg ] of imported tobacco sold.

<sup>1</sup> Before the issuance of the "New Cahier des charges", it was earned on a declining scale, depending on the amount of loss incurred in their marketing: i.e.

	<u>Amount of Loss</u>	<u>"Primes"</u>
	without loss	10%
	1 - 10%	7.5%
	10 - 20%	5%
(Art. 4, al.8, Conv. Jan., 1951)	20 or above	3%

However, the Planned Tobacco Monopoly Agreement of June 1964, provided for a flat 3% on the sales value of tobacco leaf and tobacco exported. (Art. 23, al. 2, Planned Tobacco Monopoly Agreement of June 1964.)

This will amount approximately to L.L. 662,168; and the Government will account for the balance, namely:

$$19,007.113 - 662,1068 = 18,344.945.$$

C. Comparisons.

New Financial obligations and New Method of profit distribution,  
as compared to the old financial obligation and old method of profit  
distribution.

Share of the Régie (in L.L.)

	<u>Share in profits</u>	<u>Prime de rendement</u>	<u>Prime sur l'exportation</u>	<u>Total</u>
Old method	1,001,820	21,742	237,414	<u>1,260,970</u>
New method	662,168	91,413	197,036	<u>950,617</u>

Share of the Government (in L.L.)

	<u>Share in profits</u>	<u>Annual fixed revenue</u>	<u>Army tax</u>	<u>Total</u>
Old Method	19,034,586	1,000,000	12,118,895	<u>32,118,895</u>
New Method	18,344,945	2,000,000	12,118,895	<u>32,463,890</u>

D. Conclusion

Clearly, the new financial terms of the Concession are to the advantage of the Government, and it will continue to be so, if the Government subsidy is always less or equal to the amount imposed on imported tobacco goods sold (L.L. 20/kg.).

In the case where the government subsidy is equal to the amount perceived from imported tobacco goods sold, then there will be no adjustment needed in the Monopoly profits; as such the Government will again be better off, since it will get 96% of total monopoly profits instead of 95%.

## CHAPTER VI

### SOCIO-ECONOMIC INCIDENCES OF MONOPOLY REGULATIONS<sup>1</sup>

As a means to implement Monopoly regulations various instruments are used. Instruments here bear the same relationship to regulations as procedures bear to methods. Whereas regulations are the various operational methods adopted to install the Monopoly set up, instruments are the procedures to be followed with the view of implementing these same regulations.

What are then, some of the most important instruments used by the Tobacco Monopoly to implement monopolistic regulations? and what are the socio-economic incidences of their implementation?

The answers to these questions represent the core of this conclusive chapter.

#### A. Economic Incidences of Monopoly Regulations

The economic incidences are felt at two different levels, at the firm level and at the national economy level. Whereas in the first case the incidences resolve themselves to the economic

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<sup>1</sup>For the various arguments advanced in favor, against and about monopolistic regulations of the tobacco industry in general, the writer is particularly indebted to Dr. Alexander Fardis, chief expert at the Régie. During August, 1964, the writer has had a series of interviews with Dr. Fardis, who has contributed greatly to the organization of the ideas presented in this chapter.

efficiency of Régie's operations, in the second case they pertain to the production of leaves on the one hand, and Government tobacco receipts, on the other.

a. Incidences at the firm level.-

They in turn fall upon manufacturing on the one hand, and local and foreign marketing, on the other.

Manufacturing - The major instruments used at the manufacturing level, and which affect although indirectly, the efficiency as well as the economy of Régie's operations, are two: a) determination of the method of production, labor vs. capital intensive, and b) determination of the product - mix.

Whereas a decision weighing heavily in favor of a more capital intensive method of manufacturing may achieve tremendous economies of manpower, a decision in favor of a limited product-mix undoubtedly results in lower overhead costs; "the concentration of production has made possible a considerable reduction in overhead costs among the Tobacco Monopolies. These are due to the small number of brands produced. On the other hand, it has to be admitted that the small number of varieties has an adverse effect on consumption".<sup>1</sup>

Do these generalizations apply to the case of Lebanon?  
Régie's manufacturing operations employing 2,362 workers and pro-

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<sup>1</sup>Dr. A. Fardis



ducing around 1.7 million Kilos a year, are qualified to be as more labor intensive than capital intensive.<sup>1</sup> Whereas such a method might be undesirable because of the diseconomies it may produce, it is nevertheless socially justifiable on the grounds that it provides for more employment to semi-skilled or even unskilled laborers.

As to the possible economies of overhead achieved through a concentration of production upon a smaller product-mix, it stands true in the case of the Régie, which manufactures only 30 brands of cigarettes, tombac and tobacco for rolling cigarettes altogether.

Thus, even granting the fact that diseconomies might arise through the usage of more labor intensive methods of production, yet it can be stated here, only as a first approximation, that a monopolistic structure of the industry is more likely to achieve lower average costs per unit manufactured, through the concentration of production it provides, rather than an atomistic structure of the tobacco market.

Marketing - At the local marketing level the instruments used are: a) determining the qualities offered for sale; b) determining the location and number of selling outlets; and c) determining the distributors' discounts.

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<sup>1</sup>Dr. A. Fardis

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The very principle of Monopoly, depriving the organization of all competition might be considered to deprive it of two criterion; the struggle for markets and the need to satisfy the customer at all costs. These objections which have been raised about Tobacco Monopolies, in general, are only partially relevant to the case of the Régie.

The absence of competition does not automatically suggest poor quality. Poor quality products would certainly lead to a decline in consumption, which would disturb any Monopoly, not to mention the Régie only; secondly, and more importantly, while competition between manufacturers is absent, yet it persists between the various brands, both of the local manufacture and imported, compelling the monopolist to improve its product quality.

The determination of the number of selling outlets as well as the fixing of the distributors' discounts at a low level, is not regarded upon favourably by the proponents of the free enterprise.<sup>1</sup> A smaller number of outlets and a low percentage of discount accorded to the distributors may in fact limit sales. Yet, such shortcomings usually accompanying the system are not intrinsic to it, they may as well be found in countries where the tobacco industry is atomistic in structure or/and where the industry is controlled through 'mixing regulations'. Thus, the 10.29 percent

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<sup>1</sup>Dr. A. Fardis

discount offered to the distributors in Greece<sup>1</sup>, where a free enterprise system characterizes the industry, is not much above the 8.8 percent offered in Lebanon.

Lastly, the instrument used at the export (or foreign marketing) level is the barter requirement to the importation of tobacco goods from abroad. This requirement enhances indirectly the exports, and for that matter, the production of local leaves, to the extent of the imported tobacco goods sold in Lebanon.

Whereas the importation of foreign tobacco goods is the major profit item accruing to the Régie, its required counterpart, namely exports of leaves, is the major item of loss. Thus, while the situation seems to indicate a perfect balance between the profits earned and losses incurred, yet it is the contention of the writer that regardless the future demand for imports, losses on exports should not exceed their present level. This, in order to increase Régie's profitability on the one hand, and to avoid subjecting almost 2/3 of the local crop at the mercy of tobacco goods manufacturers-exporters dealing with Lebanon.

b. Incidences at the National Economy Level.-

The Monopoly incidences at the national economy level fall upon the production of leaves and the government revenue.

Production - The instruments used at the production level

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<sup>1</sup>A. Koutsoyanni Kokkova, "An Econometric Study of the Leaf Tobacco Market of Greece", Athens, 1962, p. 141

are two: a) determination of the cultivable area and the number of planters; b) determination of the purchase price of leaf tobacco; the usage of one of these instruments alone would certainly lead to results other than those achieved at present; determining the cultivable area without necessarily dictating the purchase price of leaf tobacco, would lead to under production, since the Régie would not be interested to purchase leaf tobacco at a price, almost 45 percent above the price ruling in the international oriental tobacco market.

On the other hand, determining the purchase price of leaf tobacco without determining the maximum cultivable area would undoubtedly lead to overproduction, since all the planters would see in the tobacco the most remunerative cultivable crop, and this, especially when the Régie is bound to purchase the whole of the local crop.

However, the usage of both instruments together ensures a desirable level of production, satisfying for the local demand and for exports, on the one hand, and a desirable level of government subsidy to the farmers, on the other.

**Government Revenue** - The incidence upon the government revenue is effected through taxation. Taxation as an instrument has its bearing also upon the consumers; this last aspect of taxation, namely its indirect money burden, and its indirect real burden, will be discussed in a later section, pertaining to the social incidences

of monopolistic regulations. Taxation here is discussed as affecting the amount of Government tobacco receipts.

Generally speaking, the taxation of tobacco goods under monopolistic conditions happens to be very remunerative. There is indeed a special reason connected with the high rate of taxation to which tobacco is subjected, or more precisely, with the two inseparable purposes of this high taxation. The first is its high yield, due to the inelasticity of demand of tobacco goods, and the second which is related to the need for overcoming tax evasion, is really more than a particular and limited aspect of the first.

"Where considerations of social advantage require that the use of the services or products in question (the author refers to alcohol, tobacco) should be specially discouraged, higher prices should be charge, which must be regarded as containing an element of tax."

"The less elastic the demand for such services, the greater the profit which a public authority can obtain by raising their price. But if it is desired to make a publicly supplied service or commodity a large source of revenue, it is practically necessary to establish a legal public monopoly, as various European Governments have done with tobacco, matches and other commodities. For otherwise private traders will undersell the public authority and steal away the revenue."<sup>1</sup>

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<sup>1</sup>Dalton, Hugh, "Principles of Public Finance", Fourth Edition, London, 1961, p. 130

As to the second aspect of taxation, or the need for overcoming tax evasion, it is particularly relevant to the case in Lebanon, where a high proportion of tax evasion still persists;"... De source bien informée, on évalue en effet, la fraude fiscale actuellement aux environs de 66% ou 2/3. L'impression de l'auteur a la suite de conversations avec les milieux d'affaires est que ce pourcentage même est une estimation conservatrice. Il semble aussi clairement établi que la corruption sera poussée parmi les agents du fisc..."<sup>1</sup>

Thus, if the Lebanese Government should regard taxation of tobacco goods as a source from which it can derive the greatest possible revenue for the State, then, there is no other alternative, under the present circumstances, and this until the fiscal administration becomes to be adequate to serve its purpose properly, than the adoption of the Monopoly form of industrial structure.

#### B. Social Incidences of Monopoly Regulations

The social incidences of monopolistic regulations fall upon three categories of the population, the farmers, the consumers, and the industrial workers (more generally stated as 'employment').

##### a. Farmers.-

As far as the social incidences upon farmers is concerned, the existence of monopoly regulations seems to be prolific. As

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<sup>1</sup>Le Régime fiscal au Liban d'après le Rapport Higgins,  
'Le Commerce du Levant', No. 6, February 15, 1961.

already discussed in a previous section, the usage of instruments like allotting areas to be cultivated and dictating of the purchase price of the crop 45 percent above the international market prices, provides the farmers, and this particularly in the least developed regions of Lebanon, with a secured annual income, without which they would not be able to subsist in their respective regions. This latter observation is particularly true if the low opportunity costs of labor and land in the regions, in question, is taken into consideration.

b. Consumers.-

The incidence upon consumers is also effected through the taxation of tobacco goods used as an instrument.

The taxation of tobacco goods being an indirect form of taxation, a distinction should be made between the indirect money burden and the indirect real burden of this tax.

Whereas the indirect money burden is equal to the total yield of the tax to the Government, the indirect real burden refers to the extent of sacrifice of economic welfare to a poor man, as compared to that of a rich man, when they both part with L.L. 1 in purchasing a pack of cigarettes.

However, before passing to the subject of the indirect real burden of tobacco taxation, purely social in its incidence, it is necessary that an estimate of the indirect money burden of the taxation is made.

The estimation of the money burden of the tax on each one of the locally produced and imported brands is beyond the scope of this thesis; such an attempt would require a detailed cost analysis of individual brands locally produced or imported and marketed by the Régie. By the same token, the estimation of the indirect real burden of tobacco taxation is even more difficult to determine, due to the intricacy of the comparisons required between the indirect money burden falling upon various consumer groups, on the one hand, and the average annual income of these same groups, on the other. Nevertheless, the development of such concepts could be useful in evaluating the Government pricing policy, and this especially, with the view of finding out whether or not social considerations do enter in the formulation of such policy.

Prices of tobacco goods sold have fluctuated during the decade 1954 through 1964; most of those selling P.L. 60 and above have been increased several times, namely in 1956, 1962 and 1964, and some of those selling P.L. 45 and below have been decreased in 1962.<sup>1</sup>

Such a pricing policy undoubtedly reflects the desire of the government to reduce the money burden of the tax on cheaper brands, presumably smoked by lower income groups of the population, and this with the social motive to equalize the real burden of the

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<sup>1</sup>For the regulation of the prices of tobacco goods sold in Lebanon, see Appendix III to chapter III.



tax on all groups.

It can be concluded at this stage that monopolistic regulations could sometimes act as helpful instruments to distribute the money burden of taxation in a manner that the principle of proportional sacrifice is applied, whereby the indirect real burden of every smoker is proportional to his economic welfare which he derives from his income.

c. Employment.-

Social incidences of monopolistic regulations upon employment at the production, manufacturing and marketing levels are also prolific. They are chiefly effected by the usage of instruments previously enumerated, such as: determination of the number of planters authorized to cultivate; adoption of more labor intensive methods of production and manufacturing; formulation of a more liberal marketing policy, by increasing the number of distributors, and helping them in their financial obligations to the Régie.

The outcome of the implementation of these instruments has been to boost the total number of families depending exclusively on tobacco, to a high of almost 35,000<sup>1</sup>, and the total of the families which derive their income exclusively, or/and partially from the tobacco industry to a high of 48,000<sup>2</sup>, in 1964.

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<sup>1</sup>Includes the total number of farmers, workers and administrative personnel employed by the Régie.

<sup>2</sup>Includes all the former group, as indicated in (1), and distributors of tobacco goods.

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