FOREIGN TRADE FINANCE IN LEBANON

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ABSTRACT

Lebanon's trade sector contributes the largest share in the National Income of the country. Because of the geographical position and the free exchange system of the country, foreign trade activities have increased tremendously in the postwar period. The volume of imports has been increasingly larger than volume of exports. Thus, a large trade deficit exists in the Balance of Payments of the country, which is largely covered by earnings from invisible trade and capital inflows. The increasing volume of capital funds flowing into the country has been mainly due to the relative politicial stability and free exchange system of the country.

Most of this capital, however, has been invested either in trade or construction, contributing very little to the industrial and agricultural development of the country. The inflow of capital funds has been a major factor in the expansion of the banking industry, which in turn has furthered the growth of trade.

The Government should continue maintaining the free exchange system, at the same time maintaining the exchange rate at a reasonably stable level through the operations of the Exchange Stabilization Fund. In view of the fact that Lebanon is an importing country, internal economic stability is highly dependent on the stability of exchange rates.

A detailed analysis of bank activities in the area of foreign trade finance reveals that the terms of credit applied by banks tend

on the whole to encourage imports of consumption goods because such imports are generally associated with short-term, self-liquidating transactions. The determinants of bank policies in this area include the degree of competition, the balance of payments position which determines the supply and demand conditions in the foreign exchange market, and the credit standing of the customer and the type of commodity imported.

Two significant implications of foreign trade finance suggest themselves. The first is related to the free exchange rate. Stability of exchange rates is found essential for the economic stability of the country, and the continuous appreciation of the Lebanese pound which has been caused by capital inflows seems to handicap the expansion of the industrial and agricultural sectors, on which the country's economic development mainly depends.

The second implication is related to the possibility of regulating bank credit terms in view of influencing the pattern of imports. In the interest of accelerating the country's rate of development, the Government may introduce a regulation for a low margin requirement for machinery and raw material imports, and high margin requirement for undesirable imports. This would be feasible, however, only with proper bank legislation and the presence of a full-fledged Central Bank.

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INTRODUCTION

"There are two explanations for foreign trade, which in turn rest on one basic economic phenomenon - individual and geographic specialization as reflected in the international division of labor. One of these explanations is the concept of interregional cost differentials; the other is the concept of comparative cost advantages."[1]

All trade, whether domestic or foreign, whether between individuals and companies or governments, is essentially an exchange of goods and services. Foreign trade is unavoidable since no nation in the world is completely self-sufficient in wordly resources.

Foreign trade finance concerns with the provision of "the necessary funds with which to carry the merchandise from the date of manufacture to the date of delivery plus the provision of whatever credit the exporter believes should and can be extended to the purchaser or consignee."[2]

This thesis aims at making a comprehensive study of the methods of financing the imports and exports of Lebanon through the banks. The trade sector in Lebanon comprises about 28 per cent (largest) of National Income, and of this over 40 per cent comes from imports and only 2 per cent from exports. However, if it were not for income from invisible trade, the deficit in the Balance of Payments of Lebanon would have been difficult to cover.

A major difficulty in carrying out the study has been the collection of the material. A questionnaire was prepared[3] and fourteen bankers

[1] Heck, Harold J., Foreign Commerce, (McGraw-Hill Book Co., Inc. 1953), p. 215.

[2] Pratt, Edward Ewing, The Foreign Trade Handbook, (The Dartnell Corporation, Publishers, 1952), p. 534.

[3] See Appendix IV.

interviewed, as well as few importers.

Lebanon is an importing country. Hence import financing occupies a more important part in banks' activities than export financing.

The study is divided into Three Parts.

Part I is devoted to an analysis of the development of foreign trade. Major sources of Lebanon's imports and major countries of destination for its exports are determined. Moreover, the reasons for the increasing volume of foreign trade transactions are presented.

Part II, which is composed ot two chapters, analyzes the financing of foreign trade. Chapter II is a brief discussion of the meaning of foreign exchange market and the development of such a market in Lebanon. This is followed by an analysis of the Balance of Payments position of Lebanon for the past five years. Major sources of foreign exchange earnings to cover the large trade deficit are found.

Chapter III is a discussion of procedures and practices of foreign trade finance by banks. This study analyzes what the banking operations in this field are, and whether banks follow any policies and what the determinants of these policies are.

Part III presents the implications of foreign trade finance ensuing from the analysis of previous chapters, and conclusions.

In Chapter IV two main implications are presented; first, implications concerning the free exchange rate and second, implications with respect to bank terms of credit.

Chapter V presents a summary and gives the conclusions.

Because of the importance of foreign trade to the economy of Lebanon, an attempt will be made throughout the study, to explore the possibilities of gearing foreign trade credit facilities to the economic development of the country.

PART I

DEVELOPMENT OF FOREIGN TRADE IN LEBANON

CHAPTER I

DEVELOPMENT OF FOREIGN TRADE IN LEBANON

In this Chapter, an attempt will be made to give a general picture of the development of foreign trade in Lebanon since the 1950's. It has been divided into four parts:

First, an analysis of the importance of trade (both local and foreign) in terms of national income estimates will be presented, with a rough estimate of the share of foreign trade in this income.

The second part will be devoted to a presentation of the volume and pattern of foreign trade since 1950. Prior to that date, there was the customs union between Syria and Lebanon, and hence no separate statistical figures of foreign trade for each exist. The major commodities imported and their source, and the major commodities exported and their destination will be determined.

Following this, the third part will be devoted to a brief exposition of the factors which have favored foreign trade; and part four will be an exposition of factors which have acted as limitations for foreign trade.

A. Importance of Foreign Trade

Lebanon, which covers an area of approximately 10,170 sq. km. and which has a population of about 1.5 millions, is a mountainous country. It is divided into four major regions; there are the coastal planes with a Mediterranean climate and vegetation; secondly, there are the Lebanon mountains, with heavy rainfall and wide range of altitude and cultivation; third, there is the Beka'a valley, a central plateau falling between the two mountain ranges, and having a fertile land; and lastly, we have the Anti-Lebanon, the second mountain range along the Eastern frontiers with Syria, largely barren.

Because of the mountainous topography of the country, cultivable area is restricted. It is estimated that only about 25 per cent of the total surface is at present under cultivation; however, a wide variety of crops can be cultivated because of such topography and of the climatic conditions which it gives rise to. Thus, bananas, sugar cane, and citrus fruits are grown along the coast, whereas a wide range of fruits of the temperate zone is grown on the mountain slopes and cereals, grapes and vegetables in the inland valleys. Hence the highly diversified make-up of the Lebanese agriculture.

One characteristics of the Lebanese economy is its uniqueness in National Income and Employment structure. 50 per cent of the population works on agriculture, but contributes 15 per cent only to the National Income. On the other hand, 14 per cent of the population work in commerce, finance and rent transactions, but contribute 46 per cent to the National Income.[1]

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[1]See Table I, Appendix I, which gives Division of National Income and Employment by Sectors.

There are no official figures regarding the national income of Lebanon. However, in 1954, such a study was carried out by the Economic Research Institute of the American University of Beirut. It was found out that income arising in the trade sector was the largest, being 28 per cent of total income.

Income originating in the trade sector is defined as the "total of incomes originating in agency, wholesale and retail transactions in goods, net of depreciation charges, indirect taxes and miscellaneous costs. Trade activity so defined comprises transactions in goods produced and consumed locally, goods produced locally and exported, imported goods, goods in transit and goods in 'entrepot'."[2] Thus, the mercantile class in Lebanon thrives on a prosperous import and re-export trade as well as on such service transactions as gold brokerage, transit trade, entreposage, exchange and commodity arbitrage, exchange transactions, and commodity transactions such as switch operations.

Since 1954, national income estimates have been refined from time to time by the Economic Research Institute. Most recently, Prof. Paul Klat of the same Institute has the following national income estimates for the last decade. (Table I)

The increase in National Income has been continuous except for 1958, year of insurrection. This table shows an increase of about 6 per cent a year in National Income.

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[2]Badre, Albert Y., "The National Income of Lebanon," Middle East Economic Papers, 1956 (Beirut), p. 5.

TABLE I

LEBANON - NATIONAL INCOME 1952-58 & 1961
(at current factor prices)
(in LL millions)

Sector	1952	1953	1954	1955	1956	1957	1958	1961
Agriculture	216	221	226	223	231	238	219	330
Industry	155	161	166	175	183	189	181	218
Construction	48	47	60	60	50	41	38	69
Transportation & Communication	45	50	60	75	78	80	57	68
Commerce	333	344	368	407	410	469	365	468
Banking	50	51	57	70	80	91	93	110
Real Estate	98	101	112	116	130	139	155	194
Government	64	71	73	83	95	108	113	152
Services	106	122	134	165	160	148	104	180
Total	1,115	1,168	1,256	1,374	1,417	1,503	1,325	1,789

Source: Klat Paul J., "The National Income of Lebanon", Middle East Express, No. 5 (April 2, 1962), p. 3.

Taking percentage distribution of that income per sector for the years 1952 and 1961 only, in order to be able to bring out the performance and evolution of each sector during the decade, we see that trade or commerce remains the principal source of income in the country, (Table II), providing between 25 and 30 per cent of total income. However, we note

TABLE II

LEBANON - NATIONAL INCOME 1952 and 1961
(in percentages)

Sector	1952	1961
Agriculture	19.2	18.6
Industry	13.8	12.2
Construction	4.3	3.9
Transportation & Communication	4.3	3.9
Commerce	29.8	26.2
Banking	4.2	6.2
Real Estate	8.9	10.9
Government	5.9	8.0
Services	9.6	10.1
Total	100.0	100.0

Source: Computed from Table I.

that it has been declining, percentagewise, in relation to other sectors. Between 1952 and 1961, its contribution to income dropped from 29.8 per cent to 26.2 per cent. This decline may be due to the protectionist policies followed in most of the neighbouring nations, which used to be, in the past, Lebanon's main markets, and because these nations now prefer and have developed the means, to import their needs directly from the countries of origin, instead of using Lebanese intermediaries. The only gaining sectors during the decade have been the sectors of Banking, Real Estate, Government and Services. Industrial and Agricultural sectors, despite the rise in absolute figures, have declined percentagewise.

Beirut has been slowly becoming, in recent years, the financial center of the whole Middle East. Because of its free exchange system, Bank Secrecy Law, and relatively stable foreign exchange rates, banking activities have flourished tremendously. This market has helped to attract to Lebanon part of the capital accumulated by Lebanese emigrants abroad and a considerable proportion of the surplus funds available in the oil rich countries of the area. As a result, income arising from the Banking sector rose from LL 50 millions to LL 110 millions, or from 4.2 per cent to 6.2 per cent of total income, between 1952 and 1961.

Much of the capital inflow has gone into real estate, and has resulted in a building boom in Beirut and nearby localities. Hence income from real estate during the decade rose from LL 98 millions to LL 194 millions; or from 8.9 per cent in 1952 to 10.9 per cent in 1961 of total income.

The Government has also expanded its activities. Income arising from the Government sector rose, from LL 64 millions in 1952 to LL 152 millions in 1961, or from 5.9 per cent to 8.0 per cent.

Under services, tourism is the most important income-creating activity. Tourism has prospered in Lebanon tremendously, with the result that income arising from services sector rose from 9.6 per cent in 1952 to 10.1 per cent in 1961.

We note, therefore, that the most distinctive feature of the Lebanese economy is the preponderance of the trade sector over the other sectors of the economy. However, over and above "trade" proper, we can include in a definition of the trade sector for the present purpose, income arising from transport by sea, air and land which transport has the effect of facilitating trade operations proper, whether through movement of goods or persons. Furthermore, income arising from financial operations (banking and exchange operations which are necessary to finance either trade or transportation) must also be included in a broad definition of the trade sector. As such, the trade sector of the Lebanese economy accounts for about 38.3 per cent of total national income in 1952, and 36.3 per cent in 1961, the decrease being due, as mentioned above, to the decrease in the share of "trade" proper in national income. Therefore, trade alone produces almost about two-fifths of total national income, whereas, agriculture produces only about 19 per cent and industry only 12 per cent. Herein lies the most important distinctive characteristics of the Lebanese economy: although diversified, it is predominantly mercantile.

How much is the share of foreign trade in the National Income of Lebanon? The only estimate we have is the one done by the Economic Research Institute for 1950, which gives estimates of income arising from trade by category of transaction and by stage of distribution.[3]

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[3]See Table II, Appendix I, which gives Income Arising from Trade by Category of transaction and by stage of distribution for 1950

We note that import trade accounts for the largest share in the total trade income, amounting to a little over 40 per cent. Export trade, on the other hand, accounts for less than 2 per cent of the total trade income. Transit accounts for 19 per cent, and entrepot, 5 per cent of total trade income.

Foreign trade, therefore, constitutes a very important contributor to income in the trade sector, and which in turn, constitutes the major contributor to income to the economy. Hence, we can see the importance of foreign trade in the Lebanese economy.

B. Volume and Pattern of Foreign Trade Since the 1950's

This section has been divided into:

1. Import Trade: an analysis of imports to Lebanon, the principal merchandise imports, the principal source of imports, and rank of each country as a supplier of the imports will be done.
2. Export Trade: The same analysis will be done in the case of exports of Lebanon; here, the principal merchandise exports, the principal destination of exports, and rank of each country as an importer of Lebanon's exports will be found.
3. Imports, Exports and Trade Balance: A comparison of the volumes of imports and exports will be presented.
4. Reexport, Transit and Gold Trade: A brief exposition of the development of such trade will be given.

However, before we proceed with our analysis, there are few points which need to be taken into consideration.

The available statistical data in Lebanon starts with the second quarter of 1950 - the year when the customs union between Syria and Lebanon broke down. Prior to that, statistics published by the "Supreme Council of Common Interests" made no distinction between Lebanese and Syrian exports, imports, reexports, and transit trade. This is the reason why the years after 1950 have been chosen for an analysis of the volume and pattern of foreign trade.

Moreover, available statistics published by the Government after March 1950 suffer from several defects among which are the following:

a. Imports are calculated on the basis of the official rate of exchange (LL 2.19 per $ 1) while actually they have been paid for in foreign exchange obtained from the free market, whose quotations differ markedly from official rates.

b. Estimated value of trade done through smuggling is left out.

c. No data concerning invisible receipts is published; clearly this conceals the actual position of Lebanese foreign trade and makes it hard to draw any definite conclusions.

d. Customs statistics for imports are given CIF, and exports FOB. According to International Monetary Fund's standards, imports should be valued FOB in order to facilitate comparison; this, therefore, does not allow Lebanese imports to conform with IMF standards.

e. Under-valuation in the case of exports and imports in not taken into consideration.

However, our analysis will not be hampered very much by such defects, since our main aim will be to find the volume and pattern of foreign trade mainly through the use of percentages.

1. Import Trade

Table III gives us the principle merchandise imports by major categories during the period 1952-1960.

We note that the growth rate has been the highest in the case of imports of machines, electrical and other home appliances (8.7%), followed by petroleum and mineral products (7.9%), iron and iron products and other base metals and products (7.5%), textiles and clothing (6%), motor cars and spare parts (5.3%). However, in absolute figures, fruits, vegetables, cereals, flour, starch, coffee, tea, spices, oilseeds, gums, raisins etc. constitute the largest amount of imports, with relatively same amount imported each year (growth rate only 0.4%).

This pattern of growth reflects the increased sophistication of the Lebanese consumer and the rising needs of the leading Lebanese activities for imports. The increased sophistication of the Lebanese consumer has been the result of the appreciable growth in personal incomes, the expansion of consumer credit facilities, and increased demand by foreign resident and travelers for goods on the Lebanese market. It should also be noted that these import data show a rapid rate of growth in imports of higher (in the sense that they are demanded by the requirements of a higher standard of living) goods and complementary products, such as cars, spare parts, petroleum products, household appliances, etc.

TABLE III

LEBANON - PRINCIPAL MERCHANDISE IMPORTS BY MAJOR CATEGORIES DURING THE PERIOD 1952-1960 ARRANGED IN ORDER OF RELATIVE IMPORTANCE

(At current prices)
(in LL million)[1]

Merchandise Imports	1952	1953	1954	1955	1956	1957	1958	1959	1960	Growth Rate
1. [illegible], Vegetables, cereals, flour, starch, coffee, tea, spices, oilseeds, gums, raisins, etc..	109.2	91.9	108.2	103.9	111.4	116.8	82.3	109.6	111	0.4
2. Textiles & Clothing	71.1	64.8	77.9	79.1	83.7	100.8	81.8	106.6	122.1	6.0
3. Machines, electrical & other home appliances	43.6	34.2	43.9	72.3	80.6	72.3	82.0	86.4	113.9	8.7
4. Petroleum & mineral products	42.3	42.3	45.7	62.3	72.4	82.8	75.1	88.1	106.4	7.9
5. Iron & iron products & other base metals & products	35.3	39.9	41.0	67.0	88.4	88.6	73.2	79.4	96.0	7.5
6. Live animals & products	30.9	39.9	40.4	46.9	50.1	35.0	41.6	64.3	69.6	2.6
7. Motorcars & spare parts	21.5	23.4	30.3	54.7	41.5	59.6	46.5	47.4	73.9	5.3
8. Chemicals, pharmaceuticals fertilizers explosives etc.	24.5	25.1	28.4	32.0	39.5	45.5	38.0	52.8	54.5	3.9
9. Sugar, beverages alcoholic liquids vinegar, tobacco	23.2	19.8	22.4	23.3	28.4	36.2	32.3	31.7	40.4	2.3
10. Wood & wooden products	12.9	11.5	13.5	19.6	21.4	22.6	19.2	21.0	30.3	1.9
Total	469.0	432.0	492.0	651.0	694.0	714.0	633.0	762.0	924.0	

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TABLE III continued

[1]Revalued at the average annual free market dollar exchange rates as follows: 1952, LP 366.25; 1953, LP 342.00; 1954, LP 321.58; 1955, LP 334.00; 1956, LP 322.00; 1957, LP 318.42; 1958, LP 318.33; 1959, LP 315.50; 1960, LP 316.70, and on basis of premium of Lebanese pound over the Syrian pound as follows: 1952, LP 1; 1953, LP 6; 1954, LP 10; 1955, LP 9; 1956, LP 10; 1957, LP 12; 1958, LP 12; 1959, LP 13; 1960, LP 17.5

<u>Source:</u> Taken from an unpublished study done by the American Embassy in Beirut about Balance of Payments of Lebanon, in February 1962.

as compared with a low rate of growth of imports of basic goods such as fruits, cereals, flour, livestock, animal products, etc.

The major sources of our imports are given in Table IV, for certain selected periods.

Referring to this table we note that Western Europe is our great furnisher of imports.

An interesting point to note is that Syria, which was ranking first as a source of Lebanon's imports, has gradually lost its importance, and in 1959, it was ranking the third, and in 1960 the sixth. This is most probably due to the political conditions which took place in those years, and due consequently to the various restrictions put on foreign trade.

Another interesting point to note is the fact that Great Britain which was ranking the fourth in 1951, has been ranking the first since 1957. Lebanon imports medicaments, paper products, spare parts, etc. from Great Britain. However, the most important import from Great Britain has been gold, which accounted for about 66 per cent of total imports for 1960.

We note, furthermore, that there is a recent rise in imports from Saudi Arabia; this can be explained in terms of the increase in petroleum and petroleum products imports, which accounted for about 72 per cent of total imports from Saudi Arabia in 1960.

Still a further point to note is the position of Western Germany. She ranked eigth in 1951, fourth in 1959, and third in 1960. This can be explained by the fact that credit has been more available for imports from Germany, simply because she wanted to recapture some

TABLE IV

LEBANON - SOURCE OF IMPORTS

	RANK					VALUE (in LL 1,000)				
	1951	1954	1957	1959	1960	1951	1954	1957	1959	1960
Syria	1	1	1	3	6	59,109	108,786	92,158	62,756	52,572
U.S.A.	2	3	3	2	2	56,751	72,632	72,496	75,860	96,722
France	3	4	4	5	4	38,317	38,977	52,315	50,967	65,543
Great Britain	4	2	1	1	1	30,960	87,618	112,469	171,256	185,452
Iraq	5	7	8	10		23,691	16,989	22,758	15,547	9,639
Italy	6	8	6	6	7	10,312	16,137	34,381	37,885	49,643
Belgium	7	-	10	9	9	8,943	9,726	18,006	15,732	21,896
West Germany	8	6	5	4	3	8,297	23,929	43,968	65,915	71,862
Holland	9	6	-	-	-	7,581	17,337	-	-	18,431
Jordan	-	10	-	-	-	-	9,987	8,775	-	5,863
Saudi Arabia	-	-	7	7	5	2,306	6,706	27,216	33,731	56,500
Switzerland	-	9	9	-	-	-	10,995	18,532	-	13,769
Turkey	10	-	-	8	8	6,757	-	-	19,669	28,616

Source: For 1951, 1954, 1957, 1959, "Le Rapport de l'Irfed, les Services Commerciaux et Financiers au Liban," Le Commerce du Levant (Monthly Issue), No. 12 (August 1960) p. 17.
For 1960, Conseil Supérieur des Douanes, Republique Libanaise, Statistiques du Commerce Extérieur, 1960.

of its former trade with Middle Eastern countries. Major imports in 1960 were - cars - 17 per cent of total imports, wheat flour - 6 per cent, television sets - 4 per cent, etc.

In summarizing, we can say that Lebanon imports mostly from Western Europe and the States, which account for about 50 per cent of Lebanon's total imports. The major merchandise imported from these countries are industrial products, while products of the animal and plant kingdoms are imported from the neighbouring countries.

2. Export Trade

Table V below gives the principle merchandise exports for the years 1952-1960. We note that Lebanon's largest exports, which also have by far the largest growth rate (2.6%) are fruits, vegetables, cereals, flour, starch, coffee, tea, spices, oilseeds, gums, raisins, etc. The next highest growth rate is in the exports of textiles, and clothing, sugar, beverages, alcoholic liquids, vinegar, tobacco, etc. (0.6%). Other categories of exports of which represent more than 6.5 per cent of total exports, have generally registered moderate rising trends. Some of them such as precious stones, and oils and fats show no trends. Nevertheless, total exports still show a rising trend of approximately 7 per cent per year.

Table VI gives the principle countries of exports destination for selected periods. We note that the major markets for Lebanese exports are the neighbouring Arab countries. An interesting point to note is the sharp decrease in the amount of Lebanon's exports to the U.S.A. This is explained by the fact that our sale of wool to the USA decreased for the past few years.[4] In 1960, it constituted 33

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[4] "Le Rapport de l'Irfed, les Services Commerciaux et Financiers au Liban", Le Commerce du Levant, No. 12 (August, 1961), p. 19.

TABLE V

LEBANON - PRINCIPLE MERCHANDISE EXPORTS BY MAJOR CATEGORIES DURING THE PERIOD 1952-1960 ARRANGED IN ORDER OF RELATIVE IMPORTANCE
(at current prices)
(in LL million)[1]

Merchandise Exports	1952	1953	1954	1955	1956	1957	1958	1959	1960	Growth Rate
1. Fruits, Vegetables, cereals tea, spices, oilseeds, gums, raising, etc.	25	33	47	40	53	52	43	48	53	2.6
2. Textiles & Clothing	20	19	9	12	15	17	10	14	13	-0.6
3. Iron & steel products, other base metals	7	6	5	8	8	9	7	7	6	0.1
4. Sugar, beverages, alcoholic liquids, vinegar tobacco, etc.	4	3	4	7	10	8	7	9	7	0.6
5. Machines, electrical & other home appliances	4	4	3	4	5	5	4	7	8	0.5
6. Precious metals & precious stones	-	1	3	11	9	8	3	4	2	0.2
7. Hides & leather products	3	3	4	5	6	7	6	7	1	0.2
8. Rubber & rubber products	1	2	4	3	4	4	4	4	4	0.3
9. Oils & fats	3	4	2	4	4	5	1	1	-	0.3
10. Motor cars & spare parts	1	2	1	2	5	3	3	4	3	0.3
Total Exports	72	88	92	108	130	133	101	127	137	

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Table V continued

[1]Revalued at the average annual free market dollar exchange rates as follows: 1952, LP 366.25; 1953, LP 342.00; 1954, LP 321.58; 1955, LP 334.00; 1956, LP 322.00; 1957, LP 318.42; 1958, LP 318.33; 1959, LP 315.50; 1960, LP 316.70, and on basis of premium of Lebanese pound over the Syrian pound as follows: 1952, LP 1; 1953, LP 10; 1955, LP 9; 1956, LP 10; 1957, LP 12; 1958, LP 12; 1959, LP 13; 1960, LP 17.5.

Source: Taken from an unpublished study done by the American Embassy in Beirut on Balance of Payments of Lebanon in February 1962.

TABLE VI

LEBANON - EXPORT DESTINATION

	RANK					VALUE 9 in LL 1,000)				
	1951	1954	1957	1959	1960	1951	1954	1957	1959	1960
U.S.A.	1	4	8	5	5	22,740	6,303	6,792	9,276	8,986
Syria	2	1	2	1	1	22,016	14,973	18,258	20,665	18,600
Egypt	3	3	10	10		9,423	8,757	5,177	2,210	1,981
Saudi Arabia	4	2	1	2	2	8,083	11,936	19,369	17,397	46,077
Italy	6	10	5	9		4,391	2,916	7,885	4,401	8,036
Jordan	7	5	3	3	3	3,636	5,280	10,866	12,141	18,532
France	8	8	6			3,415	4,469	7,604		2,499
Holland	9					3,057				403
Iraq	10	7	4	4	4	2,622	4,585	9,069	9,775	17,954
Belgium		6					4,921			3,602
Great Britain	9	9	7	8	7		4,227	7,192	4,437	8,578
West Germany			9					5,513		
URSS				6	8				6,501	5,505
Iran				7	6				4,950	8,404

Source: For 1951, 1954, 1957, 1959, "Le Rapport de l'Irfed, les Services Commerciaux et Financiers au Liban," Le Commerce du Levant (Monthly Issue), No. 12 (August 1960), p. 19.
For 1960, Conseil Supérieur des Douanes, Republique Libanaise, Statistiques du Commerce Extérieur, 1960.

per cent of total exports, whereas exports of tobacco constituted about 44 per cent of total exports to USA.

There is also a decline in exports to Egypt, and this is mainly due to the decline in apple sales. On the other hand, we note a sharp increase in exports to Saudi Arabia, which ranks second in Lebanese export destination countries. This rise is due to the increase in fruit sales. In 1960, they accounted for about 9 per cent of total exports to Saudi Arabia.

There is also an increase of exports to Jordan, due to the increase in sales of apples, vegetables, potatoes, accounting about 50 per cent of exports to Jordan; an increase of exports to Irak, due mainly to gold trade, apple and banana exports; an increase of exports to USSR, mainly because of increase of wool trade.

It can be seen, therefore, that for export markets Lebanon depends to a large extent on the Arab countries, that absorbed about 45 per cent and 44 per cent of total exports in 1959 and 1960 respectively.[5]

3. Imports, Exports and Trade Balance

Merchandise trade in 1960 reached a new record high with the increase being much more impressive in the case of imports. This phenomenon is not peculiar to 1960. It rather represents a long-term trend reflected in an average annual rise in imports which is significantly more than the rise in exports. Whereas none of the principal

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[5]See Table LII, Appendix I, which gives Geographic Division of Foreign Trade of Lebanon for 1950 and 1960 in percentages.

groups of imports constitute more than 16.3 per cent of total imports, fruits, vegetables and minor agricultural products make up 40 per cent of total exports; textiles and clothing, 13 per cent, and all other exports 47 per cent. Another striking difference is the higher rate of growth which characterizes all but one of the import groups compared with the growth rates of exports. Fruits, vegetables, etc. are the only exception where exports have been growing at the rate of 2.6 per cent per year, whereas the growth rate of imports has been 0.4 per cent only.

The trade balance, unfavorable to Lebanon as usual, registered in 1961 a record high deficit of LL 632.00 millions. It compares with deficits of LL 636.6 millions, LL 560.7 millions, LL 407.8 millions, LL 474.2 millions, and LL 415.4 millions for the years 1960, 1959, 1958, 1957 and 1956 respectively.[6] They give an average annual increase of 12 per cent in the trade balance deficit over the period in question.

The greatest trade deficit is with Great Britain, LL 166.8 millions and LL 178.9 millions for 1959 and 1960 respectively;[7] the next largest deficit is with the USA, LL 66.6 millions and LL80.1 millions for 1959 and 1960 respectively. Next comes France, with 95.9 millions and 61.7 millions, and West Germany, with LL 53.1 millions and LL 70.2 millions for the two years respectively. Therefore, we note that Lebanon's largest trade deficits are with Western European countries and the USA. Moreover, the few favorable trade balances Lebanon has are mostly with Arab neighbouring countries.

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[6]See Table IV, Appendix I, which gives Trade Deficits, 1956-1961.

[7]See Table VI, Appendix I, which gives Trade Deficits by Countries for 1959 and 1960.

The composition of Lebanese exports and imports clearly indicate that Lebanon is still in its early stages of industrialization - imports of industrial products from developed countries, and exports of agricultural and animal products, raw materials and other primary products mainly to Arab countries.

An interesting feature of Lebanese merchandise trade is that two classes of goods assume a relatively great importance in exports as well as imports namely: vegetal products and textiles. This may be explained as follows: "the export and import items included under 'vegetal' products pertain, on the whole, to different commodities. Thus, Lebanon, for example, imports to a large extent cereals and vegetables while it exports fruits all of which are designated as being 'vegetal products'."[8]

The fact that textiles constitute an important section of exports and imports may be attributed to the following three reasons:[9]

1. Foreign competition in case of finished goods is too keen to leave all of the local market to local production.
2. Quality of imported textiles differ from those produced at home.
3. While the bulk of imports are finished or semi-finished goods, a major portion of exports is raw materials.

As a consequence, most of the textiles exported in form of

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[8]Makdisi, Samir A.K., <u>Post-War Lebanese Foreign Trade and Economic Development</u> (M.A. Thesis in Economics, American University of Beirut, June 1955), p. 42.

[9]<u>Ibid</u>.

finished goods find a market in underdeveloped areas while those imported are mainly from Western countries.

The development of trade with Middle East countries depends largely on measures and decisions taken by these countries. Syria and Jordan are developing their own ports, Latakieh, Tartous and Akaba; they are also developing their own industries. Egypt and Irak, on the other hand are aiming at self-sufficiency.

With all these, however, Lebanon's trade is prospering, specially with Kuweit, Jordan, Irak, Cyprus and Saudi Arabia.

4. Reexport, Transit and Gold Trade

There are two complementary aspects of foreign trade in Lebanon. These are reexport and transit trade. Reexporting means sending to foreign countries, either Lebanese or other imported merchandise, after a temporary admission to the customs house or the free zone.

There are two types of reexports: those that receive a refunding of duty and those termed ordinary. The latter pertain to goods which have been reexported directly from the customs warehouses (included in transit trade figures), while the former are goods that are registered as imports and then reexported (included in export trade figures). According to Government regulations, they are entitled to a refunding of duty provided:

"a. They are in no way similar to local industrial production unless it was proved they originated in a foreign country.

b. They are kept in their initial state.

c. They are reexported by whoever had previously imported them."[10]

This reexport trade usually does not exceed 20 per cent of total reexports.[11]

Development of reexport trade can be seen in Table VII.

TABLE VII

REEXPORT TRADE[1]
1951 - 1960
(in LL millions)

1951	8.2
1952	19.5
1953	12.2
1954	13.9
1955	16.4
1956	14.5
1957	25.6
1958	16.3
1959	24.0
1960	25.5

[1]Includes ordinary reexports and reexports with refunding of customs duties.

Source: For 1951-1959, Ministère de l'Economie Nationale, Service de Statistique Générale, Bulletin Statistique Trimestriel, 4ème Trimestre, 1959, p. 3. For 1960, Statistique du Commerce Extérieur.

[10]Ibid., p. 47.

[11]"Le Rapport Higgins," Le Commerce du Levant (Monthly Issue), No. 5, (January 1961), p. 19.

We note a gradual increase, except for 1958, year of insurrection. Because of the geographic position of Lebanon, most reexports are directed towards the Arab countries. Furthermore, many of the reexports to these countries are industrial products imported from the West.

Transit trade includes merchandise which passes through the country without being changed in any way. Table VIII gives us figures for the development of transit trade for the years 1951-1959.

TABLE VIII

LEBANON - DEVELOPMENT OF TRANSIT TRADE
1951 - 1960
(Base Year 1951)

Year	Value (in LL 1,000)	Index
1951	1,136,794	100
1952	1,038,601	91
1953	1,062,943	93
1954	1,034,014	91
1955	1,148,400	101
1956	1,100,300	97
1957	1,244,828	109
1958	980,657	86
1959	791,824	70
1960	n.a.	

Source: "Le Rapport de l'Irfed, les Services Commerciaux et Financiers au Liban," op. cit., p. 19.

We note that the volume of transit trade is more than the import and export trade. Moreover, years 1958 and 1959 register low transit trade. Taking transit trade volume with certain countries, it can be noted that there is a general decline with each country.[12] It is also reported that transit trade fell 25 per cent from 59,972 MT in 1960, fourth quarter, to 45,975 MT in the same period 1961.[13] Such a decline is undoubtedly partially caused by the increasing use of ports such Aqaba in Jordan and Latakia in Syria. Moreover, these countries are taking measures which is harming Lebanon's transit trade. Jordan has limited its imports and exports to be carried out only through the port of Akaba; Syria issuing restrictions regarding the passage of Jordanian and Lebanese trucks in Syrian territory, and conducting Syrian trade mainly through the port of Latakieh.

Beirut, nevertheless, has an uncomparable asset in its free zone, which covers an area of about 132,500 sq. meters and which includes many different kinds of merchandise and which can be stored to up to three years. This permits Lebanon to maintain a privileged position, irrespective of restrictive measures taken by neighbouring countries.

Gold constitutes the most important import. Probably, part of this is reexported, but it is not recorded because of laws of other countries forbidding imports of gold from Lebanon. Lebanon allows the free importation of gold, whether bullion or coins, but gold exportation

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[12]See Table VI, Appendix I, which gives Transit Trade Figures with Certain Selected Countries.

[13]An Unpublished study done by the Economic Devision of the American Embassy in Beirut on Economic Conditions in Lebanon, 4th Quarter, 1961.

is subject to licensing. As there is no import duty on gold, the Government does little to enforce proper declaration and recording.

We can summarize this analysis of foreign trade in Lebanon, by pointing to the following main trends:

a. It reflects the early industrialization of the country which depends heavily on the Western countries for the import of a large variety of needed manufactured and other goods.

b. There exists a relatively large deficit in the balance of trade which has to be covered through invisible earnings and capital inflow.

c. Transit and reexport trade play an appreciable role in foreign trade activity.

d. Foeign trade of Lebanon is characterized by its diversity; no single article forms more than 10 per cent of the value of total imports or exports.

C. Factors Favoring Foreign Trade in Lebanon

As it was seen so far, foreign trade plays an important role in the economic life of Lebanon; it actually constitutes one of the principle elements of National Income, and consequently of per capita income. It was also noted the increasing volume of foreign trade. There are many factors accounting for this. These may be divided into two broad categories: those arising from the geographical position of the country, and those attributable to the general level of economic development, and the economic policy of the Government.

1. Geographical Position

Viewed geographically, Lebanon occupies a central position in the Middle East with well-equipped sea and airports; it is bounded by the Mediterranean Sea from the West, by Palestine from the South, and by Syria from East and North. The country is considered to be a link between the East and the West. The channelling, for centuries, of an important part of Middle Eastern commercial and financial operations through Lebanon created an experienced class of merchants, entrepreneurs and bankers.

The large seaport in Beirut and its now international airport have greatly contributed towards making it the center of Eastern Mediterranean trade. With its large seaport free zone area, Beirut has become one of the most important entrepot centers in the Middle East. The free zone was started by the French in the thirties. But, it never attracted considerable business due to the strong competition of Haifa.

"Since the outbreak of hostilities in Palestine and the closing down of Haifa to Arab countries, Beirut's free zone area has developed considerably."[14] This development is also attributable to the recent accummulation by neighbouring Arab countries, of large riches, because of the oil industry.

Such a geographic position has placed Lebanon in a favourable position for international trade, and this explains the relative supremacy of Lebanese trade whence Lebanon derives over a third of its income.

2. <u>General Level of Economic Development and Economic Policy of the Government</u>

a. <u>Rising Income in Neighbouring Countries</u>: One of the economic factors is the rising income in neighbouring countries, mainly because of the prosperous oil industry. With increased incomes, demand for goods and services has also increased, with the result that trade through Lebanon has increased. Moreover, foreign investment and capital transfers to Lebanon have likewise increased. All these have contributed towards the economic development of Lebanon.

b. <u>Rising Money Supply</u>: Another economic factor is the rising money supply in Lebanon. With more money incomes, people's demand for goods and services has increased, which has resulted in increased volume of foreign trade.

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[14]Saba, Elias Sh., <u>Requirements and Desirability of a Convertible Lebanese Currency</u> (M.A. Thesis in Economics, American University of Beirut, 1956), p. 125.

c. <u>Free market and free exchange system:</u> Beirut has developed a relatively well established free market[15] which is attracting to Lebanon highly profitable financial transactions with countries having exchange control either because these controls themselves allow cooperation with a free market or as a way to circumvent such controls.

Moreover, the completely free exchange market in Lebanon has materially contributed to the tremendous development of service transactions. The freedom of exchange operations has made possible exchange and commodity arbitrage as well as commodity transactions involving several foreign currencies, although in some cases the merchandise in question never touched Lebanese territory.

The Government's policy, therefore, of establishing a free foreign exchange market in Lebanon and the facilities extended to reexports and transit trade has made out of Beirut an important commercial center.

3. <u>Other Factors</u>: Among these factors, the most important one is the human factor. The mountains in Lebanon have acted, for centuries, as refugee places for minorities undergoing religious persecution in the hinterland. So traits of love of freedom and world outlook were developed, with the result that personal liberty was appreciated. Throughout history, the Lebanese have established vast relations with foreign countries; they have sent emigrants to all corners of the world.[16] Moreover, the

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[15] A brief analysis of the development of free market in Lebanon will be given in Chapter II.

[16] See Badre, <u>op. cit.</u>, pp. 34-37. See also Sayigh, Yusif, "Lebanon: Special Economic Problems Arising from a Special Structure," <u>Middle East Economic Papers, 1957</u> (Beirut), p. 71.

higher level of literacy in Lebanon, coupled with the Lebanese unusual aptitude for grasping foreign languages, gave the Lebanese opportunity for worldwide contacts and made of them excellent traders.

Another factor is the political stability in the country. The Government has been able to maintain political stability, and which has thus been one of the major reasons of the increasing amount of capital inflows. It has also resulted in a steady increase, since 1946, in the number of foreign and local banks operating in Beirut. This has facilitated foreign trade, as mentioned above, and helped its development. The complete freedom of bank operations through their granting of credits and payment facilities is another reason for such a development.

Lebanon, therefore, mainly because of its geographical position and the special mercantile qualities of its population, has developed to have experienced and shrewd middlemen and merchants, and has taken, thus, a good place in the international trade of the world.

D. Limitations on Foreign Trade

1. Restrictions on Imports

Restrictions on imports can be imposed in two main ways: first, by imposing a tax on merchandise imported, commonly called "tariff", or customs duty, and second, through a quantitative limitation - the quota system.

a. Customs Duties: Probably the most universal restriction is and has been the tax or duty imposed on merchandise when it enters the national boundary - a tax also called "tariff." The purpose of such a tariff policy may be either revenue-raising or for protection of local industries.

Tariffs may be imposed "at the time an item enters the country, at the time it is entered by the importer for consumption, on the occasion of its transit through a country, or at the time of exportation or reexportation."[17]

To accommodate the basis of application, three well-recognized types of duty are used - the specific, the ad valorem, and the compound. The specific duty is levied on a product according to some physical measurement, such as pound or gallon. It is simple to administer, but affords inconsistent protection.

When duties are levied on the basis of value of the item, they are called ad valorem. This is more logical and it offers more continuous cushioning against foreign goods than would a specific rate in a period of rising prices.

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[17] Heck, Harold J., Foreign Commerce (Mc-Graw-Hill Book Co., Inc., 1953), p. 325.

The compound duty consists of a specific duty plus a percentage rate based on value, and it is used under certain conditions, for example, when there are varying values of the products.

The Lebanese tariff schedule is based on the League of Nations' nomenclature, with duties divided into three categories:

"1. Maximum duty which applies to goods imported from non-member countries of the U.N. and usually equal to twice the ordinary tariff.

2. Ordinary duty which applies to goods imported from member countries of the U.N. and other non-member countries benefiting from such a privilege.

3. Preferential duty which applies to goods imported from countries that have signed special customs agreements with Lebanon."[18]

An examination of the tariff schedule would reveal certain aspects of local industry encouragement in way of protective tariffs on the one hand, and a relative reduction of duties on raw materials needed by these industries on the other hand. To a large extent, however, there exists a uniform ordinary duty of 25 per cent applicable to those goods which neither compete severely with local production nor constitute raw material needed by local industries.

The value of duties are based on the whole on an ad valorem basis, which ranges between 1 per cent and 50 per cent. Relatively few

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[18] Makdisi, op. cit., pp. 22-23.

specific duties are used and this in connection with fruits, vegetables, textiles, cotton, needle work, and vehicles.

Imported goods that compete severely with local production are usually subjected to a duty above 25 per cent, while needed raw materials are either exempt or receive a duty lower than 25 per cent. All other goods are subject to a 25 per cent levy.[19]

The higher duties (40 - 50 per cent) are imposed on vegetables, fruits, products of food processing industries, textiles made of natural silk, shoes, machinery for making matches, etc.

However, tariffs have not been issued as an effective tool of commercial policies. They have been imposed primarily for revenue purposes. It is estimated that tariffs contribute around 37 - 40 per cent of the Government's total receipts.[20] Table IX gives us the total customs receipts to the Government for 1959, 1960 and 1961.

Moreover, local industrial production is still suffering from a keen foreign competition, and this is mainly because protective duties are not high enough to ensure a relatively effective protection, but also because of the relatively higher cost structure of local firms compared to foreign firms.

However, two important measures have been taken in the Customs in view of reforming the duties.[21]

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[19]Conseil Supérieur des Douanes, Tableau des Droits Inscrits au Tariff des Douanes, (Beyrouth, 1960).

[20]"Le Rapport de l'Irfed, les Services Commerciaux et Financiers au Liban," op. cit., p. 21.

[21]Chehab, Malek, "Aperçu Général sur l'Evolution de l'Activité Economique au Liban durant l'Année 1959," L'Economie Libanaise et Arabe, V. (May 1960), p. 14.

TABLE IX

LEBANON - CUSTOMS RECEIPTS, 1959, 1960 and 1961

Month	1959	1960	1961
January		8,315,705.32	9,261,599.83
February		7,613,216.52	8,272,958.52
March		9,534,353.36	10,213,782.21
April		10,414,290.34	11,219,333.16
May		9,723,440.57	9,866,733.13
June		8,626,525.21	10,797,320.00
July		9,441,359.31	9,304,932.76
August		8,581,091.60	7,464,000.00
September		8,410,797.73	8,437,000.00
October		8,796,992.01	10,515,000.00
November		12,636,013.97	9,908,000.00
December		10,647,907.00	10,322,905.00
Total	89,500,000.00	112,741,692.95	115,593,564.61

Source: *Le Commerce du Levant* (Daily Issue), XXXIII Year, No. 780, (Wednesday 28 February 1962), p. 7.

1. In common with other Arab countries, Lebanon adopted similar "Customs Terminology", in order to eliminate many differences in interpretation and to facilitate inter-Arab trade.
2. All Arab Countries adopted the International Nomenclature of Brussels like most countries of the world.

These have forced readjustments in the customs duties, and which became effective January 1, 1960.

b. Quotas and Permits: There are, in reality, two types of quotas. One, "the tariff quota", admits a certain volume or any quantity within a specified season under one schedule of customs duties, with additional volumes or with quantities imported outside of the specified season being subjected to higher rates of duty. The other "the import quota","places a definite limit on the total quantity of an article which may be imported within a specified period of time or from a particular country. None beyond the stated amount may be brought in, with or without the payment of duties"[22]

A natural consequence of the adoption of a quota system by a country is the use of import licenses as a means of parceling out to interested importers the limited amount available under the quota. As a general rule, it would appear that import licenses should not be necessary, if the quota is about as large as the usual import volume.

Before Lebanon established its free foreign exchange market, all imports required licenses, but they were restrictively applied only to a few commodities of a type produced locally.[23] By 1951, licenses were issued freely, often after the arrival of the goods. By 1954, certain commodities were removed from the list of commodities subject to the

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[22]Heck, op. cit., p. 344.

[23]International Monetary Fund, Second Annual Report on Exchange Restrictions (Washington, 1951), p. 116.

restrictive import licensing system. These were: lard, oils, hydrogenated oils, fatty acids, chocolate and confectionary, biscuits, macaroni, jams, beer, paints, soap, iron tubing, copper values and tapes. In 1955, imports of a few goods were prohibited - apples, citrus fruits, dangerous drugs, etc. and all other imports could be imported without a license, except for imports of certain commodities that were for the most part produced locally.[24]

In 1957, some changes were again introduced. Imports of some agricultural products were made subject to license, such as citrus fruits, apples, olives, pineseeds, dried figs, wheat and silkworm cocoons.

Therefore, in general, we can say that very few imports from any source are prohibited, and all imports from Israel are prohibited. All other commodities can be imported freely without licenses, except for commodities of the type produced locally.

However, there have been many complaints about the licensing and quota system used in Lebanon, because of the frequent changes and of its discriminatory character. So the Ministry of National Economy and Tourism issued a decree on April 28, 1960[25], to appoint a special commission to prepare a detailed report on the commodities put under this sy tem, in view of improving the conditions in which the quota is divided and taking into consideration the general economy and view of each interested party.

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[24]International Monetary Fund, Seventh Annual Report on Exchange Restrictions, (Washington, 1956), p. 225.

[25]"Pour la Révision du Systême de la License Préalable et du Quota," L'Economie Libanaise et Arabe, v. 10, (June 1960), pp. 21-22.

2. Restrictions on Exports

In general, many restrictions are employed to accomplish directional control of exports for the very purpose of channeling sales into areas whose currencies (or goods) are highly desired, or to ensure ample supply of a staple commodity (e.g. olive oil, wheat, etc. in Lebanon). It may also be used for revenue purposes; for this, export tariffs are used.

Quantitative restrictions are usually done through the use of quotas, and export licenses. In Lebanon, there are few commodities which require licenses, such as livestock, wheat and wheat products, barley, jute goods, Egyptian cotton, newsprint, cement, petroleum and petroleum products, industrial and agricultural machines and equipment and certain metals. All products intended for export to North Korea are subject to export license. Exports of a few goods - scraps of iron, cast iron, copper lead, and tin - are prohibited. All exports to Israel are also prohibited.

3. Trade and Payments Agreements

Under pressure of economic conditions prevailing at the time, and sometimes as a result of politico-economic philosophies, many governments have attempted to overcome free market influences on the volume and direction of multilateral trade by entering into bilateral agreements with others whereby two countries agree to exchange (or to make it possible for the exchange to be accomplished) certain products to mutual benefit. Thus, "while the basis of trade is economic in that the goods are produced more advantageously in one of the countries than in the other, the actual transaction depends on political necessity rather than on the most economic and profitable impetus."[26]

Lebanon, mainly because of its particular position in the balance of trade has tried to conclude many trade and payments agreements.

It has, since 1951, entered upon several trade and payments agreements with foreign and Arab countries. These agreements can be classified into three categories.

a. "Open" agreements: these have been concluded with the purpose of strengthening trade relations. They include most favored-nation clause, but no specific clause as to the amount and method of payment for exports and imports. Such agreements have been concluded with USA, United Kingdom, France, Federal Germany Republic, Italy, Turkey, Yougoslavia, Argentina, Brazil, Chile and Liberia.

b. "Clearing" Agreement: they are an attempt to balance trade bilaterally, chiefly by providing for the settlement of payments arising from current trade between the contracting parties through clearing accounts set up for that purpose. Such agreements are mainly concluded with Eastern European countries. The agreement with Czechoslavakia, recently revised, fixes the volume of exchange at LL 12 millions annually. It further stipulates that 55 per cent of the proceeds of Czechoslavakia exports to Lebanon must be allocated, on a priority basis, to

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[26]Heck, op. cit., p.

purchase Lebanese goods including 7,500 tons at least of citrus fruits and 20 tons of tobacco.

Another example is a trade agreement concluded with Poland very recently. The Poles have agreed to take 5000 MT of citrus fruits (up to 1,000 from the previous agreement) and 50 tons of tobacco. Lebanon is to purchase all types of manufactured goods. Both Czechoslavakia and Poland have had large trade balances in their favor in the past, and although both treaties are aimed at correcting this, it can be forecast that Lebanon's trade deficits with these two countries will continue.

Still another example is the trade agreement concluded with Soviet Russia during the fourth quarter of 1961. A LL 8 million lumber sale which is part of the LL 28 million trade agreement between the Lebanon and Soviet Governments.

c. "Preferential" agreements: they are in respect of customs duties and import and export licensing to a variety of agricultural and industrial products originating in the contracting parties. Such agreements are mainly concluded with Arab countries. They are many and varied in nature.

An example is the Agreement with Arab League countries in January 1959 to enlarge the list of products exchanged. It was amended in November 1959 in view of enlarging the commercial and transit agreements among these countries. The agricultural and animal products and raw materials imported from Irak, Jordan, Syria, would be charged no customs duties at their entry to Lebanon, while the industrial products of Irak, Jordan and Egypt would get 25 per cent reduction in the ordinary tariff.[27]

The only area where Lebanese imports from and exports to are prohibited is Israel.

The main reason for the conclusion of these agreements was, and still is, the desire of the Lebanese authorities to expand Lebanese merchandise exports and to reduce the large deficit in the country's balance of trade.

Reading so far, we may conclude that these restrictions and measures have not acted as serious limitations on the foreign trade of Lebanon. However, much needs to be done in the way of improving the conditions in which foreign trade is conducted.

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[27] Chehab, Malek, op. cit., p. 15.

PART II

FINANCING FOREIGN TRADE IN LEBANON

CHAPTER II

THE FOREIGN EXCHANGE MARKET IN LEBANON

It was noted in the first chapter that one of the most important reasons for the development of foreign trade has been the relatively free exchange market in Lebanon. In view of this, the present chapter is an attempt to discuss the development of such a free exchange market, and its effects on the balance of payments. A large deficit of trade exists, as noted before; however, Lebanon has an overall good balance of payments position. It will be interesting to analyze and find out how this large deficit is covered.

The present chapter, therefore, has been divided into three major parts:

The first part will present, in a very brief form, the meaning of foreign exchange market, the major elements in it and its relation to balance of payments of a country.

The second part will be devoted to a presentation of the development of a free exchange market in Lebanon. The main steps from exchange control system towards exchange liberalization will be given.

The third part will be an analysis of the balance of payments of Lebanon, 1955-1960. The major sources of foreign exchange will be determined.

A. Definition of a Foreign Exchange Market

"In the course of their business, exporters collect foreign currency which they cannot use and, therefore, must exchange for domestic funds. Importers who start with a supply of domestic currency seek to acquire foreign currency in order to buy goods abroad. The unacceptability of foreign money for exports and of local money for imports is the basis for a market in which foreign moneys are bought and sold. This is called the foreign-exchange market."[1] The basic function of the foreign exchange market is to clear the demand and supply for foreign exchange and by so doing to effect payments into and out of a country. Such a market is an international one; it is not limited to a given country. It is the market for a currency. "The other three functions of the foreign-exchange market are to effect transfers of purchasing power, to provide credit for foreign trade, and to furnish facilities for hedging exchange risks."[2] The most important of these is the transfer of purchasing power from one country to another and from one currency to another, and this is carried out with the use of credit instruments - telegraphic transfers, bank drafts, commercial bill of exchange or acceptance.

If the foreign-exchange market of a country is taken by itself, it will be seen that the balance of payments includes many more transactions than pass through the foreign-exchange market. Many exports of a country may be sold to foreigners for its local currency. These enter into the balance of payments of that country but involve no foreign-exchange transaction. Similarly, many importers of a country buy goods abroad in their own currency. These effect the balance of payments but not the record of foreign exchange transactions in that

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[1]Kindleberger, Charles, International Economics, (Richard D. Irwin, Inc., Rev. ed., Illinois, 1958) p. 44.

[2]*Ibid.*, p. 45.

country. In addition, the balance of payments includes certain kinds of transactions in which there are no payments and hence no foreign exchange transactions - such as donations (in kind) and barter.

The difference in valuation between the balance of payments and a record of foreign-exchange transactions arises from the fact that the balance of payments is kept on a consistent basis, whereas the valuation used in foreign exchange transactions depends upon the terms of the myriad separate deals - f.o.b., c.i.f., f.a.s., etc..

Moreover, the balance of payments and a foreign exchange record may differ in timing. This is the respect in which balance of payments estimates are weakest. The method for estimating the balance of payments requires that exports and imports be listed at the time goods cross international borders. But payment may take place through the foreign exchange market any time from years ahead to years afterward. Some goods are shipped on consignment. When sold, they may be sold for credit. Some capital goods may be ordered years in advance, with a down payment and the remainder undertaken progressively and completed before delivery.

The main difficulty from the difference in timing between the balance of payments and the record of exchange transactions occurs when the terms of payment in foreign trade undergo alteration. For example, if in any one year the exports of a country which were sold on three-month credit shift to a cash-basis, the country will receive 15 months' payments in twelve months and the balance of payments based upon export deliveries will not give a correct figure of actual payments. The same would be true of a shift from a cash to a credit basis. In this case the country would receive nine months' payments, while the balance of payments derived from customs-house records gives a period of twelve.

The commercial market for foreign exchange may then be said to consist of the following elements:

Sellers of exchange: exporters, travelers (currency or checks), dealers in or sellers of foreign securities, shipping companies, insurance companies and banks.

Buyers of exchange: importers, travelers, buyers of foreign securities, and banks.

Other principal participants in the foreign exchange market are brokers and dealers, travel bureaus or agencies, and central banks - which are very important.

The exchange rate is determined from day to day by supply and demand of home currency in terms of foreign currency. The constituents of the demand for foreign currencies in terms of home currency may be divided into four groups: "Foreign currency may be required (1) in order to pay for goods or services purchased from foreigners, that is, in order to discharge obligations in respect to visible and invisible imports, (2) in order to make loans or purchase securities abroad, (3) for speculative purposes, that is to say, in order to take advantage of an expected reversal in the future course of the exchange rate, (4) in order to remove funds from a country in which political, fiscal, or business prospects appear threatening to one in which they seem relatively secure."[3]
"It is obvious that there is no one rate of exchange which is the equilibrium rate corresponding to a given state of world demands and techniques. The rate of exchange, the rate of interest, the level of money wages react upon each other, and no one is determined unless all the

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[3]Robinson, Joan, "The Foreign Exchange," Readings in the Theory of International Trade, (The American Economic Association, George Allen & Unwin, Ltd., London, 1953), p. 83.

rest are given."[4]

The rate of exchange between any two countries is influenced, therefore, by the supply of those items for which foreign exchange is required to be paid. "The rate of exchange between two countries is an expression of the balance of the movements of the items entering into the balance of international payments between these two countries. When there is more demand than there is supply the rate will go up, and when there is more supply than there is demand, the rate will go down."[5]

There are two different mechanisms whereby exchange rate changes may be used to maintain equilibrium in the balance of payments: (1) flexible exchange rates, and (2) official changes in temporarily rigid rates. Under flexible exchange rates freely determined in open markets, the first impact of any tendency toward a surplus or deficit in the balance of payments is on the exchange rate.

On the other hand, "official changes in exchange rates provide neither the stability of expectations that a genuinely rigid and stable exchange rate could provide in a world of unrestricted trade and willingness and ability to adjust the internal price structure to external conditions nor the continuous sensitivity of a flexible exchange rate."[6]

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[4]Ibid., p. 103.

[5]Pratt, Edward E., The Foreign Trade Handbook, (The Dartnell Corporation, Publishers, 1952), p. 708.

[6]Friedman, Milton, Essays in Positive Economics, (The University Chicago, Press, Chicago), 1953.

B. Evolution of a "Free Exchange Market" in Lebanon

A discussion of the emergence of a free market in Lebanon does not imply the gradual and complete absence of government interference with respect to international trade activities. As we saw in Chapter I, tariffs exist and certain specific commodities are still subject to the system of prior licensing. However, the Lebanese foreign trade sector and to a greater extent the foreign exchange market have come to be relatively free when compared with those of other countries,

"Exchange control was first introduced in Lebanon on December 3, 1939. Significant changes were made in 1944, 1945 and 1948."[7]

During this period, foreign exchange proceeds were centralized, official rates of exchange were set, and all outward capital remittances, excepting the Sterling and Franc areas were prohibited. Moreover, administration was mainly in the hands of the French. All these regulations were carried out by two main bodies, the "Exchange Control" and the "Exchange Office."

No Syrian or Lebanese resident was allowed to sell, give up, transfer or deposit as a guarantee outside the two countries the capital he owned without a special permission from the "Exchange Office". Capital which was owned by residents in the Sterling and Franc areas could be freely kept in their places of origin. If they wanted to keep it in other areas, permission from the "Exchange Office" was again needed.[8]

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[7]International Monetary Fund, Fifth Annual Report on Exchange Restrictions, (Washington, 1954), p. 227.

[8]Makdisi, op. cit., p. 11.

Moreover, as we noted in the first chapter, all exports and imports of goods were subjected to the system of prior licensing. Exporters before they were granted permits, had to pledge to surrender to the "Exchange Office" all their foreign exchange proceeds. On the other hand, importers in need of foreign exchange could secure it from authorized banks after having acquired the necessary permits from the "Exchange Office". However, such payments of foreign exchange was authorized in order to fulfill either of the following purposes: "(1) Financing of imports, (2) Settlement of debts incurred prior to September 3, 1939, (3) remitting it to the applicant's own family."[9]

The first move toward relaxation of exchange and trade control started with the promulgation of a law on January 17, 1946, which abolished the necessity of import permits from the "Exchange Office", with respect to certain classes of goods.

The continued existence of a Lebanese exchange control in these years can be considered a transitional step from war to peace time conditions which eventually resulted in the appearance of a free foreign exchange and relatively free foreign trade sectors.

After 1948 (year of official relaxation of exchange control) French influence started to weaken and a gradual relaxation of foreign exchange and trade controls started. Lebanese authorities took over completely the supervision of exchange control through the newly set up "General Supervisory Body" composed of a directory for supervision, and foreign exchange office and an exchange equalization fund. New regulations

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[9]<u>Ibid</u>., p. 11.

for the import and export of capital and foreign exchange were issued. Accordingly, official rates were applied to official transactions only, whereas free market rates applied to all imports and exports. Moreover, 10 per cent of the imported foreign exchange (hard currencies) except French francs, had to be surrendered, on the part of the exporters, to the "Exchange Office" at official rates and the balance could be sold at the free current rate; the Concessionaire companies, on the other hand, had to give 80 per cent of the foreign exchange they imported to the "Exchange Office" at the official rate.[10]

Furthermore, starting with June 1948, the import of goods with few exceptions, not financed with foreign exchange obtained from the "exchange Office" was not any more subject to the system of prior licensing. Again, excepting few commodities, exports became free from all restrictions. Decree No. 16369 of September 26, 1949, changed the surrender requirement concerning foreign exchange repatriated to Lebanon. "Whereas previously all exchange receipts in specified currencies had been subject to the 10 per cent surrender requirement, the new decree allowed export proceeds to be disposed of wholly in the free market, so that the use of the free market rate was extended to cover all export proceeds."[11] This decree was corrected on December 8, 1949, and so export proceeds in foreign exchange were no longer required to be repatriated but could be retained abroad. Moreover, in 1952, Concessionaire companies were no more required to give up 80 per cent of the foreign exchange they imported. Finally with complete

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[10] _Ibid._, p. 16.

[11] Saba, Elias, S., _The Foreign Exchange Systems of Lebanon and Syria_, 1939-1957, (Beirut, 1961) p. 113.

freedom extended to the import and export of Lebanese currency there had emerged in Lebanon a free foreign exchange and a relatively free foreign trade sectors.

"With the recognition of the free exchange market, the government felt it advisable to bring about a certain degree of stabilization in the free market rates. Accordingly, Decree No. 8 of October 6, 1949, altered the composition of the General Exchange Control to include, alongside the Exchange Office and the Control Department, an Exchange Equalization Fund."[12] "This was to be administered by a committee composed of the Minister of Finance, as president, and, as members, the Director General of the Ministry of Finance, The Controller General of Exchange, the Director of the issue department of Bank of Syria and Lebanon, and an official appointed by the Minister of Finance."[13]

Although the Fund was established in 1949, it did not operate actively till September 1953, when it was necessary to prevent the external value of the Lebanese pound from appreciating in terms of the dollar, because of the Korean War.

Moreover, there were some changes introduced in the exchange control administration. The General Exchange Control (including the Exchange Office, the Control Department and the Exchange Equalization Fund) was transferred to the Government's Commissioner at the issue department, who was an official of the Ministry of Finance. Furthermore, all the rights of the Committee for Exchange Control was transferred to the committee administering the Exchange Equalization Fund.

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[12] Ibid., p. 121.

[13] Ibid.,

"The process of exchange liberalization, initiated on November 5, 1948, was accomplished by May 24, 1952. Since then, the Lebanese foreign exchange system has remained virtually unchanged."[14] There is, now, a complete absence of controls and restrictions on payments and of government interference in the free market. There is a multiple exchange rate structure, since official exchange is reserved for governmental purposes while non-governmental transactions are effected in the free market in which rates remote from the par value rates are in effect.

The causes leading to such a situation may be found in "the inability of the Government to enforce efficiently exchange regulations, depletion of exchange resources held by the 'Exchange Office', group pressure exerted by private interest, etc. The relaxation of exchange control was not, in other words, the product of a pre-conceived economic policy, but to a large extent, a recognition of an actual situation that had come to exist."[15] As a consequence, transit, re-export, exchange and triangular operations have been given more stimulus, and have developed more and more, and this have helped cover the relatively big deficit in Lebanon's balance of trade (as we shall see in the following section).

C. Analysis of Balance of Payments of Lebanon

1. Definition of balance of payments

The balance of payments of a country is "a systematic record of all economic transactions between the residents of the reporting

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[14] *Ibid.*, p. 121

[15] Makdisi, *op.cit.*, p. 18.

country and residents of foreign countries."[16] "An economic transaction is normally an act in which there is transfer of title to an economic good, the rendering of an economic service, or the transfer of title to assets from one party to another."[17]

In theory, the balance of payments is kept in standard, double-entry bookkeeping under which each international transaction undertaken by residents of a country will result in a credit and a debit entry of equal size. This means that the balance of payments must always balance; however, the fact that the balance of payments always balances in an accounting sense does not mean that a country never experiences balance of payments difficulties or that the demand for its exchange is equal to the supply of it available.

The first thing to understand in studying the balance of payments is composition of the several segments and their detailed as well as their overall interrelationship. All types of international transactions act and react on one another because each is influenced by a common factor - foreign exchange.

"Two types of information may be derived from the study of balance of payments, one informative and the other operative. The former is for the purpose of ascertaining, if possible, what may be expected to happen, in order that targets may be set up and that something may be done to bring actual experience into conformity with predetermined limitations."[18]

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[16] Kindleberger, op.cit., p. 17.

[17] Ibid., p. 18

[18] Heck, op.cit., p. 257

Obtaining information for operative purposes leads to the question of what can be done as a result of the analysis, or what can be done to influence the balance of payments. This means either preventing the balance of payments from getting out of line or bringing about adjustments in foreign trade to effect and maintain a desired equilibrium. Consideration of controls over foreign economic relations calls for an understanding of the mechanism of adjustment and of the means by which equilibrium in international prices is attained and maintained. "What one must study in order to understand the changes that have taken place is the significance of underlying considerations."[19]

It is most convenient to distinguish only two major categories in the balance of payments - payments in respect to imports and exports, which represent the income account or <u>balance of trade</u>, and payments in respect to lending and borrowing which represent the capital or <u>balance of lending</u>. Since the balance of payments always balances it follows that, for any period of time, payments in respect to the balance of trade must be equal and opposite to payments in respect to the balance of lending. Thus, when, over any period, the inhabitants of a country have collectively a surplus of receipts from exports over payments for imports (or <u>positive</u> balance of trade) they must over the same period, on balance be lending to the inhabitants of foreign countries an exactly equal sum. Similarly, a surplus of imports (or <u>negative</u> balance of trade) must be matched by an equal amount of borrowing.

There is also the gold account which is separated from merchandise (it being in the current account), because it performs a special monetary

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[19] <u>Ibid</u>.

function in the banking system of most countries and in the balance of payments.

2. Balance of Payments of Lebanon, 1955-1960

The concept of balance of payments transactions is very elastic and there are numerous definitions and classifications. In Lebanon, however, it would be impossible to follow closely such concepts and suggested classifications, mainly because of the inadequacy of Government statistics. Nevertheless, the main aim of this study will be simply to present the country's major international receipts and payments.

The first study of the balance of payments of Lebanon was made for the years 1951 and 1952 by Professors E. Fei and P. Klat of the Economic Research Institute, A.U.B. Since then, there have been other attempts to estimate the balance of payments by various people; almost all are based on the definitions and methods of the original study done by the Economic Research Institute of A.U.B. Thus, Table X gives the balance of payments estimates for Lebanon for the years 1955-1960.[20] Table XI gives international receipts and payments for the years 1958-1960. Each transaction will be taken now and discussed.

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[20]Figures have been compiled from different studies done by different groups. Hence, there may be some discrepancies on the method of adjustments used and figures may not command an absolute exactitude. However, since our aim is to point out the trends, these will not constitute serious handicaps to our analysis.

TABLE X

LEBANON - BALANCE OF PAYMENTS, 1955-1960

(in LL 1,000,000)

Abridged Schedule

	1955[1]	1956[1]	1957[1]	1958[2]	1959[3]	1960[4]
A. Current Transactions						
1. Merchandise Trade	-451.8	-462.5	-525.4	-556	-610	-768
2. Non-Monetary Gold	+ 13.6	+ 7	+ 5.9	- 7	- 9	- 8
3. Foreign Travel & Tourism	+ 86.2	+ 86.9	+ 68.2	+ 40	+ 62	+ 81
4. Transport & Insurance	+ 35.1	+ 42.6	+ 56.7	+ 48	+ 78	+108
5. Investment Income	+ 9.3	+ 12.4	+ 15.1	+ 39	+ 42	+ 55
6. Government, not included elsewhere	+ 31.9	+ 37.3	+ 39.7	+ 43	+ 51	+ 52
7. Other Services	+ 42.6	+ 44.5	+ 45.8	+ 98	+145	+172
Total	-233.5	-231.8	-294.0	-295	-240	-310
8. Donations	+131.4	+136.2	+172.0	+165	+108	+105
Total Current Transactions	-102.1	- 95.6	-122.0	-130	-132	-205
B. Movement of Capital						
9. Long Term Capital +				+144	+156	+216
Total A + B				+ 14	+ 24	+ 11
C. Balancing Items						
10. Short Term Capital					+ 9	+ 42
11. Monetary Gold						- 53
Total Movements of Short Term Capital & Monetary Gold	- 40.7	+ 5.9	- 24.4		+ 9	- 11
12. Errors & Omissions	+142.8	+ 89.7	+146.4			
Total A + B + C	-	-	-	+ 14	-	-

Source: [1]For 1955-1957, Saliba, Nassim, "La Balance des Paiements du Liban et la Méthode de son Etablissement," Le Commerce du Levant, (Monthly Issue), No. 6, (February 1961) p. 25.

[2]For 1958, "Le Rapport Higgins," Le Commerce du Levant (Monthly Issue), No. 5, (January 1961) p. 32.

[3]For 1959, "La Balance des Paiements du Liban en 1959," Le Commerce du Levant (Monthly Issue), No. 8, (April 1961) p. 30.

[4]For 1960, from an unpublished study on Balance of Payments of Lebanon done by the American Embassy, Economics Division, in February 1962.

TABLE XI

LEBANON - BALANCE OF PAYMENTS, 1958-1960

(in LL 1,000,000)

Standard Schedule

	1958		1959		1960	
	Credit	Debit	Credit	Debit	Credit	Debit
A. Current Transactions						
1. Merchandise Trade	117	673	152	762	162	930
2. Non-Monetary Gold	43	52	128	137	189	195
3. Foreign Travel & Tourism	62	22	87	25	102	21
4. Transport & Insurance	59	11	93	15	119	13
5. Investment Income	49	10	55	12	67	12
6. Government, not included elsewhere	47	4	55	4	57	5
7. Other Services	98	-	145	-	172	-
Total	477	772	715	955	866	1,176
8. Donations	167	2	110	2	107	2
Total Current Transactions	644	774	825	957	973	1,178
B. Movement of Capital						
9. Long Term Capital	144	-	156	-	216	-
Total A + B	788	774	981	957	1,189	1,178
C. Balancing Items						
10. Short Term Capital	-	-	9	-	42	-
11. Monetary Gold	-	-	-	-	-	53
Total Movements of Short Term Capital & Monetary Gold	-	-	9	-	42	53
TOTAL A + B + C	788	774	990	990	1,231	1,231

Source: [1]For 1958, "Le Rapport Higgins," Le Commerce du Levant, (Monthly Issue), No. 5, (January 1961) p. 32.

[2]For 1959, "La Balance des Paiements du Liban en 1959," Le Commerce du Levant, (Monthly Issue), No. 8, (April 1961) p. 30.

[3]For 1960, from an unpublished study on Balance of Payments of Lebanon done by the American Embassy, Economic Division, in February 1962.

A. Current Transactions

1. Merchandise Trade

As we say in chapter I, data on foreign trade have been taken from the customs' records, which includes all merchandise trade except:

"a. Goods not constituting exchanges between Lebanon and a foreign country, such as sea food, caught off coastal waters.

b. Travellers' baggage, immigrants' and emigrants' belongings, and other such items not possessing the characteristics of commodity trade.

c. Minor imports and exports of nominal value, especially those sent by post, such as merchandise samples, gifts, and goods valued under LL 5.00.

d. Special governmental purchases, including imports of military equipment.

e. Goods imported by foreign embassies and missions and by the United Nations Relief and Works Agency (UNRWA).

f. Imports of specified concessionnaires."[21]

The figures presented in these tables for merchandise trade do not conform with figures given in tables of the first chapter, simply because of the different methods of adjustments used.

The major adjustments which have been made to the customs figures for balance of payments purposes have been for coverage and valuation. Adjustments for coverage have been done with respect to re-exports, gold concessions, and smuggling. Only re-exports which have paid a duty upon

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[21]Fei, Edward, & Klat, Paul J., The Balance of Payments of Lebanon 1951 and 1952, (American University of Beirut, Beirut, 1954) p. 7.

entering the country and have thus been recorded as imports, the duty being refunded when the goods are re-exported, have been added to the Customs export figures.

The value of gold has been deducted from foreign trade figures, its quantity by weight determined, and revaluation made on the basis of quarterly free market gold prices. Moreover, foreign banknotes and motion picture films values, which are also included in merchandise imports, have been isolated and the first has been included under capital movements, and the second excluded from trade returns.

Adjustments for valuation have been done with respect to CIF values, exchange rates, multiple rates, timing, and conversion factors.

As mentioned in chapter I. the value of imports is almost always converted into Lebanese currency at the official rate, which varies substantially from the open market rate. "In general, it can be said that goods from the Sterling Area, the Franc Area, and the U.S.A. are paid for in their respective currencies, while the bulk of goods from other countries are paid for either in dollars or in Sterling."[22] It is on this basis that conversions into local currency are made.

A further adjustment has been made for undervaluation by importers (to reduce tariff payments). A 2 per cent revaluation has been used. Moreover, exports have been undervalued by 15 per cent.

Therefore, the merchandise trade balances show increasing trade deficits. It rose from LL 451.8 millions in 1955 to LL 768 millions in 1960, which represents a 70 per cent increase over 1955.

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[22]*Ibid.*, p. 12.

2. Non-Monetary Gold

Non-monetary gold movement includes private gold imports and exports. Government gold transactions and gold transit are given elsewhere. As it was noted before, Lebanon allows the free importation of gold, but gold exportation is subject to licensing.

Figures of imports of gold are then LL 52 millions, LL 137 millions and LL 195 millions for the years 1958, 1959 and 1960 respectively.

Smuggled gold exports, on the other hand, are estimated to be LL 45 millions, LL 128 millions, and LL 187 millions for the years 1958, 1959 and 1960 respectively. So the net movement has been a net inflow of LL 7 millions, LL 9 millions and LL 8 millions for the three years respectively.

3. Foreign Travel and Tourism

"Foreign travel covers, on its credit side, all expenditures in Lebanon of visitors whose permanent residence is outside Lebanon, and, on its debit side, expenditures abroad of travellers whose permanent residence is in Lebanon."[23]

Receipts from foreign travel come from : a. summer resorting, b. schools, c. hospitals, and d. tourism, including business.

Tourism is by far the most important category. Table XII gives the total amount spent by tourists for the years 1956-1961. The total number of tourists, who visit Lebanon, has declined very much after 1956, when Syria restricted travel to Lebanon; since then it has been increasing slowly, but it is still below its 1956 level. From an income point of

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[23] Ibid., p. 21.

view, however, the 1961 level has been well above the 1956 level, as the Syrian tourists were replaced by more freely spending visitors from other countries.

TABLE XII

TOURISM IN LEBANON

Year	Total Number of Tourists	Estimated Amount Spent (in LL millions)
1956	843,825	100
1957	541,354	86
1958	224,445	48
1959	489,508	79
1960	611,000	94
1961	675,000	110

Source: Paul J. Klat, "The National Income of Lebanon," Middle East Express, No. 5, (April 2, 1962) p. 4.

A comparison of earning and expenditures indicates a net credit on foreign travel account of LL 86.2 millions in 1955, falling down to LL 40 millions in 1958 (mainly because of the political disturbances) and rising since then to attain LL 81 millions in 1960, still being lower than its 1955 level.

4. Transport and Insurance

"Transportation includes freight charges, passenger fares, and port earnings, whereas insurance transactions may include insurance on account of international trade, life insurance, and other kinds of insurance."[24]

We note a considerable increase in this item. It rose from LL 35.1 millions in 1955 to LL 108 millions in 1960. The increase has been continuous except for 1958, year of political disturbances. This considerable increase is mainly due to Lebanon's International Airport.

5. Investment Income

Investment income includes, on its debit side, the yearly earnings that are transferred abroad, of foreign businesses established in Lebanon. Income from Lebanese investment abroad, on the other hand, may be divided into four categories:

a. Many residents in Lebanon hold large portfolios of foreign securities (mainly in France, but also in Great Britain, U.S.A., Switzerland, etc.

b. A few Lebanese nationals own also large tracts of land abroad (mainly in Syria and Egypt), and the revenues of these are included under investment income.

c. The interest earned on private bank balances held abroad (mainly in France and the U.S.) should also be included.

d. Finally should be mentioned the earnings of Lebanese businesses abroad, especially in Syria and the other Arab countries.

These show a net credit balance of LL 9.3 millions for 1955, rising up to LL 55 millions in 1960.

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[24] Ibid., p. 30, & p. 33. See also Saliba, N., "La balance des paiements du Liban et la méthode de son établissement," Le Commerce du Levant, (Monthly Issue) No. 6, (February, 1961) p. 25.

6. Government (not included elsewhere)

Here are included all service transactions of the Lebanese Government and of other government and international agencies in Lebanon, not already mentioned elsewhere. "Specifically are included as a debit the Lebanese Government's expenditures abroad on diplomatic and consular representation, its contribution to international institutions, its scholarships to Lebanese students abroad, and its foreign debt payments; on the credit side, are listed the receipts from government credits abroad, consular receipts, royalties paid by concessionnaires, local expenditures of international agencies, and the diplomatic, consular and cultural expenditures of foreign governments in Lebanon."[25]

There is for this item an increase of from LL 31.9 millions in 1955 to LL 52 millions in 1960. However, the increase from 1959 to 1960 is small compared to previous years. This slow increase is due to the decision taken by UNRWA to import all goods destined for consumption in Jordan through only the port of Akaba.

7. Other Services

Under this item are included all transactions which could not be included elsewhere, "namely the earnings from transit and entrepot trade, and from exchange operations, the local expenditures of foreign companies whose center of interest is abroad, and other sundry receipts."[26]

Here too, there is a net credit increase from LL 42.6 millions in 1955 to LL 172 millions in 1960. This increase reflects mainly a growth in foreign payments for Lebanese financial services and a rise in profits

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[25] Ibid., pp 37-38.

[26] Ibid., p. 41.

of the free zone industries and in the expenditures of foreign companies in Lebanon.

Net earnings from all services are estimated to be LL 261 millions, LL 370 millions and LL 418 millions for the years 1958, 1959 and 1960 respectively. It has increased from LL 218 millions in 1955 to LL 370 millions in 1960, about 70 per cent increase over 1955. These earnings have covered as usual the greater part of the deficit in the trade balance. The balance of goods and services has been increasingly unfavorable, registering a record high deficit amounting to LL 295 millions, LL 240 millions and LL 310 millions for the years 1958, 1959 and 1960 respectively. It has increased from LL 233.5 millions in 1955 to LL 310 millions in 1960, about 33 per cent increase over 1955.

8. Donations

"Donations may be defined as unilateral transfers or, in other words, transactions for which there is no quid pro quo whatever. They would include such items as emigrants' remittances, private donations to schools and hospitals and foreign government grants."[27]

Donations, decreasing from LL 172 in 1957 to LL 105 millions in 1960, financed about one-third of the goods and services balance and left a substantial deficit in the current transactions estimated at LL 122 millions, LL 130 millions, LL 132 millions and LL 205 millions for the years 1957, 1958, 1959 and 1960 respectively. This decline in donations has been due mainly to the decline in the U.S. aid to Lebanon which was not compensated by a rise in other sources of donations or assistance.

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[27] *Ibid.*, p. 46.

In view of an anticipated further fall in the U.S. aid to Lebanon, it would appear that the country's earnings from donations will decline further in the coming few years. Hence the country's dependence on foreign capital to maintain its current growth rate is expected to increase.

B. Movement of Capital and Monetary Gold

As long as there is no proper and official bank reporting system any estimate of capital flows cannot be more than a guess, especially since most banks are extremely reluctant to reveal privately any information on their business. So, data on the capital movements are the least reliable estimates in the country's balance of payments. This entry does not consist of capital only. It includes in addition to the net movement of private capital the net balance of illegal and unrecorded trade, the total value added to goods admitted under the temporary entry regime, and errors and omissions. Hence the behavior of the movement of capital cannot be statistically analyzed with any reasonable degree of confidence.

Table XIII gives external capital movements for the years 1957-1960. According to the table, the net movement of private long-term capital constitutes the greater part of the net inflow of capital. We note that the total long-term capital proper would approximate 80 per cent of total net capital movements for the period 1957-1960.

The movement of official long-term capital consists entirely of Lebanon's withdrawls from the IBRD loan for the Litani project which amounted to LL 31 millions during this period.

TABLE XIII

LEBANON - EXTERNAL CAPITAL MOVEMENTS, 1957-1960

	1957	1958	1959	1960
Net Inflow of Capital	190	144	165	258
A. Net movement of short-term capital	+ 7	+ 14	+ 9	+ 42
B. Net movement of official long-term capital	+ 1	+ 7	+ 12	+ 11
C. Net movement of private long-term capital	+ 182	+ 137	+ 144	+ 205

Source: From an unpublished study done by the American Embassy on Balance of Payments in Lebanon, in February 1962.

Therefore, a net inflow of capital estimated at LL 216 millions in 1960 served to carry the deficit on current accounts, to finance with the help of some drawings on foreign exchange assets the official gold holdings, and to leave a surplus in the overall balance amounting to approximately LL 11 millions.

This analysis shows us that there is substantial and growing deficit in the trade balance, a considerable and growing dependence on services and yet, a favorable overall balance of payments position.

However, the balance of payments of Lebanon suffers from several weaknesses.

First, there is heavy dependence on sources of revenue which are highly unstable and which, if reduced, may be reduced appreciably. Many of such services are the result of disparities in the exchange control regulations of the various countries and as such cannot be regarded as a continuing or at least, stable source of revenue. Others such as tourism and estivage cannot be depended, since they are affected by factors beyond Lebanon's control.

Secondly, there is dependence on capital movements. Such capital, as mentioned above, is essentially 'hot'; it usually comes from Arab countries and the oil countries of the Persian Gulf, Saudi Arabia, Kuwait, Bahrein, and Qatar. So such capital is transient which comes first to Beirut and then leaves the country in search of more secure or renumerative instruments. Moreover, the capital which remains in the country has two outlets; they are either kept as bank current accounts or else invested, predominantly in real estate, both of which have inherent dangers.

However, the balance of payments enjoys certain signs of strength. First, we notice there is an increase in Lebanon's export trade proceeds and this is mainly due to developments in agriculture and to the conclusion of various trade agreements.

Secondly, services rendered to non-residents, such as tourism and estivage, are being developed and stabilized, with the result that there are increasing revenues from these. The geographic position of Lebanon as a national intermediary between the Middle East and the West is also a reason for this development.

We may conclude by saying that the relatively wide discrepancy between the value of Lebanese visible exports and imports indicates the major dependence of the Lebanese economy upon invisible receipts to cover the existing deficit in the balance of trade. Such receipts come from many sources, main ones being: emigrant remittances and capital inflow, foreign travel, expenditures by foreign bodies in Lebanon (U.N., IPC, Tapline, cultural institutions, diplomatic mission, etc.) and exchange and triangular operations.

As long as the Lebanese economy is greatly dependent upon invisible receipts, the case for a free commercial policy is obvious.

CHAPTER III

PROCEDURES AND PRACTICES IN FOREIGN TRADE FINANCE

Credit for foreign trade is mainly given by banks. It involves two or more countries and different currencies, and payments or receipts are effected mainly through banks. The present chapter provides an analysis of the amount and types of credit facilities extended by banks to importers and exporters. However, before this is discussed, it is important to find out the main characteristics of the banking system in Lebanon.

Therefore, first will be presented the features and defects of the Banking system.

This will be followed by an analysis of the methods used by banks in extending documentary credits.

The third and last part will be a short discussion of the determinants of such methods.

A. Commercial Banking System in Lebanon

Till 1939, the banking activity was limited to few French banks founded because of the French Mandate in Syria and Lebanon - Banque de Syrie et du Liban (BSL), which had also access to government funds, and Crédit Foncier d'Algerie et de Tunisie. The only foreign (non-French) bank was Banco di Roma. An affiliate of BSL, "Société de Crédit Agricole, Industriel du Liban" (SCAIL extended credits to agriculturers, with the authorities' guarantees. The domestic sector was represented by small banking houses, some of which were established before the First World War; (Banks Trad, Pharaon, and Chiha, etc.); their activities were restricted to interior operations, especially the discount, whereas the foreign banks used to take care, almost exclusively, of financing the operations of foreign commerce.

The structure of the Lebanese banking system has undergone a noticeable change since the Second World War. The difference between foreign banks and the larger local banks have tended to become less pronounced. After 1945, mostly because of the liberal economy of Lebanon, the number of banks increased rapidly. Their activities extended not only financially, but also geographically. They do now, in addition to banking and financing operations, commercial and industrial operations, guaranteed loans, construction loans, etc. No law limits their activities. Also, most banks now, Lebanese or foreign, open branches not only in the different quarters of the town, but also in the different town and summer resorts of Lebanon. Some other banks have opened branches in Europe and Africa; for example, Intra Bank in Geneve, Banque Libanaise pour le Commerce in Paris, etc.

At present, there are three types of banking establishments in Lebanon:

a. Approved banks, first class incorporated commercial banks, whose guarantee is accepted by the Lebanese Government. Their number reaches 43.[1] These account for over 90 per cent of banking business in Lebanon of which at least fifty per cent is transacted by the foreign banks.

b. Non-approved banks, second class incorporated commercial banks whose guarantee is not accepted by the government, because of their limited banking transactions. Their number reaches to 18.

c. Discount houses, which are mostly individually owned establishments and whose operations consist of discounting paper at 8 - 12 per cent interest though a few of them accept deposits and make advances. They rediscount these at a rate which varies between 5 and $6\frac{1}{2}$ per cent. "The importance of these discount institutions and 'banquiers' is very clear, since they channel credit from commercial institutions to leading banks."[2] Their guarantee is not accepted by the government. They operate on their own capital resources and partly on capital borrowed from commercial banks, especially the BSL.

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[1] "Les Banques au Liban," L'Economie Libanaise et Arabe, (March 1961), p. 18.

[2] Hanna, Armand, Banking and the Economic Organization of Lebanon, (Beirut, 1953), p. 10.

The most recent banking statistics available is shown in Table XIV. Because of the continued and uncontrolled increase in the number of banks, the Council of Ministers has decided lately not to grant any licences for the opening of new banks.[3]

TABLE XIV

LEBANON - NUMBER OF BANKS BY NATIONALITY OF CAPITAL AND PARTICIPANTS

Nationality	Number	Number
Lebanese Banks		44
Arab Banks		5
Foreign Banks		12
- French	5	
- American	3	
- British	2	
- Hollandish	1	
- Italian	1	
TOTAL		61

Source: L'Economie Libanaise et Arabe, (March 1961), pp. 19-21.

Banks now accept deposit money and lend it on short term to commerce and industry. They pay $2\frac{1}{2}$ - 4 per cent on demand deposits; the

[3] "Les Banques au Liban," op. cit., p. 18.

French and American banks pay $2\frac{1}{2}$ - 3 per cent. It is because of this high interest rate that banks in Lebanon do not usually care to attract time or saving deposits. Thus, time deposits are about 10 per cent of total private deposits, whereas in the more developed economies time deposits with the banking system are becoming as important as the demand deposits.

Moreover, the structure of Lebanon's free economy permist banks to indulge in lucrative gold and foreign exchange operations, though now this is declining. The same applies to exchange operations especially those applying to triangular trade, switch operations and arbitrage.

The earning assets of the Lebanese banks are almost exclusively concentrated in the financing of short term self-liquidating mercantile loans, against securities, signatures, property, etc., and are mainly in the form of discounts, documentary credits, advances on securities and overdrafts. Their maturity periods rarely extend to a year and in most instances fall due within six months. Most of the direct advances are usually made by overdrafts to business and industrial establishments either on a secured or unsecured basis, extending to a year. "The interest rates on these ranges between 5 and 7 per cent. Trade discounts are for three months, and interest on prime bills ranges between 5 and $5\frac{1}{2}$ per cent."[4] "The maximum interest rate allowed by law is 9 per cent, to which must be added up to 2 per cent any commission, charges, etc. However, when a customer is of good standing, rates as low as 6 or even 5.5 per cent are reported to be charged currently."[5]

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[4]Yaffi, Talha, The Monetary and Banking System of Lebanon, with Special Reference to Monetary Reform, (Ph.D. Thesis, University of Wisconsin, 1959), p. 79.

[5]See Business Legislation of Lebanon (Economic Research Institute, American University of Beirut, Beirut, 1955), p. 29.

Other than these advances and discounts to business, there are no other types of short term investment, that is Treasury bills or call loans which are held in the asset portfolio of the banking system. So, the banking system lacks short term investments of high liquidity which are easily marketable and which can readily be rediscounted as the need arises, in the open market, without much loss.

Another feature of the banking system in Lebanon is the absence of a central bank. It is the Bank of Syria and Lebanon which performs some of the functions of central banking. It is a joint stock company having its headquarters in Paris, and therefore is constituted in accordance with French Law.

The BSL has two main departments: the Note Issue Department and the Banking Department. The Banking Department has the following divisions: (a) Commercial Credit Operations, (b) Banker's Bank Operations, (c) Banker and Fiscal Agent to the Government. The Note Issue Department, the Bankers' Bank Division, and Banker and Fiscal Agent to the Government operations constitute its central banking functions.

<u>The Note Issue Department</u>: The monopoly of note issue was given to BSL by the French Mandatory authorities mainly in order to facilitate the financing of French army expenditures. The concession will end in May 1964 according to the 1937 Convention. The assets which are eligible as elements of the note cover are well in excess of those actually needed for the purpose of backing the currency, and the excess is held in the Banking Department. So the necessary flexibility of the

note circulation is provided by the fact that the BSL is free to move such assets from the Banking Department to the Issue Department against the issue of additional notes, thus expanding the note circulation without the necessity of resorting to any special arrangements.

Banker's Bank: BSL is given this title because it renders two central banking functions to the banking system; (a) it extends overdraft facilities to commercial banks, and provides rediscounting facilities to them; and (b) it gives interclearing bank services and so has a certain volume of commercial bank deposits with it.

The rediscounting facilities are regulated by the provisions of the bank's bylaws. Notes eligible for rediscounting must bear three signatures, two private and one the rediscounting bank's acceptance. Maturity periods are maximum 180 days if held in the Banking Department, and 90 days if held in the Issue Department.

The rediscount has been increasing lately, but it is mainly to French owned or controlled banks or to discount houses, since foreign banks have resort to their home offices, and the large national banks are afraid of losing their customers to BSL. The rediscounting facilities by BSL, therefore, are based on its commercial interest, liquidity position and public demand for funds, and cannot be and have not been used as an effective tool of monetary policy.

BSL also provides interclearing bank services; so banks are obliged to keep sizable cash balances with it. However, there is no banking law to require these banks to keep a certain percentage of their demand deposits as legal cash reserves with the BSL.

<u>Banker and Fiscal Agent to the Government</u>: BSL gets these privileges by virtue of the 1920 and 1937 monetary conventions. "Article 3, Section 2 of BSL's statutes gives BSL the power to lend and advance funds to the Government, and section 11 empowers the Bank to undertake for the Central Authorities the cashing of public revenues and the payment of public expenditures, and to aid the government in its financial operations.[6]

<u>BSL as a Commercial Bank</u>: BSL's Banking Department has the largest volume of private demand deposits in Lebanon and extends the largest volume of loans and discounts to the private sector of the economy. Article 3 of its statutes empowers the bank to discount all commercial paper such as promissory notes made to order, drafts, bills of exchange, whose maturity does not exceed 180 days; to discount and grant loans or advances on negotiable obligations; to open current interest-bearing loan accounts and to carry on all financial and banking activities in Lebanon except land mortgage operations proper. However, commercial paper for discount must have at least two signatures acceptable to the Bank and with a maximum maturity of 120 days. Furthermore, advance on securities must not exceed sixty per cent of the market value of such securities. No distinction is made between business with other banks and business with the public. According to statistical information, about 10 - 15 per cent of total private deposits are with BSL, though prior to 1950 the proportion was about 70 per cent. This large volume of banking activities is mainly due to BSL's privileged position of being the banker and the only holder of government funds.

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[6]Yaffi, <u>op. cit</u>., p. 131.

The main defects of the Lebanese Banking System are as follows:

1. Lack of Bank Legislation: All banking and exchange operations are considered by law as mere acts of commerce; "any person or legal entity, whether foreign or Lebanese, can establish and operate a bank and will be considered as a merchant."[7] There are few provisions pertaining to the contractual aspects of deposits, but no provision for reserve ratios, no central bank to carry out open market operations, and no government supervision. There is only the Banking Secrecy Law of September 5, 1956, and only 15 banks so far have agreed to use the law.

2. Inter-Bank Relationship: There is complete absence of organized inter-bank relationship. The banks are highly individualists; they seldom negotiate bills with each other. The reasons for this are that banks are in a very competitive state and hence are suspicious of each other. Moreover, the absence of a central bank, which could facilitate movements of funds from one bank to the other, is another reason. Only two things have been done so far in this respect. The first is the organization of the Clearing Service, in 1943, which is handled for most of the approved banks by the BSL. It has now 30 banks as members to it. The second has been the organization of the Central Risk Office in 1953 for the purpose of collecting and exchanging information on the credit worthiness of their customers. Membership is made optional; it has only 25 banks as members so far.

3. Lack of Statistical Information: A peculiarity in the Lebanese banking system is the absence of law requiring banks to present or publish regular information on their activities. It is clear that no monetary policy is possible as long as the Lebanese Government does

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[7] *Ibid.*, p. 101.

not have at its disposal the detailed information on the banking conditions. The only data available is that on total bank loans and total deposits, which banks submit on a voluntary basis. Moreover, what is published is either unreliable or incomplete.

4. Predominance of Commercial Credit: Commercial banks confine their operations to short term self-liquidating transactions. Though such short term activities are regarded as less essential in the States, where financial institutions invest in long term securities, here it is considered to be the most important and profitable banking activity. Term credits from one to five years are absent due to the scarcity of capital, absence of central bank and absence of specialized credit information services. It is also due to the limited number of the corporate companies.

In the light of these general activities and defects of the Lebanese Banking System presented above, the next section will be an explanation of the procedure followed by these banks in extending documentary credit for foreign trade.

B. Bank Credit Facilities for Foreign Trade

"As used in foreign trade, the word 'credit' has two entirely distinct and in some respects, unrelated meanings: (1) It may refer to the amount of financial assistance which the exporter requires in the conduct of his export business; or (2) It may concern the moral and financial responsibility of the foreign customers of the manufacturer or exporter. In the first of these two senses credit is based, just as in domestic trade, on what is popularly known as the three 'C's - Character, Capability and Capital."[8]

In view of this, it will be interesting to start this section by pointing out the major sources from which banks in Lebanon gather credit information on their clients.

1. Sources of Credit Information

"The question of where to get accurate, reliable and complete credit information on risks in foreign markets is the crux of the financial credit problem in all foreign trade."[9] An important point to note is that there is lack of trust in Lebanon. This is why banks in Lebanon use a combination of different sources to get sufficient credit information on their clients before granting any credit to them. Their prime aim is to find out whether the applicant is solvent; whether he will be able to pay back the loan without any guarantees, and to determine his line of business and amount of competition in the field. The different sources resorted to are as follows:

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[8]Pratt, op. cit., p. 617.

[9]Ibid., p. 622.

a. Information Form: When a client comes for the first time to the bank, he is asked to fill a certain form where he gives all required credit information on himself.[10] After the form is filled, the bank checks very carefully whether what is reported is true. Thus, the past experience of the client is analized. This form is kept in his file and constitutes a ready reference on the client.

b. Bank's Information Center: Each bank has a special Information Center, where are gathered and compiled all possible credit information about merchants in town, whether they are customers of the bank or not. So, when the bank is interested in finding out about a certain customer or merchant, it can refer to its Information Center. The Notary in town sends daily the names of merchants having cases or protests, be they customers or not of the bank.

c. Other Banks: Banks have concluded a "Gentlemen's Agreement" by which they are to help each other in supplying credit information on the merchants they are interested in.

d. Direct Contacts with People who know: The bank gets in contact with people who are likely to know about this customer. These may be, for example, merchants in the same field of business as the applicant. Or, they may be the references the applicant has supplied, or well-known personalities in town.

e. Supplier or Exporter: The banks always resort to this source. They check with the exporter, who naturally, is in a position to know most on the customer he is dealing with.

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[10]See Form No. I, Appendix II.

f. <u>Central Risk Office of BSL</u>: Some banks resort to the Central Risk Office at Bank of Syria and Lebanon. However, this is not very reliable for the very simple fact that not all banks are members to this Office, so the information supplied is not complete.

g. <u>Chamber of Commerce</u>: Some banks ask information from the Beirut Chamber of Commerce about merchants. However, this is not an official source, and banks who want to refer to this have to pay a certain sum for the information received.

Having compiled enough information on the applicant, and if it is proved to be satisfactory, the bank considers him a customer and proceeds with granting him the credit.

2. <u>Finance for an Importer</u>

"The importer's approach to the financing of his trade is conditioned by his psychological reactions to the circumstances under which he is operating, either as those circumstances actually exist, or as he imagines them to be."[11] Thus, there are three major determinants: (a) tradition; that is, what is 'usual in the trade'; (b) relative bargaining strength of the importer in relationship with his exporter; (c) external factors, such as the ruling conditions in the special trade, political conditions, and so on.

The "Letter of Credit" method of financing imports have come to be the most common method used in Lebanon. It is roughly estimated by most bankers that 60 per cent and more of the financing procedure for imports are done through

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[11] Syrett, W.W., <u>Finance of Oversea Trade</u> (Sir Isaac Pitman & Sons, Ltd., London, 1957, p. 68.

opening letters of credits. Hence this will be discussed first.

a. <u>Procedure under Letters of Credit</u>

When the importer and exporter are not very well known to each other, the exporter asks the buyer to "open a credit". That is, supposing a buyer in Lebanon has received the offer of certain goods at a certain price and on certain stipulated conditions; one of these conditions is that he must provide for payment by "opening a credit" through a bank. This opening of a credit in some form is the first step towards payment, an initial step which precedes the export of the goods. By this means, the bank takes over the responsibility and certifies the good reputation of the importer.

Thus, the importer comes to his bank and asks for the opening of a commercial letter of credit. It is in order to note that if the importer is not already a customer of the bank, he has first to open an account in the bank and then ask for the opening of a letter of credit. To do this, he has first to sign a certain form usually entitled "Conditions for opening Documentary Credits".[12] This form puts down certain conditions which the importer undertakes to comply with and which the bank keeps in file. It mainly defines what the importer is supposed to do under certain conditions, and what the bank's responsibilities are in the matter. In short, the importer accepts the credit and guarantees to the bank in consideration of its opening the credit as requested:

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[12]See Form No. II, Appendix II.

1. that he will provide the bank with funds before maturity of the acceptance or sight credits, in time to meet the sight drafts presented to the issuing bank;
2. that he will pay whatever commission is agreed upon and assume the cost of all cable charges, and
3. that he will not hold the bank responsible for the genuineness or validity of the documents presented under the credit or for the quantity or quality of merchandise.

Once this is signed, then the importer has to fill in an "Application for Documentary Credit" form, where all the conditions of sale are noted.[13]

Based on the information received on this form, the bank opens a letter of credit. A specimen of such a letter is given in Appendix II (Form No. IV). The wording of most commercial letters of credit used in Lebanon follow the same general pattern.

"A commercial letter of credit is an instrument or letter issued by a bank in behalf of and for the account of a buyer of merchandise. By this instrument the bank agrees that the drafts of the seller may be drawn on the issuing bank, and when so drawn within the conditions indicated in the instrument, such drafts will be duly honored by acceptances and/or payment, depending upon the usances of the drafts."[14]

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[13] See Form No. III, Appendix II.

[14] Shaterian, William S., Export-Import Banking (The Roland Press Company, N. Y., 1956), p. 362.

1. Analysis of a Letter of Credit

Let us analyze the contents of the letter in some detail. The commercial letter of credit is a letter addressed to the seller or to the correspondent bank and signed by the writer, the issuing bank. It is dated as any other letter. It discloses the name of the individual or concern for whose account it is issued, who is the beneficiary (i.e., the exporter).

Form of the Commercial Credit: It can be seen that the bank is opening an irrevocable letter of credit. Most of the commercial letters of credit opened by banks in Lebanon are irrevocable. There are very few other forms used, and these will be discussed further below.

What is an Irrevocable Letter of Credit? "Irrevocable credits are definite undertakings by an issuing bank and constitute the engagement of that bank to the beneficiary or as the case may be, to the beneficiary and bona fide holders of drafts drawn thereunder that the provisions for payment acceptance or negotiation contained in the credit, will be duly fulfilled provided that the documents or as the case may be, the documents and the drafts drawn thereunder comply with the terms and conditions of the credit."[15]

Sometimes, when the exporter is not very well acquainted with the issuing bank, he asks for the correspondent bank's confirmation. In such a case, the issuing bank instructs its correspondent to confirm

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[15] Definition as given by the Thirteenth Congress of the International Chamber of Commerce, in Uniform Customs and Practice for Commercial Documentary Credits, 1951 (to which Lebanon is a member). (See Appendix III).

its irrevocable credit and when this is done, "the confirmation implies a definite undertaking of the confirming bank as from the date on which it gives confirmation."[16]

Other forms of credit: Other forms of credit in use vary. They are very few in Lebanon, mainly because there is lack of trust all over the country. Such forms as used are mainly revocable, nonconfirmed and circular credits.

Revocable credits: these are not legally binding undertakings between banks and beneficiaries. Such credits may be modified or cancelled at any moment without notice to the beneficiary.

Non-confirmed credits are used when the correspondent or any other bank than the issuing bank is not instructed to confirm the credit.

Circular commercial credits: the circular credit is the irrevocable credit instrument of a bank which is addressed to the beneficiary and placed in his hands without the intervention of another bank. The required drafts are to be drawn on the opening bank or on another bank designated in the credit. They should always be irrevocable, simply because the identity of the bank which may purchase the beneficiary's drafts is not known. However, such circular credits are issued only by the larger and best known banks, of which Lebanon has few.

For account of the importer. His name or his company's name is given here.

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[16] Ibid.

For a sum of: When it is "about" this will mean that the given sum can be varied within a margin of only 10 per cent less or 10 per cent more. If it is "not exceeding", then the given amount cannot be increased by any means.

Time Limit: Usually the beneficiary is given a certain time limit, within which he has to ship the goods. This time limit is always given in the letter of credit as per the agreement of the importer and the exporter.

Draft: A draft is a bill of exchange, which is defined as "an unconditional order, in writing, addressed by one person to another signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time, a sum certain in money, to order or to bearer."[17] The drawer or maker of the bill is the person who has issued it; in this case, the beneficiary. The drawee is the person to whom the bill is addressed - the importer. The payee is the person to whose order the bill is drawn payable, the issuing bank or the correspondent bank. The endorser of the bill is any person who has placed his name on the back of the bill thus indicating that he has acquired title to the bill and is to receive the payment - in this case, it is usually the correspondent bank.

Banks in Lebanon ask beneficiary's draft in almost all cases. There is a very important legal reason for requiring this: a draft is the only commercial instrument by the grace of which the bank can preserve its right through protesting. Another important advantage with a draft is its negotiable power. An instrument is negotiated when it

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[17] Shaterian, op.cit., p. 49. See Form No. V, Appendix II.

is sold to someone or discounted with someone. The party to whom it is negotiated takes the paper free from any counterclaims which the drawee may have as against the drawer.

In most of the cases, the bill of exchange required is a sight draft. However, there are times when a time draft (90 - 180 days after sight) is accepted. In such a case, before taking the documents, and after acceptance, the importer has to sign a guarantee letter, promising to pay the sum after a certain time. This is done just for the security of the bank.

<u>Documents required</u>:

1. <u>Invoice</u>: The first document required is the commercial invoice. It is made out by the seller, is addressed to the buyer and gives a statement of the transaction. It is issued in triplicate, and as stipulated on the letter of credit, "certifying at the same time origin of goods, contents are true, and authentic, prices correct and current, and that it is the only invoice issued for the merchandise described therein."[18]

The original and/or the copies should be certified by the Chamber of Commerce of the exporting country, and legalized by the Lebanese Consulate in the <u>city</u> of the exporter, if available.

Invoices should be made out in the name of the applicant for the credit, and payment for them may be refused, if they have been issued for an amount in excess of the credit amount.

2. <u>Shipping Documents</u>: The most commonly used shipping document is the Bill of Lading. It is made out by the 'shipper', and it acknowledges the goods as so many packages and states what the goods are, in somewhat

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[18] See Form No. VI, Appendix II.

guarded terms.[19] It is usually issued in three copies, only the original being negotiable. Banks in Lebanon always prefer it to be in their order, or issued to order and endorsed to the bank. This way, the bank becomes the sole owner of the goods and will remain the sole owner until such time as it may be quite willing to endorse the bill of ladings to the order of the importer. Moreover, they never accept "Claused Bill of Lading" or "Received to be Shipped", or "Unclean Bill of Lading"; the Bill of Lading should be clean "on board", and should indicate if freight is prepaid or payable at destination.

Sometimes an inland Bill of Lading is required if goods, for example, have to be imported from Germany, they have to come by rail to Italy and then from there to Beirut. An inland Bill of Lading will be required from Germany to Italy.

3. Insurance Policy or Certificate: This document is a signed contract to cover the risks of damage to, or loss or destruction of, goods or other property. Banks in Lebanon accept mainly a separate policy for each lot, and very rarely accept "Floating Policy".[20] It should be issued in negotiable form for the invoice amount plus a certain percentage of the invoice - usually 10 per cent; all claims are to be payable in Beirut. Risks covered differ depending on the type of transaction and agreement between buyer and seller. The usual risks covered are War, S.R.C.C. Strikes, Riots and Civil Commotions Clauses), T.P.N.D. (Theft, Pilferage,

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[19]See Form No. VII, Appendix II.

[20]An importer or exporter interested in a series of shippments makes use of this floating type, taking out one large policy for the total of all his expected shippments. As shippments are made, he will declare them under the policy, thus reducing the total available cover. (See Syrett, op.cit., p. 35.

Non-Delivery), Institute Cargo Clauses, F.P.A. (Free of Particular Average), W.P.A. (With Particular Average).[21]

"Unless otherwise specified, such insurance must be issued in the currency of the credit and Banks may, in their discretion, refuse any Insurance Policies or Certificates presented if they bear a date later than the date of shipment as evidenced by the shipping documents."[22] Moreover, insurance should be made with a well-known insurance company, having a good reputation.

4. Other documents: When other documents are required, "banks may accept such documents as tendered without responsibility on their part."[23]

The number and type of such documents vary according to the type of commodities involved or the countries of origin.

There is the Certificate of Origin.[24] "The essential feature is a specification of the country of origin, saying where the goods were originally grown and /or manufactured."[25] This is always required because of the Arab-Israeli Boycott. As it can be seen, on the back of the letter of credit there is a clause to the effect 'Shipment on Israeli means or calling at Israeli ports is not allowed, and documents should contain a certificate to that effect."

Sometimes a Consular Inoice is required. This is essentially a copy of the commercial invoice, made out by the seller on an official

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[21]See Form No. VIII, Appendix II.

[22]As stipulated in the Uniform Customs and Practices for Commercial Documentary Credits. (See Appendix III).

[23]Ibid.

[24]See Form No. IX, Appendix II.

[25]Syrett, op.cit., p. 41.

form, and taken by him to the consul of the country to which the goods are being sent. The consul signs over a fiscal stamp of his own country. This document facilitates the clearing of the goods through the customs.

In other times, a Certificate of Weight is required. This is an important document where buyer and seller have agreed that the price shall be so much per lb., or ton; the particular goods may be subject to loss in weight by evaporation so that it is most important for the seller to get a check on the weight for which he is to be paid.

Other certificates are: Veterinary Certificate (e.g. for cattle), Sanitary Certificate (e.g. for canned foods), Specification List, Hygienic Certificate, Fumigate Certificate (e.g. for used cloth), Certificate of Surveillance[26] (e.g. for black pepper), Packing List, Phyto-Sanitary Certificate (e.g. in case of crops), Certificate of Analysis (e.g. in case of margarine), and so on.

Therefore, the number and type of documents required depend on the type of commodities and the laws of the importing countries. One last point to note is that when the country of origin is Germany, the invoice must certify that "goods are not connected with German-Israeli reparation agreements," and this clause is printed on the back of all letters of credit.

Terms of Contract: Prices of goods quoted by a seller in one country to a possible buyer in another must always state how and where delivery is to take place; that is, where the buyer is to take over the

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[26] Certificates of Surveillance issued by Swiss Companies are said to be the most dependable. On the other hand, those issued by Indian Companies are the least dependable, and they are never accurate.

property in the goods, if he accepts them at the price offered. The most commonly used terms in Lebanon are F.O.B. (Free on Board), C.I.F. (Cost, Insurance, Freight), and C & F (Cost and Freight).

F.O.B. Contract: When the contract stipulated for an F.O.B. sale, the name of the port and name of vessel should be mentioned. In such a case, the seller's duties are: to supply the goods in conformity with the contract of sale; to deliver the goods on board the vessel named by the buyer, at the named port of shipment, at the date or within the period stipulated, and notify the buyer without delay, that the goods have been delivered on board the vessel. Therefore, it is the buyer's responsibility to charter a vessel or reserve the necessary space on board a vessel and give the seller due notice of the name, loading berth of and delivery dates to the vessel. Moreover, he has to bear all costs and risks of the goods from the time when they shall have effectively passed the ship's rail at the named port of shipment, and pay the price as provided in the contract.

C.I.F. Contract: In this contract, the seller is responsible for the original cost of the goods in his own country, for placing them on a vessel proceeding to the buyer's port, for payment of the necessary freight to the shipping company for their services in carrying the goods, and for providing the necessary insurance. "The insurance shall be contracted with underwriters or insurance companies of good repute on FPA terms and shall cover the CIF price plus 10 per cent."[27] One very important point about the CIF contract is that the exporter retains some measure of control over the merchandise. "In the case of refusal he regains

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[27]See The International Chamber of Commerce, Incoterms 1953. They are a set of international rules for the interpretation of trade terms, thus providing some uniformity in foreign trade contract interpretation.

control over the documents of title to the goods, and in the case of insolvency he has the right of stoppage _in transitu_, which he puts into effect by instructing the shipping company to hold up delivery of the merchandise."[28]

C & F Contract: Sometimes the buyer and seller agree that the former is to effect the insurance, but the latter is to pay the freight. For example, if the buyer finds out that it is cheaper to effect insurance in Beirut, then this form of contract is used.

Trans-shipment: The letter of credit should stipulate whether transhipment is allowed or not. This depends on the wish of the customer. Sometimes goods are sold on their way to destination. In such cases, transshipment should be allowed so that the vessel may stop at certain specified ports, and part of the merchandise sold there. Otherwise, the buyer usually does not allow any transshipment.

2. _Mechanics of Commercial Credits_

After the letter of credit is filled in and duly signed, it is then forwarded by airmail to the bank's correspondent in the exporter's country. Sometimes the transfer of the notification of the opening of the letter of credit is done through a cable, in which case it is always confirmed by mail. The cable gives the important particulars of the letter of credit, and thus is not very much in detail.

The correspondent bank notifies the exporter of the opening of the letter of credit and its contents. Within the stipulated time (usually 3 months) the exporter has to prepare all documents and ship

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[28] Syrett, _op.cit._, p. 18.

the goods. On presentation of the documents and the draft to the negotiating bank, and after the bank examines all documents and finds them satisfactory, he gets paid the full value of the bill. This way he has completed his duties and is now finished with the operation for all practical purposes. The correspondent bank debits the account of the issuing bank, if there is one. If not, then interest is charged on the amount thus paid to the beneficiary, which interest charge will be paid by the issuing bank.

Moreover, if the payment should be made in, for example, dollars, and the issuing bank has no dollar balances with the correspondent, but has dollar accounts with other banks either in the same locality or in other localities, then in such a case, the correspondent bank is asked to draw the money from one of these banks, which is usually called the covering bank. In such cases, a copy of the letter of credit is forwarded to the covering bank.

The correspondent bank then forwards all documents to the issuing bank in Lebanon. This bank also examines the documents. The Uniform Customs and Practice for Commercial Documentary Credits stipulates that the examining of all documents and papers with care so as to ascertain that on their face they appear to be in order is a direct liability of banks. It is also stipulated that "if the documents, on their face, are not as stipulated by the terms and conditions of the credit, the issuing bank must, upon receipt of the documents, determine, on the basis of the documents alone, whether or not to claim that payment, negotiation or acceptance not made in accordance with the terms and conditions of the credit."[29]

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[29]See Appendix III.

If, for example, the Notifying Bank finds out that the documents surrendered by the beneficiary have some discrepancies with the letter of credit terms, it pays only a certain percentage of the amount to the exporter and informs the opening bank of the discrepancies, thus issuing a bank guarantee to the effect that payment is withheld until they hear from the opening bank. If the importer does not accept the goods with these discrepancies, the notifying bank is informed and is reimbursed by the beneficiary. If on the other hand, the importer accepts the discrepancies, the beneficiary is paid the balance.

If the bill of exchange is a sight draft, then the importer has to pay the amount of the draft and then get hold of the documents. If however, it is a time draft, the documents are surrendered to the importer (drawee) upon his acceptance. The acceptance is indicated by writing across the face of the bill "Accepted, Name of Company, Date." The date is indispensable as it will indicate that the maturity of the draft is to be some ninety or one hundred eighty days later. Some banks ask the importer to sign a certain guarantee form, to the effect that he is indebted to the bank for a certain amount, and that he will pay it on a certain future date. This is done for the security of the bank. The accepted bill is then sent to the correspondent bank so that they will pay the beneficiary, after which the draft is mailed back to the issuing bank and held there till maturity.

Most of the bills used in Lebanon are sight drafts.

It can be seen that there may be different parties involved in a commercial letter of credit.

First, there is the <u>buyer</u>, who initiates the operation.

Secondly, there is the <u>seller</u>, who is the beneficiary of the credit instrument.

Thirdly, there is the <u>issuing</u> (or opening) <u>bank</u>, which actually issues the instrument.

Fourthly, there is the <u>notifying bank</u>, which is the correspondent bank in the locality of the seller. It merely acts as the agent of the opening bank in bringing the instrument to the attention of the seller.

Fifth, there may be a <u>confirming bank</u>; whenever the beneficiary stipulates that the obligation of the opening bank shall also be made the obligation of a bank local to himself, then this bank becomes the Confirming Bank; it may be the notifying bank.

Sixth, there may be a <u>negotiating bank</u>; if the draft is to be drawn on the opening bank or on another designated bank <u>not</u> in the city of the seller, any bank in the city of the seller which buys or discounts the draft of the beneficiary becomes the Negotiating Bank. The notifying bank may be the negotiating bank also.

Finally, there is the <u>paying bank</u>, the bank on which the drafts are to be drawn; this may be the opening bank, it may be a bank other than the opening bank and <u>not</u> in the city of the beneficiary, or it may be a bank in the city of the beneficiary.

The use of commercial credit financing has advantages from the seller's and buyer's point of view. From the seller's point of view commercial credits give the seller credit security, by eliminating the inherent credit risk. Moreover, it gives the seller the required credit facility which enables him to receive payment as soon as he has made the shipment.

From the point of view of the buyer, credit facilities are extended to him by his bank in the form of commercial credits, which facilities the bank may not be willing to extend to him on other terms.

It is no doubt that the primary purpose of commercial credit financing is to give the seller the greatest possible degree of credit security; as such it is more advantageous to a seller than to a buyer.

3. Bank Charges

The banks, in performing letter of credit operations, charge the customers for all expenses plus commission. Almost all these charges constitute pure profit to the banks, since they do not use any of their funds, but they just lend their good name.

Let us examine the different charges in some detail.

1. Margin Requirements: First and foremost, before the letter of credit is opened, the importer is asked to make a certain downpayment, usually known as a margin or a cash collateral. This varies between zero and hundred per cent. depending upon the credit standing of the customer and the type of commodities or merchandise imported. If the goods are of perishable type, a higher margin is required. In case of raw material imports, 100 per cent margin is required. If the goods are of the type the prices of which fluctuate quickly (e.g. coffee), again a very high margin is required, usually 100 per cent. For imports of machinery and capital goods the margin required varies in between 30 and 40 per cent, depending upon the marketability of such goods; usually they are not easily marketable. Moreover, sometimes, even if the goods are of perishable type, but the credit standing of the customer is very

good, and the bank has had no previous bad experiences with him, a lower margin is required.

2. <u>Commission</u>: The rates here also vary depending upon the reputation and financial position of the client. It is calculated usually for a period of three months (which is the validity period). If the period exceeds by one day of this stipulated three months period, the commission charged is doubled. The rates vary in between $\frac{1}{4}$ to 3 per mil. (1000). If the customer is of very good credit standing, they charge the lower rate, sometimes less than a $\frac{1}{4}$ per mil. However, there is a minimum, irrespective of the amount or rate, and that is that it should not be less than LL 10.

3. <u>Interest</u>: Interest is charged as of the date of negotiation of the credit; that is from the date the exporter is paid by the correspondent bank. The usual way is to count the number of days it takes from the date of negotiation to payment date. That is, if it is negotiated in London at a certain date, it is calculated that it takes five days to reach Beirut and five days to pay the negotiating Bank. However, the interest rate charges vary depending on the credit standing of the customer and the balances the bank holds in correspondent banks, and also on the currencies in which payment is effected. For example, if the opening bank's balance in the correspondent's bank's account is overdrawn, then the correspondent bank, by paying the beneficiary, is actually opening a credit in favor of the issuing bank and thus charges interest. Thus, the issuing bank tends to charge a higher interest rate to the importer, this way leaving a margin of profit.

Good customers are charged low rates of interest. Rates vary between 7 - 9 per cent. Very few customers get a rate of 6 per cent. As noted before, 9 per cent is the maximum legal rate.

Moreover, rates vary according to the currencies in which payment is made. For example, payments in Sterling are charged a higher rate, about 8 per cent; those in dollars, 7.5 per cent, and those in Lebanese pounds about 6.5 per cent.

The amount on which interest is calculated depends on the amount of the margin payments and charges made. For example, the bank adds all charges (commission and others); these are deducted from the margin payment which the importer has made, and the balance deducted from the total amount of credit. On the balance, interest is charged.

4. Other Charges: These include cable expenses, if any, postal charges, which usually amount to PL 150, telephone expenses, correspondent bank's charges, such as confirmation, interest and commission.

There is also the exchange commission; this usually happens when the opening bank has no branches or correspondent banks in the locality of the beneficiary, so payment is usually effected through a third bank in a different locality; thus, this includes certain exchange charges, and which usually amounts to a rate of $\frac{1}{2}$ per mil.

There may also be some warehouse charges. Moreover, if the importer wishes to amend certain of the points in the letter of credit after its issue, the importer is charged about LL 2.5.

It will be noted that the bank has no direct expenses in the whole procedure, and more than 90 per cent of the receipts constitute pure profits to it.

b. Other Methods

Among other methods of financing imports where banks are involved, the most commonly used are the "collection basis" and "overdraft" facilities.

Another method of finance where banks are not involved is the Open Account Finance. This happens when the importer and exporter know each other very well and have accounts with each other. As and when the importer receives the shipping documents, he credits the exporter's account with the invoice amounts - always assuming that the documents are found to be correct after checking - and the running conduct of the account gives rise to various debits and credits. Both parties may agree that settlement should be effected periodically. When settlement date comes, it is the duty of the buyer to compute the net amount for which he is debtor at that point of time, and take steps to transfer that balance to the creditor, usually through a bank.

However, this type of financing is not in common use in Lebanon. Therefore, first will be considered "Collection Basis" facilities, followed by a short explanation of "Overdraft" facilities.

1. "Collection Basis": This takes place only when the importer and exporter know each other well. The importer, not wishing to open a letter of credit and thus paying all the expenses involved each time he wants to import, writes directly to the exporter and agrees with him to import without the use of commercial letters of credits. The terms of the contract, the price, and the documents required are agreed upon. The exporter proceeds with preparing all documents, shipping the goods, and drawing a bill of exchange. All documents are attached to the draft,

and through the exporter's bank forwarded to a bank in Lebanon (usually the importer's bank). The bank informs the importer, who comes and examines the documents in detail. If found satisfactory, he pays the amount and gets hold of the documents. Here, two circumstances should be distinguished. The first is when the bill drawn is of "Documents upon Payment" (D/P) type, and the second is when the bill drawn is of "Documents upon Acceptance" (D/A) type. In the former case, the instructions of the bank are not to hand in the documents to the importer unless he pays. In the latter case, the importer can get hold of the documents if he puts his acceptance on the bill. Thus payment will be effected at the maturity of the bill.

Sometimes, when the customer is of a good reputation and has good credit standing, and when the bill drawn is of D/P type, and the importer will not be in a position to pay before selling the goods, then the bank may depart from the instructions received from the exporter's bank, and may allow the drawee access to the goods before he pays. Then it is on the bank's own responsibility entirely, and it does it because it trusts the drawee. However, it may ask, if it wishes to preserve its interest, the drawee to sign a certain trust receipt form. In this way, the bank retains its security in a legal manner, and the customer is able to dispose of the goods and get payment before he himself has to pay. However, this is not much practiced here.

It can be seen that the bank is simply acting as a postman. However, it has both financial and so-called "intangible" gains. It has financial gains because it charges the customer with all expenses (such as postage) and gets commission of about 1 - 1½ per mil. Its intangible gains are that through the use of the documentary collection method, where the importer may not have been the customer of the bank, it attracts gradually the customer towards working with that bank, thus the bank is gaining a customer.

The turnover in this method is also high, though not as high as in the use of the commercial letters of credit.

2. Overdraft Facilities: Sometimes a customer or the bank is given overdraft facilities; the customer may use it the way he wishes. He may use it as payment for imports. The bank usually has nothing to do with it and does not interfere. It is simply that the customer asks for overdraft facilities, and uses it in payment for imports. This is an indirect method used by banks of financing imports, and such facilities are usually granted to very good customers of the bank.

3. Finance for an Exporter

Lebanon is an importing country. As it was seen in chapters I and II there is a very large trade deficit. Because of this, export documentary credit departments in banks are either nonexistent, or are very small compared to the import documentary departments.

The methods used in financing exports are similar to those used in financing imports, but with the parties reversed.

a. Procedure Under Letters of Credit: After the exporter and importer agree on the terms of the contract for the export of certain goods, and when the exporter is not sure of the credit standing of the importer abroad, he asks the importer to open a letter of credit. When the exporter receives advice through his bank of the opening of the letter of credit, he proceeds with preparing the documents required and with shipping the goods within the validity period. Before he parts with his documents he should check on several points, such as:

- that the invoice is properly made out,
- that all the documents refer to the specific shipment, and to nothing more or less,
- that the bill of lading and insurance policy are endorsed where necessary,
- that the documents and their contents are checked to ensure conformity with what is stated in the bank's advice of credit.

After checking these, he draws a bill of exchange, and attaches all documents to it. On presentation of these to the bank, he gets paid the full value of the bill and is thus finished with the transaction.

However, there are times, when the exporter needs some money in order to manufacture the goods and ship them before the validity period is out; in such cases, the bank can give a certain percentage of the stipulated amount on the letter of credit (usually 30 - 40 per cent) according to the Red Clause.[30] In order to ensure the safety of the bank, the credit must be irrevocable. However, this method is

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[30]The application for a credit of this type to be signed by the buyer will contain a paragraph which reads as follows: "In the event of the beneficiary informing your foreign branches or correspondents that he requires temporary advances to enable him to pay for the merchandise for the purpose of shipment of which this credit is opened, your branches or correspondents are hereby authorized to make such advances, which are to be repaid, with interest, from the payment to be made under this Credit. We undertake that should such advances not be repaid by the beneficiary in terms and during the currency of this Credit, we will repay them with interest accrued to date.

It is understood that the making of the temporary advances or the payments to the above mentioned beneficiary shall be optional on the part of your branches or correspondents." (See Shaterian, op. cit., p. 434.)

rarely used here, and in cases where the credit standing of the customer is exceptionally good.

If the bill is a time draft, the beneficiary is paid after the draft is accepted by the importer.

b. Other Methods: Here three methods can be distinguished: bill finance, lending and overdraft facilities and "Collection Basis". In all these cases, banks are involved.

1. Bill Finance: Banks perform a function here which is vital to modern trade. They finance exporters by lending money against the security of bills or by discounting those bills. The exporter attaches all required documents to the bill and discounts it with his bank. In such a case, the bank has to examine the documents very carefully. However, such facilities are accorded to customers of very good credit standing.

2. Lending: The bank may lend money to the exporter against some security, usually bills, and charge him with all expenses. This also is rarely done.

3. Overdraft Facilities: In this case, the exporter asks his bank for overdraft facilities, and when granted, he may use it for manufacturing his goods and making them ready for export.

4. "Collection Basis": This is the most commonly used method; the bank holds payment until it receives advice that the importer has paid and its account has been credited with the same amount in the correspondent bank in the importer's country. On this basis, the bank pays the full amount to the exporter.

The bank charges are for interest (7 - 9 per cent) and commission (1 - $1\frac{1}{2}$ per mil.).

4. Clearances With Communist Countries:

The procedures outlined above for financing imports and exports are the same for all countries, except for the Communist Bloc. The governments of Lebanon and these countries have concluded trade and payments agreements, stipulating that payments or receipts are to be effected through certain named banks in Lebanon, which will act as clearing agents for the different countries in the Communist Bloc, and where the accounts of these countries are kept. For example, the following banks are assigned as clearing agents each for one of the countries in the Communist Bloc:

Arab Bank	-	Hungary
Bank Beirut Riad	-	Czechoslovakia
Banque Libanaise pour Le Commerce	-	East Germany
Banco di Roma	-	Rumania
Federal Bank of Lebanon	-	Poland
Intra Bank	-	U.S.S.R.

No other bank can open a letter of credit or affect payment without informing the clearing bank. For example, if a bank is asked to open a letter of credit for imports from Poland, it can do it but adding the following clause on the letter of credit: "Payable in Lebanese Pounds through Bank Beirut Riad, according to the Clearing Agreement," and a copy of this sent to Bank Beirut Riad. Morover, the importer cannot take delivery of goods imported from Communist countries unless the clearing agent (bank) issues a certificate to that effect.

In case of exports, the clearing bank is not supposed to pay the beneficiary the amount of the invoice before sending the documents over to the respective Communist country bank, and receiving advice from it that its account is credited with the same amount.

5. Steps Followed by Banks in Case of Default:

There are two circumstances which lead to default on the part of the importer. The first one is after the arrival of the documents to the bank, the importer refuses to come and receive the documents from the bank, and thus refuses to pay. He may do this for a number of reasons. Thus, for example, the prices of merchandise being imported may have fallen very much, and the importer may not be any more interested in selling it. The bank in such a case can follow all or some of the following steps:

a. It may inform the beneficiary or exporter and ask him what his instructions are. If he has certain instructions, then the bank follows them, if possible. If the exporter has no definite instructions, then,

b. the bank may warn importer through a letter, that if he does not come and pay within a certain period of time, the bank will sell the goods at public auction.

c. The bank may extend the period of payment.

d. If it is possible, the bank may sell the documents, and thus receive the full value of the invoice.

e. The bank may sell the goods by auction, since the Bill of Lading is in its order. In such a case, the bank usually takes a paper from the client to the effect that he refuses to take the documents.

If this is not possible, then the bank sends a letter through its lawyer, giving the client a time limit to produce such a statement. If no answer is received, naturally it will show that the client's intention is not to pay for the goods.

The sum of the amount received by the sale of the goods at auction plus the margin (if any) which was paid when the letter of credit was opened are deducted from the full value of the invoice, and the balance is sued from the importer through the commercial court.

Usually, the bank loses at such sales, because it cannot find ready buyers for the goods, prices may change, and also because of the storage charges involved.

f. As a last resort, the bank may initiate bankruptcy proceedings against the client, sell the goods, and get the unpaid balance as a general creditor in a compromise. This is a very tiresome and difficult procedure, and it may take years. Moreover, banks are usually there to help their customers in any way possible. So this is rarely resorted to and when it is really the only way out.

The second circumstance arises when the drafts are drawn on an Acceptance Basis. In this way, the importer gets hold of the documents through accepting the draft. When maturity arrives, he may not be able to pay. The bank, in such a case, may wait to see if the client will pay. If not, the bank may discount bills for him, or extend period of payment. On the other hand, the bank, which has the bill in its hands, may protest, through the notary. This way it will hurt the credit standing and good reputation of the client.

As a last resort, again, the customer may be declared bankrupt, and the bank will be considered like other creditors in a compromise, and get paid on that basis.

C. Determinants of Bank Policies in the Field of Foreign Trade Finance

Reading so far, one should ask at this stage, whether the banks follow any policies in documentary credit procedures, and if they do, what their determinants are.

The banks in Lebanon, as noted before, are in a very competitive state. They undertake large risks at the expense of safety and liquidity and compete on attracting customers.

Hence, they do not follow any clearly set policies in the area of foreign trade financing. As one of the bankers rightly noted: "Competition is so severe that we are not allowed to follow any sort of policies."

However, the volume of foreign trade credit and its feasibility is determined by a variety of factors. Each bank follows these to a different extent and in different degrees. These factors can be divided into three major groups:

The first group of factors concerns the structure of the banking industry. As was noted above, the banking industry in Lebanon is characterized with increasing competition. The establishment of new banks are free, and banks are not in any way restricted legally in their operations. In the absence of all these, and in view of the increasing number of banks, competition is very severe. Thus, banks compete on the charges they make for foreign trade finance. As such, competition constitutes a very important determinant of bank policies in the area of foreign trade finance.

The second group of factors concerns the conditions in the foreign exchange market; that is, demand and supply factors for funds. Supply of foreign exchange, as was noted previously, comes from different sources, such as export sales, capital inflows, invisible trade and speculation. As it can be seen, these are not dependable sources, and the bank has to be careful in extending credits in a currency in which its balance is lacking. For this purpose, the financial position of the bank is taken regularly. The amount of funds and deposits available in different currencies are determined, and on that basis credit is granted.

The demand for funds, on the other hand, depends on the policies or customs of the bank. Demand depends on the amount of funds required for payment for imports and foreign investments. If the bank has investment policies to follow, then it will not be free to give its available funds for foreign trade finance only; a certain amount has to be invested, according to its policies. However, this is truer in the case of foreign bank, which follow clearly set policies, than local banks.

The third group of factors concerns the credit standard of each bank.

The first determinant is the customer himself. If he is a depositor in the bank, he has first choice in getting documentary credit. His margin requirements may be less, he will get information on matters he needs from the bank (such as exchange matters, or information on the exporter abroad). If his credit standing is very good, he may even not be charged any commission, and get a very low rate; moreover, he may get facilities.

Thus, if the applicant for documentary credit is a well-known depositor of the bank, he is looked at more favorably than non-depositors.

Moreover, the 4 C's (Character, Capital, Capability and Collateral) play a very important role in foreign trade finance. However, foreign banks pay much more attention to these than local banks.

Another determinant of foreign trade policies is the bank's limits on credits. Each customer is given a risk limit, which varies again according to the credit worthiness of the customer, and management of the bank. If he has used up his limit, then he will not be allowed any other credit unless he cleans his line of credit.

A third determinant is the amount of credit required by the customer. If the amount is a large one, the bank may not be willing to grant it lest it will endanger its liquidity position. However, banks undertake large risks and are not very prudent on such matters.

A last point to note is that there are no legal restrictions on the banks' operations in foreign trade finance. The Government interferes only as far as import and export licences are concerned, of which there are only very few. It also regulates the import and export trade through Communist countries and all trade with Israel is forbidden.

Moreover, it cannot interfere much because of the Banking Secrecy Law. Therefore, the banks carry on their operations freely. without any legal impositions of any sort.

This chapter may be concluded by pointing out to the very fact that though foreign trade credit is granted like in any other developed country, but such operations are not carried out in a healthy atmosphere. The following chapter will be an attempt to analyze the possibilities of creating such an atmosphere for the well being of the customers and banks.

PART III

IMPLICATIONS AND CONCLU-

SIONS

CHAPTER IV

IMPLICATIONS OF THE EXISTING STATE OF FOREIGN TRADE FINANCE

The analysis of the previous chapters helps to bring out two main features of foreign trade financing, namely the fact that the foreign exchange rate used in foreign trade finance is a free-market rate and the fact that the terms of credit in application in foreign trade finance in Lebanon tend to create a bias in favour of certain imports as against others.

As regards the former feature, a number of questions pose themselves at this stage. How far is it permissible and advantageous for a country, which depends heavily on invisible trade for its foreign exchange earnings, to carry on its foreign trade (and as a matter of fact, all exchange transactions) at the free foreign exchange rate? Is this harming industry and agriculture, and if so, what should be the best exchange system to follow by Lebanon?

The second feature, which is connected with the terms of credit used in foreign trade, raises a question regarding the possibility of using the terms of credit in foreign trade finance for the purpose of influencing imports in a manner favorable to economic development. Should the Government interfere with the terms of credit used by banks for such a purpose?

A. Implications with Respect to the Free Foreign Exchange Rate

As noted several times previously, Lebanon has a large trade deficit which is mainly covered by earnings through invisible trade and capital inflows. Moreover, it was noted that one of the major reasons contributing to the increase in the volume of foreign trade and capital transfers has been Lebanon's free exchange policy. The results of such an inflow of funds have been briefly the following:

a. Growth of Banking Industry: Deposits in banks have increased. Table XV shows that demand deposits have increased, for the past five years, by about 127 per cent. With increased deposits, and because of the ease of establishing new banks, the number of banks has increased tremendously. The growth of the bank industry has contributed to the growth of the National Income of Lebanon. It was seen in Chapter I that the contribution of the Banking Sector to the National Income

TABLE XV

LEBANON - BANK DEMAND DEPOSITS
1955 - 1961
(in LL millions)

Year	Demand Deposits
1955	444
1956	440
1957	551
1958	559
1959	778
1960	955
1961 (first 3 months)	1,006

Source: Pringuey, Roland, "Une Opinion sur le Problème des Liquidités Monétaire au Liban," Le Commerce du Levant, (Monthly Issue), No. 11, (July 1961), p.29.

of Lebanon increased, both in absolute figures, and in percentages. Thus, it rose from LL 50 millions in 1952 to LL 110 millions in 1961, which is an increase of from 4.2 per cent to 6.2 per cent in 10 years.

b. Growth of Trade Activities: Much of the capital that was attracted into Lebanon from the other Arab countries has been invested in commercial undertakings and construction rather than in agricultural and industrial pursuits. This is due, as was seen before, to the fact that trade is the traditional activity of the Lebanese merchant, and that the turnover in trade "is relatively quick and returns high. Moreover, most of the institutional set up around the Lebanese merchant, especially in the field of banking is geared towards trade, and particularly international trade."[1] Investment in agriculture and industry are considered secondary investments. So, actually the growth of the banking industry has furthered the growth of commercial undertakings.

c. Appreciation of the Lebanese Pound in Terms of Foreign Currencies: Lebanon's payments and receipts are effected through the free exchange rate. This implies that under conditions of a rising exchange rate of the Lebanese pound, imports will be favored and exports will be discouraged. On the other hand, under conditions of a falling exchange rate, exports will be encouraged and imports will be discouraged.

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[1] Klat, Paul J., "The Future of Economic Development in the Arab World," Middle East Economic Papers, 1956, (Beirut), p. 61.

According to this, and in view of Lebanon's attempt to increase the volume of exports, a lower exchange rate will be more beneficial to the economic development of the country than a falling rate.

However, Table XVI shows that the exchange rate to the dollar has been appreciating since 1955, thus increasing the volume of trade through an increase in the volume of imports.

TABLE XVI

LEBANON - EXCHANGE RATE TO THE DOLLAR
(LL/US Dollar)
1948-1962

Year	Exchange Rate
1948	3.60
1949	3.25
1950	3.74
1951	3.80
1952	
1953	3.09
1954	3.24
1955	3.25
1956	3.20
1957	3.16
1958	3.16
1959	3.16
1960	3.15
1961	3.02
1962 (January)	3.01

Source: International Financial Statistics, Vol. XV, No. 4, (April 1962), pp. 180-181.

It can be seen that the free foreign exchange system has been a significant factor in the increase in Lebanon's foreign exchange earnings and foreign trade.

The question is whether the Government should try to channel such funds into industrial and agricultural investments, instead of the traditional commercial undertakings. It is said that "it may be a mistake to attempt to alter the Lebanese mentality basically. Lebanon's economic vocation has been for centuries in commerce, and not in production, and to try to force artificially new directions on investments could be detrimental to the whole economy."[2] Nevertheless, the country should take all steps for the development of industry and agriculture. The main way to encourage such development is to make capital available to investors. There is the BCAIF (Banque de Crédit Agricole, Industriel et Foncier), which was established in view of supplying capital for such development; the scope of operations of this bank, however, has been limited. The Government may consider taking measures to channel part of the capital funds attracted to the country into investments in industrial and agricultural enterprises, which will increase production, and ultimately the country's exports. This can be done more effectively if the Government watches the banking activities in the country. This presupposes the presence of a Central Bank and of banking legislation.

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[2] Ibid., pp. 61-62.

In order for the Government to encourage the economic development of the country, a wide variety of measures may be adopted. Full discussion of these measures would certainly fall beyond the scope of this paper. It would be appropriate here, however, to emphasize the roles which a free exchange system inevitably plays in the country's rate as well as pattern of development.

As has been pointed out previously, the free exchange system applied in Lebanon has been one of the most important factors in attracting capital funds from other Arab countries and in promoting the country's invisible foreign exchange earnings. It seems to the writer, therefore, that any measures which may be adopted by the Government to further the economic development of the country should include steps to maintain the free exchange system and boost the country's invisible earnings.

It was seen that the Lebanese exchange rate in terms of the dollar (and in terms of other foreign currencies) has been appreciating and thus furthering the growth of trade at the expense of industry and agriculture. How can the Government interfere to induce the economic development of the country?

A solution to this was suggested by Mr. Higgins, the American expert who was asked by the Lebanese Government to come to Lebanon and make an economic study of Lebanon. He recommended that Lebanon establish two exchange rates to the dollar. The first, LL 4 = $ 1 rate to apply for merchandise and service trade, and the second, the free exchange rate, to apply to capital movements. Accordingly, such a move would encourage exports of the country, thus making it more profitable and cheaper to foreigners, and it would discourage imports, making them more expensive. Moreover, tourism would be encouraged thus increasing the country's foreign exchange earnings.

However, this recommendation was rejected by most economists in the country for the following main reasons:[3]

1. Mr. Higgins found that there was a complete separation between the trade and services sector and the capital sector, which, he thought, were completely independent of each other. He considered, in fact, that capital influx in Lebanon favors the maintenance of a parity for the Lebanese currency which limits the country's possibilities for exports of merchandise and services. However, it is contented that this duality which Higgins shows is vanishing, and hence his theory is wrong.

2. It is important to consider the effects of such a devaluation on the exchange earnings and volume of exports of the country. Will the institution of two rates increase Lebanon's earnings of foreign exchange, even if such a duality exists? It is true that such a measure will increase the volume of Lebanon's exports. However, the amount of

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[3]See, for example, Tueni, André, "Le Gouvernement Rejette toute Idée de Dévaluation de la Monnaie Libanaise," L'Economie Libanaise et Arabe, (February 1961), pp. 31-33; and "Les Milieux Economiques et Financiers du Liban Répondent à 3 Questions sur le Rapport Higgins," Le Commerce du Levant, (Monthly Issue), No. 6, (February 1961), pp.10-23.

foreign exchange earnings will not increase unless the volume of exports are increased, percentagewise, by more than the amount of the devaluation. That is, if devaluation is about 27 per cent, exports should increase by more than 27 per cent. Can exports increase? Can production increase? Can quality of exports be improved? Can Lebanon find markets for its exports? These are questions which need to be answered first, before the institution of a fixed rate.

3. The institution of a fixed rate will raise the cost of living through the highering of import prices. These in turn will increase the export prices, and all possible beneficial effects of the higher exchange rate is nullified.

4. If Higgins' recommendation is adopted, the State has to provide a complicated system of control, to centralize all foreign exchange operations and to maintain the two exchange rates. However, the institution of any exchange control will be detrimental to the country. This is for two main reasons: first, as was mentioned several times before, the country's prosperity is dependent on its free exchange system. A slight restriction is apt to endanger and decrease appreciably the foreign exchange earnings of the country. Secondly, even if an exchange control is found necessary, the country lacks administrators and technicians strong enough to enforce the proper imporsition of such regulations. In the absence of such qualified people, much

fraud is apt to take place, and the country's prosperity endangered accordingly. It will be wiser for the State to first train its Government Officials and employees in this respect, and then think of the possibility of instituting an effective system of exchange control.

Higgins' suggestions, therefore, seem to be highly objectionable. Lebanon owes its prosperity to the free exchange system, and to destroy this in view of increasing the volume of exports will not be wise. It is much more beneficial for the country to maintain its free exchange system, but at the same time preventing the exchange rate from considerable appreciation or depreciation. This will be the job of the Stabilization Fund. When the exchange rate falls appreciably in terms of the dollar, for example, the Stabilization Fund can interfere and buy dollars from the market. On the other hand, when the exchange rate rises to an extent which may harm foreign exchange transactions, then the Stabilization Fund may sell dollars in the market. This way, though there is a free exchange system, the stability of the exchange rate will be maintained. Such a situation will be more encouraging to the economic development of the country.

Furthermore, increase in the volume of exports may be obtained through other means.

The first and foremost means is the tariff system. It was noted in Chapter I that the tariff system has been mainly used by the

Government for revenue purposes. All imports which compete directly with local industries may be charged a higher tariff thus having a protective policy. All those imports, on the other hand, which encourage local industry and production, be it machinery or raw materials, should either be exempt of customs duties or have a very low rate, depending on the desirability of that particular industry. Moreover, it can stimulate productive activities by adopting a preferential tariff system with respect to imports from countries with which Lebanon has trade agreements, and which also will give certain facilities to Lebanese exports.

With each trade agreement, an agreement for technical assistance can be made, and to send foreign technicians to Lebanon, who can be of great help in organizing industrial work, and thus increase productive efficiency.

Another step which the Government can take in this respect is the exploitation and conservation of its natural resources.

Once local production is increased, export possibilities may increase. However, the export problem is not only a problem of having a large production. It is also a problem of imprwing quality (very important), and of finding new markets in different parts of the world. It is said that Lebanon will profit much if it orients its foreign trade towards the African markets.[4] There are already several banking

[4]Chehab, Malik, "L'Expansion Economique Libanaise Outre-Mer," L'Economie Libanaise et Arabe, (April 1961), p.

activities being undertaken there, and the facilities of air transport are being offered.

The argument presented above for a free exchange system as being essential for a country like Lebanon which depends on invisible exchange earnings, is convincing except for one reason. Under a system of free exchange system, the economy may suffer from fluctuations in its exchange rates. A decline in an exchange rate produced "by a tendency toward a deficit in the balance of payments tends to make the prices of foreign goods higher in terms of domestic currency than they would otherwise have been."[5] Such a situation stimulates exports and discourages imports. This rise in prices of foreign goods will mean a rise in the cost of living.

Conversely, a rise in an exchange rate produced by a tendency toward a surplus makes foreign goods cheaper in terms of domestic currency; this tends to increase imports and reduce exports. Friedman presents a case for flexible exchange rates. He argues that "the ultimate objective is a world in which exchange rates, while free to vary, are in fact highly stable. Instability of exchange rates is a symptom of instability in the underlying economic structure."[6] He further discusses that automatic adjustments are made to exchange rate fluctuations through "speculative" transactions, which "provide the country with reserves to absorb temporary surpluses or to meet temporary deficits."[7] Moreover,

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[5]Friedman, op. cit., p. 180.

[6]Ibid., p. 158.

[7]Ibid., p. 162.

he bases his argument on the grounds that internal prices are highly inflexible, some prices being more rigid than others, such as wages.

In view of the fact that Lebanon is a large importing country, stability of its exchange rates is highly desired to promote general economic stability in the country. Yet, the case for flexible exchange rates in Lebanon, where "internal economic stability depends in a significant measure upon stability of exchange rates, is conditional upon the validity of the hypothesis that speculative transactions have a stabilizing effect on exchange rates."[8] Speculative transactions are not carried out in substantial amounts to maintain the stability of exchange rates. One of the most important factors for the relative stability of exchange rates has been the fact that banks consider foreign exchange reserves as part of their cash reserves; thus they stand ready to buy or sell foreign exchange to meet an excess supply or demand for foreign exchange.

Moreover, fluctuations in exchange rates may be a result of the "pace of capital inflows which is independent of the monetary or 'real' conditions of trade between Lebanon and the outside world."[9] So, adjustments in exchange rates are brought about by other than the means of the theoretical speculative transactions.

Thus, though Lebanon should maintain its free foreign exchange system, but at the same time it should maintain the stability of the

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[8] Hoss, Salim, <u>The Roles of Central Banking in Lebanon</u>, (Ph.D. Thesis, Indiana University, USA, 1961), p. 121.

[9] <u>Ibid</u>., p. 122.

exchange rates. However, this stability should be achieved not through a rigid exchange system, where there is need for some sort of exchange control, but through monetary policy of the Government and through quantitative control of foreign trade transactions.

B. Implications with Respect to Pattern of Imports

An analysis of the banks' credit facilities for foreign trade finance (Chapter III) reveals important implications. First and foremost, it can be noted that banks tend to favor the financing of consumption goods imports, rather than capital goods imports, though there is no definite pattern. This is for several reasons; consumption goods are usually short-term self-liquidating transactions, which banks always favor; moreover, such goods are more readily marketable than capital goods, which in case of default helps the banks to maintain their security. So, trade activities are more encouraged than industrial and agricultural activities.

Furthermore, margin requirements are lower in case of consumption goods than in case of capital goods, which also further the growth of trade.

It was, moreover, found that banks do not follow any clearly set policies in their foreign trade activities; this resulted to favoratism and discrimination. The rich traders, who usually are of the best credit standing, are given most of the credit facilities extended by banks. This tends to enhance the position of the rich people, which actually aggravates the inequality in the distribution of income among people.

Can the Government interfere in banks' activities for the purpose of influencing imports in a manner favorable to development? More exactly, what measures can the Government take to increase capital goods imports rather than consumption goods imports?

Before this is discussed, it is in order to note that it would be unusual for the Government to interfere directly in bank activities. When the Government sets about regulating banking activity in the country, it does that usually by establishing a Central Bank and enacting banking legislation. In 1964, BSL's concession will end, and there will be need to institute a full-fledged Central Bank which will be superimposed on the commercial banking system by law. Once this is instituted, then the Government can, by legal measures and rules, prescribe certain regulations on the banking system aimed at promoting the economic development of the country, and supervise their proper enforcement.

However, assuming that there is a proper Central Bank and there is bank legislation, in what ways can the bank induce capital goods imports which are so essential for industrial and agricultural development?

One way to achieve this end will be for the Government to prescribe margin requirements[10] for imports which would be favorable to

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[10] Terms of credit for foreign trade finance are mainly composed of the different bank charges - margin requirements, commission and interest. However, the one the Government can make use of profitably is the margin requirements for imported goods.

development. Thus, for example, in order to encourage the industrial and agricultural development of the country, the Government may facilitate the financing of machinery and raw material imports. In both cases, margin requirements of banks are very high, since these goods are not marketable, and their prices fluctuate much. By reducing the margin requirements on imports of capital goods and increasing them on imports of consumption goods, the Government would be in a position to influence the pattern of imports in a manner conducive to a more rapid rate of economic development.

On the other hand, the margin requirements for goods, imports of which are undesirable, may be raised in view of preventing such imports.

We note that such regulations will be exactly the contrary of what the practice is now in banks. Hence, banks may be reluctant to accept such regulations (specially in the absence of bank legislation) in view of the fact that these measures may endanger their safety and liquidity position. However, with proper bank legislation, this problem can be solved easily.

Moreover, such a measure may harm the trade activities of the country by reducing the volume of trade. This might be of doubtful immediate value; but in view of the country's long-run objective of achieving the economic development of the country, it may be worthwhile to undergo some difficult, yet essential alterations in the basic structure of the economy.

Such credit facilities for machinery imports will tend to increase the volume of these imports, which in turn will encourage the industrial and agricultural development of the country.

The organization of the banking system in Lebanon and the institution of a Central Bank will further oblige banks to prescribe policies to be followed in all fields of the banks' activities, especially with regard to foreign trade finance.

The Government, further, can encourage the establishment of credit institutions to grant long term credit for industrialists and agriculturers.

With such measures the Government can gradually gear bank activities towards financing of such imports in a manner favorable to the economic development of the country.

CHAPTER V

SUMMARY AND CONCLUSIONS

The main aim of this thesis has been to explore the main features of foreign trade finance and to investigate the possible relationships between foreign trade finance and the country's object of accelerating its rate of economic development.

In order to do that, analysis was conducted in a number of directions. To start with, an attempt was made to assess the importance of foreign trade in terms of National Income Figures. It was found that Lebanon, mainly owing to its geographic position and the mercantile spirit of its population, is a country where the trade sector contributes the largest share in the National Income of the country, namely about 28 per cent. However, the share of trade has been declining lately due mainly to the protectionist policies followed in most of the neighbouring nations. The gaining sector has been the Banking Sector, its contribution to National Income increasing from 4.2 per cent in 1952 to 6.2 per cent in 1961 (Cf. Table II, Chapter I). It was further estimated that the share of the foreign trade proper in National Income figures was about 12 per cent.

An analysis of the development of foreign trade revealed important findings. Imports of Lebanon are much more than exports, thus resulting in a large deficit on trade balance, which has been increasing year after year. The highest growth rate as far as imports are concerned was experienced in the case of imports of machines, electrical and home appliances. However, the largest imports are fruits and vegetables. The main sources of Lebanon's imports are Great Britain, U.S.A., West Germany and France.

On the other hand, the largest exports are composed of fruits and vegetables, which also marked the highest growth rate. Such exports are directed mainly toward the Arab countries, which absorbed about 45 per cent and 44 per cent of total exports in 1959 and 1960 respectively.

The increase in the volume of foreign trade is attributable mainly to the geographic position of Lebanon and its free exchange system.

The financial background of foreign trade finance is the balance of payments position of a country. Since a large trade deficit exists in the Balance of Payments of Lebanon, it was important to determine how this deficit was covered.

Thus, in Chapter II, after a brief analysis of the development of a free exchange market in Lebanon, the main sources of foreign exchange were investigated. The Balance of Payments analysis revealed that Lebanon's large trade deficit (increasing from LL 451.8 millions in 1955 to LL 768 millions in 1960) is covered mainly by foreign travel and tourism, investment income transfers, donations, expenditures by foreign bodies in Lebanon, and emigrant remittances. However, all such sources are highly unstable, and cannot be depended upon. It seems that as long as Lebanon depends on such unstable sources of foreign exchange, it would be highly desirable to maintain the free exchange system currently in application.

This discussion was followed by an analysis of the credit procedures and practices in foreign trade finance. A brief exposition of the banking activities in Lebanon revealed that banks indulge primarily in short term and self-liquidating transactions. Demand deposits are about 10 times the time deposits.[1] A most interesting feature of the Lebanese banking structure is the absence of a Central Bank. It is the Bank of Syria and Lebanon which performs some of the functions of central banking. It has two main departments: the Note Issue Department and the Banking Department which is in turn divided into (a) Commercial Credit Operations Division, (b) Banker's Bank Operations Division, and (c) Banker and Fiscal Agent to the Government Division. However, its commercial activities come frequently in conflict with its central banking functions, and it has no jurisdiction over the commercial banking system.

In the absence of any kind of regulations and laws affecting the banking system, the banks indulge in highly risky operations which endanger their liquidity position. Thus, in the field of foreign trade finance, none of the banks follow any clearly set policies, and the credit facilities extended depend on the policy of management and the customer himself. Because of the strong family ties in the country, credits are granted, even if the applicant is not of a sound credit standing; in other words, there is some favoratism and discrimination in granting credits.

Thus, the determinants of the bank policies in the area of foreign trade finance include the structure of the banking system, which

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[1] Bulletin Statistique Trimestriel, Vol. X.

is characterized by increasing competition, conditions in the foreign exchange market, and the credit standards of each bank.

The procedure followed by banks in foreign trade finance is the same. Under letters of credit operations, the applicant importer fills in an application form for an opening of a Letter of Credit, supplying all the required information. The bank issues its own Letter of Credit to its correspondent bank, which gives notice to the exporter. On presentation of all required documents and a sight draft the exporter gets paid the full amount of the invoice. When the documents arrive in Lebanon, the importer is informed, who comes and pays the full value of the invoice and gets hold of the documents.

Sometimes, the exporter forwards through his bank all documents to a local bank here; this bank on its receipt, informs the importer, who comes and upon payment gets hold of the documents. Here there is no opening of a Letter of Credit, and it happens only when the importer and exporter know each other well. This procedure is usually referred to as "Collection Basis" Items.

Such operations are profitable to the banks, since they collect a variety of charges from the customer, with no increase in their out-of-pocket expenses. First, there is the margin requirement which varies between 0 - 100 per cent depending upon the credit standing of the customer and the type of commodities imported. Second, there is the commission charge, which varies between $\frac{1}{4}$ to 3/per mil, again depending on the customer's credit standing and the type of commodities imported. There is, thirdly, the interest charge, which varies between 6 - 9 per cent for the period of credit starting the date it is negotiated. Other charges include postal and cable charges, correspondent bank's charges, and telephone expenses.

Thus, two implications of foreign trade finance were presented. The first was with respect to the free exchange rate. It was found that the free exchange rate encourages capital inflows which results in banking expansion and the growth of trade activities, perhaps at the expense of industrial and agricultural developments. Moreover, the free exchange rate resulted in a steady appreciation of the Lebanese pound in terms of foreign currencies, which also furthered the growth of trade activities. Here, reference to Higgins' suggestions was made.

In view of the fact that stability of the foreign exchange rate is essential to the general economic stability in Lebanon, and further, in view of the fact that exchange control is undesirable in Lebanon, it was suggested that Lebanon keeps its free exchange system, and at the same time maintains the stability of exchange rates mainly through the use of the Stabilization Fund.

The second implication was with reference to regulating bank credit terms in view of changing the pattern of imports. It was suggested that the Government introduces a regulation for a low margin requirements for machinery and raw material imports, and high margin requirement for undesirable import goods. It was noted, however, that this can only be done with proper banking legislation and the presence of a full-fledged Central Bank, which will put the Government in a position to interfere in bank activities.

The disadvantages, however, will be the dissatisfaction of traders and bankers, who may be hurt to a certain extent. However, with proper regulation, in view of encouraging the economic development of the country, this may be solved.

It may be concluded that in order for Lebanon to attract foreign funds in the country, it should maintain its free exchange rates. Yet, in order to reduce its great dependence on invisible trade for its exchange earnings, the country should take measures to increase the volume of exports and improve the quality of exports; this can be done mainly through measures taken for the encouragement of the industrial and agricultural development of the country.

APPENDICES

APPENDIX I

STATISTICAL TABLES

TABLE I

LEBANON - DIVISION OF NATIONAL INCOME AND EMPLOYMENT BY SECTORS (1956)

Sector	Employment (Percentage	National Income (Percentage)
Agriculture	50	15
Industry	11	15
Construction	8	4
Commerce, Finance & Rent	14	46
Transport	5	5
Government	4	7
Other Services	8	8
	100	100

Source: "Le Rapport Higgins," Le Commerce du Levant, (Monthly Issue) No. 5, (Jannuary 1961) p. 32.

TABLE II

LEBANON - INCOME ARISING FROM TRADE BY CATEGORY OF TRANSACTION AND BY STAGE OF DISTRIBUTION

1950

	Commission	Wholesale	Retail	Total	Percentage of Total Income
Agricultural Production		19.8	25.1	44.9	16
Industrial Production		20.8	29.6	50.4	18
Imports	23.6	40.1	54.5	118.2	41
Exports	5.2	-	-	5.2	1
Transit	53.5	-	-	53.5	19
Entrepot	13.3	-	-	13.3	5
Total	95.6	80.7	109.2	285.5	100

Source: Badre, Albert Y., "The National Income of Lebanon," Middle East Economic Papers, 1956, (Beirut) p. 21.

TABLE III

LEBANON - GEOGRAPHIC DIVISION OF FOREIGN TRADE

1959 & 1960

(in percentages)

	Imports		Exports	
	1959	1960	1959	1960
European Common Market	25.25	27.0	8.75	4.5
Free Exchange Zone of Seven	30	26.6	5.25	10.0
Eastern Europe	3.5	4.0	5.75	4.5
Other European Countries	4	4.4	3.0	2.4
Total Europe	62.75	62.0	22.75	21.4
Arab Countries	18.5	18.2	45.0	44.0
Other Asian Countries	2.5	2.8	6.75	6.0
Total Asia	21.0	21.0	51.75	50.0
North America	11.25	10.7	6.5	-
South America	0.5	0.3	-	4.1
Total America	11.75	11.0	6.75	4.1
Other Countries	4.5	6.0	18.75	24.5
TOTAL	100.0	100.0	100.0	100.0

Source: "Les Conséquences du Marché Commun Européen sur le Commerce Extérieur du Liban," Le Commerce du Levant, (Monthly Issue) No. 12, (August, 1961) p. 32.

TABLE IV

LEBANON - MERCHANDISE IMPORTS, EXPORTS AND TRADE BALANCE

(in LL million)

	1956	1957	1958	1959	1960	1961
Imports	561.2	626.5	518.3	699.8	854.6	1,050.0
Exports	145.8	152.3	110.5	139.1	218.0	418.0
Balance	415.4	474.2	407.8	560.7	636.6	632.0

Source: 1956-1960, Statistiques du Commerce Extérieur.
1961, Le Commerce du Levant, (Daily Issue) No. 780, (28 February 1962) page 6.

TABLE V

LEBANON - MERCHANDISE IMPORTS, EXPORTS, & TRADE BALANCE BY COUNTRIES, 1959 and 1960
(in LL millions)

	Imports		Exports		Trade Balance	
	1959	1960	1959	1960	1959	1960
Austria	7.4	8.1	.2	.08	- 7.2	- 8.0
Belgium	15.5	21.8	.8	.6	- 14.7	- 21.2
Brazil	3.2	2.9	.004	.01	- 3.2	- 2.8
Canada	2.7	2.5	.008	.06	- 2.6	- 2.4
Czechoslovakia	5.8	8.7	.4	2.2	- 5.4	- 6.5
Cyprus	1.0	1.2	3.0	2.3	+ 2.0	+ 1.1
East Germany	2.8	3.2	.5	1.9	- 2.3	- 1.3
West Germany	55.9	71.9	2.8	1.7	- 53.1	- 70.2
Egypt	12.1	32.1	2.2	1.9	- 9.9	- 30.2
France	97.2	64.2	3.3	2.5	- 95.9	- 61.7
Great Britain	171.2	185.4	4.4	6.5	-166.8	-178.9
Greece	1.8	2.9	2.9	3.4	+ 1.1	- 0.5
Holland	14.6	18.4	.9	.4	- 13.7	- 18.0
India	1.5	3.4	.4	.5	- 1.1	- 2.9
Irak	15.5	9.4	9.7	16.1	- 5.8	+ 6.7
Iran	2.5	3.6	0.5	8.4	- 2.0	+ 4.8
Italy	37.8	49.0	4.4	5.4	- 33.4	- 43.6
Japan	9.7	11.1	.4	.05	- 9.3	- 11.0
Jordan	4.7	5.8	12.1	17.4	+ 7.4	+ 11.6
Palestine	.3	.6	.3	.5	+ .0	- .1

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TABLE V CONTINUED

	Imports		Exports		Trade Balance	
	1959	1960	1959	1960	1959	1960
Poland	1.3	2.3	.2	.3	- 1.1	- 2.0
Rumania	4.0	5.2	.1	.4	- 3.9	- 4.8
Saudi Arabia	33.7	56.6	17.4	43.4	- 16.3	- 13.2
Spain	2.9	3.6	.02	.02	- 2.8	- 3.5
Sweden	9.5	12.7	.1	.3	- 9.4	- 12.4
Syria	62.7	52.6	20.6	18.6	- 42.1	- 34.0
Turkey	19.7	28.6	.3	.8	- 19.4	- 28.3
URSS	5.4	10.2	6.5	5.5	+ 1.1	- 4.7
USA	75.9	88.3	9.3	8.2	- 66.6	- 80.1
Yougoslavia	3.7	3.3	1.1	.2	- 2.6	- 3.1
Other Countries	50.4	72.4	26.8	54.5	- 23.6	- 17.9

<u>Source:</u> Computed from figures in <u>Statistiques du Commerce Extérieur</u>, 1959 and 1960.

TABLE VI

LEBANON - DEVELOPMENT OF TRANSIT TRADE WITH CERTAIN SELECTED COUNTRIES

(in tons)

	1951	1954	1957	1959
Jordan	58,436	51,400	106,544	27,105
Syria	209,740	215,862	253,077	91,044
Irak	28,957	56,337	165,937	63,368
Saudi Arabia	16,979	27,807	30,874	15,079
Iran	3,434	14,518	33,240	31,422
Turkey	4,959	303	512	526

Source: "Le Rapport de l'Irfed, les Services Commerciaux et Financiers au Liban," op.cit., p. 19.

APPENDIX II

DOCUMENTARY CREDIT FORMS

FORM NUMBER I

INFORMATION REQUIRED FOR CREDIT FACILITIES

Name in Full . . . .

Address . . . . Telephone No. . . . . .

Nature of business; date established . . . .

. . . .

Banks with whom business transacted . . . .

. . . .

Interest in other companies . . . .

. . . .

ASSETS

Cash on hand . . . .

Cash with bankers . . . .

Stock of goods . . . .

Claims from merchants . . . .

Claims from sundries . . . .

. . . .

PROPERTIES (Give description, registration number, location, annual income, value)

1. . . . .

2. . . . .

3. . . . .

4. . . . .

5. . . . .

../.

FORM NUMBER I CONTINUED

LIABILITIES

Due to Banks . . . .

Due to Others . . . .

Due on Mortgages . . . .

. . . .

TOTAL TRANSACTIONS (In last 3 months . . . .

(In last 12 months . . . .

COMPANIES & PARTNERSHIPS

1. Type of company or partnership . . . .

2. Names of directors or partners and shares held . . . .

. . . .

3. Registered capital . . . .

4. Authorised signatures . . . .

5. Branches . . . .

ADDITIONAL INFORMATION . . . .

. . . .

I/we certify the information given above is correct . . . .

Date . . . . Signature . . . .

FOR USE OF BANK ONLY . . . .

. . . .

FORM NUMBER II

CONDITIONS FOR OPENING DOCUMENTARY CREDITS

To: (Name of Bank)
Beirut

. . . . 19 . . .

Dear Sirs,

With reference to all documentary credits which you will open in my/our name from time to time I/we hereby agree to the following conditions:-

1. I/we undertake to reimburse you on demand with all disbursements or drafts whether incurred directly by yourselves in local currency or its equivalent or indirectly by your Branches and/or your Correspondents in connection with these credits together with all charges including freight, insurance, storage, telegrams and any other expenses plus interest at the rate of . . . . . % per annum, as from the date of the opening of the credit / of payment until the date of full settlement. Further I/we authorize you, if you so desire to debit our account with the value of any draft, disbursements etc.... drawn or made under these credits.

2. All documents or the goods represented thereby will be held by you as security against recovery of all your disbursements and other amouts becoming due by you, or any liabilities whatsoever, that I/we have or may have towards you in present, future or at any contingency until full liquidation thereof by us, and as long as I/we are indebted to the bank in any sum or in any way. You have the full right to attach and sell the goods and to collect the full insurance proceeds and attach or dispose of any other security you hold, in the way you think best to preserve your rights and to apply the proceeds in settlement of any or all liabilities due or that may become due whether arising out of any documentary credit or from any other debit or responsibility, and any debit balance thereafter I/we undertake to pay on your first demand and without any delay on our part. I/we declare that you shall not be under any obligation whatsoever to sell the goods or to claim any insurance, moneys or otherwise in connection therewith and I/we shall have no right of claim against you for delay or failure to do so.

3. I/we authorise you to purchase for my/our account or to sell me/us at your current selling rate the necessary foreign currency equal to that of the credit to be opened. I/we undertake to pay at your option a deposit in local currency which you will utilise for the purchase of foreign exchange. If the amount of this deposit is less than the value of the required foreign exchange the difference shall be debited to our account.

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FORM NUMBER II CONTINUED

4. I/we agree that you or any of your branches or correspondents assume no liability or responsibility for any matter concerning the form, sufficiency, correctness, genuineness, legal effect, falsification, misrepresentation, endorsement or validity of any documents or papers; or for the description, quantity, weight, quality, condition, packing or delivery of goods represented in the documents; or for the general and/or particular conditions stipulated in the documents; or for the good faith of the consigner or any other person whomsoever, or for their disposition, and solvency, and the solvency or otherwise of the carriers of insurers of the goods. I/we also undertake and consent not to raise any claim against you or against any of your branches or correspondents regarding any error or discrepancy or insufficiency or any thing of the like as mentioned there above, whether it be in the documents or the goods, which may have any effect on the postponement, refusal or withholding repayment to you as aforsaid, or of modifying in any way my/our engagement towards you whether prior to such repayment or subsequent thereto.

5. I/we agree that neither you nor your Branches/Correspondents shall be responsible for any loss or damage that may be caused by delay or loss of cables, letters, or other documents nor my any errors in transmission, interpretation or translation of same, nor for the choice of Insurance or Shipping Companies nor by any clause or clauses, stipulations or reserves, either printed written, or implied in any or all of the documents delivered, or shall you or your Branch/Correspondent be responsible for any errors, ommissions or oversights occurring in connection with these credits.

6. You are entitled to pay (but without it being obligatory upon you) any sum you may deem necessary to insure the safe arrival of the goods at their destination or their preservation and I/we undertake to repay on demand all such expenses expended by you for these purposes.

7. The goods relating to all credits may be insured against marine and/or war risks either by the beneficiary or at you option (but without any obligation upon you) by yourselves if such insurance is not covered to your entire satisfaction and I/we undertake to pay all the insurance expenses and to repay any sums you may have expended in this connection.

8. In the event of the goods being discharged, diverted or delayed by reason of war and/or sanctions and even in normal times and or for any other reasons whatsoever, I/we nevertheless agree to pay to you on first presentation of the documents to us or on your first demand all amounts disbursed by you, in accordance with paragraph No. 1 of this agreement and I/we shall be estopped from raising any objection and/or claim whatsoever its nature may be.

9. Any entry in your books that an amount has been disbursed or liability incurred under the credit shall be conclusive evidence against me/us in respect thereof.

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FORM NUMBER II CONTINUED

10. In the event of war time conditions, I/we absolve the Bank from any or all responsibilities including the following:

a) In case of non delivery of goods or invalidation of the war risk insurance etc ...
b) In case the bank or its Agents do not fulfil their obligation such as partial or total cancellation of any or all credits, or refusal to honour any drawing made under any credit etc ...

11. Any or all sums blocked by your correspondents from your account against any credit opened, in my/our names will be on my/our responsibility, and the mere advice by you to us that such an amount is blocked will be sufficient proof to this effect.

12. These credits shall not be transferable either by the beneficiary or by me/us. Payment hereunder may be made either by you or by your Branch/ Correspondent at your option.

13. I/We agree that you or any of your branches or correspondents assume no liability or responsibility for any loss or damage arising out of the interruption or stoppage of your business, either by decision of a public authority or by riots, strikes, lockouts, wars, acts of God, or other causes beyond your control.

14. In case a dispute occurs between me/us and the beneficiary; between you and the beneficiary; or between your correspondents and the beneficiary in respect of any matter connected with these credits, I/we hereby give you absolute authority to take, directly or through your correspondent or through one or more advocates as you or your correspondents may empower to act on your or your correspondents behalf, any administrative or Judicial proceedings against any person wherever he may be; and to enter directly or through your correspondent or through you or youre correspondent's advoeate into any judicial or administrative proceedings instituted against you or against your correspondent by any person whosoever in any country whatsoever irrespective of the fact as to whether such proceeding instituted by or against you take place in courts or by arbitration or by experts as you may deem suitable and as the case may be. I/we undertake to accept the sequences of such proceedings whatever they may be. I/we also give you absolute authority to defray all expenses fees and advocates fees, arbitrator's fees, and experts' fees (wherever they may be) and all travelling, board and lodging, translation of papers copying, typing and taking photostatic copies thereof and any other expenses incurred in this connection no matter what such expenses may mount to without referring to me/us. You are authorised to debit my/our account with all these expenses'. I/we undertake to reimburse you with all amounts which you may have spent in the manner already mentioned without any objection on my/our part.

15. In the event of non-utilisation of the credit you are hereby authorised to sell the foreign currency on my/our behalf at your discretion without referring to me/us, and you are also authorized to credit my/our account with the equivalent amount thereof and/or to settle any documents or any debt due from me/us to you.

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FORM NUMBER II CONTINUED

16. In case of any dispute in the interpretation of this agreement the Arabic version will be the ruling version.

17. Should any dispute regarding this agreement arise either directly or indirectly I/we accept to be subject to the jurisdiction of the courts of law at any place you choose.

18. The undermentioned address is my/our permanent address any any advice of payment, documents or correspondence addressed to it will be binding upon me/us unless I/we inform you in advance and in writing of any change that my take place.

Yours faithfully

____

Name: ________________________

Address: ________________________

____

FORM NUMBER III

ORDER FOR THE ESTABLISHMENT OF A DOCUMENTARY CREDIT

Name . . . . Credit No. . . . .

Address . . . .

To: (Name of Bank) . . . . 19 . . .

Dear Sirs,

I/WE . . . . beg you to establish for my/our account by cable/airmail with your Branch/Correspondent in . . . . an Irrevocable Confirmed . . . . Documentary Credit as per the following details and in accordance with and subject to the agreement with you signed by me on . . . . embodying the general conditions for the opening of documentary credits:

Beneficiary's Name & Address: . . . .

. . . .

Opened for Account of: . . . . Amount (about/not exceeding)

. . . .

This letter of credit is valid in . . . . until . . . .(inclusive) and is available against sight draft accompanied by the following documents:

( ) Signed commercial invoice (s) in triplicate certified by The Chamber of Commerce and by the . . . . Consulate (if available at beneficiary's location).

( ) Full set of clean "On Board" Bills of Lading in duplicate to order endorsed in blank and showing "Freight Prepaid", "Freight Payable at Destination".

( ) Parcel Post Despatch Notes or Air Consignment Notes Consigned to (Name of Bank).

( ) Certificate of Origin, separate or incorporated in the invoices

( ) Certificate of Weight and Specification List

( ) . . . .

( ) . . . .

Insurance Certificate or Policy issued in negotiable form for invoice amount plus . . . . . .% covering the following risks:

. . . .

../.

FORM NUMBER III CONTINUED

Evidencing one or several shipment(s) not later than . . . . of the following goods during the validity of this credit: . . . .
. . . .
. . . .
. . . .
By . . . . From . . . . To Beirut Port . . . .
With or without trans-shipment C.I.F. / C & F / F.O.B. Vessel . . . . . .

Insurance covering both marine and war risks for the invoice value plus . . . . . % will be attended to by us. But you may, in your absolute discretion and at our expense and responsibility and without your being under any obligation, effect such insurance.

The policies or certificates will accompany the drafts / will be handed to you on demand and the amount insured is to be held as available to you.

We hereby give you a lien on all merchandise shipped under this Credit and on the proceeds thereof and on the relative insurances with full power at our cost and expense in every respect to take possession and dispose of the same at your direction and to charge all expenses. We further agree to give you any additional security that you may from time to time require to cover our liabilities to you hereunder and in the event of your selling the merchandise to pay on demand the amount of any deficiency.

It is understood that neither you nor your Correspondents assume any responsibility for the correctness, validity or genuineness of the documents, nor for description, quality or quantity of the goods which they may pruport to represent.

We authorise you to debit our account with your commission of . . . . . . % and with your margin of security on this operation amounting to . . . . % plus all your expenses and those of your Correspondents.

On account of this transaction, I pay you the sum of . . . . and undertake to pay you the balance of the amount of the credit plus your commission, all your expenses and those of your Correspondents.

Rate of Exchange agreed upon is . . . . . . in respect of . . . . of this credit.

Yours faithfully

. . . .

N.B. Strike out and initial any unnecessary term.

- Form N: IV

TELEGRAPHIC ADDRESS : "BANKARABI"

ORIGINAL VIA FIRST AIR MAIL
DUPLICATE VIA SECOND AIR MAIL

ORIGINAL

ARAB BANK LTD.

.... Branch .... 196....

D/Credit No.

Dear Sirs,

Kindly advise beneficiaries ....

That we open our **irrevocable** letter of credit in their favour **with/without** adding your confirmation

For account of ....

For a sum of : **about/not exceeding**

(in words ....

Valid in .... Until .... (inclusive).

Available against receipt of beneficiaries, sight draft, together with the following documents marked [x] :

☐ Signed commercial invoice (s) in triplicate, certifying at the same time origin of goods, contents are true and authentic, prices correct and current, and that it is the only invoice issued for the merchandise described therein. The original copy at least must be **certified by Chamber of Commerce** and legalized by .... (if available at beneficiary's location.)	☐ Certificate of origin separate or incorporated on invoice
☐ Full set of clean **"on board"** bills of lading in duplicate **issued to order** and endorsed to the order of, Arab Bank Ltd., and showing **"Freight Prepaid", "Freight payable at Destination"** marked notify buyers.	☐ Insurance covered locally
☐ Parcel Post Receipts/Air Consignment notes showing the Arab Bank Ltd., as consignee and quoting our L/Credit number.	☐ Insurance **Policy/Certificate** issued in negotiable form for invoice amount plus ...... per cent, claims payable in Beirut, covering the following risks including War S. R. & C. C. risks extended cover from warehouse to warehouse.
☐ Consular certificate.	☐ F.P.A. Clauses including theft and or non delivery of an entire package / bundle / bag / or piece.
☐ Certificate of weight.	☐ Marine insurance as per Institute cargo clauses (W. A.) and (Extended cover) including theft pilferage shortage and or non-delivery, including damage done by other cargo hooks nails oils grease acids mud rain and or fresh water, including breakage / leakage / denting / scratching / bending/tearing/bursting irrespective of percentage.
☐ Specification List	☐ Institute Cargo Clauses (All Risks)

Documents must evidence current shipment of following goods of .... origin.

SPECIMEN

Not later than .... by .... from .... to ....

C I F / C and F / F. O. B. vessel .... **trans-shipment** Not-allowed

Partial shipment **Not Permitted / Permitted** against pro-rata drawings.

The negotiating bank is required to forward the original set of documents direct to us by first registered airmail and duplicates by the following air mail. In reimbursement of its value plus the relative commission and charges, he is requested to draw on/debit Beirut Branch account with our correspondent ....
certifying at the same time that all documents negotiated and other credit terms have been strictly complied with.
Further, our said correspondent is hereby authorized to honour all such drawings under this Credit accompanied by the required compliance certificate advising us of same by airmail.

Yours faithfully,
ARAB BANK LTD.

P. T. O. for special Instructions

FORM NUMBER V

BILL OF EXCHANGE (Draft)

ORIGINAL

No.

DULY

STAMPED

. . . .

For . . . .

At . . . . SIGHT OF THIS <u>SECOND</u> BILL OF EXCHANGE (FIRST OF THE SAME TENOR AND DATE BEING UNPAID) PAY TO . . . . OR ORDER THE SUME OF

. . . .

. . . .

VALUE RECEIVED AND CHARGE THE SAME TO ACCOUNT OF . . . .

. . . .

TO . . . .

. . . .

. . . .

. . . .

FORM NUMBER VI

INVOICE

EXPORT DEPARTMENT

(Name of Company, Type)

Please quote Invoice Ref...... Address

Date

INVOICE OF . . (Type of Merchandise) . . . .

purchased by . . . (name of importer) . . . .

To be shipped per S/S . . . . from . . . .

Sailing . .(date) . . . .

Marks & Nos.	Quantity and Description of Goods	Rate	£	s.	d.

Form No. VII - P. 28

NIPPON YUSEN KAISHA
BILL OF LADING

N.Y.K. LINE

原 藤原運輸

DIRECT OR WITH TRANSHIPMENT

SHIPPED, in apparent good order and condition, unless otherwise indicated herein, the goods or packages said to contain the goods described below by the shipper hereinafter named, on board the ship mentioned hereunder, in or off the port of loading hereinafter indicated, to be transported, with liberty to deviate for the purpose of saving life or property, to call at any port or ports in or out of the customary, direct, advertised or geographical route, in any order, for the purpose of discharging and receiving goods and passengers, or taking in fuel and other necessary supplies at any such port or ports, or for any purpose whatsoever, to drydock with or without cargo on board if the COMPANY considers it necessary or convenient, to adjust compasses, to sail without pilot, and to tow and assist ships in all situations, to the port of destination or, if to be transported overland, to the place of destination, hereinafter named, or so near thereto, with or without transhipment, as carrying ship and/or other connecting conveyance may safely get, and to be delivered there in like good order and condition unto the consignee named below, or his or their assigns, subject to conditions and exceptions enumerated hereon and on the back hereof. In any event, the COMPANY'S responsibility shall commence when the goods are taken on board the COMPANY'S ship and cease when the goods leave the COMPANY'S ship's deck and/or tackle.

Freight and primage (if any) to be paid by the shipper in advance, on delivery of the Bill of Lading, in cash without discount, or at the destination by the consignee as may be agreed upon and declared hereunder, and to be considered as earned whether the ship or the goods be lost or not or the voyage be broken up or abandoned at any stage of the entire transit.

Contents, weight, measure, quantity, quality and value unknown to the COMPANY. Description below, and used in calculating freight, based solely on information furnished by the shipper.

SHIP: " HIMEJI MARU " **VOY. NO.** 23-OUT

SHIPPER: OTSUKA & CO.,LTD.,

PORT OF LOADING: KOBE,JAPAN. **DESTINATION:** BEIRUT

WITH TRANSHIPMENT AT: **(ON-CARRIER:**)

CONSIGNEE: TO ORDER

NOTIFY PARTY: MESSRS. KASSAB & KITISHIAN,BEIRUT.
(For the COMPANY'S reference)

PARTICULARS FURNISHED BY SHIPPER OF GOODS

Marks & Numbers	Packages	Description	Weight	Measurement
K. K. KA BEIRUT C/No.1 MADE IN JAPAN	1 CASE	GENT'S RAYON WOVEN NECKTIES, SAY: ONE (1) CASE ONLY.* * * * " FREIGHT PREPAID "	141 LBS	1'- 8'- 6"

THE TOKAI BANK, LTD. B.B.(6)- 2383 KOBE BRANCH

In accepting this Bill of Lading, the shipper expressly accepts and agrees to all its stipulations, exceptions and conditions, whether written, typed, stamped or printed, as fully as if signed by the shipper, any local custom or privilege to the contrary notwithstanding.

Value		% ad valorem	
	cft. @	per 40 cft.	£ 5- 0- 0
	@	per	
	@	per	
		Total:	£ 5- 0- 0

THE BRITISH BANK OF THE MIDDLE EAST

H.&S.B.C. KOBE B. R. 98/2108

Prepaid at KOBE,JAPAN. Exch. @

Payable at

In witness whereof the master or agent of the said ship has signed THREE(3) Bills of Lading, all of this tenor and date, one of which being accomplished, the others to stand void.

Dated at KOBE,JAPAN. on the FEB.28 1962

For the Master

B/L NUMBER
28

Form No. 001
Printed in Japan
400,000s Nov. 1961

(TERMS OF BILL OF LADING CONTINUED ON BACK HEREOF)

1. **(Definition)**: In this Bill of Lading, the following words both on the front and the back have the meaning hereby assigned:
(a) "COMPANY" signifies the Nippon Yusen Kaisha, including the master and agents, and, where appropriate, the ship, the charterer or any substituted carrier;
(b) "SHIPPER" includes the shipper, consignee, owner of the goods, receiver and also holder of Bill of Lading.

2. **(General Immunities)**: The COMPANY shall not be responsible for any consequences arising or resulting from: act of Gods, perils of sea; war or warlike operations, acts, arrests, restraints or interferences by or on behalf of government or public authorities; requisition, arrest or seizure under any legal process; rules, regulations, orders, acts or default of canal or port authorities; congestion of ports; restraints and consequences of quarantine; delay, detention or deviation arising out of or consequent upon the employment of the ship in any service of the Japanese Government; mobs; pirates; loss by robberies, thefts or pilferages, by land or water, whether by persons in the employment or service of the COMPANY or otherwise; rising or mutiny among passengers or crew; strikes, lockouts or desertion of mariners, workmen or labourers or stoppage, shortages or restraints of labour; jettison; rain; spray; climatic effects; sweat; chemical action; inherent vice; fumigation; rust; decay; injury caused by other cargo in contact or proximity; evaporation, heating or smell from other goods, or otherwise; dust from coaling; vermin; rats; non or insufficient packing; inaccuracies, obliteration or absence of marks and numbers, address and description of goods shipped; wear and tear of package; wastage, leakage, breakage; hook-holes; bent; chafage; loss or damage from machinery, boilers or steam; accidents to or defects latent or otherwise in hull, tackle, boilers, or machinery or their appurtenances; collision, stranding or wreck; explosion, heat, or fire; loss or damage caused by mines, torpedoes, bombs or other engines of war; atomic radiation; barratry, misfeasance, embezzlement, error in judgement, negligence or default of pilot, master, officers, engineers, seamen, firemen, stevedores or others in the service of the COMPANY, whether in navigation or in the management of the ship or otherwise; risk of craft or hulk for lightening or any other purposes or transhipment or landing and stowage; and all and every dangers and accidents of the land and water, and on navigation of whatsoever nature or kind.

3. **(Seaworthiness)**: The COMPANY shall not be liable for loss or damage arising or resulting from unseaworthiness unless caused by want of due diligence on the part of the COMPANY to make the ship seaworthy at the beginning of the voyage.

4. **(Quarantine)**: In the event of quarantine or sanitary or other similar regulations or restrictions whatsoever or wheresoever arising, the goods may be discharged into any depot, lazaretto, hulk or other vessel or craft, as required for the ship's despatch or should the COMPANY consider this impracticable, the goods may be discharged at any safe port of call, at the COMPANY'S option, at the risk and expense of the SHIPPER; and upon such discharge, the COMPANY'S responsibility shall cease. The SHIPPER shall be liable for all quarantine expenses of whatever nature or kind.

5. **(Port and Labour Restriction)**: If the loading, carriage, discharge or delivery is prevented or impeded or if the COMPANY anticipates that the same is or may be prevented or impeded at any time before commencement of or during the voyage or at any port or place on account of ice, shallow water, blockade or interdict, or because of threatened or existing labour regulations, lockouts, strikes, or any other extraordinary labour situation, whether partial or not and whether involving the employees of the COMPANY or others, or should entry or discharge at any port be deemed by the COMPANY unsafe or inadvisable or liable to subject the ship to any risk whatsoever whether in consequence of war, disturbance, epidemic, congestion or any other cause likely to subject the ship, cargo or passengers to quarantine or delay there or at any subsequent port, the COMPANY is expressly authorized by the SHIPPER to take such action and to make such disposition of the goods, as the COMPANY shall deem advisable, all at the risk and expense of the SHIPPER, including the exercise of any and all liberties: if before commencement of the voyage to require the SHIPPER to take delivery of the goods at the port of shipment or upon failure to do so, warehouse the goods at the risk and expense of the SHIPPER; or, whether or not proceeding toward, entering, reaching, or attempting to enter or reach the port of discharge or the usual or agreed place of discharge therein, or attempting to discharge, and whether or not discharging may have commenced, to discharge the goods onto any place, craft, or conveyance; or to, with the goods on board, proceed or return, directly or indirectly, to any other port or place whatsoever, which the COMPANY may consider safe or advisable, and discharge the goods there, or store them; or to submit them to examination at any place or places; or to retain the whole or part of the goods on board until the return trip or so long as the COMPANY thinks advisable and then discharge them at any place herein provided, or carry them back to the port of shipment; or to discharge, tranship and forward the goods as provided in Article 17 hereof, but at the risk and expense of the SHIPPER.
Such action by the COMPANY shall constitute complete and final performance of its obligation and full discharge of its responsibilities under this contract, and all warehousing, handling, inspection, storage, transhipment, forwarding or extra carriage of the goods shall be at the risk and expense of the SHIPPER. All such charges and expenses shall be payable to the COMPANY immediately they are incurred and shall have lien on the goods. If the COMPANY performs any act with respect to the goods or their disposition after discharge as herein provided, the COMPANY shall be considered as acting solely for and as agent of the SHIPPER.

6. **(Refrigerated Goods)**: The COMPANY shall not undertake to carry the goods in refrigerated, specially cool or heated, or ventilated compartments, unless such carriage is expressly agreed in advance and declared herein, and shall not be responsible for any loss or damage thereto arising from temperature or risk of refrigeration, defects or insufficiency in, derangement, breakage of refrigerating plant or part thereof.

7. **(Dangerous Goods, Contraband, etc.)**: If any goods of an explosive, inflammable, corrosive, damaging, or dangerous nature be shipped without previous written declaration and arrangement or any goods contrabanded or prohibited by the law of the port of shipment, discharge or call, whether the SHIPPER is aware thereof or not, such goods, upon discovery, may be rendered innocuous, thrown overboard, or be discharged at any port, or be otherwise dealt at the COMPANY'S discretion, and the loss, as well as any consequential loss, penalty or damage to the ship or goods, or any responsibility whatsoever shall fall upon the SHIPPER, including the cost of handling, lighterage and all other expenses incurred in disposing of such goods and in complying with the orders or rules of port or other government authorities with respect thereto.
It is further mutually agreed that if any such goods shipped with such previous declaration and arrangement shall become a danger to the ship or goods, they may in like manner be discharged at any place or destroyed or rendered innocuous or thrown overboard without any liability on the part of the COMPANY; any consequential loss, penalty or damage to the ship or goods or any responsibility whatsoever shall fall upon the SHIPPER.

8. **(Goods on deck, Perishable Goods, Livestocks, etc.)**: Goods carried on deck; livestocks; fruits, vegetables, fish and all perishable goods; and glass, crockery or castings, or any articles of a fragile nature, or goods in bales or crates, or unprotected pieces are accepted solely at the risk of the SHIPPER, and the COMPANY shall be under no liability for any loss or damage thereto, however caused.
All the conditions and exceptions contained in this Bill of Lading shall also apply to livestocks or the goods carried on deck and stated herein to be so carried.

9. **(Lumber, Timber, Iron and Steel)**: The COMPANY shall not be responsible for chafage, breakage, splitting or decoloration of lumber or timber.
In case of iron and steel, angles, bars, channels, etc. shipped loose or in bundles, the COMPANY shall not be responsible for correct delivery, and all expenses incurred at port of discharge consequent upon insufficient securing or marking shall be paid by the SHIPPER unless:—(a) every piece is distinctly and permanently marked with oil-paint; (b) every bundle is securely fastened, distinctly and permanently marked with oil-paint and metal-tagged, so that each piece or bundle can be distinguished at port of discharge.

10. **(Valuable Goods)**: The COMPANY shall not be accountable for gold, silver, currency, documents, negotiable writings, specie, jewellery, precious stones, precious metals, pictures, embroideries, and works of art, or any valuable of any amount whatsoever, unless ad valorem freight has been paid and the Bill of Lading signed with the value and contents declared therein.

11. **(Heavy Lift)**: Any lift weighing over two tons gross must be declared in writing before shipment and the weight be stencilled on the package, and if the actual weight be not declared or be in excess of that declared, the SHIPPER in addition to paying the freight provided for in Article 23 shall make good and bear any loss, damage or delay caused thereby to the ship, any property or persons whatsoever and shall also pay all additional charges of handling.

12. **(Bagged Goods)**: If any bagged or baled goods are landed slack or torn, the SHIPPER shall accept such proportion of the sweepings as shall be allotted by the COMPANY and the same shall be deemed as full settlement of any claim for loss of weight. Under no circumstances will the COMPANY be responsible for the bursting of single sacks and consequential loss of contents.

13. **(Marks and Description)**: The COMPANY shall not be liable for incorrect delivery or non-delivery unless such package has been distinctly, correctly and permanently marked by the shipper before shipment with the name of port of destination which must be in letters not less than two inches long. All fines and expenses, loss by detention of the ship or goods, caused by incorrect marking or by incompleted or incorrect description of contents or weight or other particulars required by the authorities at the port of discharge or any place during transit, upon either the package or the Bill of Lading, shall be borne by the SHIPPER. In no circumstances will the COMPANY accept responsibility for delivery of other than leading marks.
Goods unidentifiable by marks or numbers, cargo sweepings, liquid residue and unclaimed goods not otherwise accountable for shall be allocated for completing delivery to the various consignees of like goods in proportion to apparent shortage, loss of weight or damage.
Loss or damage to goods received and stowed in bulk without separation from other like bulk goods either of the same or another shipper shall be divided proportionately among the several consignees and Bills of Lading.

14. **(Optional Delivery)**: Optional delivery is only granted when arranged prior to the shipment of the goods and it is expressed in the Bill of Lading. The SHIPPER desiring to avail himself of the option so expressed must give notice to the COMPANY at the first port of ship's call named in the option, at least 24 hours prior to the ship's arrival there, or the goods will be carried on port to port to the final destination of the ship to which the option extends at the risk and expense of the SHIPPER.

15. **(Discharge and Delivery)**: Notwithstanding any custom of the port to the contrary, the goods may be discharged, without notice, as soon as the ship is ready to discharge them, continuously day and night, Sundays and holidays included, regardless of weather, onto wharf or quay or into warehouse, or into lighter, hulk, lazaretto, craft, or on any other place and be stored there at the risk and expense of the SHIPPER, and the COMPANY retains the option of delivery at all times from the ship's side, or from craft, hulk, custom-house, wharf or quay. The COMPANY does not undertake to furnish heating, refrigeration, cooling, or other special facilities of any kind during loading or discharge, and shall not be liable in any respect whatsoever for lack of any such facilities. The COMPANY does not undertake that the goods shall arrive at the place of discharge, destination, or transhipment at any particular time or to meet any particular market or use. If the goods are delivered to or taken into the custody of customs or other government officials, such action shall constitute full discharge of the COMPANY'S obligations hereunder and no claims for shortage or damage shall be considered valid except those noted by such officials upon receiving the goods. The COMPANY'S lien on the goods shall survive such delivery. In any case the COMPANY'S liability shall cease as soon as the goods leave the ship's deck and/or tackle, and the SHIPPER shall be liable any custom or regulations of the port notwithstanding, for all expenses upon receipt or discharge, of weighing, handling to or from the ship's tackle, landing and delivery charges, tonnage, pier or shed dues, delivery [illegible] or other officials, lighterage, sorting and stacking of the goods on wharf or in shed, and all other expenses whatsoever [illegible] landing and delivery unless already specifically included in the freight charges provided herein.
At any port the COMPANY may entrust any firm or person with master porterage (receiving, watching, weighing, [illegible] delivering of the goods, etc.), lighterage, cartage, custody and/or any other service concerning the goods [illegible] SHIPPER, who shall pay at the current rates for all such works performed and indemnify the COMPANY against all claims and charges of whatsoever nature by such firm or person in connection with the goods.

16. **(Lighterage)**: The SHIPPER agrees to furnish lighters and other craft to carry the goods from and to the ship [illegible] times and as fast as the COMPANY may require, and the SHIPPER shall be liable to the COMPANY for all loss and expense resulting from any detention of the ship or goods due to delay or default in furnishing such equipment. The COMPANY does not undertake to, but may, at its option, and solely as the agent of the SHIPPER, arrange for lightering the goods to or from the ship, but in so doing shall not be responsible for the character, condition, or seaworthiness of lighters or any fault or negligence of lightermen, it being expressly agreed that such service shall be deemed for all purposes to have been rendered by an independent contractor for the SHIPPER.

17. **(Forwarding)**: The COMPANY reserves the right of forwarding the goods to their destination by any ship or conveyance belonging either to this or any other company or individual, subject to all conditions which may be exacted by the company or individual who may complete the transit; the risk of transhipment, landing, storing and reshipping to be borne by the SHIPPER, but the expense to be defrayed by the COMPANY.

18. **(Over-carriage)**: In case the goods, herein specified, or any part thereof can not be found during the ship's stay at the port of discharge, the goods are, when found, to be forwarded to their destination at the COMPANY'S expense but free of liability for any loss, depreciation or damage arising from over-carriage or return-carriage.

19. **(Through Carriage)**: The through carriage under this Bill of Lading is accepted and agreed by the COMPANY only for the convenience of the SHIPPER; and the responsibility of the COMPANY shall be limited to the part of transport performed by the COMPANY on the ship under its management, and in no case shall the COMPANY be under any liability for damage and/or loss arising from whatsoever cause during any other part of the transport, even though the freight for the whole transport has been collected by the COMPANY. The COMPANY shall be authorized by the SHIPPER to enter into contract on his behalf for the pre-carriage and/or on-carriage of the goods and/or for the storing, lightering, transhipping, or other dealing therewith, prior to, or in the course of, or subsequent to the carriage in the COMPANY'S ship without responsibility for any act, neglect, or default on the part of the COMPANY even though the terms of such contract be less favourable in any respect whatsoever to the SHIPPER than the terms of this Bill of Lading. The connecting carriage shall be dealt with subject to the conditions and exceptions of the pre-carrier's and/or on-carrier's conveyance. The goods are to be carried on as soon as practicable but the COMPANY shall not be liable for delay. In case of delay or any increase in the cost of transhipment, pre-carriage and/or on-carriage due to any cause beyond the control of the COMPANY, the additional freight and charges must be paid by the SHIPPER before taking delivery of the goods.
Unless the value of the goods is declared at the time of shipment and is stated herein and extra freight as may be agreed upon is paid, the COMPANY shall in no event be under any obligation to declare to the on-carrier any valuation of the goods even though the on-carrier's contract of carriage contains a valuation or limitation of liability less than that contained in this Bill of Lading.
If the goods are forwarded by more than one conveyance the consignee must take delivery of each portion immediately after arrival.
Goods forwarded by rail are deliverable at any railway station within or nearest to destination and must be taken away by the consignee immediately after arrival.
For dutiable goods transhipped, the COMPANY may give such undertaking as customs require at port of transhipment respecting dealing with goods at port where duty is payable, and all charges and risks incurred shall be on account of the SHIPPER.
The conditions and exceptions contained herein may also apply during the transportation in craft or hulk or on shore, or when stored in any warehouses or godowns wheresoever directed.

20. **(Lien)**: The COMPANY shall have a lien upon the goods for freight, dead freight, demurrage or loss caused by detention, average contribution, salvage, and for all payments made and liabilities incurred in respect of any charges or expenditures stipulated herein to be borne by the SHIPPER; the COMPANY may enforce such lien by public or private sale with or without notice or by legal proceedings, the cost of such enforcement being for the account of the SHIPPER.

21. **(Claims)**: Any claim for loss, short delivery or damage, and all other claims whatsoever, must be preferred in writing at the place of delivery to the COMPANY on taking delivery of the goods, otherwise the COMPANY shall not be liable.
In case the delivery of the goods should not be made immediately after the goods are ready to be delivered, the SHIPPER must present, in writing, notice of loss or damage to the goods within three (3) days after the goods were ready to be delivered, otherwise all claims shall be deemed as waived, and the COMPANY shall be free from all liabilities.
All admitted claims shall be adjusted and settled on the invoice value of the goods, plus ocean freight and insurance premium if paid. In any event, the COMPANY shall not be liable for any loss of profit or any consequential loss.

22. **(Limit of Liability)**: The COMPANY shall in no event be or become liable for any loss of or damage to the goods in an amount exceeding One Hundred Pounds Sterling (£100 stg.) per package or unit, unless the value of the goods higher than this amount is declared in writing by the shipper before shipment and the nature and the value thereof inserted in the Bill of Lading and extra freight is paid as agreed upon. In such case, even if the actual value of the goods per package or unit exceeds such declared value, the value shall nevertheless be deemed to be declared value. The COMPANY'S liability shall not exceed such agreed or declared value, as the case may be, and any partial loss or damage shall be adjusted pro rata on the basis of such value. The limitation of liability and other provisions contained in this paragraph shall inure not only to the benefit of the COMPANY, but also to the benefit of any independent contractor performing services including stevedoring in connection with the goods covered by this Bill of Lading.

23. **(Freight and Charges)**: Where freight is payable at the port of destination such freight together with all other charges mentioned in this clause is to be paid in the currency named in this Bill of Lading or with the consent of the COMPANY in other currency at the highest rate of exchange for banker's sight bills current on the day when the ship is entered at the custom-house or on the date of the withdrawal of the delivery order, whichever is higher. The COMPANY accepts no responsibility and the SHIPPER is held liable for return freight and charges on goods refused exportation or importation by any government or public authorities.
Goods once shipped cannot be taken away by the SHIPPER except upon the COMPANY'S consent and against payment of full freight and compensation for any loss sustained by the COMPANY through such taking away.
The SHIPPER shall be deemed to have guaranteed to the COMPANY the accuracy of the contents, weight, measurement or value, as furnished by him, at the time of shipment, and the COMPANY may at any time open the packages and examine, weigh, measure, and value the goods, at the risk and expense of the SHIPPER. The COMPANY is entitled to in case of incorrect declaration of contents, weight, measurement or value of the goods to claim double amount of freight which would have been due if such details had been correctly given, and the COMPANY will not be liable for any risks arising from such incorrect declaration.
If goods, contracted for shipment, are not available when the ship is ready to load, the COMPANY is relieved of any obligation to load such goods and the ship may leave the port without further notice and dead freight is to be paid by the SHIPPER.
All dues, taxes and charges including Consular fees levied on the goods, or all fines and/or losses incurred by the COMPANY through SHIPPER'S non-observance of rules and regulations of any government or public authorities in connection with the goods, shall be borne by the SHIPPER.
All expenses of sorting or reconditioning necessary for the goods during the transit shall be paid by the SHIPPER.

24. **(General Average)**: All claims of general average nature shall be construed, adjusted and settled in conformity with the system commonly known as the York-Antwerp Rules, 1950.

25. **(Governing Law)**: The Bill of Lading and contracts evidenced by this Bill of Lading shall be construed and governed by Japanese Law.

26. **(Notification)**: Any clause herein giving names of parties to be notified of arrival of the ship or the goods at destination is solely for the information of the COMPANY'S agents, and failure to notify shall not involve the COMPANY in any responsibility or relieve the SHIPPER from any obligation herein contained.

27. **(Receipt of Goods)**: Any provision herein to the contrary notwithstanding, goods may be received by the COMPANY beyond ship's tackle solely at the risk and expense of the SHIPPER.

28. **(Canal Clause)**: The COMPANY shall not be liable for loss, damage or delay caused by any obstruction of the Suez or Panama Canal, or the non-operation or closing of the same; and in the event of such obstruction or closing, the COMPANY shall have the option to stop or delay the ship, awaiting the removal of such obstruction, or to reship, tranship or forward all or any part of the goods by rail or any other conveyance, and all storage charges in connection therewith and extra freight shall be for the account of the SHIPPER and have a lien upon the goods, or to sail the ship via any other route whatsoever, additional freight therefor being paid by the SHIPPER.

29. **(New Jason Clause)**: In the event of accident, danger, damage or disaster before or after the commencement of the voyage, resulting from any cause whatsoever, whether due to negligence or not, for which, or for the consequence of which, the COMPANY is not responsible, by statute, contract or otherwise, the SHIPPER shall contribute with the COMPANY in general average to the payment of any sacrifices, losses or expenses of a general average nature that may be made or incurred and shall pay salvage and special charges incurred in respect of the goods.
If a salving ship is owned or operated by the COMPANY, salvage shall be paid for as fully as if said ship belongs to strangers. Such deposits as the COMPANY may deem sufficient to cover the estimated contribution of the goods and any salvage and special charges thereon shall if required be made by the SHIPPER to the COMPANY before delivery.

30. **(Both to Blame Collision Clause)**: If the ship comes into collision with another ship as a result of the negligence of the other ship and any act, neglect or default of the master, mariners, pilot or the servants of the COMPANY on the navigation or in the management of the ship, the SHIPPER will indemnify the COMPANY against all loss or liability to the other or non-carrying ship or her owners in so far as such loss or liability represents loss of or damage to or any claim whatsoever of the SHIPPER, paid or payable by the other or non-carrying ship or her owners to the SHIPPER and set-off, recouped or recovered by the other or non-carrying ship or her owners as part of their claim against the carrying ship or the COMPANY.
The foregoing provisions shall also apply where the owners, operators or those in charge of any ship or ships or objects, other than, or in addition to, the colliding ships or objects are at fault in respect of a collision or contact.

31. **(War Risk Clause)**: The COMPANY shall not be responsible for actual, attempted or threatened capture, seizure, detention, or for any direct or indirect consequence thereof resulting from or in any way contributed to any state of declared or undeclared war or warlike or belligerent acts, and in any such event, whether occurring or anticipated, the COMPANY reserves the right to discharge the goods at the COMPANY'S discretion at any port or place at the risk and expense of the SHIPPER, and the COMPANY'S liability shall cease when the goods are so discharged.
Without prejudice to anything herein contained, the ship shall have the liberty to comply with orders, directions or suggestions as to departure, arrival, route, ports of call, stoppage or otherwise however given by any government or public authorities, and nothing done or not done by reason of any such orders, directions or suggestions shall be deemed a deviation, nor shall the COMPANY be responsible for any loss, damage or expense resulting either directly or indirectly therefrom, and delivery in accordance therewith shall be a fulfilment of the contract voyage.

32. **(Special Law)**: Without prejudice to Article 25 hereof, this Bill of Lading shall have effect subject to the provisions of any maritime law, rules or regulations in force at the place of shipment, which have been enacted in order to incorporate the rules of the International Convention for the Unification of Certain Rules relating to Bills of Lading at Brussels of August 25, 1924, or subject to the provisions of such law, rules or regulations in force at the place of destination if no such law, rules or regulations exist at the place of shipment. If any such law, rules or regulations at the place of destination apply to inward shipment, the provisions thereof shall be paramount.
Nothing herein contained shall be deemed to be a surrender of any of the COMPANY'S rights and immunities or an increase of its responsibilities or liabilities under such law, rules or regulations.
The COMPANY shall be entitled to the full benefit of all such privileges, rights and immunities as are contained in the said law, rules and regulations, and if anything herein contained be inconsistent therewith it shall in that case and only to that extent be deemed to be deleted.
As regards goods moving to and from U.S.A., this Bill of Lading shall have effect subject to the provisions of the Carriage of Goods by Sea Act of the United States approved April 16, 1936. The COMPANY shall be entitled to all of the rights and immunities set forth in the said Act, and to the extent that any term of this Bill of Lading is repugnant to or inconsistent with anything in such Act, it shall be void.

(LOCAL CLAUSE)

a. **(Cargo for Holland)**: Weighing on board during discharge is only allowed by permission of the COMPANY. If permission be given all additional expenses incurred by the ship in consequence of such weighing on board and whether in respect [illegible] charges or otherwise shall be for account of receivers, notwithstanding any custom to [illegible] contrary. [illegible] may be withdrawn by the COMPANY at any time during discharge without prejudice to the COMPANY'S right to recover additional expenses already incurred.

b. **(Cargo for Belgium)**: Weight declared by the shipper, but not checked by the COMPANY.

c. **(Cargo for Algier and Casablanca)**: Taxe de Peage to be paid by consignees.

d. **(Cargo for Port Said)**: Lighterage and landing to be effected by the COMPANY at the SHIPPER'S risk and expenses at current tariff rates. The COMPANY'S liability shall in all events cease at ship's rail any custom to the contrary notwithstanding; but in view of conditions prevalent in Egypt and Suez Canal Area and as the landing charges do not include any insurance of goods from ship's rail the COMPANY shall be at liberty but not obliged to make arrangements on behalf of the SHIPPER with contractors for the carriage of the goods from ship's rail to any port or place in Egypt or Suez Canal Area whether or not customarily used for storage on the terms that the contractors engaged for such purposes shall not be liable for loss of, damage or delay to the goods caused by unseaworthiness of craft or negligence on their part or otherwise [illegible] and that such contractors shall in no event be liable in damages in excess of £20 stg. per package or unit [illegible] per freight ton at their option. Such contract shall be binding on the SHIPPER as if made directly with them as a part of the Bill of Lading contract.

e. **(Cargo to and from Amsterdam)**: The transport from Rotterdam to Amsterdam or vice versa to be effected at the expense of the COMPANY, but at the risk of the SHIPPER.

[illegible] order of
THE [illegible] BANK OF THE
MIDDLE EAST

[illegible] & CO. LTD.

EXPORT MANAGER

THE CONDITIONS AND EXCEPTIONS CONTAINED HEREIN SHALL ALSO APPLY WHENEVER THE GOODS ARE IN ACTUAL CUSTODY OF THE COMPANY

FORM NUMBER VIII

INSURANCE POLICY

Marine Insurance Company
Limited

Address

This Policy is to have the same force and effect and to be subject to the same terms and conditions as the Company's standard form of Marine Policy including the Institute Dangerous Drugs Clause plus any other extensions, restrictions or amendments as may be indicated hereunder. The Institute Clauses referred to herein are those current at the date of issue of this Policy.

Dated at . . . .

Policy No.

This is to certify that this Company has insured on behalf of

Messrs.

the sum of

upon so valued

Subject to the following clauses: -
Institute Cargo Clauses (All Risks)
Institute Theft, Pilferage & Non-delivery (Insured Value) Clause
Institute War Clauses and Institute Strikes, Riots and Civil Commotions Clauses

Subject to the Institute Warehouse to Warehous Clause.

at and from

Ship or vessel: Sailing on or about

Claims if any payable by

to whom immediate notice should

Survey Report to be obtained from

For & on behalf of
Marine Insurance Company, Ltd.

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FORM NUMBER VIII CONTINUED

IMPORTANT

With a view to facilitating the settlement of any claim for loss or damage hereunder, the Assured or their Agents should take the following steps. Failure to comply with these requirements may prejudice any claim under this Policy.

In the event of damage which may involve a claim under this Policy, immediate notice of such damage should be given to and a Survey Report obtained from the Company's Agent at port of discharge or otherwise as mentioned in the Policy.

Carriers' and/or Bailees' Liability.

Assured or their Agents must:-

1. Claim on the Carriers and on the Port Authorities for any missing packages.
2. Apply immediately for survey in the docks by carriers' representative if any loss or damage be apparent and claim on the Carriers for any actual loss or damage found at such survey.
3. In no circumstances give clean receipts where goods are in doubtful conditions except under written protest.
4. Give notice in writing to the carriers' representative within three days of delivery if the loss or damage was not apparent at time of taking delivery.

NOTE:- The Consignees or their Agents are recommended to make themselves familiar with the Regulations of the Port Authorities in force at the port of discharge.

All correspondence with Carriers regarding their liability should be forwarded when submitting any claim to Underwriters.

Note:- All Policies issued abroad and made payable in the U.K. are required by law to be duly stamped within thirty days after their receipt in the U.K. Such stamps to be at the expense of the Assured.

FORM NUMBER IX

CERTIFICATE OF ORIGIN

THE undersigned, duly authorised by the 'Hong Kong' General Chamber of Commerce hereby verifies the declaration made below by (Name of Exporter's Company) . . . .
of (Address) . . . . , in respect of the undermentioned goods
shipped to . .(port.of destination). . . per . . (name of.vessel). . . .

Number of Packages	Marks & Numbers	Details of shipment

that the goods specified in the Schedule above are . . . .(made.in Hong.Kong). . . . .

Signature of Declarer . . . .

Date. Certificate Number

. . . .
Asst. Secretary
Hong Kong General Chamber of Commerce

APPENDIX III

UNIFORM CUSTOMS AND PRACTICE FOR COMMERCIAL DOCUMENTARY CREDITS FIXED BY THE THIRTEENTH CONGRESS OF THE INTERNATIONAL CHAMBER OF COMMERCE

General Provisions

The provisions, definitions, interpretations, etc. contained in the following Articles are to be understood as uniform directions applying to all commercial documentary credits including authorities to pay, negotiate or purchase, unless otherwise expressly agreed.

It is essential that instructions embodied in commercial documentary credits be complete and precise in every way and any attempt to include technical terms or cumbersome details should be discouraged in order to guard against the possibility of confusion and misunderstanding.

The beneficiary of a credit can in no case avail himself of the legal relations existing between Banks, or between the applicant for the credit and his Bank.

A. Form of Credits

Article 1 : Commercial documentary credits are essentially distinct transactions from sales contracts, on which they may be based, with which Banks are not concerned.

Article 2 : Commercial documentary credits may be either :
a) revocable or b) irrevocable

Article 3 : All credits, unless clearly stipulated as irrevocable, are considered revocable even though an expirty date is specified.

Article 4 : Revocable credits are not legally binding undertakings between Banks and beneficiaries. Such credits may be modified or cancelled at any moment without notice to the beneficiary. When a credit of this nature has been transmitted to a branch or to another Bank, its modification or cancellation can take effect only upon receipt of notice thereof by such branch or other Bank, prior to payment or negotiations, or the acceptance of drawings thereunder by such branch or other Bank.

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Article 5 : Irrevocable credits are definite undertakings by an issuing Bank and constitute the engagement of that Bank to the beneficiary or as the case may be, to the beneficiary and bona fide holders of drafts drawn thereunder that the provisions for payment acceptance of negotiation contained in the credit, will be duly fulfilled provided that the documents or as the case may be, the documents and the drafts drawn thereunder comply with the terms and conditions of the credit.

When the issuing Bank instructs another Bank to confirm its irrevocable credit and when the latter does so, the confirmation implies a definite undertaking of the confirming Bank as from the date on which it gives confirmation.

In case of credits available to negotiation of drafts, the confirmation implies only the undertaking of the confirming Bank to negotiate drafts without recourse to drawer.

Such undertakings can neither be modifed nor cancelled without the agreement of all concerned.

When a correspondent is instructed by cable or telegram to notify a letter of credit, the issuing Bank must send the original of the said letter of credit to the said correspondent if it is intended to put the document itself into circulation. If any other procedure were followed, the issuing Bank would be responsible for all consequences which may result therefrom.

Article 6 : Irrevocable credits may be advised to the beneficiary through an advising Bank without responsibility on the latter's part.

Article 7 : When a Bank is instructed to issue, confirm or advise a credit similar in terms to one previously issued and the credit to which reference is made contains amendments, it shall be understood that the details of the credit being issued, confirmed or advised will be transmitted to the beneficiary inclusive of the amendments, unless instructions to the contrary are contained in the instructions.

Article 8 : In the event of the period of validity of a credit not being stipulated in an order to issue or confirm an irrevocable credit, the Bank may advise the beneficiary of the credit for information only, and this implies no responsibility on the part of the Bank doing so. The credit will only be issued or confirmed later when supplementary details on the duration of validity have been received.

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B. Liability

Article 9 : Banks must examine all documents and papers with care so as to ascertain that on their face they appear to be in order.

Article 10 : In documentary credit operations, all parties concerned deal in documents and not in goods. Payment, negotiation or acceptance against documents in accordance with the terms and conditions of a credit by a Bank authorized to do so binds the party giving the authorization to take up the documents and reimburse the Bank making the payment, negotiation or acceptance.

If the documents, on their face , are not as stipulated by the terms and conditions of the credit, the issuing Bank must, upon receipt of the documents, determine, on the basis of the documents alone, whether or not to claim that payment, negotiation or acceptance was not made in accordance with the terms and conditions of the credit.

If such claim is to be made, notice to that effect, stating the reasons therefor, must be given by cable or other expeditious means to the Bank demanding reimbursement and such notice must state that the documents are being held at the disposal of such Bank or are being returned thereto. The Bank shall have a reasonable time to examine the documents.

Article 11 : Banks assume no liability or responsibility for the form, sufficiency, genuineness, falsification or legal effect of any documents or papers, or for the description, quantity, weight, quality, condition, packing, delivery or value of goods represented thereby, or for the general and/or particular conditions stipulated in the documents, or for the good faith or acts of the consigner or any other person whomsoever, or for the solvency, standing, etc. of the carriers or insurers of the goods.

Article 12 : Banks assume no liability or responsibility for the consequences arising out of delay and/or loss in transit of any messages, letters, and/or documents, or for delay, mutilation or other errors in the transmission of cables, telegrams, or other mechanically transmitted message, or for errors in translation or interpretation of technical terms, and Bank reserve the right to transmit credit terms withouth translating them.

Article 13 : Banks assume no liability or responsibility for consequences arising out of the interruption of their business either by a decision of a public authority, or by strikes, lockouts, riots, wars, acts of God or other causes beyond their control. On credits expiring during such interruption of business, Banks will be able to make no settlement after expiration unless specifically authorized.

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__Article 14__ : Banks are authorized to make provision for credits with other Banks, for the account and at the risk of the applicants for the credits.

Banks utilizing the services of another Bank assume no liability or responsibility (unless they themselves are at fault) should the instructions they transmit not be carried out exactly, even if they have themselves taken the initiative in the choice of their correspondent.

The applicants for the credit are responsible to the Banks for all obligations imposed upon the latter by foreign laws and customs.

C. Documents

__Article 15__ : Unless otherwise instructed, Banks consider themselves authorized to honour the coduments which they judge necessary, if presented in a suitable form, viz:

a) In Maritime traffic:
Full set of Sea or Ocean Bills of Lading in negotiable and transferable form;
Transferable Policy or Certificate of Insurance;
Invoice.

b) In Inland traffic:
Full set of Inland Waterway Bills of Lading in negotiable and transferable form, or Inland Waterway Consignment Note, or Railroad Consignment Note, or Counterfoil Waybill, or Railroad Bills of Lading in negotiable and transferable form;
Transferable Policy or Certificate of Insurance;
Invoice.

c) In Postal traffic:
Postal Receipt; or
Certificate of Mailing issued by the Postal Authorities;
Transferable Policy or Certificate of Insurance;
Invoice.

d) In Airway traffic:
Air Mail Receipt or Air Transportation Waybill or;
Air Consignment Note or Receipt;
Transferable Policy or Certificate of Insurance;
Invoice.

Banks have the right to waive insurance papers on proof satisfactory to them that the insurance is covered;

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Article 16 : Except as stated in Article 23, the date of the Bill of Lading, or date indicated on the reception stamp of the Railay or Inland Waterway Bills of Lading or Consignment Notes, Counterfoil Waybills, Postal Receipts, Certificates of Mailing, Air Mail Receipts, Air Transportation Waybills, Consignment Notes or Receipts, Trucking Companies Bills of Lading, or other shipping documents will be taken in each case to be the date of shipment of the goods.

Article 17 : Proof of payment of the freight will be considered sufficient if the words "freight paid" or "freight prepaid" or words of similar import appear by stamp or otherwise on the shipping documents. If the shipping documents contain the words "freight pre-payable" or "freight to be prepaid" or words of similar import, they will not be accepted as constituting evidence of the payment of freight.

Article 18 : Shipping documents bearing reservations as to the apparent good order and condition of the goods and the packaging may be refused.

Clean shipping document is one which bears no superimposed clauses expressly declaring a defective condition of the goods or packaging.

The following should not be considered such reservations: a) clauses which do not expressly state that the goods or packaging are unsatisfactory, e.g. "second-hand Cases," "used drums" etc., b) clauses which emphasize carriers' non-liability for risks arising through the nature of the goods or the packaging; c) clauses which disclaim on the part of the carrier knowledge of contents, weight, measurement, quality, or technical specification of the goods.

Unless otherwise specified in the credit or inconsistent with any of the documents presented under the credit, Banks may honor documents stating that freight or transportation charges are payable on delivery.

Bills of Lading

Article 19 : When Sea or Ocean Bills of Lading are required, the following may be accepted:

a) "Received for shipment", "Alongside", "Shipped" or "On Board" bills of lading.
b) "Port" or "Custody" bills of lading for shipments of cotton from United States of America.
c) "Through Bills of Lading" issued by steamship companies or their agents.

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Regardless of the type of Bills of Lading required by a credit (including "Shipped" or "On Board" Bill of Lading), Bill of Lading which, apart from printed clauses, permit transhipment enroute, may be accepted provided the entire voyage is covered by one and the same Bill of Lading. If expressions such as "direct shipment" "without transhipment" or "transhipment not permitted" are used in credits, Bills of Lading which do not specifically indicate that the merchandise is to be transhiped may be accepted.

<u>Article 20</u> : Bills of Lading issued by forwarding agents will be refused, as also Bills of Lading for shipment by sailing vessels.

Bills of Lading which are issued under and are subject to the conditions of a Charter Party are only accepted under special instructions to that effect.

<u>Article 21</u> : Banks have the right to refuse Bills of Lading mentioning the stowage of goods on deck but may accept such bills of lading when the documents presented include an insurance policy or certificate mentioning that the goods are stowed on deck.

<u>Article 22</u> : When shipment by steamship is required, Banks may consider themselves authorized to accept Bills of Lading for shipment by Motor vessels or vice-versa.

<u>Article 23</u> : When a shipment is stipulated "On Board" the loading on board can be evidenced by means of a notation signed or initialled on behalf of the carrier. If the Bill of Lading is presented after the ultimate shipment date specified in the credit, the said notation must be dated and this date shall be considered as the date of loading on board and shipment.

<u>Article 24</u> : Banks have the right to require that the name of the beneficiary of the credit appears on the Bill of Lading as shipper or endorser.

<u>Railway Bills of Lading, etc.</u>

<u>Article 25</u> : Banks will consider Railway or Inland Waterway Bills of Lading or Consignment Notes, Counterfoil Waybills, Postal Receipts, Airway Bills or Receipts, or Trucking Bills of Lading as regular when they bear the reception stamp of the carrier, or issuer, or when they bear a signature.

<u>Article 26</u> : When an attestation or certificate of weight is required in the case of railway transport, Banks may refer to the indications contained in the shipping documents, on condition that weighing has been duly witnessed by means of a weight stamp or other official means. A weight attestation will only be required on special request.

Article 27 : If, in the case of shipment by rail, by inland waterway, by truck, by air, or by post, the name of the beneficiary does not appear on the transport documents, Banks may require them to be countersigned by him.

Insurance

Article 28 : Policies and Certificates of Insurance issued by companies or their agents and by brokers or by underwriters are acceptable.

Unless otherwise specified, such insurance must be issued in the currency of the credit and Banks may, in their discretion, refuse any Insurance Policies or Certificates presented if they bear a date later than the date of shipment as evidenced by the shipping documents.

Article 29 : The minimum value insures must be the C.I.F. value of the goods as evidenced by the documents tendered, but in no case should it be less than the amount of the drawings under the credit, or than the amount of the commercial invoice if the latter is higher.

Article 30 : Failing instructions as to the risks to be covered or when a credit stipulates that insurance cover "Usual risk" or "Customary risks" or insurance requirements of similar import, Banks may accept insurance documents as tendered without responsibility on their part.

Article 31 : When a credit stipulates "Insurance against all Risks" Banks can in no way be held responsible if any particular risk is not covered.

When a credit provides fr insurance "with particular average" Banks may accept insurance policies or certificates which indicate that such particular average is subject to a franchise unless it is specifically indicated in the credit that the Particular Average Insurance must be issued "irrespective of percentage".

Invoices

Article 32 : Invoices must be made out in the name of the applicant for the credit or in the name of any other person as required in the credit.

Payment of such Invoices may be refused if they have been issued for an amount in excess of the credit amount.

Article 33 : The description of the goods in the Commercial Invoice must correspond with the description in the credit. Wherever the goods are described in the remaining documents, description in general terms will be acceptable.

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Other Documents

Article 34 : When other documents are required such as : Warehous Receipts, Delivery Orders, Consular Invoice, Certificates of Origin, Certificates of Weight, of Quality or of Analysis etc., without further definition, Banks may accept such documents as tendered without responsibility on their part.

D. Interpretation of Terms

Article 35 : The terms "about" "circa" or similar expressions are to be construed as allowing a difference not to exceed 10% more or less applicable according to their place in the instructions, to the amount of the credit or to the quantity or unit price of the goods.

When the credit does not specify quantity in terms of packing units or containers or individual items, a difference of 30% more or less will be allowed on the total quantity specified in the credit, even if the terms of the credit call for a fixed weight or measurement, unless the credit expressly stipulates that the quantity specifies may not be exceeded or reduced.

Partial Shipments

Article 36 : Unless otherwise expressly stipulated, Banks may pay, accept or negotiate for partial shipments, even though the credit mentions the name of vessel and when partial shipment is made by that vessel.

Article 37 : If shipment by instalments within given periods is specified, each instalment shall be treated as a separate transaction. The instalment not shipped within a given period cannot be added to subsequent shipments and is considered as ipso facto cancelled. Banks may, however, pay against documents for subsequent provided they are made within the given periods.

Maturing or Validity

Article 38 : All irrevocable credits must stipulate an expirty date for payment, acceptance or negotiation notwithstanding the indication of a date of shipment.

Article 39 : The words "to" "until" and words of similar import applying to dates of maturity for payment, acceptance, negotiation or shipment are understood to include the date mentioned.

Article 40 : When the stipulated expiry date falls on Sunday or legal or local holiday, or upon any other closing day for the Banks, the last day of the period of validity will be extended until the first following business day. This does not apply to the last day for shipment which must be respected whatever the day.

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Article 41 : The validity of a revocable credit, if no date is specified, will be considered to have expired six months from the date of the notification sent to the beneficiary by the Bank with which the credit is available.

Shipment, Loading or Dispatch

Article 42 : "Prompt" "immediately" "as soon as possible" etc: these terms and others of similar import, are to be interpreted as a request for shipment within thirty days from the notification to the beneficiary, unless a date has been stipulated.

When the words "departure", dispatch, or "loading" are used in Commercial Documentary Credits for the fixation of the latest date for shipment of the goods, and unless specific evidence in respect thereto is required, The Banks will consider these words as synonymous to "shipment" and they may be guided by the date appearing upon the Bills of Lading or other shipping documents.

Presentation

Article 43 : Documents must be presented within a reasonable time after issuance. Paying, negotiating or accepting Banks may refuse documents if in their judgment, they are presented to them with undue delay.

Article 44 : Banks are under no obligation to accept documents outside their banking hours.

Extention

Article 45 : Any extension of the period for shipment shall extend for an equal period the time fixed for presentation or negotiation of documents or drafts, but an extension of a date for presentation or negotiation of documents or drafts shall not extend a time fixed for shipment unless expressly stated.

Date Terms

Article 46: The terms "first half", "second half", of a month shall be construed respectively as from the 1st to the 15th, and the 16th to the last day of each month, inclusive.

Article 47 : The terms "beginning", "middle", or "end" of a month shall be construed respectively as from the 1st to the 10th, the 11th to the 20th, and the 21st to the last day of each month, inclusive.

Article 48 : When a credit is opened by an opening Bank requesting that the credit be advised or confirmed as good "for 1 month", for 6 months", or the like, but the opening Bank has not specified the date from which the time is to run, the advising or confirming Bank may advise or confirm the credit as terminating at the end of the corresponding period from the date of its advice or confirmation.

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E. Transfer

Article 49 : A transferable or assignable credit is a credit in which the paying or negotiating Bank is entitled to pay in whole or in part to a third party or parties on instructions given by the first beneficiary.

A credit can be transferred only on the express authority of the opening Bank and provided that it is expressly designated as "transferable" or "assignable". In such case the credit can be transferred once only (that is to say the third party or parties designated by the first beneficiary are not entitled to retransfer it) and on the terms and conditions specified in the original credit, with the exception of the amount of the credit, of any unit price stated therein, and of the time of validity or of shipping, any or all of which may be reduced or curtailed. In the event of any reduction in amount or unit price, a transferer may be permitted to substitute his own invoices for those of the transferee, for amounts or unit prices greater than those set forth in the transferee's invoices, but not in excess of the original sum stipulated in the credit, and upon such substitution of invoices, the transferer may draw under the credit for the difference between his invoices and the transferee's invoices.

Fractions of a transferable or assignable credit (not exceeding in the aggregate the amount of the entire credit) may be transferred separately provided partial shipments are not excluded, and the aggregate of such transfers will be considered as constituting only one transfer of the entire credit.

Authority to transfer a credit includes authority to transfer it to a beneficiary in another place whether in the same country or not, unless otherwise specified. During the validity of the credit as transferred, payment or negotiation may be made at the place to which the credit has been transferred.

Bank Charges entailed by transfers are payable by the first beneficiary unless otherwise specified.

No transfer shall be binding upon the Bank which is to act thereunder except to the extent and in the manner expressly consented to by such Bank, and until such Bank's charges for transfer are paid.

In the United States, when credits are transferred to a beneficiary in another place whether in the same country or not, the credits may be changed from one requiring payment on or before a certain date to one requiring negotiation on or before that date, and during the validity of the credit as transferred payment or negotiation may be made at the place to which the credit has been transferred.

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Adherence of the United States Banks, which have subscribed to these Regulations, is Effective January 1, 1952.

<u>Note</u>: In the U.S.A. the definitions of Export Quotations, which are now in wide use, are known as the "Revised American Foreign Definitions-1941" Adopted July 30, 1941.

Distributed by

Bankers' Association for Foreign Trade (U.S.A.) and Committee on Foreign Banking, New York, N.Y.

APPENDIX IV

FOREIGN TRADE FINANCE IN LEBANON

Questionnaire

Name of Bank : ______________________

Name of Interviewee : ______________________

Position : ______________________ Date ______________

1961 Capital of Bank ______________________

Any Reserve Ratio? ______________________

Headquarter of Bank : ______________________

Number of branches outside Lebanon and their Location :

I. FINANCE FOR AN IMPORTER

Supposing a new applicant comes to the bank for financing his imports, what is the procedure followed by the bank to grant him the credit?

1. Through what means does the bank gather credit information on the applicant?

2. If satisfactory, are all applicants supposed to fill letters of credit?

   Any exceptions?

   If yes, under what conditions (i.e., what other methods of financing imports):

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Are there different letters of credit for different situations?

If not, is it possible to change the terms appearing on the letter of credit, and if yes, under which conditions?

3. Once the letter of credit is filled, how is the transfer to the exporter's country made?

4. Does the bank insist on extending a documentary credit?

If yes, what are the documents required most?

a. Bill of Lading ____________. To whose order is it preferable to be and in how many copies?

What are its terms? (Any samples?)

b. Marine Insurance __________. Does the bank require to have separate policy for each lot, or accepts floating policy?

What risks does it usually cover?

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Does the bank require the goods to be insured with a particular insurance company, or a group of companies, or is it indifferent?

Which company or companies?

What are its terms, and how are the risks calculated? (Any samples?)

c. Invoices ___________. Should it be certified and if so, by whom?

d. Other documents:

Consular Invoice:

Certificate of Origin:

Others:

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5. Does the number and type of documents vary depending upon the countries of origin?

If yes, what are the major differences?

6. Does the number and type of documents vary depending upon the type of commodity?

If yes, what are the major differences?

7. Does the bank insist on certain terms of payments?

What are they?

What are the most commonly accepted terms of sale: FOB
CIF
C & F
Others

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8. What are the bank's charges:

Margin requirements (down payment):

Interest

If there are different rates depending on type of transactions, what is the range?

Commission

Any other charges

9. Does procedure differ for each of Lebanon's countries of origin for imports? If yes, How?

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10. How are clearances made with Communist countries?

11. Does procedure differ for different commodity groups? e.g. capital versus consumption goods?

If yes, How?

12. Are there any facilities extended to the depositors of a bank as against non-depositors?

If yes, what are they?

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13. Can the bank help its importer in any other way than giving him the credit? (e.g. advice etc.)

If yes, in what ways?

14. In case of default, what are the steps followed by the bank?

15. What are the bank's limits on credit?

What are the basis for such limitations?

../.

II. FINANCE FOR AN EXPORTER

1. What is the procedure used with a bill of exchange financing?

   a. Does the bank require a documentary bill of exchange?

      If yes, what documents are required?

   b. Does the bank buy the bill?

      If yes, what are the bank's charges?

   c. Does the bank discount the bill?

      If yes, what are the bank's charges?

../.

2. Any other methods of financing exports? (e.g. lending or overdraft facilities)

III. Does the bank have clearly set policies in foreign trade financing?

If yes, what are the major ones?

What are the determinants of such policies?

../.

IV. Does the bank offer anything that might make it more attractive than other banks for foreign trade financing?

If yes, what are they?

V. Are there any legal restrictions on the bank's operations in the field of foreign trade finance in Lebanon?

If yes, what are they?

Does the Government interfere in such operations in any way?

If yes, how and under what conditions?

../.

VI. FOREIGN EXCHANGE MARKET

1. Does the bank have any separate unit or department for foreign exchange?

2. Where does the bank get its foreign exchange?

3. How are rates quoted?

   Who can buy at the official rate of exchange of LL2.20 = $ 1.

4. If there is little foreign exchange, and there is an applicant for credit, what is usually done?

../.

5. Does the bank engage in:

   a. Hedging operations?

   b. Arbitrage operations?

   c. Purchase and sale of gold?

   d. Speculative operations?

6. Does the bank have any policy regarding the spread between buying and selling rates? What is it?

7. Is the bank represented or registered in the Bourse?

   If yes, does the bank carry operations of foreign exchange in the Bourse? To what extent?

../.

8. Does the bank consider the \$ 1 = LL 3.01 rate as usual?

What do you expect the rate to be in the future, rise or fall?

Which do you think will be better?

9. What is considered a hard currency today?

If the bank does engage in speculative operations, which currency does it watch – the dollar?

If a difference between the dollar and other currencies arise, does the bank engage in arbitrage operations?

To what extent?

../.

10. What is the role of the Government, in your opinion, in foreign exchange transactions?

Do you think the Stabilization Fund is doing its job?

Does it buy from your bank foreign exchange?

11. Does your bank consider the foreign exchange balances as part of your cash reserves?

How do they affect the bank's safety and liquidity?

../.

12. How do restrictions of any sort in other countries affect payments?

13. What, in your opinion, should be done to increase and stabilize the foreign exchange earnings of Lebanon?

14. Remarks and other points:

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