Investment Climate in Lebanon

*An update of legislative reforms*

The Lebanese authorities have set as priority the improvement of the investment climate in Lebanon. For this purpose, serious efforts were deployed to modernize the regulatory framework of investment in order to offer the most suitable climate to foreigners and nationals desiring to invest in Lebanon.

This report aims to briefly highlight the most recent legislative changes through introducing new legislative acts and treaties, which have been adopted during the last two years, as detailed below:

<table>
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<th>Date of legislative act</th>
<th>Description</th>
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| 2001                   | Law amending the 1969 law on the acquisition by foreigners of real estate and real estate rights in Lebanon *(section I)*  
Law designed to promote investment in Lebanon *(section II)*  
Law on fighting money laundering *(section III)* |
| 2002                   | Law amending the Lebanese law on civil proceedings regarding arbitration *(section IV)* |
| 2003                   | Law ratifying the 1965 Washington Convention on the Settlement of Investment Disputes between States and National of Other States *(section V)* |
|                        | Entry into force of bilateral investment agreements and tax conventions *(section VI)* |
SECTION I

The 2001 Law Amending the 1969 Law on the Acquisition by Foreigners of Real Estate and Real Estate Rights in Lebanon

Lebanese and non-Lebanese persons have the right to own real estate in Lebanon. However, the 1969 law on acquisition by foreigners of real estate rights restricted non-Lebanese, or considered as non-Lebanese, access to real estate.

Since the 2001 amendment, the access to real estate for non-Lebanese has been simplified.

Before the amendment:

Legislative Decree No. 11614, dated January 4, 1969 concerning real estate acquisition by non-Lebanese, stipulated the following:

1. Foreigners (non-Arabs) must receive the approval of the Council of Ministers before the acquisition of real estate and,
2. Arab nationals may acquire up to 5000 sq m of real estate without seeking prior approval.

After the amendment by Law No. 296 of April 3, 2001:

The rule:

All non-Lebanese persons, whether legal or natural persons, and Lebanese legal persons considered by the Law as non-Lebanese as defined by Article 2 (at least one share owned by a non-Lebanese), willing to acquire any real estate right on the Lebanese territory are required to obtain a license granted by decree from the Council of Ministers upon proposal of the Minister of Finance.

Exception: There are some cases that do not require a license, of which:

The acquisition by non-Lebanese naturals and legal persons and Lebanese legal persons considered by the Law as non-Lebanese of built property or property set for building, of a maximum of 3,000 sq m throughout the Lebanese Territory.

Limitations:

1. It is forbidden to license non-Lebanese naturals and legal persons and Lebanese legal persons considered by the Law as non-Lebanese to acquire more than 3% of the total surface of Lebanon, providing that it would not exceed 3% of the surface of each caza, or 10% of Beirut, where they are allowed to acquire up to 10% of its surface.

2. In the following two cases, the rule is only applicable to 50% of the area owned:
   a) Partnerships or Limited Liability Companies, in cases where more than 50% of the shares are held by Lebanese partners, or fully Lebanese-owned companies whose statutes prohibits the transfer of shares to non-Lebanese,
   b) Joint Stock Companies or Partnerships Limited by Shares, where more than 50% of shares are held by Lebanese partners or by fully Lebanese-owned companies whose statutes prohibits the transfer of shares to non-Lebanese,
3. The licensed area, where ownership or any other real estate right has been acquired, should be used for the purpose specified in the license application, and the implementation of the project should be completed within 5 years from the registration date. This period is renewable only once by decision of the Council of Ministers.
### SECTION II

The 2001 law on the promotion of investments in Lebanon

A. In accordance with the private-investments-oriented government policy, Law No 360, dated August 16, 2001 (hereafter "the Law") classified Lebanese territory into **three investment zones**, subjected to different regulations, as follows:

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<tr>
<th>Zone</th>
<th>Definition</th>
<th>Exemption, reduction and facilities</th>
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| A    | In general terms, it corresponds to the coastal area. The Board of Directors of the Investment Development Authority of Lebanon (IDAL) may apply to certain projects related to tourism and marine resources, which are intended to be established within such areas, the same exemptions, reductions and facilities related to projects intended to be established in the areas classified within category-B here below. A list of these projects is to be provided in accordance with a decision of the Board of Directors and approved by the Council of Ministers. | 1. Work permits of all categories, exclusively needed for the project, shall be granted by IDAL in accordance with a decision issued by its Chairman, after the Board of Directors agrees to subject the project to the provisions of the Law, and provided that the local labor force is protected through employing at least two Lebanese nationals for each foreigner, and registering them in the National Fund for Social Security.  
2. The joint-stock company established to own and/or manage a project falling under the provisions of the Law and to offer shares for public subscription shall be exempted from income taxes for a period of two years as of the date when its shares are listed on the Beirut Stock Exchange, and provided that the negotiable shares represent no less than 40% of the capital of the company. This exemption period should be added to any other exemption period granted to the company pursuant to the provisions of the Law or other applicable laws and regulations. |
| B    | In general terms, it corresponds to the central area. | In addition to the exemptions and facilities stated above, investment project shall:  
- Benefit from a 50% reduction in income taxes and taxes on project dividends, for a five-year period.  
- The reduction is applicable from the date of commencement of the exploitation of the project as governed by the provisions of the Law.  
In the event that the investor benefits from the exemptions stipulated for in sub-paragraph 2 of paragraph A above, the reduction shall apply after the lapse of the exemption period. |
| C    | In general terms, it corresponds to the Northern and the Southern areas. | In addition to the exemptions and facilities stated for in paragraph A above, investment projects shall benefit from:  
- Full exemption from income taxes and taxes on project dividends for a ten-year period.  
- This exemption shall be applicable as from the commencement date of the exploitation of the investment projects governed by the provisions of the Law starts. |
|      | Regardless of geographical location | Information technology and technology projects shall benefit from exemptions and reductions granted in zone C, provided that a list is issued including the projects related to the sectors mentioned herein, and which may benefit from the provisions of the Law pursuant to a decree by the Council of Ministers based on a proposal of the Prime Minister. |
B. The Package Deal

A package deal contract is a contract whereby the Lebanese government, represented by IDAL, shall grant the investor willing to establish a given project, the incentives, exemptions and reductions set forth by the Board of Directors for that project, within the ceiling specified below, provided that the investor is committed under this contract to execute the project in accordance with the terms and durations stated therein, under penalty of being subject to the effects stipulated in the contract. The rights and obligations of both IDAL and the investor shall be specified in detail in the contract, including the investor's commitment to carry out the project within a determined period of time.

The contract is subject to the approval of the Council of Ministers based on a proposal of the Prime Minister after being signed by the Authority and the investor.

The conditions to be met by projects so that they benefit of the package deal shall be specified by decrees issued by the Council of Ministers based on a proposal of the Prime Minister.

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<th>Maximum incentives granted by the Package Deal:</th>
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<td>1. Full exemption from income taxes and taxes on project dividends for up to ten years starting as from the commencement date of the exploitation of the project.</td>
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<td>2. Obtaining work permits of all categories provided that the project benefiting of the incentive package deal protects the interests of the local labor force through employing at least two Lebanese nationals for each foreigner, and registering them in the National Fund for Social Security.</td>
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<td>3. Reduction of work and residence permit fees up to a maximum of 50%, regardless of their category and depending on the number of permits required. Moreover, the value of the certificate of deposit entrusted to the Housing Bank shall be reduced by half.</td>
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<td>4. Contrary to any other stipulation, and in accordance with the restrictions included in the package deal contracts, the Board of Directors may exempt joint-stock companies aiming at acquiring and/or managing an investment project benefiting from the provisions of the incentive package deal contract, from the obligation of having natural or legal persons in their Boards of Directors.</td>
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<td>5. Reduction up to a maximum of 50% of construction permit fees related to the buildings to be established and needed for the execution of the project benefiting of the provisions of the package deal contract.</td>
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<td>6. Full exemption from land registration fees at the Real Estate Register and from fees levied for annexation, sub-division, mortgage, and registration of lease contracts at the Real Estate Register, regarding real estate on which projects under the incentive package deal contracts are to be built, provided that the project shall be carried out within 5 years of the date of registration of the land at the Real Estate Register, under penalty of obligating the investor failing to execute the said project, to pay a penalty equivalent to three times the fees which were originally due.</td>
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C. Dispute settlement

Disputes between the Authority and an investor resulting from the incentive package deal contract shall be solved amicably. In the absence of an amicable solution, arbitration shall be sought in Lebanon or in any other international arbitration center, provided that this is determined in advance when applying to subject the project to the provisions of the Law and provided that the request meets the approval of the Board of Directors and is endorsed by the tutorship authority (The Prime Minister). The rules and regulations governing arbitration shall be determined by a decree issued by the Council of ministers based on proposal of the Prime Minister.
SECTION III
The 2001 law on fighting of money laundering

Lebanon is aware of the necessity to combat money laundering particularly because the banking secrecy Law could be used as a means for such illegal operations. With this respect, the Lebanese Parliament endorsed on April 20, 2001 Law No. 318 on combating money laundering.

- The law defines a money-laundering operation as being a criminal offence punishable by imprisonment and by the payment of a fine.
- The law establishes an independent legal entity, the Special Investigation Commission (SIC), with judicial status and mandate to investigate operations that are suspected to be money-laundering offences, to decide on the seriousness of evidence and circumstantial evidence related to any such offence or offences, and to monitor compliance with the rules and procedures stated in the law.
- The implementation of the anti-money laundering measures stipulated in the law does not breach banking secrecy Law which is one of the pillars of the Lebanese banking system. According to the anti-money laundering law, the lifting of the banking secrecy to the benefit of the competent judicial authorities shall be the exclusive right of the SIC.

SECTION IV
The 2002 Law Amending the Lebanese Law on Civil Proceedings regarding International Arbitration

The most interesting amendment (Law No 440 dated August 1, 2002) related to investment climate is the clear statement allowing the Lebanese State as well as persons of Public Law to seek either internal or international arbitration to settle a dispute related to a contract, whatever is the nature of this contract. However, the amending law added that in the case of an administrative contract, for instance a concession granted by contract, the arbitration clause should obtain prior approval by decree issued by the Council of Ministers upon the proposal of the relevant minister or the relevant guardian authority.

SECTION V
The 2003 Law Ratifying the 1965 Washington Convention on the Settlement of Investment Disputes between States and National of Other States (ICSID)

The law No 403 dated June 5, 2002 ratified Lebanon's adhesion to the Washington Convention, which became effective for Lebanon on April 25, 2003. Adhesion to ICSID aims to facilitate the settlement of investment disputes between governments and foreign investors in view of helping promoting increased flows of international investment.
SECTION VI
Entry into force of additional Bilateral Agreements¹

A certain number of bilateral investment promotion and protection agreements and bilateral tax conventions between Lebanon and other countries entered into force since 2001:

Investment agreements: Austria, Belarus, Cyprus, Hungary, Kuwait, Malaysia, Russia, Sweden, Switzerland, United Kingdom, and Yemen;

Tax conventions: Belarus, Kuwait, Morocco, and Sultanate of Oman.

For additional information, you can contact us at infocenter@finance.gov.lb, or visit our web site: at www.finance.gov.lb.

¹ see 'International Agreements' link on www.finance.gov.lb