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THE FREE ZONE OF THE PORT OF BEIRUT
AND
ITS EFFECTS ON THE LEBANESE ECONOMY

By
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A B S T R A C T

Of the several means of transportation - road, sea, air and rail, sea transport is the most important to Lebanon in view of heavy reliance of the Lebanese economy on trade.

The most important effect of the Free Zone of the Beirut Port on trade has been the increase in the volume of transit trade to the neighbouring Arab countries. This has resulted in an increase in the volume of trade and an increase in the national income of the country.

An analysis of the operations of the Free Zone reveals that it is well-equipped with the necessary facilities to undertake manufacturing, warehousing and distribution activities. It has become an international market for all kinds of merchandise, wherefrom foreign customers come and choose the articles they are interested in. Moreover, it provides re-exportation facilities, which in turn encourage businessmen to increase the volume of their imports.

A detailed statistical analysis of the free zone's activities reveals many interesting facts. The volume of

traffic in the free zone has increased till 1958, a year of local civil war. Since then it has never been able to attain its peak of 1957.

The reasons for this decrease are not due to any structural defects in the free zone. It has been mainly due to the political instability in the area, and the competition of the newly established ports in Syria and Jordan. It has also been due to a poor transport system serving the hinterland.

The Government can improve the situation by constructing and improving the rail and road transport system, in cooperation with other Arab States. The transit problem should be regarded as a regional one rather than the one limited by the geographical boundaries of Lebanon.

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INTRODUCTION

Importance

Good means of transport are essential to the development of industry and commerce. If trade is to be conducted on a large scale, cheap and rapid transport facilities are to be available. The availability of such facilities contribute greatly to the welfare of the nation and to its economic prosperity.

In Lebanon, of the several means of transportation - road, sea, air and rail - the sea transport constitutes an important segment of the transport sector due to the importance of the Port of Beirut and its Free Zone. Its geographical position creates many facilities for the importation and exportation of merchandise to and from Lebanon and the Middle Eastern Countries. In dealing with the Beirut Free Zone, we will be analyzing its direct effect on trade through the Port of Beirut and with reference to the Lebanese economy as a whole.

The creation of the free zone has given to the Port of Beirut its traditional role - that of being the "Door to Asia" and a "Bridge to the Orient".

Purpose

The purpose of this thesis is to present an analytical study of the free zone and the factors which contributed to its growth and development. An analysis is made of the present operations of the free zone and its day to day performances.

It also aims in finding out the contributions the free zone gives to the local trade, Middle East transit, and to the Lebanese economy.

Methodology

The method of study has been both book and field research: a combination of first- and second-hand information. In this thesis, the writer has depended for basic information mainly on the interviews of eminent and top ranked persons, both in the Port Company and the Free Zone. Other complementary information has been secured from articles, books, customs and some other published materials, as listed in the bibliography.

Organization

This thesis is organized as follows:

First, the definition of a free zone and a free port and some of their characteristics, advantages and a brief description of the world's free zones.

Second, the origin and development of the Beirut Free Zone: the factors which led to the establishment of the free zone and some main constitutional texts.

Third, actual state of the free zone, installations, tariffs, rules which regulate its daily operations.

Fourth, statistical presentation of Free Zone's activities and its effect on the Lebanese economy; mainly the effect on transit, manufacturers, businessmen, employment and income.

Fifth, the problems faced by the Free Zone and recommendations for the improvement of its activities.

Sixth, summary and conclusions.

A number of difficulties have been encountered while preparing this study. Most of the information has been gathered from interviews, articles and magazines. This is especially due to the fact that there is limited factual data published on this subject.

Another limitation has been the gathering of the necessary statistics. Many of the published statistics are either incomplete or too general, to be pertinent. It is hoped that this initial study will be a departure point for further studies of this important subject.

C H A P T E R I

FREE ZONES

In this Chapter we will attempt to define a free zone and a free port and trace their historical developments.

Thus, this Chapter is divided into four major parts. Part One gives various definitions and explanations of a free zone and a free port. The Second Part presents their most important commercial and administrative advantages. This is followed by a short display of their historical developments. The Last Part gives a description of the world's most important free zones and ports located in German Federal Republic, Scandinavia and the United States of America.

A. Definition of a Free Zone and a Free Port

The two terms, free zone and free port, are not identical. Though they have in many ways almost the same functions, they are different in their concepts.

Free Zone

A free zone is defined as: "A zone within a harbor where goods may be admitted temporarily without being subject to customs inspections, or import duty, pending reshipment to other ports, or pending later admission to the hinterland, at which time, the customs authorities exercise their powers."¹ "Even commercial and manufacturing processes are carried on in some free zones in which case duties may become payable on the raw material imported."²

Another definition more detailed than the first is given by the United States Tariff Commission as follows:

"A free zone may be defined as an isolated inclosed and policed area in or adjacent to a port of entry, without population, furnished with the necessary facilities for lading and unloading, for supplying fuel and ship's stores, for storing goods and for reshipping them by land and water; an area within

¹ "Free Zone", The Encyclopedia Americana, Vol. XII, (American Corporation, N.Y., 1959), p. 436.

² Ibid.

which goods may be landed, stored, mixed, blended, repacked, manufactured and reshiped without payment of duties and without the intervention of customs officials. It is subject equally with adjacent regions to all laws relating to public health, vessel inspection, postal service, labor conditions, immigration and indeed every thing except the Customs."³

According to this definition the modern free zone is an area of a port separated from the Customs by a wall, fence or stockade. The goods may be handled, manufactured, and reshiped without any custom taxes, supervision or intervention. Moreover, all the port facilities are present in the free zone as, for instance, the storage of goods, warehousing facilities, transport facilities within their zone, supplying the water and fuel and sometimes repair requirements for ships.

A free zone is subject to all the usual laws concerning the mother country, except, of course, customs duties.

Though the Customs do not interfere within the free zone, the area is within the jurisdiction of customs authorities. It is free only with respect to the application of the customs formalities. Whenever a violation of the law takes place, the customs authorities have jurisdiction.

³ United States Tariff Commission, Information Concerning Free Zones in Ports of the United States, (Washington, G.P.O., 1959), p. 8.

The free zone accepts all the legally admissible merchandise from all nations with a minimum of customs procedures. All customs inquiry occurs at the surrounding wall of the free zone but never within.

Extensive retail trade is not permitted, nor on the spot consumption; however, exhibitions of merchandise are possible. No residents are ever allowed in the free zone. Only watchmen can have temporary quarters.

As far as the ownership and management is concerned it should be managed either by the government or by a company controlled by the local government.

Free Port

A free port is defined as: "It is merely a harbour where goods may be transhipped without being subject to usual Customs duties inspection or embargo, and where commercial and manufacturing processes are sometimes also permitted."⁴

It can be said in general that the common free port has the same functions of the free zone we have previously defined as far as regulations and rules are concerned. The free zone,

⁴ "Free Port", Colliers Encyclopedia, Vol. 8, (P. F. Collier & Son Corporation, N. Y., 1959), p. 415.

however, constitutes a part within a harbour. It may be one building as well as more than half of the port area; whereas the free port constitutes the whole harbour area, the whole port.⁵

The definition given above of the free port concerns the common type of free port, the one which is incorporated into a highly industrialized nation having a good protective tariff system. The primary purpose of a free port situated in an industrialized nation is to facilitate consignment and trans-shipment trade. It is a system designed to remove from a port, the hindrances caused by high tariffs and complex customs regulations.

There are, however, two other kinds of free ports. The free port form of overseas possessions and the free port form of independent nations.

The function of the free port of the overseas possessions may be defined as "accumulating foreign merchandise for home consumption, for redistribution and for ships provisions, and of marketing home produced merchandise."⁶

⁵ More detailed explanations will be given later in the Chapter according to the different understanding of each country.

⁶ Richard Thoman, Free Ports and Foreign Trade Zones, (Cornell Maritime Press, Cambridge, 1956), p. 10.

They are, in other words, primarily points of trans-shipment. Legally, however, they are "colonies occupying rather small areas and characterized by import tariffs on only a few commodities such as liquor, tobacco, and gasoline. Under such conditions the entire colony becomes a potential free port form."⁷

The primary condition of success for such a free port form is its location. It should be backed by a potentially large hinterland consumption or otherwise be on a crossroad of a world-wide trade routes. The best examples are the free ports of Hong Kong and Singapore.

The independent nations free port is different from the first one in that it provides commercial liaison service and trade to a hinterland without any access to the sea. It might as well provide all conveniences so that foreign firms may invest and locate their plants in the country. The best examples are the free ports of Liberia and Monrovia.

In the ancient times, the antecedent of the free port was a free city, which was an entire urban area and usually the immediate neighbourhood. In the sixteenth century, many free cities were flourishing in Europe.

⁷Ibid.

"In Germany, the towns which had since the tenth century been growing in importance, largely because of their advantageous locations as centers of commerce and manufacture, gradually acquired an increasing measure of independence ... They assisted the conquerors in fighting the power of the feudal oligarchy and in return they were granted privileges and exemptions not accorded to other cities of the empire."⁸

Today the closest resemblance to the old free cities are the cities of Hong Kong and Singapore (British Colonies).

B. Commercial and Administrative Advantages

In this section we will not any more be differentiating between a free zone and a free port. We will always be using the term 'Free Zone' for the general concept unless specified to the contrary.

Most of the free zones are merchandise concentration points and centers of international redistribution. What is imported home is a relatively small share of the port traffic. Ports like Hamburg re-export most of their imported merchandise

⁸"Free City", Colliers Encyclopedia, Vol. 20, op. cit. p. 409.

and most of these re-exports undergo some manipulation and warehousing. These large ports become with time more destined to be international warehouse centers specialized in such and such brands and products than being just a national port for the home consumption imports or exports.

"A free zone enables the re-export of such merchandise with a minimum of customs procedure. Such re-export transshipment has been the major historical reason for the existence of various free zone forms. In some cases the transshipment has been direct from one medium of transportation to another, but more often a period of warehousing intervenes."⁹

Many times some goods are imported to the host country by the means of the free zone. Before it is imported and brought to the customs, sorting and manipulation and many a time some manufacturing is done. Thus, there are many advantages for the importer, who may import the goods to the free zone, leave them there till it is most convenient for him to import them formally through the customs. Many times he will be obliged to wait for a new quota period on certain merchandises which may be restricted as to volume of imports.

⁹Thoman, op. cit., p. 9.

In most of the free zones warehouse receipts are issued for the merchandise and which the importer can use in obtaining credit, thus avoiding the freezing of his capital.

The objectives in creating a free zone are not always the same. In Colon (Panama) for instance, when the scheme was put in motion in 1950 much emphasis was placed on the values to be obtained through encouraging the manufacture of commodities as well as amplifying the transit trade. Thus an area was deliberately set aside as a free zone industrial area and a number of industries have been established since then.¹⁰

Goods are always in search for ports where they will be liquidated the quickest possible way. So the free zone which is ready to welcome these goods in franchise and with the cheapest possible handling and warehousing will be an international market and an economic attraction center.¹¹

All the formalities required in the free zone for imported and re-exported merchandise are by far quicker and more economical than the ones required for goods destined to local consumption. The main difference being that the free zone merchandise is not

¹⁰ "Free Zone", Colliers Encyclopedia, op. cit., p. 415.

¹¹ In Chapters III and IV a detailed study of free zone's advantages and effects to businessmen, manufacturers and other institutions will be presented.

opened by the Customs when checked.

In spite of the fact that the formalities look in general to be the same for the free zone and the port, they are in reality more difficult and time-consuming for the goods destined to be locally consumed and enters the normal Customs warehouses.

Such procedures are time-consuming and modern vessels constitute a large capital to be immobilized for such a long period of time, just for routine formalities.

These procedures, though inconvenient for foreign trade, are nevertheless very important and necessary for a country which has a strong fiscal customs regime. If ever they are to be reduced, the customs will not have the sufficient guarantees.

The problem would be solved by creating a free zone next to the general port system and the above mentioned kind of trade would be granted all the required and necessary facilities.

C. Historical Development of Free Ports and Free Zones

Though their structure is simple, free ports and zones had varied antecedents. We have to go as far as Tyr and Carthage to find the old version of the free port. Indeed both of these cities depended for livelihood upon commerce with the other cities which they controlled as well as colonies in Sardinia.

Being surrounded by unfriendly and hostile people, their basic communications and commerce was maintained specially via the sea which was closely regulated.

"Carthage, for instance, gave to some important foreign merchants the right to trade with its ports only, and prohibited them the access to all others. Thus Carthage controlling some three hundred cities and colonies, became a center for trans-shipment."¹² The foreign merchants made the trade with Carthage and it reserved for itself the right to trade with the other satellite cities. So Carthage was a free city, meaning that foreign traders were granted a freedom to deal with Carthage, but were strictly forbidden to perform any service with any other port.

In the Middle Ages the free city and port device was somewhat developed specially in the rebirth of the very active trade which was stimulated by the Crusaders, flourishing trade from Europe to Levant where the free ports were very important tools. One interesting feature of that time is that the customs entry was abolished in some of them since that ancient time.

As far as the free zone is concerned, it had to wait till the sixteenth century, when a forerunner of the modern

¹²Thoman, op. cit., p. 12.

free zone was established in Genoa. Only a small section of the port was reserved to be a free zone. It was all fenced, and within were warehouses to store foreign goods. Some port facilities were also included.

"Britain in transition from a policy of strictly controlled trade to that of free trade did not require a free port for the very large transshipment reconsignment commerce that was developing in London, Liverpool, Bristol and Glasgow. In the Empire, however, free port firms designed either for exchange of merchandise with outlying areas or for ships chandlery were set up in Hong Kong, Singapore, Colombo, Aden, Malta and other
13
outliers."

In Germany the Zollverein movement began just at the time when Hamburg, Bremen and Luebeck were finally set as free cities. The movement aimed to unite all the Germanic states into a Common Customs Union. However, on joining, Hamburg agreed to reduce the customs free area from the entire city states to an isolated and fenced zone that encouraged all existing port facilities. The zone termed a "free port" (freihafen) was exempt from customs jurisdiction of the Union. "It enjoyed essentially unrestricted freedom of import, export, transit,

¹³Ibid., p. 16.

warehousing, ship's provision, manipulation, sorting and even of manufacturing. Intensive retail trade and private residences were prohibited... Management of the zone was in the hands of Hamburg officials."¹⁴

Hamburg free port is very important not only because it is the predominant port of the German Republic, but also because later on almost all the free ports were copied from it.

In the second half of the 19th century, the free zone as well as the free port form was accepted more widely than before. Hamburg, Bremen and Cuxhaven adopted finally the free port form in Germany and Copenhagen had a well established free zone in Denmark.

After the World War I, and the defeat of the Germans, Scandinavia wanted to attract to her ports too, the European transshipment and trade and to compete with the German ports. In Sweden new free ports came into existence. Stockholm in 1919, Malmö and Göteborg in 1922.

It can be seen that the free zone and free port forms developed from the free city with the developing pattern of a solid nation. This change in Europe from small states to strong nations gave every large port the chance to service a wide and

¹⁴Ibid., p. 18.

needy hinterland. This is the main reason why the free city became an outmoded device.

Having analyzed the historical development of the modern free port and free zone, let us now describe very briefly some of the most important free ports and zones of the world; the main reason for this is that there are different functions, definitions and understandings given by each country to these ports and zones.¹⁵ We will first deal with the German Federal Republic, followed by Scandinavia and the United States.

D. Description of the World Free Zones

Most important free zones lie in Europe¹⁶ and the United States. However, we will discuss in detail those of the German Federal Republic, Scandinavia and the United States.

1. German Federal Republic

In the German Customs Law, there is a clear distinction between the definition of "free ports" and "free zones".

a. Free Ports

"Free Ports are seaports or parts of seaports situated

¹⁵ It is believed that this Chapter will be incomplete if we confine ourselves to general definitions only, given in the first section of the present Chapter.

¹⁶ A complete list of Europe's less important free zones with their administrative and operational description is given in Appendix I.

within the territory of the Federal Republic but excluded from the Customs territory and, consequently, outside the Customs boundary.¹⁷ It can be seen that there can be no duty payment in respect of foreign goods in free ports.

Such ports in Germany are those of Bremen, Bremerhaven, Cuxhaven, Emden, Hamburg, and Kiel. These free ports may be classified as follows:

- (i) free ports derived from the ancient city;
- (ii) those added after the Customs Union Agreements in order to attract some re-export and transshipment.

(i) The Free City Derivatives: The free ports of Hamburg, Bremen, Cuxhaven, and Bremerhaven are the remnants of former city states.

"In face of competition with other major European seaports, despite their comparatively recent participation in two un-successful world wars and a major depression, they stand today among the leading seaports of Europe and the world. Hamburg with much of its hinterland sliced away by the Iron Curtain, yet remains the leading seaport of the German Federal Republic."¹⁸

¹⁷ Customs Co-operation Council, A Document on the Enquiry on Free Ports and Free Zones in Europe, (Brussels, January 1963), p. 14. (Please note that Section D of the present Chapter has been mainly adapted from the above-mentioned pamphlet.)

¹⁸ Thoman, op. cit., p. 25.

The free port position of each port grew and prospected quickly and gained new grounds. New functions were done aside from transshipment trade, such as manufacturing and warehousing of commodities which were not transshipped directly. The main assets of such free ports are in the warehousing of foreign goods whose owners do not know yet where to send them next. It is a highly diversified and remunerative commerce.

(ii) Free Ports after the Customs Union: Several free ports were settled after the Customs Union movement. They were instituted to meet the re-export trade. The major ones are Emden in 1901 and Kiel in 1922.

Administration and Operation

The purpose of these ports is to allow the movement of foreign goods to proceed without the levying of Customs duties and without special Customs formalities. The operations allowed in these ports are:

- (1) there is no clearance operations for the importation of foreign goods into the ports or for the exportation of goods. There is a clearance operation only if the goods are to be imported into the Customs territory.
- (2) subject to regulations (such as police regulations), goods may be loaded, unloaded, transshipped, ware-

housed, repacked, decanted, divided or sorted. Re-packing, decanting, dividing and sorting are forbidden when they would be advantageous from the point of view of Customs duties.

- (3) Goods may be destroyed or transformed, under Customs supervision, into non-dutiable goods or goods subject to a lower Customs duty.
- (4) Ships may be built, repaired, or equipped without any restriction.
- (5) Some industrial undertakings may be permitted.

Being a free port does not mean that no Customs regulations apply to them. There are several customs restrictions and prohibitions, to prevent any improper use of the free ports. Examples are:

- No constructions of any kind is allowed to be built, transformed or used for other purposes, except with the approval of the main Customs Office.
- Real estate and buildings may only be ceded by written contract and subject to the approval of the main Customs Office.
- No continual consumption and use of uncleared or exempted goods, or of goods on which import duty has been repaid, are allowed except when such use is authorised in the Customs territory outside the free ports. Excep-

tions to this rule exist for historical reasons in the old free port of Hamburg.

- It is also forbidden to buy or sell goods by hawking, to solicit orders, and to sell or buy small quantities of goods against payment or free of charge.
- Only persons with authorisation by the main Customs Office are allowed to live there. Moreover, persons not offering adequate Revenue security are not even allowed by the Customs Office, to reside in, work, or even enter a free port. This rule applies especially to persons who have been convicted of fiscal offences, breach of the exchange regulations or violation of property. No sort of manufacturing, warehousing or trading in goods is allowed in private dwellings.
- The Customs supervises all sorts of undertakings - such as warehousing, preparing or transforming goods, or trading in goods - by persons who are also required to keep records of the entry, exit, and origin of the goods in order that the stock may be verified at any time.

Observation of all such restrictions is enforced by the frontier watch service.

Finally, no free port can be created or closed down except with a Federal Law.

b. Free Zones

'Free Zones' are taken to be buildings or parts of buildings situated in the Customs territory and intended for the warehousing of goods (including treatment during warehousing). Free zones in Germany are the ones at Kiel and Lubeck.

Administration and Operation

These zones are under Customs key and are part of the public bonded warehouses. However, they are distinguished from other public warehouses by the fact that: (a) management is not by the Customs Administration but always by a third person operating on his own account; (b) declaration and clearance of goods are necessary only when needed to liquidate accompanying Customs documents resulting from a previous Customs operation; and (c) the Customs Office responsible for the supervision of a free zone does not keep records of the goods which enter the free zone.

Free zones are, also, subject to certain regulations. First, the administration of a free zone may only cede the premises of the free zone by written contract and with the approval of the main Customs Office. Second, only those goods destined for home consumption in the Customs territory may be consumed or used in the free zone, and which have not benefited from exemption or repayment of Customs duties. Third, just like in the case of

free ports, any person who is unable to offer adequate Revenue security may be forbidden by the main Customs Office to carry on any occupation in or to enter a free zone. Fourth, the warehouse-keeper is required to keep special records of the goods. Fifth, the main Customs Office may fix minimum quantities for all deposits in and withdrawals from a warehouse. Sixth, the treatment to which goods may be subjected during warehousing (repacking, decanting, dividing, sorting or others to protect goods from deterioration) may be carried out without special declaration and customs supervision. Moreover, there is no need for a declaration if goods are directly exported from the free zone; but the Customs Office supervises the exportation. Seventh, only persons having a permit by Customs Office may trade in ship's stores within the free zone; they are required to keep proper trading accounts and offer adequate Revenue security. Finally, the Administration of the free zone, when required to do so by the main Customs Office, must make available for Customs officers, free of charge, suitable premises which it must equip, maintain, clean, light and heat.

The Federal Minister of Finance has the power to create and close down free zones.

Thus, in comparison with free ports, free zones are advantageous to the Customs Administration in that they call for less staff, since they consist only of buildings which have to be supervised by the Customs during opening hours only. On the other hand, Customs security is less complete than in other Customs warehouses. Free zones are only authorized in seaports and on the condition that the creation of a free port would not be suitable while the provision of other Customs warehouses would not be adequate having regard to the traffic.

2. Scandinavian Countries

In general, it can be said that the free ports and zones, of Scandinavia are the blueprints of those in Germany.

a. Free Zones in Denmark

There is only one free zone in Denmark and that is the one in the free port of Copenhagen called 'Københavens Frihavn'. It is one of the oldest in Northern Europe operating since 1891, when it was established under a special Act, to be operated under a Concession assigned to a joint-stock-company (the Copenhagen free port company Ltd.). As regards Customs and Excise duties Copenhagen free port is regarded as a foreign country; as a result, both goods produced in the free port area and goods imported therefrom are subject to the provisions of the Customs tariff for the time being in force.

Administration and Operations

The operation of the free port is subject to the Government control measures with respect to the territory and its boundaries. Access to the free port, from both land and sea is under constant supervision by Customs Officers.

The Free Port Company can discharge and store the following goods in warehouses without the intervention of the Customs authorities: spirits, wine, tobacco, goods, playing cards, jewellery and goldsmith's and silversmith's wares. Storage in private warehouses may take place only with special permission and in special premises approved by the Customs authorities. All other goods may also be freely stored but the Customs Officers ensure that the permits required to import such goods have been obtained.

To control the observance of such provisions, a special control of stocks of goods has been established. This control service undertakes periodical inspection of private owners' stocks and their books, accounts, etc..

A special Export Control has been established to inspect export documents and goods before loading is permitted.

There is also a special Currency Control which is a result of the exchange control regulations. Its task is to ensure that goods stored in private warehouses are covered by prior permission from the exchange control authorities for the purchase.

As for the establishment of industrial concerns and retail businesses in the free port, permission from the Ministry of Public Works is required.

b. Free Ports of Sweden

Sweden has three small free ports: Stockholm, Malmo and Gothenburg.

In Sweden, a free port is defined as an institution for common use in connection with commercial and industrial activities and under Customs supervision. It consists of an area within given boundaries, including a harbour with neighbouring grounds and adequately separated from its neighbourhood.

Stockholm Free Port: Chief Baltic sea outlet, it occupies a predominant and an important position. "It is under the direct management of the Free Port Company, whose stocks are owned almost entirely by the City of Stockholm. The share of the free port to the port total commerce has gradually increased from 6 per cent in 1927 to 9 per cent in 1936 to nearly 11 per cent now." ¹⁹ The proportionate increase has been almost wholly in exports abroad.

¹⁹ Ibid., p. 103.

Goteborg Free Port: Located on the West coast, it is about 250 miles southeast of Stockholm.

The free port is located at the upstream terminus of deep water navigation. It is one of the deepest and longest of all port basins. Manufacturing is allowed and from the administrative point of view, like the one of Stockholm, it is administered by the Goteborg Free Port Company shares of which are owned by the city of Goteborg.

Malmö Free Port: Located on Sweden's West coast, it is one of the deepest, largest and most completely equipped free port having a depth of 30 feet.

Like those of the German Federal Republic, the free ports of Sweden have a primary function of warehousing for a limited number of high tariff commodities which in the main are to be imported to the host nation. Manufacturing and manipulation also are permitted.

Administration and Operation:

Goods arriving from abroad at a Swedish free port will normally not be subject to Customs control, until such time as they are to be forwarded in transit or entered into the country for home consumption; exception to this rule are the intoxicating liquors and tobacco goods.

There is a Customs service operating within the free ports. Permission for establishing business premises, workshops, or factories for the industrial transformation of goods within the free ports may be granted subject to the condition that no retail trade is allowed within a free port.

Permission to establish and run a free port is granted to the community where the free port is to be situated or to a limited liability company, founded for this particular purpose.

3. The Foreign Trade Zones of the United States

There are today in the United States seven permits of free zones.

- The city of New York has been granted the first permit since 1937 and has been called Foreign Trade Zone No. 1.
- The city of Mobile, Alabama followed and had a permit in 1937; however, its operation was discontinued later on and the permit revoked in 1939.
- The third permit was granted to the port of New Orleans where Foreign Trade Zone No. 2 began operations in 1947.
- San Francisco Port had the fourth permit and it is known under the title of Foreign Trade Zone No. 3. Operations began in 1948.

- The port of Los Angeles followed and had the fifth permit in 1949. It is called the Foreign Trade Zone No. 4.
- The sixth permit was granted to the port of Seattle and so the Foreign Trade Zone No. 5 began operations in 1950.
- The last permit was given to the City of San-Antonio, Texas. Operations began in 1950 under the name of Foreign Trade Zone No. 6. It was closed in 1953 and its permit is not yet revoked.

Day to day operations are much alike the European free zones. "Foreign and domestic merchandise of every description, except such as is prohibited by law, may, without being subject to the customs laws of the United States be brought into a zone, and may be stored, sold, exhibited, broken up, repacked, assembled, distributed, stored, graded, cleaned, mixed with foreign or domestic merchandise, or otherwise manipulated, or be manufactured, and be exported, destroyed or sent into customs territory of the United States therefrom, in the original package or otherwise."

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The management of the U. S. foreign trade zones can be in the hand of private or public companies; however, "in granting

²⁰ Foreign Trade Zones Act, Public Law 397, 73rd Congress, approved June 18, 1934; amended by Public Law 566, 81st Congress, approved June 17, 1950. Sec. 3.

applications, preference shall be given to public corporations."²¹

This initial foreign trade zone of 1934 remains till now in application having been amended in 1950. In general, the U. S. legislation is very similar to the Northern Europe one. New zones may be created without any further Acts of Congress, since the 1934 Act is concerned with the concept of a zone and not with a specific one.

Among the U. S. Foreign Trade Zones, the largest is the one in New York. Most of the rest are either single or groups of warehouses. The Mobile Alabama and San-Antonio zones have closed and the zone of Los Angeles, in most likelihood, will close in the near future.

The only foreign trade zones which are operating at a substantial profit are those of New York and New Orleans.

We may conclude this Chapter by pointing out the fact that the institution of a free zone and a free port provides many advantages - both administrative and commercial, such as customs procedure, re-exports, transshipment, manufacturing, conserving, selling and warehousing - to foreign trade dealers.

²¹Ibid., Sec. 1, Subsection (c).

As can be noted from our survey of the most important free zones and ports in the world, they further and encourage the growth of trade and industry. This in turn helps increase the national income of the country and provides employment to many otherwise unemployed people. It also gives an international fame to the country and consequently allows it to have international dealings.

Having all these in mind, we will proceed in our next Chapter, with a historical survey and description of the Free Zone of Beirut, which has also proved to be essential to the Lebanese economy and which has helped the growth of trade -
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the most important source of National Income of Lebanon.

²²The trade sector contributes about 28%, which is the largest, to the National Income of Lebanon. Of this over 40% comes from imports, and less than 2% from exports. Thus, the importance of foreign trade to the Lebanese economy can be seen. (See, for example, Albert Y. Badre, "The National Income of Lebanon", Middle East Economic Papers, 1956, Beirut, p. 21.

CHAPTER II

THE FREE ZONE OF THE BEIRUT PORT

The present Chapter is devoted to a discussion of the historical background and actual state of the Beirut Free Zone.

Three sets of factors will be examined: first, the factors which led to its establishment; second, its geographical and functional growth; and third, its present facilities.

A. Factors Leading to the Establishment
of the Free Zone

One of the major factors was the international crisis of 1931-1932 which affected Lebanon adversely, causing heavy economic loss.

Low salaries accompanied by strong unemployment made life very difficult for most of the population. There were many bankruptcies in business, low profits and a decrease in the regional transit trade.

Another major factor which was of great importance in the decline of the Lebanese economy was the division of the Ottoman Empire. "One of the consequences of this division was the establishment of customs frontiers in between Lebano-Syria on the one hand and between each of the following countries on the other hand: Palestine, Turkey, and Irak. This was the reason of the constant regression in the economic role of the Beirut port."¹

Before the division of the Ottoman Empire, the Beirut port was almost the only port of Syria, Lebanon, Palestine, and the Arab Peninsula. More than two-thirds of the

¹ Le Commerce du Levant (Bi-Weekly Issue), (Beirut: February 11, 1933). Letter addressed to the 'Haut Commissaire', Ambassadeur Mr. Pousot by the President of the Lebanese Chamber of Commerce, Mr. Omar Bey Daouk.

port imports were destined to the neighbouring countries: Damascus, Aleppo, Diarbeki, Mosul, Deir el-Zor, Jerusalem, Mount Lebanon and Peninsula. Only one-third of the imports were to be consumed in Lebanon.

"The transit trade which was one of the most important sources of income was declining yearly. In 1933 it was only one-fourth of what it was in 1913."²

Every body was aware of the situation and tried hard to make it better. The Lebanese economic press was publishing many articles advising the local government on different means and ways to be applied to ease the situation.³ One of the ways suggested by the Lebanese Businessmen Association was the institution of a free zone in Beirut.

The whole idea was centered on the fact that Beirut being the most important port in the area, it could provide trading facilities for the whole geographic region.

"Its importance and mostly its position are far away better than those of Cairo, Istanbul and Tangier ... The Capital of Lebanon is not only the Middle East Center of big American firms but also the Center of many other

² Ibid.

³ Such as commercial agreements with foreign countries; establishment of more warehouses and stores in the port, etc...

countries' firms."⁴

This was, in fact, very true, since liners could direct their cargo towards a port which was situated more favourably than many other ports of different nationalities, and where a center of re-exportation could develop.

However, it is known that one of the essential conditions for the development of such a re-exportation center is to have the minimum possible of formalities and expenses. These two factors can be insured only with the existence of a free zone.

Nevertheless, the most important factor which has quickened the establishment of the Beirut Zone has been definitely the establishment and the threatening competition of the port of Haifa.

The port of Beirut has always been the leading port in the Arab states. It had a considerable advance over the port of Haifa, which was unimportant at that time. However, in 1921 Haifa's big port construction project was under study. In 1923 the project was decided and work was begun. The port construction was over in 1933.

⁴L'Economie Libanaise et Arabe, No. 55 (Beirut: May 1957), p. 10.

The alarm was given. Beirut authorities were strongly afraid of the potential competition which could be expected from Haifa, being only 150 kilometers distant from Beirut, equipped with the most modern installations and connected by rail with Egypt, Jordan, Syria and the different cities of Palestine.

Moreover, the construction of the railway between Haifa and Baghdad was decided and final installations were expected to be over before 1936.⁵

One important innovation of the port of Haifa was that many warehouses and docks were within a fence and goods were not taxed unless they were out of this fenced area. It was the first stage in the establishment of a free zone.⁶

The competition of Haifa port added to the development of the other Mediterranean ports as Tripoli (with its airport and oil port), Latakiah and Alexandretta, and was expected to accentuate the relative economic regression of the port of Beirut. It was well understood that the port of Haifa was in a strong competitive position with the port of Beirut.⁷

⁵Le Commerce du Levant (Bi-Weekly Issue), (Beirut: June 10, 1933), p. 2.

⁶Raoul Colonna de Lega, La Zone Franche du Port de Beyrouth, (Beyrouth, January 1957), p. 23.

⁷Le Commerce du Levant (Bi-Weekly Issue), (Beirut: June 10, 1933), p. 3.

Haifa, being modern, bigger, and of much larger potentialities was able to monopolise the transit trade to the hinterland and specially to countries without a Mediterranean port.

The first official step was done in 1933 by the President of the Lebanese Chamber of Commerce, Omar Bey Daouk, who clearly expressed the situation to the "Haut Commissaire, Ambassadeur de France au Levant" stating among many other factors, that the development of the transdesertique traffic has increased during the last few years. In fact, transit between Irak and Persia had increased in volume and value. He stated: "So both of these countries are studying a way of having access to the Mediterranean. Thus our port is mostly designed to be theirs if ever we can give what our competitors are offering them."⁸ He meant, of course, the institution of a free zone in the port of Beirut, which would be used by Irak and Persia to stock and transit all of their imported and exported merchandise and hence to direct the trade of both of these countries.

The "Commerce du Levant" of that year commented on the issue, stating that "Lebanon and Palestine are fighting

⁸ Le Commerce du Levant (Bi-Weekly Issue), (Beirut: February 11, 1932), p. 1. Letter of Mr. Omar Bey Daouk to Mr. H. Pousot, "Haut Commissaire, Ambassadeur de France au Levant".

with energy and perseverance for the Irakian and the Persian traffic. The question is of a primary importance and fully justify the efforts of the two countries ... It is no more no less the answer to the Suez Canal. Some lightened spirits consider even that the attraction of this new India Route is more important than the Suez Canal itself."⁹

Many important personalities as well as the port company - which, more than any body else, was afraid to lose its competitive position - were interested in the question. After many discussions, it was decided to establish the free zone. It was considered to be the indispensable solution to the Lebanese economic regression of that time. "We will by any means stop the decline of our port trade and give it a new impulse in opening to our dealers a new field of action. It (Free Zone) is the condition of success; it is the only possibility to give to our city a new era of economical and commercial prosperity."¹⁰

On the 28th of June 1933, the Act No. 91-IR was signed which regulated the general regime of the free zone in countries under the French Mandate.¹¹

⁹ Le Commerce du Levant (Bi-Weekly Issue), (Beirut: July 1, 1933), p. 2.

¹⁰ Le Commerce du Levant (Bi-Weekly Issue), (Beirut: February 11, 1932), p. 1.

¹¹ Colonna de Lega, op. cit., p. 214.

As was anticipated by the economic press of that period, the institution of a free zone has had beneficial effects on the Lebanese economy.

First of all, new services have been produced in the free zone, as brokerage, insurance, chandlery and port taxes, which have contributed to the increase in the national income of the country.

Another help to the Lebanese economy has come from the fact that the free zone has created some employment which has helped to increase the per capita income.

Still another consequence of the establishment of the free zone has been the fact that it has attracted many ships, which have found chandlery and servicing facilities at low costs, as well as cargo (for their way back) which is constituted by the re-exported merchandise. Thus transportation tariffs from and to Beirut tend to be reduced.

At last, the exports of the Lebanese products have been encouraged because of the manipulation and mixing of the local products with the foreign ones and the re-exportation of such mixed products abroad.

B. Growth of the Free Zone

After the authorization of the free zone at the end of 1933, the opening was celebrated one month later, at the end of January 1934.

The utility of the free zone at that time was not immediately understood. Few were those who even appreciated its value. Time had to be given for the acquisition of new habits. In fact, the whole period in between 1934 and 1939 was an adaptation period for the new institution.

The area of the free zone was 8,300 square meters within which were covered and uncovered warehouses, where businessmen were able to stock their merchandises and to manipulate them. Out of the 8,300 square meters, 3,750 square meters were bare lands and stores to be rented to businessmen.¹²

Installations were added more and more every year; new warehouses were constructed, more than 150 automatic fire extinguishers were installed and at last new lands were leased on long term to be rented to businessmen.

¹²Ibid., p. 55.

In 1937, the free zone was satisfactorily and steadily developed. Traffic was increasing continuously and constantly.¹³ In 1938, more warehouses were edified and new land was leased. However, this development was to be completely interrupted by the war, with the result that traffic decreased very rapidly till the end of the crisis in 1945. After this poor period of low business activities and economic life, the free zone trade started prospering again.

In 1946, more lands were added and the area of the free zone was increased to 26,200 square meters instead of the 8,200 square meters in 1934. It was in this year that the free zone got its first industrial outfits: the dry vegetable and cereal processing firm began its operations. A huge rugs warehouse was installed.¹⁴ It was later on at the end of 1947 that the rugs warehouse was divided into individual stores and rented to the most important carpet dealers in the Middle East.

In 1948 the total area was increased once more from 26,200 square meters in 1946 to 31,400 square meters in 1948. Rentees of bare lands had the right to build on their lots at their own expenses, whatever they wanted as small warehouses,

¹³Ibid., p. 56.

¹⁴Ibid., p. 57.

stores, repair or mechanical outfits.

The free zone traffic began to increase rapidly owing to the combined efforts of the port company and of the Lebanese businessmen. The volume of traffic in 1949 was 139,076 tons as compared to the 97,010 tons in 1948, which represent an increase of 42 per cent in one year.¹⁵ The total number of the rented land parcels was 58 out of which 12 were newly registered in 1949. All the manufacturing and conditioning firms were working profitably - dry vegetables, gut and pharmaceutical conditioning firms were very prosperous as well as the tobacco and the carpet warehouses.

Free zone transportation means were highly improved in 1950. Prior to that year, only the Lot No. 1 and No. 2 were reserved by two roads of 10 and 15 meters wide. In 1950 a 25 meters wide avenue was opened in the Lots No. 3 and No. 4 and a 15 meters wide one was cut in the lot No. 5. Thus circulation was much helped and the potential traffic of the free zone was increased.¹⁶

¹⁵ Compagnie du Port de Beyrouth, Trafic Maritime du Port de Beyrouth, Statistique Diverse, 1958, p. 1.

¹⁶ Colonna de Lega, op. cit., p. 73.

Rail transport connected the major parts of the free zone and in 1952 it was connected to the main rail of Tripoli.

It was decided to fix the number of the doors of the free zone at six, and to give the responsibility for the fencing of the whole area, which was already 106,600 square meters in 1952, to the port company. The fencing was to be a metallic one on the sea side and stone walls on the town side. However, the fence is not homogeneous on all the sides. On the sea and customs territory sides, it is composed of either metallic fences of 2.70 meters high or of the free zone warehouse walls. On the town side, it is composed of the already mentioned 3 meters high stone walls. "This system is not as efficient as the one of Copenhagen free zone, whose fence is composed of two parallel 2.80 meters high metallic fences distant of almost 2 meters and in between which the night watchmen pass."¹⁷

At the present, the free zone area has been increased¹⁸ to 122,900 square meters.

The Port Company was also responsible for the construction of two rooms which were to be put at the disposition

¹⁷ Ibid., p. 75.

¹⁸ Information privately secured from the Port Company.

of the customs for the checking of all home consumption merchandise going out of the free zone.

The result of all these was that the volume of the trade activities increased again from 245,497 tons in 1951 to 313,794 tons in 1952, a 22 per cent increase in one year.¹⁹ The customs office taxes were 15 per cent on the gross revenues which the free zone was getting out of the merchandises, warehousing, store-keeping and rents.²⁰

We have to note that the free zone has almost annexed all the free lands in the port vicinity. It seems that the free zone cannot be extended in the immediate future any more unless the port itself gets a new territorial extension by some possible means.

C. Present Facilities of the Beirut Free Zone

It was previously mentioned that the area of the free zone was 122,900 square meters. This whole area is in

¹⁹ Compagnie du Port de Beyrouth, Trafic Maritime du Port de Beyrouth, Statistique Diverse, 1958, p. 1.

²⁰ At the beginning of the free zone operation, the customs taxes were fixed at 10 per cent in 1952; later on they were increased to 15 per cent.

one main piece situated in the southeast zone of the port near the new basin. This area can be, in general, divided in the following way: 65,000 square meters of covered warehouses, 28,000 square meters of uncovered warehouses and bare lands, and at last 30,000 square meters of communication area.

The free zone of the Port of Beirut is in a rectangular shape in general, added from the east side by another comparatively small area which we will call "shoe shape" area.

The delimitation of the free zone can be done as follows: on the north as well as on the west of the main rectangular area, there are the Customs territories; on the south, the public domain; and on the east, the so-called "shoe shape" area which has access to the sea on the north and is surrounded by the public domain on the south and east sides.

The rectangular area is divided into four lots, by two wide perpendicular avenues. The "shoe shape" area constitutes the lot No. 5.

Lot No. 1 : on the northwest of the rectangle;
property of the Port Company.

Lot No. 2 : on the northeast of the rectangle;
property of the Port Company.

Lot No. 3 : on the southeast of the rectangle;
property of the State.

Lot No. 4 : on the southwest of the rectangle;
property of the State.

The eastern half of the Lot No. 5 belongs to the Port Company and the other western half is the property of the State.

The reason behind this land division between the State and the Port Company goes as far as 1934 when the construction of the second basin of the port was financed mainly by the State. An agreement was reached between the Port Company and the Government that since the Government helped in the financing of the second basin construction, some of the lands recuperated from the sea would be registered as the State property. The State owns the lands of Lots No. 3 and 4 and the western half of Lot No. 5.

The Lots No. 1 and No. 2 are the oldest parts of the free zone and thus have many advantages of being first, deserved by rail, and second, comprising the most important installations of the free zone such as the dry vegetable and the gut conditioning firm and the rugs warehouses.

The principal door of entry of the merchandise is the door No. 5 situated in the middle of the northern side.

All merchandise whether coming by sea or by land from the hinterland have to enter through that door.

The next important door is the exit door, from where most of the merchandise quit the free zone. It is the door No. 4 which is situated in the middle of the western side. Both of these doors give way to the customs territory.

Door No. 6 situated at the southeastern corner of the rectangle, deserves all the rail, coming and going merchandises and all the empty trucks which have already unloaded in the free zone.

These are the main and most important doors in the free zone. Nevertheless, there are other minor ones for secondary purposes.

C H A P T E R I I I

BEIRUT FREE ZONE OPERATIONS

In this Chapter we will speak in detail about the free zone, its different installations, facilities, rules and tariffs. However, it is important to describe the Port of Beirut which constitutes a very important factor in the free zone success and prosperity, because the prosperity of a free zone is not only due to the liberal regime which constitutes it but is due as well to the facilities which are offered by a modern port as far as loading and unloading techniques, speed, the facilities of warehousing, chandlery and transshipment are concerned, many important elements which are determining factors in the ships traffic of the port.

This Chapter, then, is divided into three major parts. In the first part, we will describe the Port of Beirut in a concise way, at the same time trying to give a fair idea of its present status, capacity and most important up-to-date problems. The second part is devoted to a description of the different installations and facilities of the free zone. The third and last part is a description of regulations which govern the free zone of Beirut.

A. The Present Status of the Port of Beirut

There are many reasons as to why the city of Beirut was chosen to be the main port of Lebanon and not any other city like Tripoli, for instance. The major ones in favor of Beirut were:

- Beirut was the Administrative Capital and the center of the French influence.
- It was mainly due to the existence of the Damascus-Beirut road that the distance between Beirut¹ and Damascus and Hawran plains were shortened.
- The sea bottoms at Beirut were rocky and ideal for² a port construction.
- Because of its favored geographical position. It is the crossroad of east and west, where all of the roads meet. For all times it has been the old spices and silk India route.

1. Basins, Quays and Warehouses of the Beirut Port

The Port of Beirut has two basins of 20 hectares each,

¹Maurice Bassous, Le Rôle Economique du Port de Beyrouth, (Thèse, Faculté de Droit de Beyrouth, 1957), p. 16.

²De Monicault, Le Port de Beyrouth et l'Economie des Pays du Levant sous le Mandat Français, (Thèse, Paris, Librairie Technique et Economique, 1936), p. 19.

very easy to be reached even at worst times, protected by a 300 meters long pier and closed by a 330 meters long embankment. The quays are of a total length of 2,300 meters, of which 1,100 meters are in between 2 - 8 meters deep and 1,200 meters are in between 8 - 13 meters deep.³

Seventeen big ships can anchor in the two basins out of which only seven can directly moor on the quays. All of the quays are served by rail of a total length of ten kilometers. A road system of twelve kilometers long serves the port traffic.

The warehousing capacities of the port are:⁴

- covered customs bonded-warehouse of 32,000 sq. m.
- uncovered customs bonded-warehouses of 6,000 sq. m.
- general stores real warehouse of 9,200 sq. m.
- general stores free warehouses of 1,900 sq. m.
- frigorific warehouses of 26,000 sq. m.

The frigorific warehouses are composed of thirty cold rooms of varying between -2 and +4 degrees Centigrade,

³"Les Transports au Liban: Le Rapport de l'Irfed," Le Commerce du Levant (Monthly Issue), (Beirut, November 1961), p. 23.

⁴Bassous, op. cit., pp. 20-21.

eight cold rooms of -1 to -18 degrees Centigrade and two freezing tunnels of -20 degrees Centigrade. The total capacity of this warehouse is 5,000 tons.

With reference to warehousing facilities, there is a difference between the customs bonded warehouse and the general stores, real warehouses and free warehouses. Each will be discussed separately.

Customs Bonded Warehouses: On May 19th, 1890, the Constantinople general customs administration agreed with the Port Concessionary Company that all the customs housestores would be given to the Concessionary Company for exploitation⁵ till the end of its contract.

Thus, all of the merchandise which was to be consumed locally, or which was to be transited, had to enter in the Customs Bonded Warehouses.

All merchandise can stay free in these warehouses for the following periods:

- eight days for the locally consumed merchandise;
- eighteen days for the in-transited merchandise; and
- two days for the exported merchandise.

⁵Ibid., p. 25.

All of the port, customs and handling tariffs and taxes are only paid when the merchandise is out of these warehouses.

General Stores: There are two kinds of general stores: the first is the general stores real warehouses, which are under the customs control, and the second is the general stores free warehouses.

In the first are stocked merchandise which did not yet pay the customs and are just unloaded from the ship, or merchandise which already paid customs in the bonded warehouse and is put in these general stores on the owners' demand.

The advantage to an importer is that his merchandise can stay in these general stores for two years with a low warehouse tariff.

In the second kind, general stores free warehouses, only the locally produced merchandise, or the imported one which has already paid its customs taxes are stocked in these free warehouses.

The merchandise can stay in the free warehouse for an unlimited time on a reduced warehouse tariff.

One of the characteristics of the general stores, both real and free warehouses, is that the owner can have negotiable

warehouse receipts which can be of a great financial help to the importers.

2. Port Handling Plants

Electric port handling implements have been installed in the Port of Beirut since 1919. They can be divided into three parts: sea material, quay material, and transport material.

a. Sea Handling Equipment⁶

- a lifting pontoon capable of lifting 50 tons
- a lifting pontoon of 30 tons
- a lifting pontoon of 4 tons
- vedette-boats, barges and different crafts.

Though all of the ships do come alongside the quays by their own means without being towed, there are, however, two tug boats in the port: an old one of 300 horses and a new 450 horses by the name of "Le Port de Beyrouth". There are also 110 barges which are used to load and unload vessels which are not alongside the quays.

⁶ Ibid., p. 21.

⁷
b. Quay Equipment

There are fixed handling plants and automoving handling plants. The fixed plants are:

- 2 revolving cranes of 6 tons
- 3 revolving cranes of 1 ton
- 2 cranes of 3 tons
- 24 cranes of 2 tons
- 8 monorail hand-winch of 2 tons
- 2 hand-winch of 2 tons

The automoving handling plants are:

- 1 travelling crane of 27 tons
- 1 travelling crane of 18 tons
- 1 travelling crane of 12 tons
- 3 travelling cranes of 8 tons
- 5 travelling cranes of 6 tons
- 1 travelling crane of 5 tons
- 1 travelling crane of 3 tons
- 12 travelling cranes of 2 tons

c. Transport Material

- 4 weigh-trucks of 8 tons
- 2 weigh-trucks of 4 tons
- 6 trucks of 5 tons
- 2 trucks of 3 tons
- 15 tractors of 45 tons
- 15 tractors of 6 tons
- 6 electric tractors of 6 tons
- 2 tractors of 12 tons
- 7 tractors of 6 tons
- 1 tractor of 2 tons
- 1 trailer of 25 tons
- 1 trailer of 12 tons
- 4 trailers of 8-10 tons
- 6 trailers of 6 tons
- 19 semi-trailers of 7 tons
- 6 semi-trailers of 6 tons
- 75 trailers of 2-3 tons

⁷Information privately secured from the Port Company.

- 103 trailers of 1 ton
- 37 carriages of 1 ton
- 1 timber carriage of 12 tons
- 10 rolling stairs of 1 ton
- 1 installation for phosphate handling
- 1 elevator.

There are also an oil port, a mazout station and a modern fresh water distribution system along the quays.

There is a very up to date automatic fire extinguishing system which floods principal warehouses whenever the temperature exceeds 75 degrees Centigrade. A fire brigade keeps a 24 hours' watch equipped with a fire-boat, and modern equipment.

3. Major Problems of the Port of Beirut

Two important problems have been much discussed lately relating to the Port of Beirut:

- the problem of enlarging the port, and
- the Lebanisation of the French Port Company.

a. Port Enlargement

The old basin of the port was constructed in 1895. The actual construction - 2nd basin and quays - were completed in 1940. The port traffic never exceeded the 500,000 tons a year up to the 1940's. "Today, the port traffic is between 1,500,000 tons and 2,000,000 tons a year. The port is on

the limit of its capacity."⁸

In 1957, the Port of Beirut has loaded and unloaded more than 2,000,000 tons of merchandise in very difficult conditions, because of the insufficient installations available. In between 1954 and 1957 the port has been operating in excess capacity and exceeded by far its normal possibilities. The working conditions are dangerous to the country "specially in the case of an accident, as a general strike, or a usual seasonal increase in the traffic which will create bottlenecks and high cost increases to the transport agencies; a state of affairs which will have its consequences on the general activity of the country."⁹

"It was calculated that according to the length of its quays and the area of its warehouses and lands, the Port of Beirut is having twice as much pressure as the generally accepted norms."¹⁰

The Company was in favor of the port enlargement and began studying the 1957 project of the construction of

⁸ "L'Extention du Port - 2.000.000 de tonnes de Trafic et des Installations de 500,000 tonnes", Le Commerce du Levant, (Bi-Weekly Issue), No. 728, (August 30, 1961, Beirut), p. 1.

⁹ "La Construction du 3^{ème} Bassin du Port de Beyrouth est Décidé", Le Commerce du Levant, (Bi-Weekly Issue), (Beirut: September 9, 1961), p. 1.

¹⁰ "Le Transit et l'Avenir du Port de Beyrouth", L'Economie Libanaise et Arabes, (Beirut, May 1961), p. 21.

the third basin. The project was well under study when the question of the port Lebanisation was opened. All the studies were stopped till further decisions.

It is worthy of interest to note that an international transit company established in Beirut charges 30 dollars a ton of merchandise from Beirut to Baghdad. This same company charges only 26 dollars a ton in the case re-exportation is done from Latakieh to Baghdad instead of from Beirut to Baghdad.¹¹ Why? Simply because the port and the handling charges are higher in Beirut port than the competitive neighbouring ports.

The handling charges put the Beirut port at a competitive disadvantage with the neighbouring ports. Add to this its relative congestion and bottlenecks, it will definitely increase the downward re-exportation trend towards the hinterland.

An economic magazine commented^{on} the situation as being very difficult and all the ships which anchored in the port during the 1957 winter season had important delays, which sometimes exceeded the four days, before being able to load or unload and if this state of affairs would remain the same,

¹¹ "Port de Beyrouth: S.O.S.", Le Commerce du Levant (Bi-Weekly Issue), No. 785, (Beirut: March 17, 1962), p. 1.

the liner companies would be in the obligation to charge a special tax for these delays.¹² The huge disadvantageous consequences of such a policy on Lebanon's trade is not in need of any comments.

It is because of all the above stated reasons that the Government and the Port Company decided finally to activate the construction of the third basin and after many trials a Commission was formed to be in charge of the operations.

On the 23rd of May 1962 results of the third basin adjudication were out. The operations were given to Archirodon Company at a cost of LL 33,043,485.

Accordingly, in four years, the following constructions are expected to be completed:

- to lengthen the actual pier by 800 more meters;
- to construct 1,450 meters of quay in the 3rd basin;
- to reclaim 500,000 square meters of land on the sea; and
- to reconstruct in the old basin another 900 meters of quay.

"Once these extensions are over, the capacity of the Beirut port will be doubled. The free zone, because of

¹² Ibid.,

the new gained land, will also be much enlarged."¹³

b. Port Lebanisation

The most debated subject for the last five years was the port ownership and administration. The press and the public opinion were against the 'Compagnie du Port, des Quais et Entrepôts de Beyrouth' and wanted to modify it by any means. Many tentative solutions were given and all of them were duly criticized. The question was of prime importance and many parties were to be consulted; mainly the Port Company, the Lebanese and the French Governments.

An agreement was at last reached on May 31, 1960. The agreement was to be effective from January 1st 1961 and on, and provided mainly for the following:¹⁴

- the French Company 'La Compagnie du Port, des Quais et Entrepôts de Beyrouth' became a Lebanese Company under the name of 'La Compagnie de Gestion et d'Exploitation du Port de Beyrouth';

¹³"Resultats de l'Adjudication des Travaux du Port", Le Commerce du Levant, (Bi-Weekly Issue), No. 812, (Beirut: June 23, 1962), p. 2.

¹⁴"Modification des Status de la Compagnie du Port, des Quais et Entrepôts de Beyrouth qui devient la Compagnie de Gestion et d'Exploitation du Port de Beyrouth", Le Commerce du Levant, (Monthly Issue), No. 4, (Beirut: December 1960), p. 76.

- the head quarters of the Company was to be in Beirut and its Concession not to expire before December 31, 1990;
- the Company was to be administered by a board of directors composed of five to twelve members elected from the shareholders;
- at least half of the board members are to be of Lebanese nationality. ¹⁵ A minimum of 51 per cent of the shares are to be owned by Lebanese citizens;
- the net profits are to be divided as follows:
 - 10 per cent reserve for Contingencies. These reserve deductions would stop to be obligatory when they amount to the 1/3d of the capital;
 - next will be deducted the necessary amount to cover all the 4 per cent preferred stocks;
 - any new deductions, made by the General Assembly, if ever it is agreed to be necessary;
 - the remaining sum, after all of these deductions are made, are to be divided as follows:

¹⁵ The first board of directors is composed of the leading shareholders who constituted the Company's bylaws: Messrs. Henry Pharaon, Sami Choucair, Anis Yassine, Elenthere Elefteriades, Nagib Salha, Najib Alamuddin, Faez el Ahdah, Khalil Sehnaoui, Abdallah Khoury, Henry de Bletterie, Edouard de Monicault, Maxime de Dusmast.

- 10 per cent to the board of directors;
- 90 per cent to the shareholders, to be
16
divided equally among shares.

B. Installations Available in the Free Zone¹⁷

In the last section of the preceding Chapter we defined the free zone and indicated that it is divided into five lots. In this Chapter, taking each lot separately, we will describe the consecutive different available installations.

The free zone installations are not equally divided among the different lots; on the contrary, some lots are more advantageously equipped than others.

1. Lot Number 1

The Lot Number 1 has over and above the public warehouses, the three most important commercial and industrial installations in the free zone:

- a. The Rugs Market
- b. The Dry Vegetables Conditioning Firm
- c. The Guts Conditioning Firm.

¹⁶ "Modification des Status de la Compagnie du Port, ..",
op. cit., p. 77.

¹⁷ A detailed list of all the names of the owners of enterprises operating in the Beirut Free Zone is given in Appendix II.

a. Rugs Market

The rugs market is a three stories' building. The ground and first floors are divided into selling stores and the second floor is reserved for repairs, cleaning shops and mainly for stocks. Though modern, this building resembles to an oriental souk by its central court on which are found all the selling stores.

This market sells in wholesale as well as in retail. The wholesale consists of important order to the United States or to Saudi Arabia.

The retail selling is as important as the wholesale one, and is composed of the different individuals, Lebanese and foreigners, who visit the free zone rugs' market, choose the rugs, pay the customs and enter them to the Lebanese territory as if it was bought from any down-town rugs' store.

Though exposition and advertising for merchandise is allowed, retail selling in any free zone is strictly forbidden; nevertheless, the originality and the interest of the Lebanese free zone consists in the rugs retail selling as well as in the dozens of important local and foreign rugs' sellers.¹⁸

¹⁸ Though, according to the Lebanese Free Zone Law, retail selling other than rugs is forbidden, many tenants do not enforce the law and do practice retail selling in all kinds of goods.

b. Dry Vegetables Conditioning Firm

This consists of a two stories' building constructed in 1947 by the Port Company near the loading quay. It is served by the railroad.

In 1948, the Port Company rented the project to Alfred Skaff and Company who in the following year completed the installations of all of the necessary equipment which consist of the following:

- machines to clean the seeds of any dust or earth by an air blowing system;
- modern machines to calibrate and break up into many different sizes all of the agricultural seeds. When calibrated, seeds are more homogeneous and fit more to different standard qualities; this is a very important step for their marketing;
- four gaz rooms to disinfect and sterilize all of the agricultural products by a gaz system. This operation consists of killing all of the larvaes, eggs, or microbes which may be in these seeds, and thus a perfect and long conservation can be insured;
- automatic balances which fill all the bags with an evenly equal weight and automatically saw them;

- at last, a modern laboratory where all the necessary experiments are done, as: the degree of impurity, sterilization and vitamins. The laboratory is in the second floor where all the already conditioned products are kept. The first floor is reserved for the unconditioned and already arriving merchandises.

The most important economic consequences of these conditioning steps are a higher commercial value of these products because of their longer and guaranteed conservation. Moreover, because of their homogeneity, more marketing possibilities are insured.

Being, at last "completely cleared of their waste, the commodities are more economical in their packing as well as in their transport."¹⁹

c. Guts Conditioning Firm

The operations of this firm began in 1949, as the two stories' building was constructed in 1948 by Shehé Brothers, who now own the firm.

¹⁹ Colonna de Lega, op. cit., p. 92.

Only the guts of goats and sheep arrive to the firm almost having a first stage of treatment. Because of their quick deterioration and putrifaction they are cleaned from their grease and salted, in the place of origin.

Once in the firm, workers, in front of big buckets of water, clean them once more, calibrate them according to different standard length and width and pack them after they have gone through a long drying and salting process.

Being packed, they are stored in big wood barrels where they are pressed for some time before being delivered to be sold.

The conditioned gut "is used mostly (about 25%) in the high quality pork-butcher's meat industry as hot dogs and saucages of all kinds. The other 75 per cent are used by the highly competitive artificial gut which is by far cheaper and more convenient to handle."²⁰

It can be used also for the strings of musical instruments, tennis rackets and in surgery as catgut.

The places of origin of the untreated material are the neighbouring countries. Enumerated by order of importance,

²⁰Ibid., p. 94.

they are: Iraq, Syria, Turkey, Iran, Lebanon and Kuwait.

There are also, in the Lot Number 1, four public warehouses:

- covered warehouse No. 2 of 980 square meters;
- covered warehouse No. 10 of 880 square meters;
- uncovered warehouse B; and
- uncovered warehouse G.

2. Lot Number 2

In the Lot Number 2, there are only public warehouses and free land lots:

- covered warehouse No. 1 of 2,500 square meters;
- covered two stories' warehouse of 1,500 square meters;
- uncovered warehouse of 4,250 square meters;
- a free land lot of 1,900 square meters for automobiles parking surrounded by a fence;
- uncovered warehouse of 400 square meters; and
- a huge visiting room of 1,700 square meters.

3. Lot Number 3

In the Lot Number 3, there are shops for manufacturing clothes and a center for handling and mixing tobacco and at last one warehouse and free lands.

Most of the cloth manufacturers in the free zone are textile wholesalers who distribute from their free zone warehouses the imported textiles to various Middle Eastern countries. The use of the free zone for such purposes has been intensified since 1951, and this has been mainly due to the increase in demand for ready-made-clothing by the newly opened oil-rich Arab countries.

None of the manufacturers has started with modern equipment, and the whole venture has been more the continuation of the primitive 'artisanat' already existing in Lebanon, than the creation of a well-planned, and equipped industry. Not a single foreman had the necessary training and experience to run a workshop of 100 operators.

However, the Far Eastern and European competition forced some of the manufacturers to close down, and others to reorganise and modernise their production methods. At the same time, the existence of a Lebanese Garment Industry at the Free Zone of Beirut has been acknowledged and Lebanon has been recognized by the surrounding markets as a supply source of ready-made clothing. Since then Lebanon has become the most important garment manufacturing center of the Middle east with well organized and modern workshop.

Till 1956, the number of manufacturers in the free zone was over ten employing 500 operators and employees. At

present there are two manufacturers in the free zone with 100 or over operators and about 10 others with about 50 operators each.²¹

These manufactured articles are mostly sold in the Persian Gulf countries and particularly Saudi Arabia. In 1960, some African States, mainly Libya, began ordering large quantities of shirts. The quality is higher than the standard.

The usually manufactured articles are shirts, pajamas, blouses, suits, coats and raincoats.²²

As far as the centers for tobacco is concerned, it is a kind of a big store held by the 'Regie des Tabacs & Tombacs Libanaises' and where different tobacco kinds are being imported from different countries. It is mixed, perfumed, re-exported or sometimes used for the local consumption.

There are three centers of tobacco mixing in the free port; in Lot No. 3, Lot No. 4 and Lot No. 5:

- visiting room of 1,100 square meters;
- uncovered warehouse of 630 square meters; and
- free lands.

²¹ Information secured privately.

²² Nakhnikan Brothers (well-known shirt manufacturers in Beirut and in the Free Zone).

4. Lot Number 4

Lot Number 4 is mainly composed of rented land lots on which different kinds of shops have been constructed. (A detailed description will follow). The remaining places are composed of warehouses and free lands.

Among these different kinds of shops are the automobiles' assembling work shops, where many importers prefer to have their cars and trucks imported in many different elements instead of the usual one piece cars and assembled in the free zone. The advantages they claim are that transport is more compact and thus cheaper and secondly, the packing is better and stronger. Another advantage is that the Lebanese wage worker is cheaper than the one abroad and thus assembling in the free zone is by far cheaper than assembly in production center.²³

Many times the frame of a truck or of a bus is locally done in the free zone.

The other work shops are: the fur repairs' and manufacturing of fur clothes; the conditioning of pharmaceutical products; treatment and mixing of perfumes; and at

²³Colonna de Lega, op. cit., p. 89.

last, manufacturing clothes and mixing tobacco shops already commented on in Lot No. 3.

There are also, besides the already mentioned installations, the following:

- covered warehouse of 5,500 square meters, the largest and most important one in the free zone;
- covered warehouse of 1,800 square meters;
- covered warehouse No. 2 of 760 square meters; and
- free lands for parking.

5. Lot Number 5

The Lot Number 5 has a perfume, a tobacco mixing and handling centers and an automobile assembling workshop.

There are also:

- covered warehouse No. 1 of 3,100 square meters;
- covered warehouse No. 2 of 370 square meters; and
- a free land for parking.

A new warehouse has been very recently installed in the free zone. The Brazilian Coffee warehouse of a total area of 3,362 square meters was officially opened on the 5th of August 1961.

²⁴ "Au Port de Beyrouth, l'Inauguration de l'Entrepôt du Café Brésilien en Zone Franche", Le Commerce du Levant, (Bi-Weekly Issue), No. 721, (Beirut: August 5, 1961), p. 1.

Another warehouse for Argentinian products is under study. Mr. Llamagares, head of the Argentine Commercial Mission says: "In view of the fact that Lebanon is the real door of the Middle East, ... the Mission is studying the possibility of instituting a department in the free zone for the Argentine products, specially meat."²⁵

After we have discussed and described the different installations available, it will be interesting to specify the different use of the covered, uncovered warehouses, and the free land.

The free land is used for the parking of cars, trucks and agricultural heavy equipment as tractors, trailers, etc..

Uncovered warehouses are used for merchandise which do not deteriorate in the rain and sun as building and sanitary materials, iron rods and pipelines.

Covered warehouses are used for all other kinds of merchandise, specially merchandise which cannot be left in

²⁵ "Nous Etudions les Conditions d'un Pavillon en Zone Franche pour les Produits Argentins", Le Commerce du Levant, (Bi-Weekly Issue), No. 802, (Beirut: May 19, 1962), p. 2.

the open air, valuable, easy to be stolen, etc..

Dirty or dangerous merchandise is stocked in special warehouses where there are special equipment and workers to handle such kind of products.

In every warehouse, depending on whether it is a small or a large one, there are from eight to fourteen workers. The main ones are:

- one foreman who is responsible for the whole warehouse, operations, as well as for the incoming and outgoing merchandise;
- four men, who are to register in as much detail as possible all the merchandise in the warehouse. Two of them are responsible for the incoming products and the two others for outgoing ones;
- two other men under whose control all merchandise is placed in certain specified places near certain designated products. It is very difficult to find a package without their help;
- at last, from two to four simple workers who carry the merchandise in and out.

C. Regulations Governing the Free Zone Operations

1. General and Protection Measures

The free zone entry is strictly forbidden to any person who does not have a special permit delivered by the Port Company. The customs as well as the police officers can enter at any moment.

Workers who work in the privately owned warehouses should be agreed by the Port Company and have a specific number which is considered as pass-card.

The owners are to be responsible for any accident, mistakes or negligence done by their employees. "The customs as well as the port officers can at any moment search all of the persons who are in the free zone."²⁶

The free zone opens every day from sunrise to sunset except Sundays. The doors are closed by a double set of locks. One set of keys remains with the customs, and the other set with the Port Company. Both should be present to open the free zone.²⁷

²⁶ Compagnie du Port, des Quais et des Entrepôts de Beyrouth, Zone Franche, Arrêtés et Réglementations, Tarifs, Rapports Annuels, Arrêté No. 206/LR du 26/12/1933 - règlement intérieur de la Zone Franche - Article 24.

²⁷ Ibid., Article 25.

It is strictly forbidden to put on fire, to smoke or even to have matches, candles or lighters for a personal use to any person entering the free zone.

Any warehouse or store-owner in the free zone who needs to have any electrical outfit or even simple light in his warehouse, has to present a detailed plan of the installations to the Company. The Company agrees only after it makes sure that all the possible fire protections have
28
been taken.

2. Public Warehouses' Regulations

The Port Company stocks in its warehouses all of the merchandises entering the free zone belonging to businessmen not having any private installations.

Moreover, it does all of the handling operations in its warehouses. It can, without any previous notice and if it judges necessary, take all the necessary measures to protect the merchandise against any deterioration, as for instance, the renewing of its packages.

It can transfer the merchandise from one warehouse to another if it believes it is better protected that way.

²⁸ Ibid., Article 26.

It delivers to the merchandise owners according to their demand "either simple receipts' certificates or negotiable warehouse receipts, transferable by endorsement." ²⁹

The warehouse tariffs are applied as from the first day the merchandise enters the warehouse till the moment the last package is out.

"A special tarif is applied if, on the owner's demand, the merchandise occupies a larger place than it is normally necessary." ³⁰

The Port Company is only responsible for the material losses due to any theft of the merchandise, or its deterioration, because of the mishandling of its agents or the bad conditions of its warehouses. In the case material losses are due "to the nature of the merchandise itself, bad packing, unfavorable weather condition or any political up-raisals, the Company is in no way responsible." ³¹

The Company always insures all of the merchandise in its warehouses at the expense of the merchandise owners. The amount insured for is generally the merchandise value given

²⁹ Ibid., Article 11.

³⁰ Ibid., Article 15.

³¹ Ibid., Article 16.

by the owner. In case the owner does not give the right value, the "Company insures at an approximative amount at the risks of the owner himself."³²

The amount due to the Company as far as tariffs, insurance, and different service expenses, have to be paid when the merchandise leaves the free zone.

Any merchandise which stays in the free zone for three months has to clear its bill after this delay to the Port Company. This way the amounts due are paid quarterly. Nevertheless, the Port Company reserves for itself the right to claim any amounts due before this period in the case of perishable merchandise.

In case of nonpayment after an eight days' notice,³³ "the Port Company proceeds to an auction selling."

The owner who wishes to take his merchandise out of the free zone has to fill in a formula stating among other information, "whether his merchandise has or has not undergone any transformation, be it mixing or new manufacturing."³⁴

The merchandise cannot leave the free zone without

³² Ibid., Article 18.

³³ Ibid., Article 19.

³⁴ Ibid., Article 23.

the customs permission, stating whether the merchandise is to be loaded on a ship, or to be transited or at last whether it is to enter the customs territory.

3. Private Installations Measures

Any businessman living in Beirut can rent a private place in the free zone, to stock private merchandise. The Port Company can refuse or accept to rent him a place according to the free land available or to the nature of the merchandise. Rents can be done monthly, quarterly or yearly. The yearly and above rentees have the right to erect constructions on their lands. A detailed plan of the construction should be given to the Port Company, which can accept or reject it. "If accepted, the construction plans have to be executed under the Port Authorities' control."³⁵

At the expiration of their contract the owners have to withdraw the merchandise and at their own risks and expenses to proceed demolishing their locations. In the case this is not done, the Port Company will transfer the merchandise in its own warehouses at the expenses of the owners. In

³⁵ Ibid., Article 4.

the delay of eight days after the end of the contract, the Port Company can proceed demolishing the privately owned location at the owners' expenses.

Generally the Company asks for a bank guarantee or the payment of a caution to make sure all the above stated rules will be enforced.

The private owners accept without any condition the general state of the free zone. They decline any right to object or contest against the Port Company for any possible reason, specially for damages done because of the rough sea, tempests, etc..

Moreover, they can ask the permission to have industrial implements in their installations. The Port Company has all the latitude to accept, refuse or modify the implements asked for.

The private owners have to insure all of their merchandises, installations, and employees against all possible accidents.

Rents contracts never exceed a period of fifteen years.

4. Merchandise Entry and Exit Rules

Any merchandise which enters the free zone have to be preceded by a demand formula, where all of the following are to be filled: place of origin, nature, number of packages, weight and the brand.

In the case the merchandise arrives by sea or by land the authorities' copy of the manifest or the official documents should be presented.

Customs officers have all the right at the entry of the merchandise to the free zone to open all packages, bags and boxes and check whether it corresponds or not to the
36
official documents.

When the merchandise enters to the free zone, the Port Company takes it directly to its own public warehouses unless the owner has a private warehouse and asks the Company to stock it there.

The uncovered warehouse regime "is not used except
37
at the strict demand of the merchandise owner".

³⁶ Generally they do not open the packages of goods; they only check the numbers and nominations on the boxes.

³⁷ Compagnie du Port, des Quais et des Entrepôts de Beyrouth, Zone Franche, op. cit., Article 2.

The owners of private warehouses or stores are obliged by the law to have well kept books for the entry and exit of their merchandises in their private installations. "The Port Company can with the customs authorities enter at any moment to the private warehouse and check the merchandises with the books."³⁸

D. Summary and Conclusions

For a better understanding of the facilities and installations available at the Beirut Free Zone, it was important to present a somewhat detailed description of the port facilities and problems. Thus, in Section One of the present Chapter, we outlined the actual state of the port, describing and giving sizes of its basins, quays, warehouses, and port handling plants. It was found that the port, with all its present facilities, was encountering a major problem - that of bottlenecks and congestion. For a proper operation of the port and to have favorable effect on the free zone and ultimately on foreign trade, it is most important

³⁸ Ibid., Article 6.

for the Government to execute the project for the construction of the third basin, which will eventually increase the capacity of the port.

The analysis of the free zone installations in Section Two revealed that the free zone is well-equipped with many kinds of warehouses and free lands, in the different lots, and where manufacturing and wholesaling selling take place.

The Third Section was a brief exposition of the rules and measures regulating free zone activities. We found out that there is close control on all merchandise stores in the free zone warehouses, and on their entry and exit. Moreover, the free zone has all equipment and facilities for the protection and preservation of merchandise stored there.

With all these in mind, we will proceed in our next Chapter with a description of the effects of free zone operations on the Lebanese economy.

CHAPTER IV

BEIRUT FREE ZONE'S EFFECT ON THE LEBANESE ECONOMY

In this Chapter, there will be an attempt to present, in quantitative terms, the various effects of the Beirut Free Zone on the Lebanese Economy. The Chapter is divided into three main sections.

The First Section tries to present a comparative analysis of the free zone as against total port traffic, and gives the probable reasons for their increase or decrease.

The Second Section, in view of the importance of the free zone in the transit trade of Lebanon, presents a detailed breakdown of transit trade through the free zone.

The Third and Last Section is devoted to an analysis of the economic and other effects of the free zone on other groups of institutions and persons, such as on manufacturing firms, businessmen, customs revenues, and on employment.

Before presenting any figures, it is necessary to note some important problems as to the availability of statistical figures on which this Chapter is mainly based.

It was found to be very difficult to obtain the necessary detailed figures on the economic activity of the Beirut Free Zone. Indeed, in the governmental statistics book - Statistiques du Commerce Exterieur - only one page is devoted to the free zone, showing the global figures for the four last years, divided into four columns: Inward - Outward - Transit, and Local Consumption. Such data are far from being enough for any analytical purposes.

Accurate and detailed statistics are only found in the Port Company records. Three different classifications have already been followed in the last ten years. None of them, anyhow, are economically effective. For example, till the year 1955, all products were divided into 337 articles, including almost anything, from the crudest raw materials as iron ore or phosphate to the mostly refined manufactured products as artificial eyes. From 1956 to 1959, the articles increased to 991 items owing to the large quantities

of new manufactured products, specially in artificial plastic field. Then, in 1960, realizing the difficulty of having 991 articles, the Port Company grouped them into 99 groups and each group was divided from 1 to 44 different products. Unfortunately, no subtotals are found in any group of articles, in any of the three above mentioned systems.

This creates many difficulties if any comparative analysis is to be presented.¹ If, for example, we are interested in comparing any group of articles, let us say meat, we have to add more than fifty different items to have the final subtotal ready for comparison.

A. Free Zone Traffic Versus Port Traffic

Table I presents total Beirut port traffic, through customs and free zone for the past six years (1956 - 1961), broken down into imports, exports, re-exports, temporary admission and transit. Several interesting facts are revealed through this table.

¹Most of the tables, in order to be consistent, present figures for the past ten years - 1952-1961, excepting Tables I, VI, VIII and IX, for which no detailed breakdown of figures were found as far back as 1952, due to the lack of consistent statistical systems before 1956; Table II, on the other hand, gives figures for as far back as 1934, to allow the reader to have a complete picture of free zone's development. Figures for the year 1962 are not, as yet, available.

Y E A R	I M P O R T S			E X P O R T S			
	Customs	Free Zone	Total	Customs	Free Zone	Total	
1956	987,202	128,585	1,115,787	216,689	-	216,689	
1957	978,799	97,251	1,076,050	222,308	888	223,196	1
1958	827,146	86,173	913,319	121,463	313	121,776	1
1959	903,590	129,795	1,033,385	95,269	391	95,660	2
1960	1,024,994	168,029	1,193,023	77,770	747	78,517	1
1961	955,943	126,955	1,082,898	91,915	597	92,512	2

Source: Compiled from records of Compagnie de
Statistiques, Statistiques du Mouvement

TABLE I
TOTAL BEIRUT PORT TRAFFIC
 1956 - 1961
 (in Metric Tons)

Y E A R	I M P O R T S			E X P O R T S			R E - E X P O R T S			T E M P O R A R Y A D - M I S S I O N			T R A N S I T			TOTAL PORT TRAFFIC	TOTAL FREE ZONE TRAFFIC
	Customs	Free Zone	Total	Customs	Free Zone	Total	Customs	Free Zone	Total	Customs	Free Zone	Total	Customs	Free Zone	Total		
1956	987,202	128,585	1,115,787	216,689	-	216,689	9,681	-	9,681	1,116	12	1,128	107,814	417,601	525,415	1,882,092	546,198
1957	978,799	97,251	1,076,050	222,308	888	223,196	11,090	-	11,090	8,904	7,266	16,170	120,811	466,419	587,230	1,913,736	571,824
1958	827,146	86,173	913,319	121,463	313	121,776	14,304	21	14,325	15,710	3,997	19,707	84,773	254,361	339,124	1,398,134	344,865
1959	903,590	129,795	1,033,385	95,269	391	95,660	20,557	1,254	21,811	19,317	20,227	39,544	57,196	291,722	348,918	1,539,319	443,390
1960	1,024,994	168,029	1,193,023	77,770	747	78,517	19,550	193	19,743	16,746	16,152	32,898	58,030	280,937	338,967	1,663,127	466,057
1961	955,943	126,955	1,082,898	91,915	597	92,512	20,508	272	20,780	16,047	15,003	31,050	51,465	236,803	288,268	1,515,508	379,630

Source: Compiled from records of Compagnie de Gestion et d'Exploitation du Port de Beyrouth, Service du Controle des Recettes et des Statistiques, Statistiques du Mouvement des Marchandises Ayant Acquitté les Droits de Port, 1956 - 1961.

First and foremost, it can be seen that the largest volume of traffic in the free zone is in transit trade. This is explained by the fact that most of the merchandise imported in the free zone are meant for transit, to be destined mainly to the Arab countries.²

A second point to note is that the largest figures which present traffic through customs is in the case of imports, followed, but not closely, by those of exports. This is, of course, due to the very large volume of imports Lebanon has as compared to her exports.

Lastly, we note that the volume of total port and free zone traffic have been fluctuating together in the same direction. 1958 presents a sharp decrease, and that is due to the local political insurrection of that year.

Let us now see more closely the development of the Beirut free zone traffic since its establishment in 1934. (See Table II.)

We note that the volume of the free zone traffic prior to the end of World War II was in general insignificant. This was due, first, to the War, and secondly, the

²A more detailed analysis of free zone traffic versus transit trade is presented in Section B of the present Chapter.

TABLE II
BEIRUT FREE ZONE TRAFFIC SINCE ITS ESTABLISHMENT
 (in Metric Tons)

Year	Total ¹ Volume	Transit		Trade		Locally Consumed Goods
	a	Sea-Land b	Land-Sea c	Sea-Sea d	Land-Land e	
1934	5,814	3,521	1,739			554
1935	4,933	2,664	1,343			926
1936	7,865	4,509	1,739			1,617
1937	14,936	6,070	4,520			4,346
1938	15,184	5,641	2,748			5,795
1939	22,829	5,221	7,491			10,117
1940	16,087	1,269	3,721			11,097
1941	9,885	204	-			9,681
1942	9,559	6	-			9,553
1943	1,663	-	-			1,663
1944	3,673	-	-			3,673
1945	3,895	350	1,342			2,203
1946	28,125	10	20,070			8,045
1947	32,129	3,214	9,000			19,915
1948	97,010	8,762	10,897			77,351
1949	139,076	32,369	19,654			87,053
1950	162,166	32,610	19,643			109,913
1951	245,497	53,526	51,091			140,880
1952	323,792	77,561	54,977			191,254
1953	300,856	130,268	79,647			90,941
1954	349,948	175,948	96,521	6,854	2,112	68,513
1955	559,335	253,133	142,575	12,971	3,306	147,350
1956	546,200	232,635	165,637	16,800	2,528	128,600
1957	571,819	272,830	177,066	15,657	866	105,400
1958	344,861	111,103	120,492	22,645	121	90,500
1959	443,422	119,565	144,916	26,881	360	151,700
1960	466,057	129,734	128,977	21,459	767	185,120
1961	379,630	119,649	104,006	12,775	373	142,827

NOTE: a = b + c + d + e + f

Source: 1934 - 1954, Colonna de Lega, *op. cit.*, p. 123.
 1955 - 1961, Compagnie de Gestion et d'Exploitation du Port de
 Beyrouth, Statistiques du Mouvement des Marchandises,
 1955, 1956, 1957, 1958, 1959, 1960, 1961.

¹
 The sudden increase in the total volume of traffic in between the
 years 1947 and 1949 was due to the diversion of transit trade from Haifa
 to Beirut, after the Palestine War of 1948.

fact that the free zone was a newly established institution, advantages of which were not yet known and proved. It is only after 1949 that the increase in the free zone traffic begins to be important and steady untill the insurrection year of 1958, when a sharp decrease in the traffic can be noticed.

We should not forget to make one point clear and that is that prior to the year 1953, all Syrian goods passing through the free zone were considered as locally consumed goods and not as in transit goods. In 1953, this was corrected and all goods destined to Syria were no more included in the locally consumed goods. This is the actual reason why in the column entitled "Locally Consumed Goods" all figures prior to 1953 are inflated and in 1953 the figure dropped by 47 per cent.

In order to be able to present a clear comparison of the total port traffic versus free zone traffic, Table III has been constructed, which presents in index form (taking year 1952 as the base year) the change in both traffic volumes.

TABLE III

INDICES OF TOTAL PORT TRAFFIC AS COMPARED TO FREE
ZONE TRAFFIC INDICES, 1952 - 1961

Year	Port Traffic Indices (Base 1952 = 100)		Free Zone Traffic Indices (Base 1952 = 100)		Free Zone Traffic as Percentage to total Port Traffic
	(Tons)	(Index)	(Tons)	(Index)	
1952	1,143,800	100	323,792	100	28%
1953	1,217,800	106	300,856	93	25%
1954	1,476,400	129	349,948	108	24%
1955	1,826,400	160	559,335	173	31%
1956	1,882,092	165	546,200	169	29%
1957	1,913,736	167	571,819	177	30%
1958	1,398,134	122	344,865	107	25%
1959	1,539,319	135	443,400	137	29%
1960	1,663,127	145	466,057	144	28%
1961	1,515,508	132	379,630	117	25%

Source: Compagnie Gestion et d'Exploitation du Port de Beyrouth, Service du Contrôle des Recettes et des Statistiques, Statistiques du Mouvement des Marchandises Ayant Acquitté le Droits de Port. 1952 - 1961.

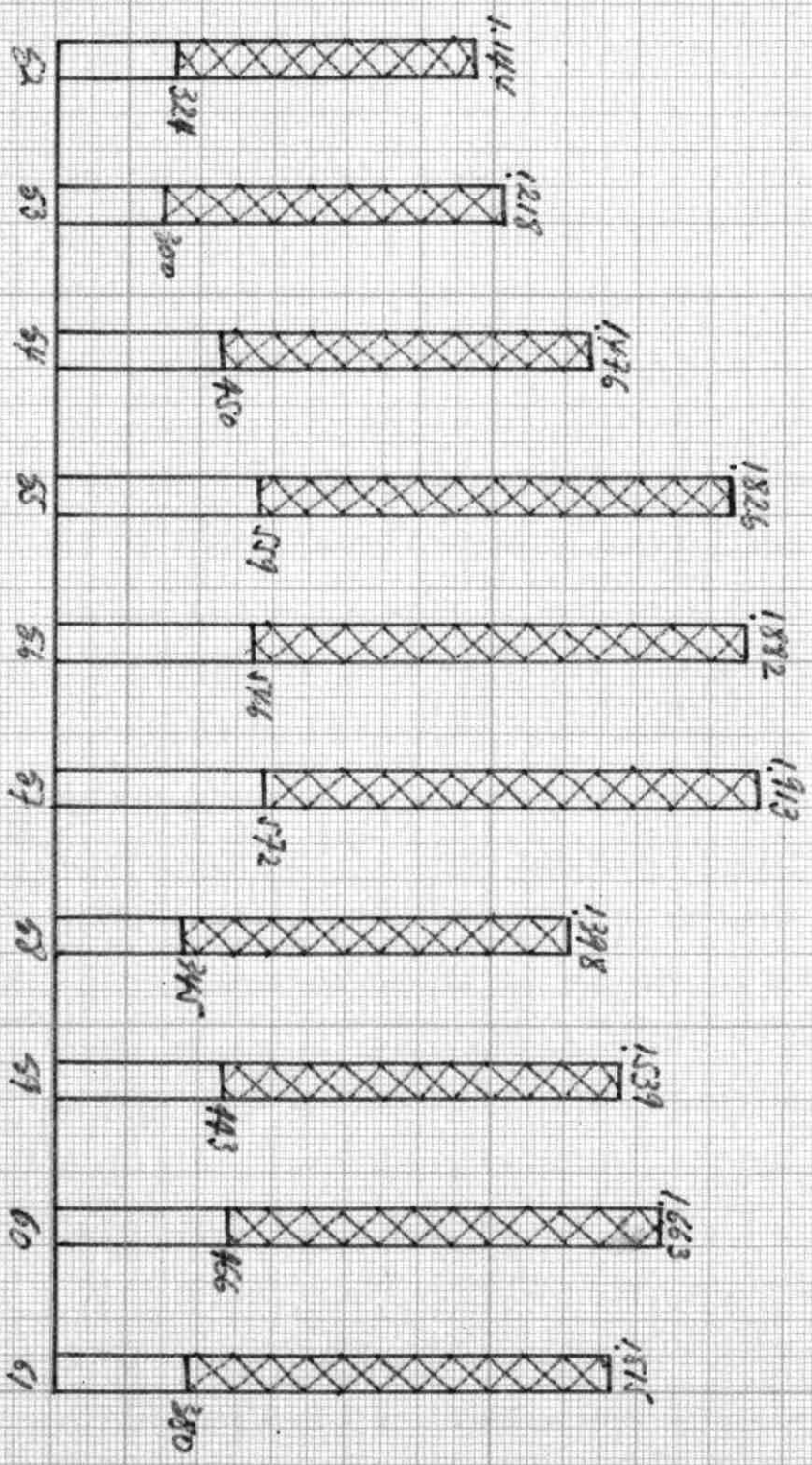
The first thing to note is the relative importance of the free zone to the port. It can be seen that, for the past 10 years, the volume of the free zone traffic as compared to the volume of total port traffic, constitutes between 24 and 31 per cent. There has been no steady trend, but they have been fluctuating in between the two percentages, which on an average for the ten years, presents a 27.4 per cent as being the free zone traffic as compared to total port traffic. (See Figure 1.)

Looking at the indices, it can be noted that both free zone and port indices have always been moving together in the same direction. From 1952 till 1957, the steady increasing traffic in the port and in the free zone is obvious; both of the port and free zone indices show about a 70 per cent increase as compared to the year of 1952.

The year of 1958 shows a sharp decrease in both traffics. The fall of the port index is 27 per cent, from 167 in 1957 to 122 in 1958. The fall of the free zone index is 40 per cent for the same years. However, though both have been decreasing, the free zone traffic has decreased much more than the port traffic.

Looking at the next year, 1959, we notice the exact reciprocity of this phenomenon. The traffic of both the port

FIGURE 1
 FREE ZONE TRAFFIC AS COMPARED TO TOTAL PORT TRAFFIC
 1952 - 1961
 (In Thousands of Tons)



¹ The total length of the column represents the Total Port Traffic. The bottom section of the column represents the Free Zone Traffic.



and free zone increased. However, the increase of the port index was 11 per cent, from 122 in 1958 to 135 in 1959. The increase of the free zone traffic was 28 per cent, from 107 in 1958 to 137 in 1959. The free zone traffic increased more than the relative port traffic.

Let us take the year 1961, a year of relatively mild recession, when many bankruptcies took place, money was tight and there was relatively a large number of protested bills as compared to previous years. We notice that the port index decreased by 9 per cent, from 145 in 1960 to 132 in 1961. The free zone index, on the other hand, decreased by 19 per cent for the same years. So here, too, when there was a general decrease in the traffic, both of the port and free zone decreased but the latter decreased more as compared to the first.

Thus we can say that the port and the free zone traffic move in the same direction, depending on the existing economic conditions, but the free zone traffic fluctuates much deeper on the downward trend, and much higher on the upward trend. (See Figure 2.)

This relative steadiness of the port, I believe, can be explained by the fact that the port deals with many different sectors of the economy, such as, for example, agriculture, industry, real estate and trade. Hence, its

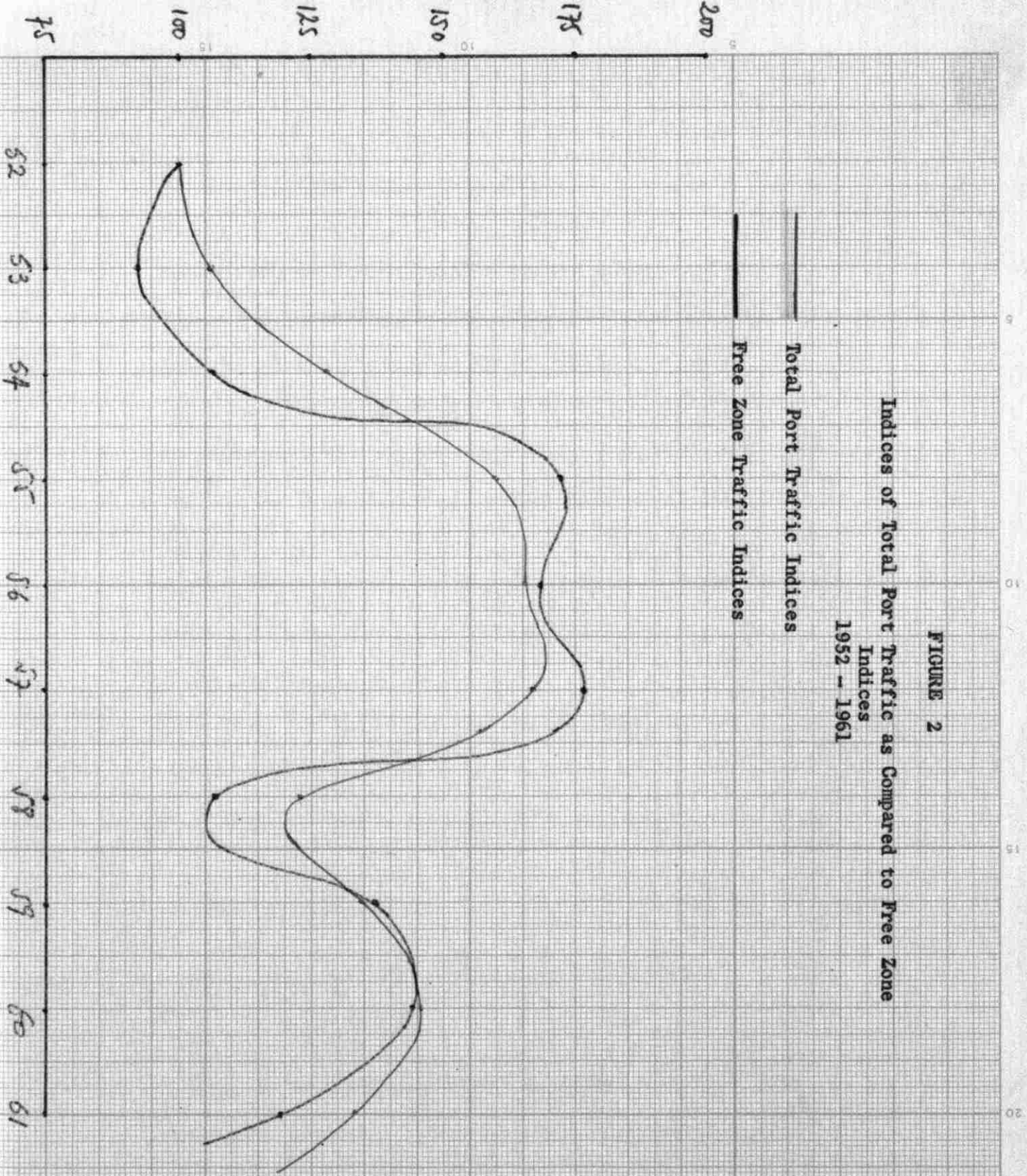


FIGURE 2
 Indices of Total Port Traffic as Compared to Free Zone
 Indices
 1952 - 1961

traffic is determined by many groups of articles, belonging to any of the economic sectors mentioned above; the port handles raw materials, machineries and liquid fuel for many industries, chemical products, fertilizers for agriculture, materials for construction, and merchandise articles. So fluctuations in some sectors are counter-balanced by the relative stability of the others.

The free zone, on the other hand, deals mainly with one sector, and that is trade. And trade, I believe, is the most volatile sector, and fluctuates much more than any other sectors. Thus, any slight fluctuations in this sector are shown immediately on the volume of total traffic in the free zone, as there is no counter-balancing item for this change.

B. Free Zone Transit

1. Importance of the Free Zone in the Lebanese Transit Trade

It is a common mistake to confuse the terms 'free zone' and 'transit'. However, they have completely different meanings.

The definition of a 'free zone' was already given in Chapter I. Let us now define, very briefly, the term 'transit' as given by the Lebanese Customs Law.

The Lebanese Customs Law defines transit trade as the passage of merchandise from one frontier, sea, or land, to another (including air transport) without, at any moment, being substituted by any other regime, such as local consumption or temporary admission. Transit trade does not only represent all the traffic taking place through the free zone. There is a transit traffic which does not pass through the free zone and an import traffic, destined to be locally consumed which uses the free zone facilities.

The free zone constitutes the major tool in transit trade. (See Table IV.)

It can be noted that the largest majority of the total transit traffic, which is about 79.5 per cent, passes through the free zone, and 72 per cent³ of the merchandise which uses the free zone is merchandise in transit.

Transit trade has been strongly fluctuating during the last decade, due to different economic reasons in different years.

³ Explained later on pp. 97-98.

TABLE IV

LEBANON'S TOTAL TRANSIT TRADE: FREE ZONE & CUSTOMS
COMPARED
(1952 - 1961)

Year	Total Transit Trade (in tons)	Transit through ¹ Customs (in tons)	Percentage of Customs to Total	Transit through Free Zone (in tons)	Percentage of Free Zone to Total
1952	140,400	17,900	13%	122,500	87%
1953	250,800	40,900	16%	209,900	84%
1954	402,600	121,200	30%	281,400	70%
1955	574,200	162,200	28%	412,000	72%
1956	525,415	107,814	21%	417,601	79%
1957	587,230	120,811	21%	466,419	79%
1958	339,134	84,773	25%	254,361	75%
1959	348,918	57,196	16%	291,722	84%
1960	338,967	58,030	17%	280,937	83%
1961	288,268	51,465	18%	236,803	82%

Source: 1952 - 1955, Le Commerce du Levant (Bi-Weekly Issue),
(March 6, 1963), p. 20.

1956 - 1961, compiled from records of Statistiques du Mouvement des Marchandises ayant Acquitté les Droits de Port, 1956-1961.

¹
Some of the merchandise in transit arrives to Beirut and is directly transited to the other countries without using the free zone facilities. The Port Company designates this traffic as transit through Customs, even though the goods do not pay any customs duties.

Total transit trade has been steadily increasing till the year of 1955 when it reached 574,000 tons. In 1956, it decreased because of the Suez Canal Crisis. In 1958, it dropped again because of the local insurrection and finally it kept moving downward till the years 1960, 1961, because of the economic recession Lebanon had during these two years. The result is a long term fluctuating declining slope, having the highest peak in 1957 and its lowest one in 1961, when it reached 288,000 tons, which is only 49 per cent of what it was in 1957.

The exact destination of the majority of merchandise in transit is not known at the time of their entry. Many products which are destined to re-exportation may be locally consumed as well as many products which were first meant for local consumption are re-exported. All of the statistics presented in this study are based on the merchandise exit and not on the importers intentions.⁴

Now let us see the proportion of the transit traffic as compared to the locally consumed goods. (See Table V.)

⁴Many boxes labelled "Zone Franche" may be found in local business shops. It does not mean any fraud, but that the owner has simply changed his mind.

TABLE V

FREE ZONE: TOTAL TRANSIT AS COMPARED TO TOTAL
LOCAL CONSUMPTION
(1952 - 1961)

Year	Total Free Zone Traffic (tons) a	Transit Trade (tons) b	Percentage of Transit to Total Free Zone c	Local Con- sumption (tons) d	Percentage of Local Consump- tion to Total Free Zone e
1952	323,800	132,700	41%	191,300	59%
1953	300,800	209,900	70%	90,900	30%
1954	350,000	282,000	80%	68,500	20%
1955	559,400	412,000	74%	147,400	26%
1956	546,200	417,600	76%	128,600	24%
1957	571,800	466,400	82%	105,400	18%
1958	345,000	254,400	74%	90,600	26%
1959	443,400	291,700	66%	151,700	34%
1960	449,000	281,000	63%	168,000	37%
1961	379,800	236,900	62%	142,900	38%

Source: Columns a, b, c, Compagnie du Port de Beyrouth, Statistiques
DU Mouvement des Marchandises ayant Acquitté
les Droits du Port, 1952 - 1961.

Column d, Le Commerce du Levant, (Bi-Weekly Issue),
(March 6, 1963), p. 20.

We notice from the first look that the transit traffic as compared to the locally consumed goods is almost always the double, for the nine years 1953 to 1961. It has been fluctuating between 62 and 82 per cent in between the years 1957 and 1961. If we calculate the average for these nine consecutive years it will be found that about 72 per cent of total free zone traffic is transit.

The year 1952 does not follow the rule. This is explained by the fact that all the merchandise trade, coming from or going to Syria, were considered as a national traffic and not as a foreign one. In other words, they were considered to be locally consumed products and not in transit.⁵ This is why in 1952, the transit percentage was 41 and that of the locally consumed one 59 per cent.

Another point which we notice while analysing Table V is that the percentage of transit relatively compared to one of the local consumption is in a constant declining trend. Taking the year 1957, we find that transit traffic is 82 per cent of the free zone traffic; in 1958, it is 74 per cent; in 1959 it is 66 per cent, and goes steadily down till it reaches 62 per cent in 1961.

⁵Due to the Lebano-Syrian Customs Union Agreement by which both of the countries were bound till 1950. However, this Customs Union regime was followed by the Port Company till 1953, though it should have been changed in 1950.

This can be explained, I believe, by the fact that many Lebanese businessmen are gradually becoming more aware of the advantages of the free zone. So they are using this channel more and more every year for their locally consumed merchandise, with the result that comparative local consumption traffic is increasing. (See Figure 3.)

2. Beirut Free Zone Transit to the Middle Eastern Countries

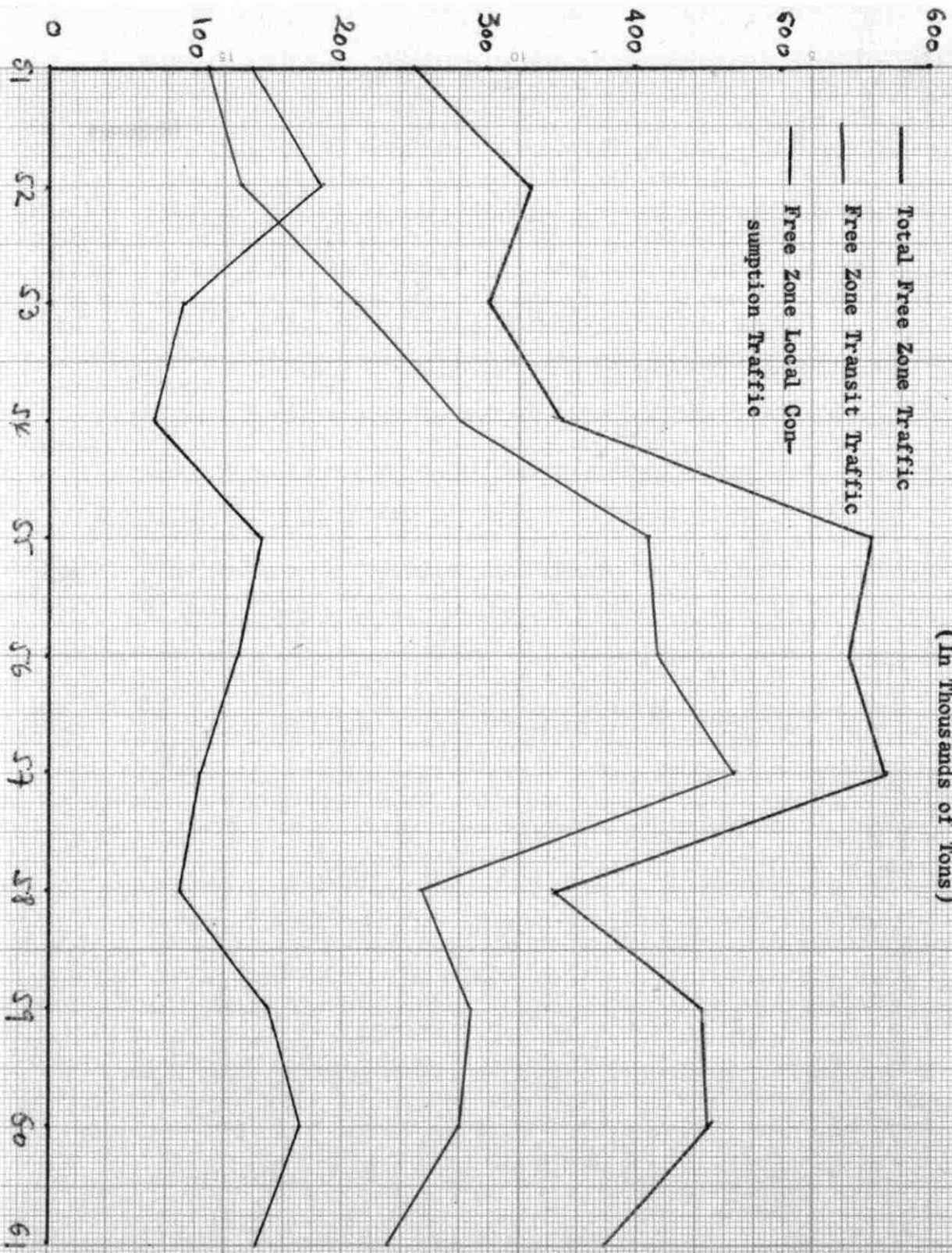
The first quality of a port is its being on a natural crossroad. However, this function is not by itself enough. To fulfill an important transit function, the port has "to serve a large hinterland, whose population is rich, large, having many and different needs, and which is at the same time developing an intense commercial and industrial activity."⁶

The Port of Beirut admirably satisfies all of these conditions. Its geographical position is almost unique on the Eastern side of the Mediterranean Sea.

With the Near and Middle East getting more and more important with time, the free zone and the port revealed to

⁶Van de Velde, Anvers Port, (Lloyd Anversois), p. 87.

FIGURE 3
 FREE ZONE TRANSIT AS COMPARED TO FREE ZONE LOCAL
 CONSUMPTION
 1952 - 1961
 (In Thousands of Tons)



be serving a whole rich hinterland. Besides the national role of the Beirut Free Zone, there is a regional one, that of its being a window on the Mediterranean.

Though the Suez Canal has deviated the bulk of the merchandise towards the South, nevertheless Lebanon keeps the precious advantage of being the shortest route from the West to the East and vice versa. "The distance of Beirut, by land, and in rounded figures is: 110 kms. from Damascus, 300 kms. from Aleppo; 1,000 kms. from Dahrán and Kuwait. If the merchandise, instead of passing through Beirut, passes through the Suez Canal, and turns all around the Arabic Peninsula, it will be running 5,770 kms. more, in between London and Baghdad, and 5,280 kms. more in between London and Teheran. That is why the position of Beirut makes of Lebanon the natural transit way between the East and the West, and vice versa."⁷

However, along with these natural advantages, there are many hindrances; some of them are due to the means of transport used, and others are due to political differences in the region, which oblige the merchandise to change roads, trucks, drivers, etc..

⁷Baron de Dumart, Transit Vocation du Liban, (Conference du Cenacle Libanais), p. 9. (See Map in Appendix III.)

Transit to the hinterland is served mainly by two means of communications:

- A double railroad system: One of them is the narrow gauge which is economically inefficient, because of its reduced output. The other is the large gauge, the material of which is not enough. The consequence is that the merchandise has to change frequently from one railroad to another; thus there are comparatively many cases of theft, loss of time, addition of freight and the inevitable breakage damages. Moreover, these railroads are all depreciated and obsolete.

Some interesting facts are to be noted. The Beirut - Baghdad road, for instance, is 450 kms. longer than it should be because of six consecutive passages of the Syrian-Turkish frontier. The result is that to go from Beirut to Baghdad (1,450 kms. by rail) the required necessary time is 10 days; an average of 145 kms. per day. A train takes six days to cover the distance between Beirut and Amman, which is 350 kms., an approximative average of 60 kms. per day.

- The other means of transport is the road transport. Though kept in a better running condition, but the

same difficulties are to be found due to the many unbelievable obligatory formalities which have to be performed on the frontiers.

Let us consider a truck going from Beirut to Teheran. "It has the transit declaration which can be used only till the Lebanese frontier. A new declaration has to be made on the Syrian frontier. Arrived in Damascus, there is transshipment of the merchandise on a new Syrian truck, with a third declaration. Arrived in Baghdad, a new declaration has to be made and the truck goes only till Kanaki, where another trans-⁸shipment is done on an Iranian truck."

This means four customs formalities, six loadings and unloadings and three different drivers, with the result that it takes from five to seven days to cover the distance Beirut - Baghdad (1,000 kms.) and 14 to 20 days to cover the distance Beirut - Teheran (2,000 kms.), an approximate average of 100 to 150 kms. per day.

⁸Ibid., p. 15.

As far as the free zone transit is concerned, the port statistics distinguish between six separate sections (See Table VI):

Sea-Land : which concerns all of the Merchandises coming from the sea in destination to the hinterland.

Land-Sea : concerns the merchandise coming from the hinterland and re-exported by sea.

Sea - Sea: concerns the merchandise coming from the sea, entering the free zone for manipulation, or warehousing, then being re-exported by sea.

Land-Land: This section refers to merchandise transited through Lebanon, both arriving and going by land.

Both of the last sections are negligible as compared to the first two. However, the Sea-Sea section has been increasing for the last five years with a peak of 32,000 tons in 1959.

Trans-shipment and Temporary Use of Quays, which are self-explanatory, are also negligible items as compared to Sea-Land and Land-Sea.

Comparing the two different traffics, Sea-Land and Land-Sea (Table VII), we notice in the column - Sea-Land

TABLE VI
LEBANON'S TOTAL TRANSIT TRADE
(in Metric Tons)

YEAR	TRADE THROUGH	SEA - LAND	LAND - SEA	SEA - SEA	LAND - LAND	TRANS-SHIPMENT	TEMPORARY USE OF QUAYS	TOTAL
1956	Customs	93,144	3,121	9,473	2,076	12,741	651	121,206
	Free Zone	232,635	165,637	16,800	2,528	-	-	417,600
	TOTAL	325,779	168,758	26,273	5,604	12,741	651	538,806
1957	Customs	91,638	1,427	16,302	265	11,099	80	120,811
	Free Zone	272,830	177,066	15,657	866	-	-	466,419
	TOTAL	364,468	178,493	31,959	1,131	11,099	80	587,230
1958	Customs	42,294	985	16,624	50	14,397	298	74,648
	Free Zone	111,103	120,492	22,645	121	-	-	254,361
	TOTAL	153,397	121,477	39,269	171	14,397	298	329,009
1959	Customs	34,230	993	5,193	205	16,440	135	57,196
	Free Zone	119,565	144,916	26,881	360	-	-	291,722
	TOTAL	153,795	145,909	32,074	565	16,440	135	348,918
1960	Customs	34,029	1,785	7,546	501	13,676	473	58,010
	Free Zone	129,734	128,977	21,459	767	-	-	280,937
	TOTAL	163,763	130,762	29,005	1,268	13,676	473	338,947
1961	Customs	28,033	1,950	6,525	45	14,367	545	51,465
	Free Zone	119,649	104,006	12,775	373	-	-	236,803
	TOTAL	147,682	105,956	19,300	418	14,367	545	288,268

Source: Compiled from records of Statistiques du Mouvement des Marchandises, 1956 - 1962. (Port Company of Beirut.)

TABLE VII

BEIRUT FREE ZONE TRANSIT: SEA-LAND - LAND-SEA COMPARED
(1952 - 1961)

Year	Total Free Zone Transit (tons) a	Sea-Land Traffic (tons) b	Land-Sea Traffic (tons) c	Percentage of Land-Sea to Sea-Land d
1952	132,700	77,561	54,977	71%
1953	209,900	130,268	79,647	61%
1954	282,000	175,948	96,521	55%
1955	412,000	253,133	142,575	56%
1956	417,600	232,635	165,637	71%
1957	466,400	272,830	177,066	65%
1958	254,400	111,103	120,492	108%
1959	291,700	119,565	144,916	120%
1960	281,000	129,734	128,977	99%
1961	236,900	119,649	104,006	87%

Source: Columns a, b, c, compiled from records of the Port Company.
Column d, author's calculations.

Traffic - that it has been increasing steadily till 1958, when it suddenly decreased to 111,000 tons as compared to 272,000 tons in 1957. In other words, 1958 traffic was only 40 per cent of that of 1957. The following four years kept approximately the same reduced traffic, which is on an average, 50 per cent of 1957 traffic.

Why is there a large sudden decrease since 1958?

As far as column b in Table VII is concerned, there are two different explanations. First, there were the political disturbances in Lebanon in 1958, so the drop was a natural one for that year, and the traffic which normally would have been channelled through Beirut was channelled through other ports; specially that businessmen who were obliged to get their merchandise in 1958 and 1959 through other ports, were taking some time to rechannel them through Beirut.

The second main explanation is the development of a very important port - that of Latakiah in Syria. To follow this more closely, Table VIII has been prepared.

Taking Syria first, we notice that in 1956 and 1957, the Sea-Land traffic was 138,000 tons and 140,000 tons respectively. In 1958, it dropped to 67,000, which is only 48 per cent of the 1957 figure, and it kept decreasing till

TABLE VIII

LEBANON'S TRANSIT TRADE: COUNTRIES OF DESTINATION
(Free Zone and Customs)
(in Metric Tons)

YEAR	TRADE THROUGH	Saudi Arabia	Irak	Iran	Jordan	Kuweit	Syria	Turkey	Others	Free Zone or Entrepôt	Gaza	TOTAL
1956	Customs	3,124	10,635	365	9,468	562	61,663	18	288	7,021	-	93,144
	Free Zone	4,289	80,043	2,527	60,578	938	77,134	6	112	6,853	155	232,635
	TOTAL	7,413	90,678	2,892	70,046	1,500	138,797	24	400	13,874	155	325,779
1957	Customs	3,052	14,678	1,030	16,030	659	48,682	6	103	7,334	64	91,638
	Free Zone	10,451	85,394	5,256	73,013	612	92,161	-	358	4,728	857	272,830
	TOTAL	13,503	100,072	6,286	89,043	1,271	140,843	6	461	12,062	921	364,468
1958	Customs	1,227	3,717	543	6,889	518	24,408	2	75	4,810	105	42,294
	Free Zone	3,766	32,376	8,394	19,204	296	43,109	7	191	3,717	43	111,103
	TOTAL	4,993	36,093	8,937	26,093	814	67,517	9	266	8,527	148	153,397
1959	Customs	851	3,600	620	4,188	1,042	18,953	13	87	4,852	24	34,230
	Free Zone	3,611	24,626	4,375	22,370	1,200	58,438	1	318	4,605	21	119,565
	TOTAL	4,462	28,226	4,995	26,558	2,242	77,391	14	405	9,457	45	153,795
1960	Customs	738	6,760	497	6,382	1,156	10,138	49	98	8,196	15	34,029
	Free Zone	7,430	39,429	3,333	37,996	3,660	33,648	17	267	6,894	60	129,734
	TOTAL	8,168	46,189	3,830	44,378	1,816	43,786	66	365	15,090	75	163,763
1961	Customs	878	6,633	330	3,418	1,166	7,987	15	152	7,438	16	28,033
	Free Zone	3,414	44,429	1,661	33,648	1,185	33,738	20	265	1,267	22	119,649
	TOTAL	4,292	51,062	1,991	37,066	2,351	41,725	35	417	8,705	38	147,682

Source: Compiled from records of Beirut Port Company, Statistiques du Mouvement des Marchandises, 1956 - 1962.

TABLE IX

LEBANON'S TRANSIT TRADE - COUNTRIES OF ORIGIN
(free zone and Customs)
(in Metric Tons)

YEAR	TRADE THROUGH	Saudi Arabia	Irak	Iran	Jordan	Kuweit	Syria	Turkey	Others	Free Zone or Entrepôt	Gaza	T O T A L
1956	Customs	40	634	46	89	6	2,072	39	195	-	-	3,121
	Free Zone	1,378	37,057	3,765	93,505	381	28,125	460	244	549	173	165,637
	TOTAL	1,418	37,691	3,811	93,594	387	30,197	499	439	549	173	168,758
1957	Customs	57	482	3	14	4	812	39	15	-	1	1,427
	Free Zone	248	25,437	2,265	122,191	145	25,494	323	571	321	71	177,493
	TOTAL	305	25,919	2,268	122,205	149	26,306	362	586	321	72	178,493
1958	Customs	2	405	-	47	1	340	75	113	-	2	985
	Free Zone	261	15,342	1,191	90,794	117	12,014	266	422	69	16	120,492
	TOTAL	263	15,747	1,191	90,841	118	12,354	341	535	69	18	121,477
1959	Customs	2	438	5	29	12	501	3	3	-	-	993
	Free Zone	262	13,203	718	111,777	64	17,560	884	356	29	63	144,916
	TOTAL	264	13,641	723	111,806	76	18,061	887	359	29	63	145,909
1960	Customs	2	1,160	95	3	44	442	8	31	-	0	1,785
	Free Zone	269	7,292	547	97,756	18	22,129	630	336	-	-	128,977
	TOTAL	271	8,452	642	97,759	62	22,571	638	367	-	-	130,762
1961	Customs	10	941	-	22	3	888	80	6	-	-	1,950
	Free Zone	243	10,645	1,024	75,211	35	15,709	626	500	13	-	104,006
	TOTAL	253	11,586	1,024	75,233	38	16,597	706	506	13	-	105,956

Source: Compiled from records of Beirut Port Company, Statistiques du Mouvement des Marchandises, 1956 - 1962.

through Beirut port. Jordan's share is approximately 75 per cent of the whole Land-Sea traffic. If we take the year 1958, it is 77 per cent, in 1960 it is 75 per cent, and in 1961 it is 71 per cent.

As a result we note that the Land-Sea traffic compared to the Sea-Land one has been on an average of 63 per cent for the six years 1952 - 1957. However, the situation changed after 1958, and for the last four years 1958 - 1961, the Land-Sea traffic has been almost equal to the Sea-Land traffic and even higher for the years 1958 - 1959. The average for the last four years is 103 per cent. (See Figure 4.)

In concluding, we can say that actually the free zone is essentially a transit channel for the merchandise coming from the West to the East and vice versa from the Near East to the West, mainly Jordan, Syria and Irak. It rarely distributes by sea merchandise coming from the sea, or by land merchandise coming from the hinterland.

C. Free Zone's Effects on Other Institutions

1. Manufacturing Firms

Among the many manufacturing and conditioning firms in the free zone, the cloth confection firms are the most important. In March 1963, their number amounted to 19 firms, having more than 1,000 employees working in modern and perfectly up to date factories.

The examples which I have taken, therefore, are chosen from these sewing firms, which are most representative of the free zone manufacturing firms.

What are the advantages of having these manufacturing firms in the free zone? We can divide these into two sets of advantages: first, there are important advantages over the Lebanese products, and secondly, advantages over the American and European products.

Advantages over the Lebanese Products:

An important advantage is that they do not have to pay custom duties on the cloth material and many other items which are necessary in confection as thread, linen, buttons, nylon bags to wrap the finished item, and at last paper and

cardboard boxes for final presentation. The main reason for this is that they buy them from merchants in the free zone or import them themselves on their own accounts to the free zone.

Inside the Customs Territory, whether the above mentioned materials are imported on their own account or bought from local agents will definitely cost more by the customs duties difference. For example, when the shirt is manufactured in the free zone and enters to the Lebanese territory for local consumption, custom duty which is to be paid on it will be only 30 per cent of what the duty would have been if it had entered as raw materials. There are two reasons for this: first, if the cloth material enters the Customs Territory as raw material ready for confection it pays more than 60 per cent,⁹ sometimes even 80 per cent, customs duties; this is mainly done to protect the local infant industries. But this same material, when it is already manufactured in shirts, will pay duties amounting to only 30 to 40 per cent of its costs, mainly because the final cost includes the material as well as the overhead cost.

The second reason is that the other secondary items which are necessary in the confection of final products as

⁹All percentage figures mentioned in this Section are secured privately, through interviews with Port Company Officials.

nylon bags, cardboard sheets, thread and buttons, if entered as such on the Lebanese territory will have to pay high customs duties, but when entered as a material used in the confection of the final product are entered without any further consideration.

For these reasons the product manufactured in the free zone is on an economic advantage to the product manufactured in the Lebanese Customs Territory.

Advantages over the European and American Products:

In the case of cloth manufacturing, all the primary materials are foreign made - in Europe or in the States. For these materials to arrive to Beirut the insurance and freight are considered to be 7 per cent of cost from New York to Beirut and 5 per cent of cost from Beirut to New York. Generally the Beirut - New York fares are 30 per cent less than the New York - Beirut ones because Lebanese exports are much less than the imports and liners have always available space while returning.

The only disadvantage the Lebanese free zone product has as compared to the American product is the 12 per cent which constitutes the coming and return fares of transport and insurance. This disadvantage is largely balanced by the cheapness of the Lebanese labor,¹⁰ specially in the shirt manufac-

¹⁰In Lebanon labor is - just to take a very conservative percentage - more than 50 per cent cheaper than in the United States.

turing, where labor equals 50 to 55 per cent of the finished product in Lebanon.

Therefore, in calculating the final cost of a finished product in the free zone of Lebanon, the following items are included:

<u>Lebanon</u>		<u>United States</u>	
	<u>L.P.</u>		<u>L.P.</u>
Material	200	Material	200
Labor Cost	200	Labor Cost	300
Insurance & Freight	34		-
	<hr/>		<hr/>
	434		500

If we want to follow the exact percentage - that labor in the U.S, is twice as expensive as in Lebanon - we should put L.P. 400 instead of L.P. 300 for labor. But the labor efficiency in the U.S. is higher than in Lebanon for the main reason that in the U. S. there is economy of scale.

An example will illustrate this clearly. The cutting machine is identical in both countries. However, in the U.S. it keeps cutting the same pattern for days and days because of the very large demand for one single design, whereas in Lebanon the pattern has to be changed twice a day in order to

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cut two different designs.

The Lebanese, therefore, can mostly compete on sports' wear, sports jackets, trousers and shirts. 25 per cent of the manufactured shirts in the free zone are sold in the Lebanese market and 75 per cent in the Arab countries: Irak, Kuwait, Iran, Nigeria and North Africa.

Still another advantage the free zone brings to local manufacturers is that it reduces the cost of some materials, by the relatively reduced margin of profit when these materials are bought in the free zone.

Many small manufacturers do not import on their own account all of their secondary products which are needed in the production of the finished item. If bought in the market, they will cost more than if bought in the free zone and then entered into the Customs Territory, assuming that the same margin of profit is taken on both - free zone and internal market.

The comparison is illustrated as follows:

11 The price of the Standard American White Hitt ARROW shirt is for L.L. 15, while the cheapest American colored sports shirt is for L.L. 25, and this is explained by the economy of scale.

<u>Bought on the Market</u>		<u>Bought in the Free Zone</u>	
	<u>L.P.</u>		<u>L.P.</u>
Cost	100	Cost	100
Customs	40	15% margin of profit	<u>15</u>
	<u>140</u>		115
15% margin of profit	21	Customs	40
	<u>161</u>		<u>155</u>

Another important point to take into consideration is that the free zone helps the manufacturers by offering them a large variety of materials to choose from, and a better product, in the easiest and cheapest means. This is because the free zone has thousands of items which are not primarily meant for the Lebanese production or consumption but which are warehoused for any prospective international customer - usually for an Arab market.

All of the above mentioned advantages help the Lebanese product to be more competitive with the Western and Arab markets and thus be cheaper for the Lebanese consumers, which in turn tends to raise their standard of living.

2. Effects on Businessmen

The existence of the free zone has been very beneficial in many ways to the Lebanese businessmen.

The most important of them all, in my point of view, has been the attraction towards the free zone of all kinds of merchandise coming from all parts of the world most of which destined to be re-exported towards other countries. Thus the free zone has been more like an international market where all kinds of products are found. It has been an entrepôt for the Middle East.

Businessmen from everywhere in the Arab world come and choose the products they need to export to their countries. In the Rugs'Bazar, for example, there are the best collections of rugs which may be difficult to find even in Iran.

All of these transit trade and turnovers benefit the Lebanese middleman, who buys at a price and sells at another. However, this does not profit the middleman only, but also the Lebanese worker, the Lebanese transport companies, and the Port Company itself, all of which make a profit out of the trade carried out in the free zone. Even businessmen who are not working in the free zone benefit also from it.

Many firms in Europe do not export except in certain quantities and the more the quantity is the less is the price

per unit. Many average businessmen in Lebanon do not need the requested quantity imposed on them by the foreign firm, mainly because of the limited market but also because of their thin capital equity which forces them to diversify their risks by dealing with different kinds of articles.

These businessmen, in the non-existence of the free zone, would have had either to undertake a big risk of having to import a larger quantity of goods or of remaining without that special article. But with the presence of the free zone, they buy these materials in the free zone at a cheaper price than if they had to import them; moreover, they have the advantage of choosing out of one line any measures, colors, specifications they need.

An interesting case is of a local and important bank in Beirut which has hired large warehouses in the free zone, where they usually stock all the merchandise of their customers. This gives many advantages, first, to the bank, and secondly, to the customer. The bank, besides making its normal gain on the letter of credit, makes an extra profit on the warehousing and handling charges of the merchandise. In the case of a delay, for example, if the customer has not been able to pay for the merchandise, and withdrawn it the moment it arrived, the high charges which are normally taken by the

Port Company are avoided and normal ones are charged by the bank itself.

In the case the customer withdraws his merchandise by small quantities, it is under the direct control of the bank and the warehouse receipt system is much simplified.

In the case of default, the bank has the merchandise in its own warehouses, so it does not have to follow any procedure to legalise it or pay any extra charges neither to the port nor to the governmental officers.

All of these constitute important advantages for the Lebanese importer, as well as for the bank.

Another advantage for the Lebanese businessmen comes from the manipulation taking place in the free zone.

In the case of the job cloth lots, for example, the customs offices uniformly receive L.L. 5 per kilogram. So importers bring the lots to the free zone first, open them and take off all defective items which cannot be possibly sold (most of the time this constitutes more than 25 to 30 per cent of the lot). They discard these defective parts, enter the rest to the customs, and pay customs duties on only the good part, in the case it is destined to the local consumption. Out of 100 kilogrammes, for example, if they discard 25 kilogrammes, they would have saved L.L. 125 (25 x L.L. 5), which amount

allows an increase in their profits, and results in lower selling prices for the remaining materials.

In the case it is to be re-exported, it will be sold at a higher price because of the manipulation which has taken place; however, in this instance, instead of saving on its customs, it will save on its transport charges.

Another advantage businessmen get out of the free zone, and this is a consequence of all the trade and transit due to the free zone, is the availability of some transport facilities and their cheapness.

Ten years ago, transport facilities were scarce and terribly expensive in between Lebanon and many other countries, specially Africa. At that time, there used to be one liner a year and the costs used to be completely irrational and very expensive; while now there are ten or twelve liners at relatively competitive and normal fares. This is mainly due to the increasing movement in traffic, export and transit trade, which are taken place in the free zone. Freight is always available from the free zone and liners instead of going from Beirut almost empty, have always freight to be transported to many parts of the world. This perpetual turnover of coming and going of merchandise, encourages sea transport to Beirut and reduces, by much, its cost.

3. Effects on Customs Revenues

Many shrewd Lebanese businessmen take advantage of some of the free zone liberties and to their best to avoid the regular Lebanese customs duties by any possible means, either by distortion of the law or by simple swindling. Many taxes are thus being avoided from the Lebanese customs, resulting in lower customs revenues. This will be clearer by the illustration of some examples.

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Job Cloth Case:

The job cloth is a different collection of materials which have definite specifications, and special tariffs in the customs. The job cloth has to be imported by kolgrammes, has to be of a maximum of 1.5 meters long a piece (the width does not make any difference), has to be of different qualities, and lastly, there should be defective pieces in the lot. It is then considered as job cloth and it pays LL 5 per kilogram for customs which is actually one-tenth to one-twentieth of the duties paid on the normal cloth coming in rolls or in boxes. This policy is meant mainly to help the poorer class people to allow them to provide for their clothing.

¹²Information secured from a private interview with Mr. Georges Richa, Director in the Conseil Superieur des Douanes.

What the local manufacturers and merchants do is to bring the needed material for towels, handkerchiefs, shirts, trousers, and suits, directly to the free zone in the normal rolls, and cut them approximately to the needed measures, which normally do not exceed one meter or a meter and a half, thus reducing the roll into hundreds of small pieces. Combining different qualities, different colors, sizes, items and putting the whole thing together with some real job cloth, they enter the whole lot into the Customs Territory as a Job Cloth, which definitely is a job cloth according to the law, but, in reality, is the foreign-made rolls which would have normally paid more than 80 per cent customs duties. Once outside the customs, half of the job cloth lot is confectioned into men's and women's wear.

Cardboard Case:

Generally all cardboard imports pay approximately 40 per cent customs duties. However, in 1956, in order to encourage the export of Lebanese fruits, a law was promulgated by which all perforated cardboard boxes destined to the fresh fruit exports were to be exempted from any customs payment.

¹³ Perforated boxes which are destined for chickens transport benefit from this Law too.

So, Lebanese farm agriculturiers began importing cardboard sheets to the free zone and manufacture the needed boxes there, to avoid the huge difference in the labor and transport costs (if transported as boxes they would take ten times more space and thus cost much more), and enter them to the Customs Territory without any tariffs. Once this law became known, many businessmen proceeded on the same basis, by declaring that they had fresh fruits to export, while in reality the perforated cardboard boxes were destined for books, for canned foods, for novelty articles, etc.. The customs officers have not been able to have a strict control over this case. It is estimated that more than 70 per cent of the cardboard boxes declared for fresh fruits transport are used for many other purposes, and are avoiding the payment of customs tariffs.

Whisky Case:

Customs on whisky imports is around 200 per cent. This may vary depending on the policy of the Government.

In Lebanon, all foreign embassies are provided for with as many whisky bottles as they need, for their personal use, without any customs duties payments. However, there are many swindling cases. Bottles of whisky which have been originally declared as for an Embassy's personal use, are being sold secretly in the market with some price reduction.

Moreover, many institutions in the canned food business have whisky warehouses among many other things in the free zone.

In general, in any free zone of the world, some percentage of leakage is considered to be normal from the smooth and regular operations of the institution. It is considered to be about 10 per cent of the local consumption traffic passing through the free zone. Lebanon, however, passes this percentage; it is estimated to be 15 to 20 per cent of the local consumption traffic passing through the Beirut Free Zone.

4. Effects on Employment

Besides all the advantageous effects of the free zone on different institutions, we should not forget one small yet very important effect, and that is its effect on macro-economic grounds. The free zone provides employment for more than one thousand five hundred persons.¹⁴ Some one hundred and seventy work in the free zone for the Port Company, and the others are hired by private institutions.

¹⁴It is difficult to know the exact number of employees working in the Beirut Free Zone, because most of them are privately hired, and their number increases or decreases depending on seasonal work. The Port Company officials evaluate the number of employees - both those in private institutions and those in the Port - to be around 1,700.

Therefore, the free zone reduces unemployment in the country, provides income to many families, which in turn tends to raise their standard of living, and ultimately it increases the National Income of the country.

As a conclusion, we can say that the Beirut Free Zone encourages the manufacturers and the businessmen in many different ways. It has become an international warehouse and a market for both the foreign products and the foreign customers. It encourages re-export trade with many profits due to manipulation, commission, and transport. There are many facilities provided by the free zone: such as distribution and transport facilities. And lastly, but not the least, it reduces unemployment due to the large number of employees who make their living out of the free zone income.

The only disadvantage of the free zone, which is the loss of a certain percentage on the Customs tariffs, is more than outbalanced by its many advantageous effects on the Lebanese economy.

CHAPTER V

PROBLEMS FACED BY THE FREE ZONE OF BEIRUT AND RECOMMENDATIONS FOR ITS IMPROVEMENT

In this Chapter, we will try to present the different problems with which the Beirut Free Zone is confronted and their different possible solutions. The Chapter is divided into three different sections.

The First Section deals with competition from other Arab ports, and its effects on the Free Zone of Beirut.

The Second Section deals with the Middle Eastern transit problem and their possible improvement.

And lastly, the Third Section presents criticisms of some of the measures which are enforced in the free zone and discusses the ways the Government can solve them to improve the free zone production and traffic.

A. Threats to the Lebanese Free Zone and
Their Effects

1. Ports of Latakiah, Akaba, Basra, Tripoli.

Everywhere in the world, we see a movement of economic
unification and federalism,¹ while in the Middle East, the
Arab countries tend to be divided and turned against each
other, without realizing the fact that economic solidarity is
an unquestionable necessity for the welfare of the region,
and which if forgotten, may lead to a disastrous and total
ruin.

In addition to such difficulties, there are also
economic and political complications which obliged trade to
have new traffic lines. These have greatly prejudiced the
Lebanese as well as other Arab interests.

There were two main handicaps to normal transit
routes between the different Arab states. The first was
the Arab political differences, and the second was the
divergent economic interests and in particular the common
wish for each state to assume individually its own port in-
terests as well as its own transport means.

¹Such as, for example, the European Common Market.

The result was that the Port of Beirut was confronted with competition of two important ports: the Port of Latakieh and the Port of Akaba. These two ports were imposed on the Syrian and Jordanian businessmen by the respective authorities of the two countries.

Port of Latakieh

The Syrian Government, in order to oblige the Syrian businessmen to use the Port of Latakieh, enacted a series of measures, which resulted in an increase in the Latakieh port traffic. Many imported products, as timber, iron, cement, sugar, and asphalt were to pass obligatorily by the Port of Latakieh. The same was true with some exports, such as wheat, cotton and other cereals.

Shortly after these were enforced, the results showed up to be satisfactory for Syria. Figures jumped from 32,000 tons as total Latakieh port traffic in 1944 to 835,000 tons in 1954, an incredible increase of 2,500 per cent in ten years. In 1960 total traffic was 1,326,426 tons.² This is despite the fact that the position of the port is defective and not practical for the ships in winter.

² Ministry of Planning, Government of Syria, Statistical Abstract of Syria, 1961, p. 131.

Export traffic constitutes the main traffic item in the Port of Latakieh. Almost all exports consist of agricultural products. In many years, the export port traffic of Latakieh has been higher than the one of Beirut. This can be easily explained by the two following reasons: first, by the fact of the Syrian administrative obligation for the exports to pass by Latakieh; and second, by the fact that the Port of Latakieh is the natural port for Northern Syria and the Djezirah. Both regions are rich in agricultural products; indeed, 83 per cent of cotton, 57 per cent of vegetables, 93 per cent of olives, 62 per cent of tobacco and 87 per cent of the fruits are planted in North Syria.³ This region, the North of Syria and the Djezirah represent more than 65 per cent of Syrian agricultural production.

Naturally, this constitutes a great threat for the Port of Beirut. In future, when Latakieh port is modernized and an adequate and effective means of transport is built in between the port and the interior, the Beirut Port will lose much of its transit business in favor of the Port of Latakieh.

³Bassous, op. cit., p. 98.

Port of Akaba

As in the example of Latakieh, other Arab countries have tried to develop their own port facilities. Since the time Jordan stopped using the Port of Haifa,⁴ which was a very convenient and a natural port for her, trade was diverted to the Port of Beirut. In fact, after Syria started to use her port in Latakieh, Jordan became the country with the highest figure for transit trade in the Beirut Free Zone.⁵

However, the Jordanian Government decided in 1951 to construct a modern port in Akaba to serve the country. The project was executed and the construction work was completed in 1960. Before 1960, the installations available were not sufficient. Furthermore, Akaba is 400 kms. far from Amman and so the merchandise had to be transported by truck for the first 84 kms. till Ras el Naqb and the remaining 316 kms. had to be covered by rail. This meant that two days were needed to cover the distance between the port and the Capital.

At the present, however, Akaba is a very modern port connected with an autostrade to Amman. In this way the truck

⁴ Due to the Palestine War of 1948.

⁵ Supra, Table IX, p. lll.

which used to need 36 hours to go 400 kms. from Amman to Akaba takes now 6 hours only.

Thus, Akaba port is at the present in a more favorable position to attract part of the merchandise transiting through the Beirut Port, than it used to be before the completion of the project.

The imports which come through the Port of Akaba consist mainly of sugar, wheat and the military equipment. As far as the exports are concerned, they mainly consist of the phosphates which are shipped to Japan and India.

Port of Basra

Another port whose competition may influence the transit trade through Beirut is the Port of Basra.

The Port of Basra is the main Iraqi port on the Persian Gulf. Built at the intersection of two rivers, the Tigris and the Euphrates, it is a large port having modern equipment.

It has one drawback, however, and that is that the merchandise disembarked in Basra have to run 450 kms. to arrive to Baghdad and 1,000 kms. to arrive to Mossul. So for any merchandise imported from Europe or the United States, Beirut or Latakiah ports are definitely the shortest roads to

reach the above-mentioned two cities.

We have to mention that another port is being built at an approximately 80 kms. from Basra in Um el Kafar. This port is mainly destined for deep draft ocean going vessels and large oil tankers.⁶

Port of Tripoli

We should at last mention the Lebanese Port of Tripoli which is approximately 100 kms. away from Beirut. The importance of this port comes from the fact that it is directly connected with northern and central Syria owing to the Homs passage.

The Port of Tripoli is used essentially for exportation of petroleum. More than 11 million tons of petrol were embarked in 1961, all coming from northern Iraq.⁷

This port has two advantages over the Port of Beirut. First, it is not separated from the hinterland by any chain of mountains, like the Port of Beirut is, and secondly, it is connected with the hinterland by a standard gauge railroad. Its position is best suited to be the Port of Central Syria.

The main disadvantages, however, of the Port of Tripoli

⁶Information secured from Mr. Abdel Rahman Khoyab of the Iraqi Embassy.

⁷Le Commerce du Levant, (Bi-Weekly Issue), (Beirut: March 6, 1963), p. 22.

arise, first, from the fact of its bad position as to the direction of the West winds. These winds silt up the roadstead of the port and its shallow bottoms, which in turn necessitate high costs of dredging. Secondly, it is not served by as many scheduled liners as the Port of Beirut is.

In 1961, 677 ships anchored in Tripoli. They have disembarked 161,880 tons of merchandise, consisting mainly of wood, cement, iron, and materials for the I.P.C. They have embarked 20,292 tons of merchandise, mostly wheat, fruits and wood,⁸ thus, a global traffic of 182,172 tons, excluding petroleum.

We should mention that the traffic of the Port of Tripoli would have been higher if some of the material destined to the I.P.C. were not imported through the Syrian Port of Latakieh.

2. Span and Effects of These Threats

Of all the threats, the most dangerous one, from an economical point of view, is, beyond any doubt, the Port of

⁸ Ibid.

Latakieh. It is true that Latakieh is poorly situated in winter because of the bad direction of the winds. However, the Syrian Government is trying hard to keep the port always in a perfect working condition.

For the moment, a large part of the Syrian imports as well as most of its exports, which were transited through Beirut, are done through Latakieh Port. It already constitutes a great loss to the Port of Beirut, specially in the loss of the Syrian exports, because they constituted a return cargo for ships coming to Beirut, and thus reduced freight tariffs. Of course, the Lebanese exports cannot in any way be sufficient for this return cargo.

The day when Latakieh Port will be completely equipped, a large percentage of the Syrian imports will be cut from Beirut, especially the heavy agricultural equipment which cannot yet be handled perfectly in Latakieh Port.

Syria, however, will never be able to do completely without the Port of Beirut, because it is the natural port for Damascus and for southern Syria.

Looking at Table X, we note that transport charges in between Marseille and Damascus are cheaper if transited through Beirut instead of through Latakieh. It is cheaper by L.L. 1.80 per metric ton.

TABLE X
AVERAGE TRANSPORT CHARGES PER METRIC TON¹

From	To	Transport Charge L.L.	From	To	Transport Charge L.L.	TOTAL L.L.
Marseille	Beirut	34.43	Beirut	Amman	22.50	56.93
Marseille	Latakieh	34.43	Latakieh	Amman	24.30	58.73
Marseille	Akaba	43.82	Akaba	Amman	28.60	72.42
Marseille	Beirut	34.43	Beirut	Damascus	11.00	45.43
Marseille	Latakieh	34.43	Latakieh	Damascus	15.20	49.63
Marseille	Akaba	43.82	Akaba	Damascus	41.60	85.42
Marseille	Beirut	34.43	Beirut	Baghdad	53.20	87.63
Marseille	Latakieh	34.43	Latakieh	Baghdad	55.50	89.93
Marseille	Akaba	43.82	Akaba	Baghdad	64.60	108.42

¹ All the above mentioned prices are only average transport prices per metric ton prevailing in the market during the year 1962. Other handling port charges, though they may vary from 5% to 10% among the different ports are not mentioned.

Source: Data is secured from the following: al-Ghazal Cargo Transport Company; Condohouris and Arghiris Company; Cattoni; Mr. Kamal Hamadeh and Mr. Abdo Abou Assi.

The Port of Akaba, though it has been expanded and connected to Amman with a large and modern highway, cannot constitute, from the economic point of view, a real threat to the Port of Beirut. Its main drawback lies in its position of being situated on the Red Sea. This obliges the ships coming and going to Europe to pass through the Suez Canal and thus pay high tariffs. This can be clearly seen on Table X; transport charges per metric ton in between Marseille and Akaba is L.L. 43.82, instead of the L.L. 34.43 in between Marseille and Beirut, a difference of L.L. 9.39 per metric ton. Furthermore, the charges between Beirut and Amman are cheaper by L.L. 4.30 per metric ton as compared to the charges between Akaba and Amman.

This clearly shows that from the economic point of view it is cheaper for Amman to use the Port of Beirut than the Port of Akaba. Nevertheless, the position of Akaba on the Red Sea constitutes an advantage for all traffic, exports and imports from and towards Japan and India, which will without doubt benefit from such a situation.

Even though the ports of Latakiah and Akaba have important national rôles towards their respective countries, none of them can play an important regional role as the Port of Beirut, which owing to its favorable geographic position,

and backed by a large Capital city (Beirut), makes it a better-situated port to have a regional importance as far as business and transit are concerned. If the Port of Beirut is to keep this important prime position in the Middle East, some measures are to be taken and applied. Such measures will be discussed in the following sections.

B. Regional Measures

1. Transit Organisation

Total transport costs between two regions include all transfer costs consisting of transportation costs, tariffs and other transfer items, real or artificial. Some transfer costs are unavoidable; for instance, the cost of preparing bills of lading, invoices, and the like, while others are in a sense artificial, such as tariffs. The Middle East is full of examples of artificially-created transfer costs, as each independent nation seeks to maintain or gain advantage at the expense of its neighbours. This type of trade barrier has the effect of reducing trade as costs rise; the losers in the intraregional case are the Arabs themselves. Perhaps the most common examples of excessive transfer costs are tariffs and restrictions of transit such as requiring goods to be loaded

from one truck to another. Other less common examples are the pressures to use less efficient equipment than might be available in loading transport vehicles, as well as the requirement that certain uneconomical trade routes be used. All these barriers to trade create costs which are borne by the Arab consumers.

As a step to improve such a condition, many transit meetings were held in 1954 and in 1955 among the Arab States, but none of them was effective to solve the problem. On November 28, 1959, an agreement was reached in Damascus which was supposed to help the transit problem; however, the Arab countries in general were far from completely resolving it.

The Second Article of the 1959 Agreement provided that transit through Lebanon in destination to Jordan of a long list of goods of merchandise was only permitted on the condition that these goods used the rail transport; this was to avoid the competition of trucks and also to insure to the rail a certain amount of traffic. It was also stipulated in the agreement that a minimum amount of 50,000 tons of phosphate coming from Amman to Beirut should use the rail.

⁹L'Economie Libanaise et Arabe, No. 83, (Beirut: March 1960), p. 11.

Such an agreement is completely to the disadvantage of Jordan, which pays LL 15 to LL 25 excess costs for each ton whenever it uses the rail.

Syria, on the other hand, wants the rail to be the main means of transportation, in order to cover its yearly rail deficit.

This Article also is to the definite disadvantage of Lebanon, if viewed from the Latakiah point of view. Indeed, all the merchandise transiting through Latakiah to Jordan can use the truck, while if transited through the Port of Beirut, have to take the rail to Amman. Moreover, the purpose of this Article was not only to minimise the rail deficit but also, and this is the most important reason, to deviate the transit from Beirut to Latakiah.

The Third Article of the same Agreement stipulated that all the other goods which were permitted to use the truck transport to the destination of Jordan or coming from it and transiting through Lebanon can use only Syrian, 10
Jordanian and Lebanese trucks and in the following proportions:
40 per cent Syrian truck; 38 per cent Jordanian truck; and

¹⁰Ibid.

22 per cent Lebanese truck. A strict control was to be held on the Customs to see that these proportions were respected.

This Article is to the disadvantage of Lebanon, which cannot profit but by only 22 per cent of the transit which is done through its port. Syria claimed that this percentage was a fair one, because since it is situated between the country of origin and destination, it cannot insure its trucks with any return freight, and thus "cannot compete with the reasonable prices offered by the Jordanian and Lebanese trucks."¹¹ If this proportion is not respected, the Syrian Government would charge LL 10 for every ton transiting through its territory.¹² This proportion had to be given in at the prejudice of the Lebanese interests, and at the prejudice of the free competitive transport rates.

The Lebanese trucks can go to Damascus and only to Amman in the above stated condition (i.e. Article No. 3 of the 1959 Agreement), but cannot go to Baghdad or Teheran or Kuwait. The Iraqi and Syrian trucks, on the other hand, can transport goods directly from Beirut to Baghdad with one manifest and one driver.

¹¹ Bassous, op. cit., p. 127.

¹² L'Economie Libanaise et Arabe, op. cit., p. 11.

So, all the merchandise transited through Beirut in destination of Iraq, Kuwait or Iran cannot be transited economically with the Lebanese trucks; because if it did, it would have to be loaded again on a Syrian truck in Damascus, issue a new manifest, have a new inspection and a new driver. Once again, therefore, Lebanon is to a disadvantage as compared to the Syrian, Iraqi and Iranian trucks when the merchandise is in destination to these countries.

The results of such a situation are clearly seen on both the Lebanese as well as the Arab economic plan.

As far as the Lebanese economy is concerned, the Port of Beirut has lost almost 50 per cent of its transit traffic in between 1955 and 1960.¹³ Figures dropped from 574,000 tons in 1955 to 288,000 tons in 1961.¹⁴

As far as the Arab Middle Eastern Economy is concerned, the Beirut transit traffic was not lost in favor of the Port of Latakiah and Akaba, but in favor of a non-Arab port, the Port of Iskenderun, which profited most out of this.

¹³ This decrease being due also to other reasons, mentioned in the previous Chapter.

¹⁴ Refer to Supra, Table IV, p. 106.

In 1958, due to the Lebanese insurrection, much of the Beirut transit trade was effected through Iskenderun. Since then, the Turkish Government has tried to keep this position. For this aim, it has taken discriminatory measures towards the neighbouring Arab countries to preserve the traffic transiting through their territories and on their own railroads. In fact, two distinct tariffs were applied for all goods transported on rail between Tchoban Bey and Nissibine, which is around 400 kms: a reduced tariff of \$ 1.66 for all goods going or coming from Iskenderun and a discriminatory tariff of \$ 5 for the same distance for all goods coming or going to Latakieh, Tripoli or Beirut.

This simply meant that "merchandise coming from Baghdad would have to pay two times more if it was to be transited through a Lebanese - Syrian port as compared to
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a Turkish port."

Such a measure calls for the Arab countries to cooperate strongly and adopt a unified attitude towards the transit problem, if they want to reestablish the situation to their own favor.

The regional interest should have the prime position

¹⁵ L'Economie Libanaise et Arabe, op. cit., p. 12.

and not always the national one. Otherwise, the sea traffic will be preferred to the land transit, and an important percentage, if not the whole of the profits accruing to the Arab States because of the transit, will be lost to the foreign cargo lines.

In order that the transit formalities be the simplest and the easiest, all across the Arab States, it would be advisable for the neighbouring countries - Iraq, Jordan, Iran and Syria, to have in the Beirut Free Zone a separate warehouse where they will have a customs office, and with the collaboration of their Lebanese colleagues, they will establish the legal manifests and formalities in as many copies as necessary, and all the trucks or wagons will no more be inspected or opened on any frontier till the final destination. This method would definitely save a lot of inspections, renewals of manifests on frontiers, and payment of special tariffs.

Moreover, in order to solve the unpractical loading and unloading problem, the quotas system, and the return cargo, the creation of an Arab Transit Pool, like the

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As suggested by Mr. Georges Richa, Director in the 'Conseil Supérieur des Douanes'.

European Wagons Pool, has been suggested. It consists of a transit office which will divide transport among a certain number of trucks representing different Arab States in certain definite proportions. Definitely, the adoption of such a system will lead to a less costly transit trade.

2. Transport Facilities

Promotional activities in the Arab countries have been oriented basically to the economies without much coordination between the states. The usual pattern is for each country to develop its transport system from the interior towards the port, without much consideration of how such developments affect other countries, or how economies might be achieved by coordinating plans. Hence Syria focussed its transport attention and development on Latakiah and transport to the hinterland, while Lebanon developed facilities which tended to direct traffic to Beirut. Similarly, Iraq has concentrated on routes to Basra, while Jordan developed Akaba. Regional coordination is almost a dead issue.

The present transport network in the Middle East is relatively inefficient and undevelopped. The system suffers from serious defects. Railways are run down utilizing antique equipment with high operating costs. Highways typically are

built to low standards and are easily destroyed by overloaded trucks, while many highways have yet to be constructed to complete the transport system. Ton mile costs over unpaved tracks can be two to ten times the costs on paved roads¹⁷ and the Middle Easterners as consumers or producers, pay the bill.

What is the most economical means of transport in the Middle East which is most suitable for the different countries which have to be effectively linked together to the best interest of transit and to the intraregional trade.

The two means of transport, rail and road, offer different advantages under different conditions. More confusing is the fact that the relative rate of improvement of the two technologies varies widely and unpredictably through time. Hence a system chosen now because it offers the best transport at the lowest cost may be completely obsolete in a few years because of technical improvements in the other transport field. If transport development is to be rationally guided by planning groups, some attention should be given to potential future developments.

At the present, railways are no longer transport monopolies, as they used to be in the past, but only railway

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R. Farmer, S. Hoss, & Ch. Stewart, Middle Eastern Inland Transportation, (Unpublished Manuscript, 1959), p. 132.

monopolies. Trucks, buses and airlines have syphoned off much traffic and offer shippers numerous alternatives to the railways. One result has been that railway regulation has lost much of its meaning, especially if the other technologies are relatively uncontrolled. If railway rates are to be closely controlled, it is almost essential to control trucking rates as well, since the prices charged in the competitive technologies are closely interrelated. Shippers are interested in purchasing ton-kms. not railway ton-kms.

Many believe that the longevity of the rail system offers the economic advantage of lower total costs in the long run as compared to highways due mainly to lower depreciation costs of the system over the next forty years or so. This analysis however overlooks the possibility of disparate rate of technical improvement in the two competitive systems. It is likely in the near future that trucks will become relatively more and more efficient with time, and since the turnover of vehicles is every five to ten years, the economy gains the benefit of progressively lower costs over time. "The present railway of the Levant do not offer a hopeful picture of progress for the future. Most cars and locomotives are obsolete, and inefficient, and while a new rail system will possibly be better managed, it is likely that a system constructed now will

in forty years be a drag on the economy in terms of efficiency... Longevity in the life of transport equipment is not always a¹⁸ virtue."

And as one among many results of the above mentioned points, the Governments have subsidized railway transport. Iraq and Jordan have from time to time made good operating deficits on the state railways, while Lebanon also makes good rail deficits for the privately owned D.H.P. system under the concessionary agreement. Syria apparently operates its rail¹⁹ system 'at a running loss'.

Motor vehicles, we believe, offer many advantages over the rail, mainly in their flexibility. Roads were (and are) a problem; but the lightness of the vehicles relative to steam-powered trains meant that they could go where the railroads could not. Moreover, the power to weight ratios of motor vehicles is much better than trains; the result was that the vehicles could climb hills which trains could not. The friction of rubber tires on pavements or gravel²⁰ helped in gaining traction under unfavorable circumstances.

¹⁸ Ibid., p. 116.

¹⁹ Ibid., p. 117.

²⁰ Ibid., p. 132.

The economic results of this technical development was a vehicle which could move over roads, and which was much cheaper to construct than railways. Early highways all over the world were nothing more than tracks wide enough to let pass a single vehicle.

A further point of interest in the Middle East is the problem of military control of the transport net in times of emergency. Railroads like pipelines tend to be quite rigidly defined in terms of routes, while the other technology is much more flexible. If potential enemies are found at various points, it might be wise to have a flexible system even at slightly higher cost. One example of this type of thinking is the reluctance of the western powers to construct any more pipelines in the Middle East, regardless of the present attitudes of the governments of countries transited, the lines are potential sitting targets in the event of emergency. The much more flexible tankships are now very much in vogue. A similar analogy might be drawn between railways and trucks; if the railway is in the wrong place militarily then trucks will be needed to carry troops and supplies. The possibilities of mobilisation of equipment as well as manpower should not be overlooked.

At present motor transport offers the best possibilities for the Middle East countries since the rate of technical advance,

especially for low volume traffic flows seems to be most rapid. Even this generalization must be qualified by many considerations, however, and any meaningful development plan should carefully consider the technical possibilities and prospects of the feasible technologies.

As far as Lebanon is concerned, the road is, in general, very badly maintained. There are three different main roads. The first and most important one is the Beirut-Damascus road, which is blocked an average of one month a year. The second in importance is the Beirut-Homs road, which is badly maintained and needs constant repairing. The last is the Merjeyoun road, which is used as a clearing road when the Beirut-²¹Damascus road is closed.

There were much talks about a Panarab auto-road to be constructed in between the Mediterranean and the Persian Gulf to serve the Arab ports of Basra, Kuwait, and Damman to Damascus and Beirut. All of the principal Near and Middle Eastern centers would be served by this road, including Baghdad.

This project, like many other projects, was abandoned because of the main reason that costs were beyond reach,

²¹Le Commerce du Levant, (Bi-Weekly Issue), (Beirut: April 9, 1955), p. 2.

\$ 100 millions.²² Nevertheless, the Rockefeller institution proposed to finance two-thirds of the project (\$ 65 million grant). We can say that the advantages of such an autoroad, mainly the development of international transit and trade and the resulting prospering of the whole region, may outweigh the cost of such a project.

Anyhow, this project is far from being realised at the moment. As far as the Free Zone of Beirut and its transit are concerned, some measures are to be taken for the short- as well as for the long-run.

In the short run, some ²³changes to the road of Beirut-Damascus are to be done. There are certain strong windings which are dangerous and constitute a perpetual source of accidents. Then, in summer, this road is so much congested because of the summer resorters that transit trucks are forbidden to drive at certain specific hours of the day, mainly in between 7:00 a.m. and 10:00 a.m., and 4:00 p.m. and 8:00 p.m. All of these points constitute obstacles to a rapid transit trade. Moreover, the width of the road should be doubled, or at least widened enough to absorb all of the traffic without much friction.

²² L'Economie Libanaise et Arabe, (Beirut: January 1960), pp. 11-12.

²³ Though it has been widened till Aley, the same process should be done till Damascus.

In the long run, it is necessary that important road projects be realised; the continuation of the northern auto-road till Tripoli, and on till Aleppo; and the continuation of the southern autoroad till Tyr and on till Mofrak.

C. Governmental Measures

In the first two sections of the present Chapter we emphasized much the transit side of the free zone, specially the regional transit and its threats and solutions. Nevertheless, there is another very important factor in the free zone and that is its production.

The export markets of the free zone are mainly the surrounding Arab countries, and being always unstable and un dependable, it has been necessary sometimes to try to dispose of part of the production on the local Lebanese market.

So, in this Section, we will try to find out in which ways can the Government develop the free zone production as far as the local market as well as the foreign markets are concerned.

1. Local Market

The measures needed for the encouragement of the free zone products to be sold in the local market of Lebanon, are measures which will insure the product the minimum of costs when it reaches the consumer.

There are certain rules which when studied carefully, prove to be obviously disadvantageous to the free zone manufacturers, and which are completely irrational with the present situation and the present customs rules and tariffs.

The Lebanese Customs Authorities charge the same duty on ready-made clothing whether imported from Hong Kong, Japan and other origins or whether bought directly from the free zone of Beirut, the justifications being that the free zone cannot be considered as part of Lebanon. However, the Municipality and the Income Tax Departments have enforced to the free zone tenants all tax regulations in force in Lebanon with the argument that the free zone is a part of the country.

Another irrational rule is that all goods originating from any Arab country benefit from a 25 per cent customs duty discount as compared to other foreign countries; but similar goods manufactured in the free zone of Beirut and cleared to local consumption have not been allowed this 25 per cent customs duty discount. In other words, a pair of trousers manufactured

in Damascus and imported to Lebanon would pay 25 per cent less duty than the identical item manufactured at the free zone of Beirut.

What I would personally suggest, is not only that 25 per cent customs duty discount be applied, but that a more rational 50 per cent of the customs be discounted on goods manufactured in the free zone and cleared to local consumption for the very simple reason that the cost of any garment manufactured in the free zone is over 50 per cent of Lebanese origin (labor, rent, electricity, packing materials, and overhead). It would only be normal that no duty be paid on the Lebanese portion of the cost.

At last any free zone tenant has to take the unnecessary and time consuming trouble of getting a permit from the port security office for any customer who wishes to visit and see samples in the free zone for business.

An easier means of access to the free zone for customers, employees, and workers should be created; eventually to open a special gate to be used only by free zone tenants and their customers which are accompanying them.²⁴

²⁴ As suggested by Mr. Kegham Khanamirian, Owner of the most up-to-date Cloth Manufacturing Firm.

The owner of a free zone firm or its manager should be able to accompany and enter to the Free Zone a customer if he wishes to do so.

Definitely, with a sound approach to the free zone problems and with a spirit of understanding and help, the Government can encourage the free zone manufacturers to sell in Lebanon more than they are doing in the present. A dependable market like Lebanon would enable the free zone manufacturers to expand and increase their production, which would permit them to equip their ventures with more efficient materials and administration.

2. Foreign Markets

The Government can in this field too and in many ways encourage the selling of the free zone products in free markets.

To begin with it can take a positive step with the Arab countries to have them accept free zone Lebanese goods as of Lebanese origin and to secure the allowance of 25 per cent discount on customs duties. This is of a prime importance because as we mentioned before the main foreign markets consist of the surrounding Arab countries.

Another step of equal importance would be for the Government to include also the ready to wear clothing in any trade agreement it concludes with other countries.

Free zone manufacturers have been complaining lately about the transport to Lybia which constitutes a growing market for the Lebanese ready-made clothing, despite the heavy Italian and far Eastern competition. Goods are usually sent by steamer to the Lybian market. However, no regular sailings exist between Beirut and the Lybian ports. The shipment of a consignment to Benghazi may sometimes take two to three months after the goods are made ready. The only shipping company serving between Beirut and Lybia ports has very arbitrary freight rates.

As the newly born African States can be a potential market for Lebanese industries in general and for the free zone products in particular, the Government should create a regular cargo service from Beirut to the African Coast even if it would be necessary to back it with a subsidy. Otherwise, the lack of a regular cargo service and even the delay of creating such facilities, may leave Lebanon out of the African markets.

At last, there are some regulations which are much of an inconvenience to the free zone manufacturers and they should be removed; such as, first, the special and costly permit which is necessary for women cloths' manufacturing in the free zone. Second, the obligation for all free zone

products to be labelled "Made in Lebanon" may create some psychological inconvenience for the selling of the merchandise in the foreign markets, specially in the Persian Gulf and the Arab countries where by nature they like to wear the most expensive products and the European made ones, if possible. We find this ill-feeling towards the local product in Lebanon too, where most of the consumers make sure that the product they buy is a foreign-made product.

3. Administrative Regulations and Tarifs

There are certain administrative free zone regulations which are enforced by the customs authorities and are much to the inconvenience of the free zone tenants, and manufacturers. These rules stiffen much the free zone operations which to be effective have to be most flexible. I believe that all of the formalities listed and discussed below are to be removed.

The most important of them are the formality expenses. For instance, the formality expenses from the Post Office to the Free Zone of a parcel of buttons, zippers, ornaments or thread sent by a foreign supplier amount to at least thirty five to forty Lebanese Pounds. The solution for this problem

would be the creation of a Post Office Branch in the free zone to accept parcels and mail.²⁵

Another example is that the forwarding of a parcel of goods worth few hundred Lebanese Pounds from the free zone to the airport costs only LL 40 to LL 50. High customs formality expenses increase considerably the value of small consignment and make the handling impossible of orders with a value less than a certain amount (i.e. LL 2,000).

Another example would be bringing from Beirut to the free zone of one wooden empty box or one hundred empty shirt boxes, amount to at least LL5 as a formality expense.

All of these expenses are a drawback to the free zone and an adequate system should be studied to minimise the formality expenses for movement of goods between the free zone of Beirut and the airport.

Manufacturers complain that the customs authorities are not allowing them to use fuel to run any kind of engines or equipment despite the fact that the Port Company approved it technically. Some of the tenants tried even to have their fuel tanks outside the zone and to run it through pipes to the inside; it was also rejected.

The Customs mostly as well as the Port Company are trying to get the maximum out of the free zone tenants. In

²⁵ As suggested by Mr. Rupen Balsamian, Manager of Mr. Khanamirian's Cloth Manufacturing Firm.

addition to the annual rent of about LL 20 per square meter, they pay hundreds of Lebanese Pounds, mostly to the Customs and Port Company as overtime for official holidays and one or two extra hours worked daily.

If the Government is anxious to see the survival and the further development of the free zone and its products, it would be necessary that all the different aspects of this problem be studied and the above mentioned appropriate steps be taken.

CHAPTER VI

SUMMARY AND CONCLUSIONS

Though the Free Zone of Beirut was created almost a quarter of a Century ago, it only began its real function a short while after the end of the Second World War when international trade resumed once again its normal movement.

What kind of a help did the free zone give during these fifteen years of its life to the Lebanese economy?

It definitely helped and influenced the economy in giving many advantages to its different sectors. Transit to the neighbouring Arab countries, for instance, was much encouraged. Trade increased and the free zone became an international market, a warehousing and distribution center.

Manufacturers took advantage of cheaper raw materials available at the free zone, set up installations, to compete with foreign produced goods imported to the

Arab world and to Africa. Businessmen have been much encouraged to increase their imports, due to the re-exportation facilities in case the Lebanese market failed to absorb the whole imported lot. Others, who did not have the required capital to import, were given the opportunity to choose any quantity, however small, from a wide line of products in the free zone. Transport, with the availability of return cargo, became cheaper and more regular, thus to the profit of the whole economy.

At last, because of the intense traffic created by the free zone, more income is accruing to the Port Company as well as to the employment sector of the economy. In general, all of the above mentioned factors add up to a net increase in the national economy of the country.

What will the free zone's role in the future be, as far as the Lebanese economy is concerned?

Since its early beginning, the free zone's economic importance as well as its traffic kept increasing till 1958, a year of insurrection and civil war. Since then it has never been able to reach, or come close to the peak it achieved in 1957. Why? Was the decrease due to factors within the free

zone or was it due to other outside factors?

Our comparative study of the Lebanese free zone and other important free zones throughout the world showed that the former offers many more advantages as compared to the others. Its administration is run by a privately owned company and many operations, commercial as well as industrial, which are strictly forbidden in almost all of the world free zones, are permitted in the free zone of Beirut. This liberalism has been advantageous to the free zone in that it has increased its traffic and turnover.

It is possible to say that the decrease is primarily due to reasons outside of the free zone.

As it was shown in our analysis in the last two Chapters of the present thesis, the decrease is mainly due to among many others, to three reasons.

The first reason is the political and economic instability and uncertainty Lebanon has been having for the past few years: the 1958 insurrection, and the recession the Lebanese economy suffered from in 1960 and 1961.

The second reason has been the defective transport system, both rail and road which, if not immediately revised will tend to lead the free zone to a worse situation.

The third reason is the competition the Beirut free zone is facing from the newly established and developed Arab ports, mainly Latakiah and Akaba.

The most important factor for the preservation of the importance of the Beirut free zone and transit in general is a regional one. The regional interest should have the prime position over the national one.

In the case of Lebanon, regional interest would also mean national interest, since it would mean a greater rôle ascribed to the Beirut Free Zone both in positively affecting the Lebanese economy and the economy of the neighbouring Arab countries.

A P P E N D I C E S

A P P E N D I X I

ENQUIRY ON FREE PORTS AND FREE ZONES

IN EUROPE

(Adapted from Customs Co-operation Council, Permanent Technical Committee, Brussels, Jan. 1963)

A. List of Free Ports and Free Zones in Europe

Austria

Free ports : -

Free zones : Linz, Solbad, Hall and Graz.

Denmark

Free ports : -

Free zones : Copenhagen

Finland

Free ports : -

Free zones : "Hanko Free Stock"

Germany (Federal Republic of)

Free ports : Bremen, Bremerhaven, Cuxhaven, Emden, Hamburg and Kiel.

Free zones : Kiel and Lubeck

Greece

Free ports : -

Free zones : Piraeus, Salonica and Scaramanga
There is a Yugoslav free zone beside the Greek free zone in the port of Salonica.

Ireland

Free airport : Shannon

Free zones : -

Italy

Free ports : -

Free points: (Free zones for the purposes of the enquiry): Naples, Trieste, Venice; three other free zones (Brindisi, Genoa and Messina) have been established by law but are not yet in operation.

Spain

Free ports : -

Free zones : Barcelona, Cadiz and Vigo

Sweden

Free ports : Gothenburg, Malmo and Stockholm

Free zones : -

Switzerland

Free ports : -

Free zones : -

Free districts: Aarau, Basle, Chiasso, Geneva, Lausanne, St. Gall and Zurich.

Belgium/Luxembourg, France, Netherlands, Norway, Portugal, Turkey, United Kingdom and Yugoslavia:

No free ports or free zones.

B. Administration and Operations

Austria

In Austria there are three free zones: Linz free zone (Upper Austria); Tyrolese free zone, Sobald Hall (Tyrol); and Graz free zone (Steiermack).

If it appears necessary by reasons of economic policy, the Federal Ministry of Finance, in conjunction with the Federal Ministry of Commerce and Reconstruction and the Federal Ministry of Transport and Nationalised Industries, may permit the estab-

lishment of free trade zones within the Customs territory in order to encourage international goods traffic. This permission may be granted to natural or legal persons provided they give security for the observance of Customs regulations. As regards goods traffic and payment of duties, free trade zones are treated as foreign territory. The zones are subject to special Customs supervision. Within the free trade zones, Customs Officers have the same powers as they have within the Customs territory. The free trade zones must be enclosed in such a manner as to ensure proper Customs security.

Foreign goods for importation into free trade zones must be forwarded under Customs seal. In general, only an external examination of the goods takes place.

A first-class Customs office is established in the free trade zone and is authorised to carry out all Customs operations in respect of goods entering or leaving the zone.

The detailed provisions relating to the management of free trade zones must be set out by the beneficiary in special records which require the approval of the Ministries mentioned above. Without a clearance for home consumption foreign goods may be stored, loaded, unloaded, reloaded, packed, unpacked, repacked, refilled, divided, split up, assembled, mixed, separated, cleaned, marked or re-marked, processed, used, destroyed. Foreign investment goods, e.g. machinery, to be used in the zones, and foreign goods for consumption in the zones, must be finally cleared on entering the zone.

Business enterprises may be established in these zones.

Particular points: The import duties and taxes chargeable on goods which are brought from the zone into the Customs territory must be paid; these duties and taxes are assessed according to the kind, quality, quantity and value of the goods at the moment of their importation into the zones, if the beneficiary so requests. This is also applicable if the goods have undergone a treatment referred to in par. 3, with the result that their quality has been changed.

Subject to control measures in connection with temporary exportation procedure, goods manufactured in free trade zones from goods produced or nationalised within the Customs territory are admitted free of import duties and taxes on re-exportation, if the

beneficiary so requests and if he has previously imported the primary goods into the zone. The same rule applies if home produced (or nationalised) goods and foreign goods are used for manufacturing goods within free trade zones; the domestic part of these goods entering the Customs territory is admitted free of duty, while Customs duties and taxes are payable in respect of the foreign part of such goods in accordance with the provisions mentioned in the preceding paragraph.

Belgium/Luxembourg

There are no free ports or free zones in Belgium or in Luxembourg.

Finland

Finland has no "free ports", but one "free zone" the Hanko Free Stock.

According to the regulations, a "free port" is an institution intended for public use, comprising an isolated harbour area with quays, storage places, and buildings, distinctly separated from the remaining Customs area by special Customs control arrangements (Customs Law, Section 71).

A "free stock" according to the definition in the Customs Law, is a type of warehouse designed for general use. It comprises a land area (no coast) with buildings and storage spaces distinctly separated by special Customs supervision arrangements from the surrounding buildings and areas (Customs Law, Section 70).

Imported goods may be stored in a free stock without Customs control, but the holder of the goods must give notice of the goods.

The Customs authorities are entitled to visit and make examinations within this free stock.

Factories for the industrial transformation of goods may be established within Hanko Free Stock. Processing depends, however, on a special concession to be granted by the Government. Retail sale, exhibition, public offering for sale of goods stored in a free stock and even their use for personal purposes are prohibited.

France

There are no such ports or zones.

Greece

There are no free ports in Greece, but there are three free zones: the Salonica free zone, the Piraeus free zone and the Scaramanga free zone.

The legislation makes no provision for the establishment of free zones. Nevertheless, it may be inferred from the existing regulations that a free zone consists of a part of a port, extending over sea and land, where goods can be stored without payment of import duties and from where such goods may be re-exported to different countries without undergoing Customs formalities or the formalities laid down for foreign trade.

Goods arriving from abroad may enter such zones freely, without Customs control; the only requirement is that the Manifest be deposited with the Customs authorities.

There is no Customs service within the free zones in Greece. However, Customs posts are provided at the exit points where the zones communicate with other parts of the territory or with territorial waters.

Under current legislation, industrial or craftsmanship undertakings may be established within the Salonica free zone.

The Piraeus free zone does not enjoy this advantage as, for the moment at least, it has a commercial and not an industrial character.

The Scaramanga free zone is exclusively for the purpose of shipbuilding.

By virtue of an agreement between Greece and Yugoslavia, there is also a Yugoslav free zone in the Greek port of Salonica where the Hellenic Customs Service does not intervene.

Ireland

There is a free airport at Shannon. Shannon Customs-free airport was established by special laws and regulations which lay down the basis for its administration. The airport is under the management of the Minister for Transport and Power. As well as being a Customs-free territory to which goods may, in general, be brought free of Customs duties and formalities, it includes also an international airport. All the usual facilities for the movement of passengers and cargo are, therefore provided. It is not possible in a brief statement to give full details of administrative control. The following paragraphs, however, indicate the broad basis on which the Customs service operates in relation to the free airport.

Traffic with the rest of the State is subject to the same import laws, Customs charges, restrictions, etc. as if they were being imported from outside the State. Similarly goods originating in the rest of the State and being removed into the free airport are subject to the laws and controls relating to exportation of goods.

Persons entering or leaving the Customs-free airport are liable to Customs control as if departing or arriving from abroad.

Article for personal use or consumption within the free airport must be brought in from another part of the State and any duties normally chargeable thereon must be paid. For example, alcoholic drinks consumed in any of the airport restaurants must have the proper duties paid thereon.

Goods for retail sale within the Customs-free airport are also required to be brought from another part of the State and all proper duties must be paid thereon. The Minister for Transport and Power, however, may issue a permit authorizing the bringing in of goods free of duty for retail sale to persons leaving or outside the State or for supply as aircraft stores. Conditions for proper control are attached to any such permit. A shop at which goods are sold duty-free to transit and other departing passengers only and from which goods may be sent by post duty-free to places abroad has been permitted.

Materials required for building or constructional work and plant, machinery, office equipment, etc., for use permanently and solely inside the Customs-free airport may be brought directly thereto free of duty or import restrictions. If such goods are consigned from elsewhere in the State they are eligible for drawback of any duty paid thereon.

It is necessary to obtain a licence from the Minister for Industry and Commerce before any trade, business, manufacture, etc., may be carried on in the Customs-free airport. There are a few exceptions to this requirement, e.g. air transport services or any activity of an air transport operator necessarily or usually associated with the operation of an air transport service.

There are no legal restrictions or limitations as to the type of manufacture, processing, etc., that may be carried on in the industrial area but the Minister has discretion to grant or refuse a licence, and, where a licence is granted, to impose conditions necessary for proper control. These conditions may, if deemed necessary, include any safeguards necessary from a Customs point of view.

Customs duties are not chargeable on raw materials and other goods brought in for manufacture in the industrial area and in general, Customs formalities and import restrictions are not applied thereto.

In special circumstances import restrictions are applied to goods brought into the free airport. For example, certain prohibitions necessary for agricultural protection are enforced.

Goods manufactured in the free airport and brought into another part of the State for consumption may, subject to compliance with certain conditions, be charged with a duty of Customs equal to the aggregate of the duties chargeable on the materials used in the manufacture thereof.

Italy

Italian legislation provides that certain zones of the national territory may be considered as being outside the Customs limits and makes a distinction between "free zones", "free points" and "free warehouses".

As a rule, goods entering these zones are exempted from Customs duties if of foreign origin and are considered as exported if of national origin.

"Free zones": Territories comprising inhabited zones in which even the goods consumed by the population are wholly or partly exempted from Customs duties and other fiscal charges.

The present free zones operate as "open free zones", i.e. they are not separated from the rest of the national territory by an effective Customs line.

Nevertheless, exemption is limited to certain quantities in respect of goods for consumption by the local population and of raw materials for the processing industries.

"Free points": Port zones and their surrounding water in which international traffic is exempt to a certain extent from Customs control.

The activity of each free point is governed by a special law but all the free points are, in general, subject to the following rules:

- (i) The Customs do not examine goods entering these areas; however, they do supervise the movement of foreign goods for non-Revenue purposes.
- (ii) Industrial processing is authorised.
- (iii) Retail sale is forbidden.
- (iv) Duty-free consumption of provisions and foodstuffs is also forbidden.

"Free warehouses": Stores or groups of stores completely enclosed and guarded by the Customs Services, including at the points of access to the sea. In this respect, free warehouses differ from free points where there is no control of access to and from the sea.

In the light of the above definitions, it would appear that the conventional term "free zone" used in the enquiry corresponds to the Italian term "free point" (Punto Franco). The list of "free points" in Italy is as follows:

Trieste	
Venice	
Naples	
Genoa)
Brindisi)
Messina)

These zones have already been established by law but are not yet in operation.

There are no "free ports" in Italy.

Netherlands

There are no free ports or free zones in the Netherlands. Vessels may navigate inland waterways as far as the large ports without being subjected to Customs regulations. In ports, just as in other places, considerable facilities are accorded in warehouses and sites approved for the deposit of goods without payment of duty. Duty-free admission is granted in respect of goods intended for re-exportation after repair, processing, transformation or combination with other goods.

Exported goods re-imported after repair, processing, transformation or combination with other goods are eligible for partial exemption from duty on return.

Norway

In the Norwegian Customs Act, Section 89 the term "free port" is defined as a separate and enclosed harbour area which comprises quays, spaces for storage of goods, premises and other equipment and which, subject to the restrictions prescribed by the Government or Parliament, is to be treated as foreign territory in respect of Customs regulations.

The conditions governing the establishment of free ports and their equipment and use are to be laid down by the Government.

Norwegian Law contains no definition of the term "free zones".

Retail trade within the boundaries of a free port is prohibited by the Customs Act, and industrial activity is subject to special permission by the Government.

Up to the present there are no free ports or free zones in Norway, and accordingly no further regulations applicable to such ports or zones have been made.

Portugal

Portugal has no free ports or free zones in Europe at present.

Accordingly there is no precise definition of such ports or zones in the Customs legislation.

Nevertheless the law provides that the regulations applicable to any free zones which may be established in the future will be similar to those already in force for free general warehouses, in which the nature of the goods and of their packings may be modified and any industry whatsoever may be established.

Spain

Free ports: Spain has no free ports in Europe. Only the Canary Islands ports are designated by the Customs Code as free ports but geographically these islands belong to the African Continent.

The Canary Islands ports are considered as free ports, since goods coming from any country are exempt from Customs duties on entering the Islands. Only a very small number of articles are subject to payment of a consumption tax on entry into the Canaries.

As a result of these privileges, goods entering Spain (the Peninsula and the Balearic Islands) from the Canaries are liable to the same Customs duties as would be levied if they were imported from abroad.

The same treatment is applied to the North African "Plazas de Soberania": Ceuta and Mellilla.

Free zones: A free zone is an enclosed stretch of ground situated on the coast, in a port provided with first-class Customs office. Goods coming from abroad may enter such zones free from Customs duties and taxes and may remain therein for a period of up to 6 years. After this limit, the goods must either be re-exported or else imported into the country, subject, in the latter case, to the payment of the same import duties and taxes as would be levied if they came directly from abroad.

There are at present three free zones in Spain: Barcelona, Cadiz and Vigo (the latter is still under construction).

Goods coming from abroad must enter the free zone under the control of the Customs of the port in which the zone is located.

A special Customs control service operates inside the free zone. Within the free zone, it is permissible to warehouse goods and to establish workshops and factories where industrial transformations may be carried out under the control of the special Customs service.

Switzerland

Switzerland has no "free ports" in the normally accepted sense of the term. The Rhine ports at Basle are not in the nature of free ports. There are, however, warehouses for uncleared liquid fuel (tanks) and for grain (silos). These tanks and silos are placed under Customs seals.

On the other hand, the Swiss Customs Law makes provision for "free districts", which are Customs warehouses surrounded by an enclosure constituting the Customs limit. These warehouses are therefore considered to be foreign Customs territory. However, from the point of view of non-Customs legislation, they are considered as part of the Swiss territory. During opening hours, the gates for the entry and withdrawal of goods are permanently supervised by Customs Officers.

At the present moment there are "free districts" in Switzerland at Aarau, Basle, Chiasso, Geneva, Lausanne, St. Gall and Zurich. No "free zones" have been set up in Switzerland.

Goods arriving from abroad and intended for warehousing in a "free district" are treated in the following manner:

As none of the "free districts" are directly situated at the frontier, consignments are cleared in transit by the frontier Customs office. The relative Customs certificate (bond note) is discharged by the Customs office of the "free district" when warehousing has been ascertained. The entry of goods is supervised by the Customs but no special Customs specification of the goods ("Détail des marchandises") giving the following particulars:

- marks, numbers, type and number of packages;
- brief description of the goods;
- gross weight.

The Customs Administration may examine goods intended for warehousing.

Each "free district" has a Customs office which clears the goods taken out (payment of import duties or clearance in transit to another Customs office on the frontier or in the interior of the country). From time to time the Customs office also keeps a watch on the "free district", along the boundary (Customs limit) and inside the district.

There are restrictions on the **handling** of goods within the free districts. The following are forbidden:

- (i) All handling resulting in the application of lower Customs duties than those which would have been applicable at the time the goods entered the free district.

Exception: Subject to such measures of control as may be laid down by the Customs, goods intended for re-exportation abroad may be handled in accordance with trade practice, regardless of the changes in duty liability which may result.
- (ii) Handling which results in the transformation of raw materials into semi-worked or manufactured products, or of semi-worked products into manufactured products.
- (iii) Handling which would result in other goods being deteriorated or endangered.

Workshops or factories may be installed solely for the processing of goods. A special authorisation from the Federal Department of Finance (Ministry) is necessary for this purpose. The installation of workshops or factories for the transformation of goods is not allowed. Neither is it permitted to establish business premises in the free districts. Previously granted exceptions to the last rule are still allowed in some isolated cases.

Turkey

There are no "free zones" in Turkey although a law relating thereto has been enacted.

In Turkish legislation "free zones" mean places considered as being outside Customs limits as regards liability to duty (C.C. Art. 3.).

Under the current Turkish Law foreign goods are imported into the free zones without being subjected to Customs control.

The current legislation allows the installation in such zones of Customs Posts for the prevention of fraud, of entry and exit gates in the surrounding walls for checking persons entering or leaving Turkey and of Customs offices to carry out control measures and operations relative to goods for consumption or to other goods imported into Turkey.

The following are authorised within the "free zones":

- (a) introduction and warehousing of goods coming from Turkey or from abroad;
- (b) grading, stacking, mixing, husking, screening, sorting of nuts and hair, cleaning, washing and airing, changing, repair or renewal of packings, display as advertisement or for sale, or other similar operations concerning the goods in question;
- (c) undertake repairs, assembly and disassembly and any form of industrial manufacture;
- (d) undertake construction, assembly disassembly and all activity and operations on the articles and the vessels or other means of sea transport.

It follows from the schedule of authorised operations in the zones that no business premises can be established there while the installation of workshops, factories and industrial transformation shops is permitted.

United Kingdom

There are no free ports or free zones in the United Kingdom in the normally accepted sense of those terms, but at all United Kingdom seaports there is an adequate number of bonded warehouses where goods may be deposited without payment of duty either for subsequent clearance for home use on payment of duty, or for reexportation without payment of duty. Goods must, however, be entered into and out of these bonded warehouses on appropriate Customs Forms. The performance of certain operations, such as sorting and repacking may be authorised while the goods are in the bonded warehouse.

Yugoslavia

There are, at present, no free ports or zones in Yugoslavia but consideration is being given to the possibility of establishing free ports or free zones for the installation of commercial houses, workshops and factories for industrial transformation of goods.

A P P E N D I X I I

LIST OF NAMES OF WAREHOUSE AND MANUFACTURING FIRM
OWNERS IN BEIRUT FREE ZONE

L O T N O . I

Hassan and Ali Maktabi
Abboud and Kalbian
Haydar H. el Hindy
Khouren Tahhan
Ahmad Jawad & Fils
Asfar Juchany
Kalbian and Tabourian
Minassian Frères
Artin and Chanlian Frères
Mamdouh Kawkach
Leon Kassabian
Elizar Eddeh
Suleiman & Halaby
Habib Yakoub
20th Century Fox
Columbia Picture Inc.
Abdel Ghany Kassem
Suleiman & Muhsen Baydoun
Said Bouez & Company
Entrepreneur & Commercial Comp any
Mostapha Bissat & Company
Spineys Stores
Cheffeh Frères
Alfred Scaif
Chakardjian Frères
Bachir Habbal
Ibrahim el Kayssi
Mohamad el Dada
French Alumnium Company
Mohamad Awa

LOT NO. 2 E Bis

Brasilian Coffee Institute

LOT NO. 3

Taher Frères
M. E. Imports Company
Tobikian Frères
Karabet Kassabian
Melkon Zaoukian
H. Haddadizian
Assayley Frères
Chehadé Tawil & Son
M. Kassatly & Son
M. E. Industrial Company
Crown Stores
Tobacco Regie
National Cash Register
Najib Jabr & Fils
Karam & Kabbany
W. Dimitri Debbas
Abro Abroyan
Ahmad Tabbarah & Son
Hallajian Frères
Hassan & Khodr el Fil
Maarouf Mansour
Melkon Der Melkonian
Aram Antekjian
Der Mavisakalian
Kegham & Leon Khanamirian
Manuel Khatchadourian
Yervant Khanamirian
Mohamad Kabr Halaby
Baz Frères
Nehmeh & Company
Chehadeh el Tawil & Fils

LOT NO. 4 : K

Charif Soubra
Antoine Rabbath
D. I. M. Co.
Moh. Hachem Kataby
Karabet Nouh
Georges Boustany
Choucair & Fils
Elias Ghannageh
Anouar el Samaoui
Nakhleh Sayas & Fils
Industrial, Financial Company
Agricultural Products Company
Hassan Kassem & Son
Kettaneh Inc.
Caporal & Moretti
Khaled Saad
Boutros el Khoury

LOT NO. 4 / 2

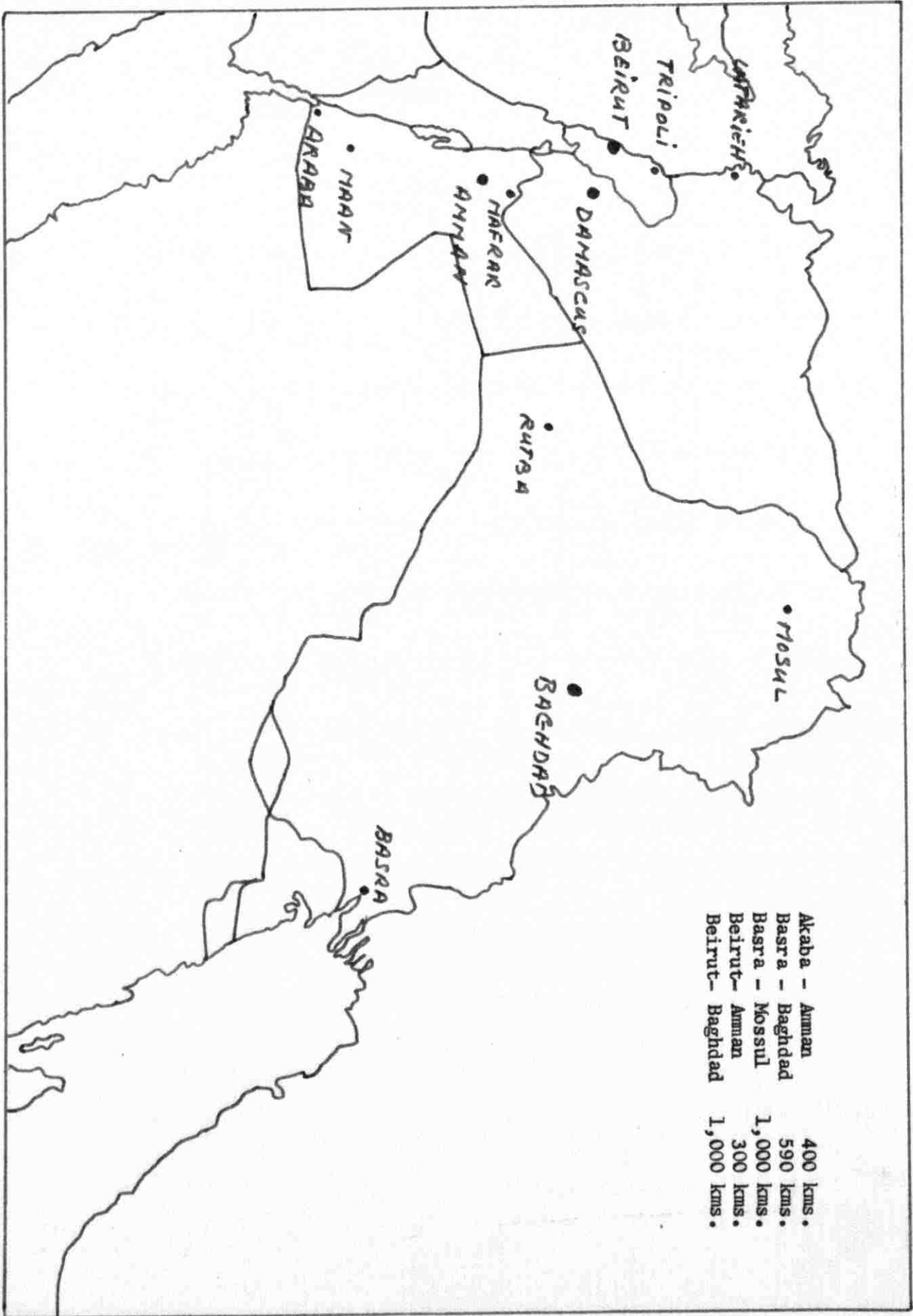
Karabet Haroutian
Krikor Ghazarian
Alex Kalbchian
Sarhadian Frères
Elias Dahan
Fadel Commercial Inc.
Leon Nazirian & Fils Fallaha Frères
Sami Elias el Khoury
Ialoun Wassman
Boulos Frères
Wedds Company
Khalil Wardeh
Jadh Frères
Emile Mansour
Triumph Inc.
Panayoti Ougelopoulo
Joseph Amatoury
Fouad Beydoun & Son
Yazigi & Merteyor
Emile Pitchoko

Lot No. 4/2 cont.

Sarafides Frères
Edouard & Chaffic Haddad
Michel Sougi
Antoine Massoud
Naim Chehadeh
Charles Kepler & Company
Najjar Frères & Company
Huseein Mansour
Abdel Rahman Diab
Keftaneh Inc. (Novelty)
Kettaneh Inc. (Tobacco)
Said Boueiz & Company
Baroudy Frères
Michel Sayigh
Sogex Company
Sadek Naymeh
Jean Yared & Son
Ibrahim Fadel
Arteen Yzgean
International Trading Company
Antoine & Michel Sameh
M. E. Eddeh Company

LOT NO. 5 / 1

M. E. Company
Michel Wardeh
Adnan & Adel el Kassar
Eastern European Transport Company
Jean Saad
Georges Abou Adal
Park Davis
Ahmad Kunayo & Fils
Khatehadourian Trading Company
Lebanese Egyptian Commercial Union
Bechara Karam & Sons
Tewfic Gargour & Fils
Feebos & Kaprianon
Hebry Company (Novelty)
Hebry Company (Tobacco)
Cooling Lebanese Company (Abi Jawdeh).



APPENDIX III
MAP OF IMPORTANT LOCATIONS IN THE MIDDLE EAST

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