REPUBLIC OF LEBANON
MINISTRY OF FINANCE

Ministry of Finance
Thematic Reports

CAR IMPORTS
AND
RELATED GOVERNMENT REVENUES

(1997 – 2010)

- January 2011 -

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I. INTRODUCTION

This report aims at shedding light on the recent developments in car[1] imports. In fact, car imports have witnessed an outstanding growth during the last couple of years, averaging at 4.4 percent of GDP in 2008-2009 and 3.7 percent in 2010, against an average of 2.5 percent in 1997-2007. This significant growth translated into an upswing in government revenues from car imports and sales that averaged at 2.3 percent of GDP in 2008-2009 and 2 percent in 2010, exceeding by far the average of 1.6 percent recorded between 1997 and 2007.

As this report acts as a one-time edition, it starts with a fourteen-year historical overview of car imports for the period 1997-2010. It highlights the link between car imports and economic growth, and depicts the main characteristics of car imports in terms of both country of origin and vehicle specifications.

The following section provides a possible explanation behind the rapid growth of car imports registered in 2008-2009. It particularly emphasizes the impact of the international financial crisis on Lebanese car imports during the coinciding period.

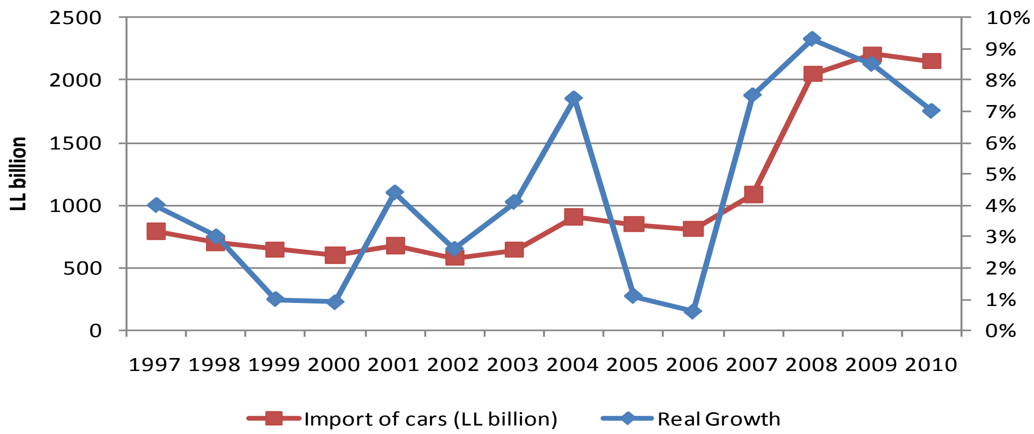
Finally, the last section presents the evolution of government revenues derived from car sales, car imports, and car ownership, namely excises, customs, value added tax, registration fees and road-usage ("mécanique") fees. It also explores the indirect effect of higher car imports on government revenues through higher gasoline consumption.

II. CAR IMPORTS: A HISTORICAL OVERVIEW

II. 1 Car imports and economic activity (1997-2010)

A brief analysis of the evolution of car imports into Lebanon over the period spanning from 1997 to 2010 reveals that car imports are closely linked to economic activity (as evidenced by growth rates) and to political stability. The chart below depicts this correlation, and shows surges in car imports in periods of high real growth.

Graph 1. Car Imports and Economic Activity (1997-2010)



Source: MoF, Directorate General of Customs for import data (Lite statistics).

[1] Car imports referred to in this report are imports of vehicles specified under code 8703 in the Custom's Harmonized System which covers "Motor cars and other motor vehicles". This category excludes tractors, motor vehicles for the transport of ten or more persons, motor vehicles for the transport of goods and a special purpose vehicles which are classified elsewhere in the HS.

The evolution of car imports, in relation to economic activity, can be broadly divided into three periods, as detailed below.

➢ Period I: 1997 – 2000

The period 1997-2000 experienced a steady decline in car imports[2] (amounting to an overall 24 percent drop), explained by deteriorating economic activity with real growth rates declining from 4 percent in 1997 to 0.9 percent in 2000, (in the year 2000, the nominal GDP decelerated by 2 percent)[3].

➢ Period II: 2001 – 2006

This period witnessed two important peaks in car imports:

1. The first, in 2001, with a 13 percent rise in imports, is explained by the typical market behaviour in anticipation of the implementation of the value added tax (VAT) in February 2002, followed by a subsequent equivalent drop in 2002 when the VAT was effectively implemented (i.e. a 14 percent drop, considered as VAT adjustment behaviour).
2. The second in 2004 (equivalent to a 42 percent rise), justified by a real growth rate of 7.4 percent during that year.

In contrast, the analysis brings to light two downturns, both due to tragic events in the recent Lebanese history:

1. A sudden 7 percent drop in car imports in 2005, the year of Prime Minister Rafic Hariri's assassination and the political instability and security events that ensued, resulting in a reduced economic activity (real growth rate dropped to 1 percent in 2005)
2. Another 4 percent drop in car imports in 2006 a year in which the country suffered from a destructive aggression by Israel in July 2006 and two months of air and sea blockade, which caused real growth rate to go further down to 0.6 percent

➢ Period III: 2007 – 2010

The 34 percent pickup in car imports in 2007 is a catch-up effect after two years of depressed economic activity linked to severe deterioration in the security situation. In parallel the year 2007 witnessed a rebound in GDP real growth by 7.5 percent.

This pick up became even more accentuated in 2008 with an exceptional 89 percent surge in car imports which coincided with a 9.3 percent real growth rate. In 2009, this high level of car imports was maintained; more so, car imports rose by 8 percent, concurring with an 8.5 percent real growth rate in 2009.

Lastly, in 2010, even though the estimated real growth rate remains relatively high, at around 7 percent, car imports receded by 2.4 percent, probably due to a decline in demand triggered by a relative saturation of the market following two years of outstanding growth.

[2] Car Imports referred to in this paragraph are the nominal import values, as the value and volume of imports have followed almost identical trajectories during the period under consideration.

[3] Source for growth rates: Ministry of Economy and Trade, National Accounts Committee, Economic Accounts: 1999-2002 and Presidency of the Council of Ministers - Republic of Lebanon: Lebanon's Economic Accounts 2003-2009. GDP for 2010 at LL 58,000 billion is as per the latest estimations available in February 2011.

II. 2 Car imports by countries of origin

Analysis by country of origin shows that Germany tops the list, followed by Japan, then by the United States, as shown in Table 1 below. In fact, car imports from these three countries together made up more than three-quarters of Lebanon's total car imports. It is noteworthy that Customs register cars at import as per the manufacturing country although the car may have been imported from another country/source. As such, a German car imported from the United States is still classified as from Germany.

Table 1. Car Imports by Country of Origin (2005-2010)

(LL billion)	2005		2006		2007		2008		2009		2010	
	Value	*share*	Value	*share*	Value	*share*	Value	*share*	Value	*share*	Value	*share*
France	39	***5%***	29	***4%***	30	***3%***	42	***2%***	22	***1%***	28	***1%***
Germany	343	***41%***	307	***38%***	359	***33%***	650	***32%***	796	***36%***	792	***37%***
Japan	224	***26%***	208	***26%***	299	***28%***	589	***29%***	605	***27%***	528	***25%***
Korea	34	***4%***	42	***5%***	67	***6%***	125	***6%***	129	***6%***	178	***8%***
United Kingdom	38	***5%***	42	***5%***	49	***4%***	116	***6%***	128	***6%***	153	***7%***
USA	115	***14%***	125	***15%***	215	***20%***	389	***19%***	396	***18%***	321	***15%***
Other	52	***6%***	59	***7%***	67	***6%***	140	***7%***	130	***6%***	154	***7%***
Total*	**847**	***100%***	**811**	***100%***	**1,086**	***100%***	**2,051**	***100%***	**2,206**	***100%***	***2,154***	***100%***

Source: MoF, Directorate General of Customs (Custom Declaration forms).
**Total imports may differ from those published in Tables 4,6 and 7. The total value of car imports stated in Table 1 are based on custom declaration form results that are published on Customs' website whereas figures in Tables 4,6 and 7 are based on Lite statistics.*

Although maintaining the first position in terms of country of origin, Germany's share declined steadily from 41 percent of total car imports in 2005, to 32 percent in 2008. This downward trend may be explained by the appreciation of the Euro versus the US Dollar, the direct impact of which is a net substitution of car imports away from the Eurozone. More to the point, the share of French cars also receded from 5 percent of total car imports in 2005 to only 1 percent in 2010, pushing France down from the fourth position to the seventh position in terms of market for Lebanese car demand.

The substitution of the expensive Euro-zone cars (toward cheaper US cars or Japanese cars) has permitted the average effective price per car at imports (although relatively stable over the years) to recede from a high of LL 21 million per car registered in 2002 (the year of the introduction of the Euro), to lower price levels subsequently. As such, the average price per car amounted to LL 20.3 million over the period 2003-2009)[4].

With the weakening of the US dollar, US cars have become more attractive to Lebanese consumers, and consequently, their share rose from 14 percent of total car imports in 2005 to an average of 19 percent during 2007-2009. As for Japan, it has been consistently the second provider of cars to Lebanon, with Japanese cars maintaining an average share of 27 percent of total car imports throughout 2005-2009.

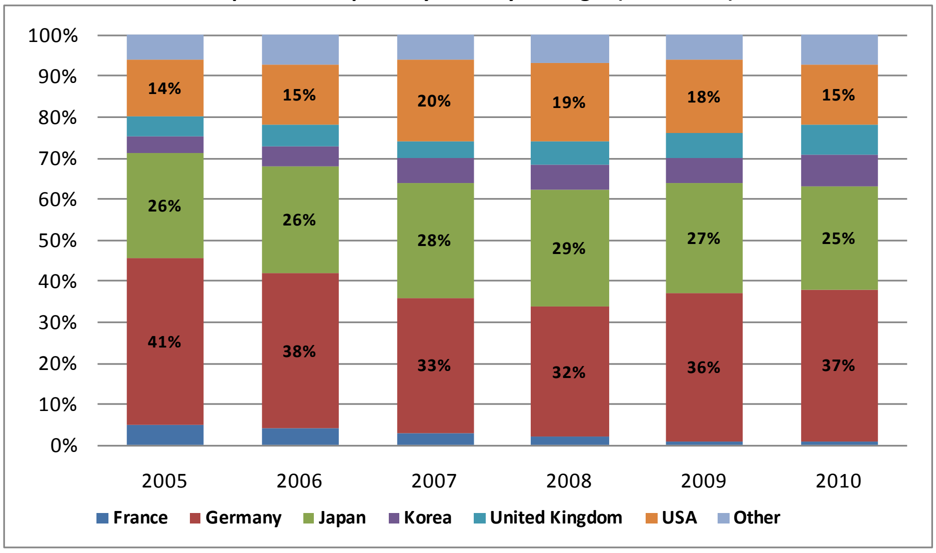
It is worth noting that as of 2009 a slight reversal in the trends was observed when compared to 2005-2008. In fact, German cars' share of imports picked up again, at the expense of US cars and Japanese cars, a phenomenon which may be explained by the post financial crisis behaviour as described below, and which may further explain the

[4] For more details about the average effective price per car at imports, kindly refer to table 4.

rise in the average price per car in 2010 which peaked above the LL 21 million historical level[5].

Korea and the United Kingdom are also among the top 6 countries for car imports into Lebanon, with an average share of 6 percent share of total imports each.

Graph 2. Car Imports by Country of Origin (2005-2010)



Source: MoF, Directorate General of Customs (Custom Declaration forms).

II. 3 Car imports by car specification (cylinder capacity, used versus new)

The following general observations can be derived from the import data by car specifications (along customs nomenclature), and depicted in figures in Table 2 below:

- Car imports to Lebanon have been concentrated in the medium-cylinder capacity

Car imports to Lebanon have always been concentrated in the medium-cylinder capacity (category of 1500 cc to 3000 cc), constituting on average 65 percent of car imports in 2005-2010. However, this ratio has been decreasing in favour of cars with higher cylinder capacity (i.e. exceeding 3000 cc) that increased from about 26 percent of car imports in 2005 to 31 percent in 2010. In addition, import of cars with smaller cylinder capacity (i.e. between 1000 cc and 1500 cc) has been limited to an average of 6 percent over the last 5 years. These figures reveal that consumers in general did not adapt their consumption behaviour to higher oil price realities, where the share of higher cylinder – and thus higher gasoline-consumption cars rose between 2005 and 2010 despite higher oil prices, at the expense of more energy-saving and smaller-cylinder cars. This consumption behaviour may be attributed to the fact that domestic gasoline prices were capped in Lebanon over the period May 2004-January 2009 and have increased relatively less than the surge in the international oil prices over that same period, a fact that did not give citizens an incentive to seek more cost-saving alternatives.

- Lebanon has always imported more used cars than brand new ones.

During the period under consideration, on average 59 percent of imported cars[6] were used cars, against 41 percent new cars. More specifically, the share of used cars has

[5] For more details about the average effective price per car at imports, kindly refer to table 4.

substantially risen in the last few of years, to reach 58, 65 and 60 percent of car imports in 2008, 2009 and 2010 respectively (compared to 57 percent in 2005 and 55 percent in 2007), confirming the analysis that the increase in imports in 2008 and 2009 is to a certain extent attributed to foreign consumers disposing off their cars, due to the international financial crisis and the credit crunch, as mentioned in section III.

Table 2. Import of Cars by Cylinder Capacity, Used versus New Cars Imported (2005-2010)

Car Specifications at Imports HS 8703 *(LL billion)*		2005	2006	2007	2008	2009	2010
87 03 22	**Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc**	**43**	**50**	**69**	**160**	**117**	**125**
87 03 22 10	*Used cars*	*1*	*0*	*1*	*1*	*2*	*5*
87 03 22 90	*New cars*	*42*	*50*	*68*	*159*	*115*	*120*
87 03 23	**Cylinder capacity exceeding 1500 cc but not exceeding 3000 cc**	**582**	**555**	**705**	**1,279**	**1,413**	**1,346**
87 03 23 10	*Used cars*	*345*	*318*	*379*	*757*	*917*	*807*
87 03 23 90	*New cars*	*238*	*237*	*326*	*522*	*496*	*539*
87 03 24	**Cylinder capacity exceeding 3000 cc**	**218**	**175**	**306**	**603**	**667**	**673**
87 03 24 10	*Used Cars*	*136*	*138*	*214*	*456*	*499*	*480*
87 03 24 90	*New Cars*	*82*	*37*	*92*	*147*	*169*	*192*
87 03	**Total**	**847**	**811**	**1,086**	**2,051**	**2,206**	**2,154**

Source: MoF, Directorate General of Customs (Custom Declaration forms)

The following table on car exports attempts at tracing whether all car imports to Lebanon are destined for internal demand, or whether some of the cars Lebanon imports are in fact re-exported.

The data below reveals that car exports account for less than 1 percent of car imports. Therefore, the surge in car imports in 2007-2009 translated into an expansion in the number of cars in circulation inside the country, which itself explains the increase in road-usage fees ("mécanique fees") as highlighted in section IV.

Table 3. Exports of Car Exports by Cylinder Capacity, Used versus New Cars Imported (2005-2010)

Car Specifications at Exports *(LL million)*		2005	2006	2007	2008	2009	2010
87 03 22	**Cylinder capacity exceeding 1000 cc but not exceeding 1500 cc**	**15**	**24**	**162**	**91**	**71**	**518**
87 03 23 10	*Used cars*	*15*	*24*	*162*	*61*	*71*	*8*
87 03 23 90	*New cars*	*0*	*0*	*0*	*30*	*0*	*510*
87 03 23	**Cylinder capacity exceeding 1500 cc but not exceeding 3000 cc**	**1,939**	**1,329**	**1,736**	**1,263**	**1,448**	**1,221**
87 03 23 10	*Used cars*	*1,939*	*1,271*	*1,708*	*1,239*	*1,152*	*1,119*
87 03 23 90	*New cars*	*0*	*58*	*28*	*24*	*296*	*102*
87 03 24	**Cylinder capacity exceeding 3000 cc**	**1125**	**2742**	**2048**	**963**	**1570**	**1,272**
87 03 24 10	*Used cars*	*982*	*1,214*	*1,468*	*808*	*1,041*	*905*
87 03 24 90	*New Cars*	*143*	*1528*	*580*	*155*	*529*	*367*
87 03	**Total**	**4,339**	**5,160**	**4,177**	**2,968**	**3,264**	**3,194**

Source: MoF, Directorate General of Customs(Custom Declaration forms)

[6] For the three categories included in Table 2.

The peak in car exports (although relatively not substantial) took place in 2006, with an export value accounting for 0.64 percent of the import value (the highest ratio throughout the last 5 years). This may be explained by the break of the war in July 2006, and its repercussions on economic activity, prompting local car dealers and agents to export some of their stock, given reduced internal demand. In 2007-2010, car exports, as a percentage of car imports, dropped to average at around 0.2 percent.

III. POSSIBLE FACTORS UNDERLYING THE SURGE IN 2008-2009

Car imports receded in 2010, however the buoyancy in the car market in the last couple of years was unprecedented, and is thus worth looking at more closely. The following observations might to some extent explain the surge in car demand in 2008-2009, where both exogenous and endogenous factors are involved:

III.1 Exogenous factors

On the exogenous front, the credit crunch that followed the international financial crisis in 2008 led foreign consumers (mostly in the USA) to dispose of their cars, due to the inability to service their obligations. Reduced car prices, namely those imported from the USA, stimulated local demand. In other words, Lebanese seem to have bought the cars that US consumers were no longer able to afford[7]. This is somehow ascertained by import statistics, as the share of "used cars" has substantially increased in 2008 and 2009 as opposed to that of brand "new cars" when compared to previous years' averages. It is worth mentioning that large imports from US, did not reflect into a higher share for US in the distribution of car imports by country of origin, as customs register cars at import as per the manufacturing country, although the car may have been imported from another country/source. As most of the cars that were imported from the US were German-manufactured cars, the share of German cars has risen (kindly refer to Graph 2).

More generally, with depressed economic activities in most developed economies in 2008 and 2009, car manufacturers worldwide may have provided some financial incentives to car agents and dealers, in order to bring down their piling up stocks. This translated into lower prices, as evidenced by the slight reduction in the average effective price at imports by about 2 percent and 1 percent in 2008 and 2009 respectively. The average effective price per car, as shown by Table 4, dropped from LL 20.86 million in 2007 to LL 20.42 million in 2008, further down to LL 20.27 million in 2009, before rising again to LL 21.43 million in 2010 – the highest registered average, probably due to the recovery in international prices. In fact, the rise in the average import price per car in 2010 may be further explained by more car imports from Germany and from UK, two expensive sources compared to US and Japan (reference Graph 2).

[7] As per informal interviews with local car dealers.

Table 4. Average Price per Car at Imports and Average Cost per Car (1997-2010)

Year	Import *(Number of Cars)*	Average Price per Car at Import *(LL million)*	Average Cost per Car *(LL million)*
1997	46,343	17.11	23.61
1998	37,367	18.73	26.87
1999	33,423	19.45	28.48
2000	31,818	18.86	27.59
2001	34,047	19.85	28.61
2002	27,612	21.08	32.63
2003	31,294	20.52	31.89
2004	45,969	19.77	30.76
2005	41,986	20.17	31.70
2006	39,852	20.33	31.94
2007	52,014	20.86	32.43
2008	100,333	20.42	31.14
2009	108,739	20.27	31.51
2010	100,354	21.43	33.27

Source: MoF, Customs(Lite statistics)

III.2 Endogenous factors

From a macroeconomic perspective, the large financial inflows in 2008 and 2009 were channelled into bank deposits, and led commercial banks to compete forcefully for credit through the relaxation of credit terms and conditions, through lower lending rates (specially in LL), and aggressive marketing for credit[8].

Indeed, the years 2008 and 2009 witnessed 16 and 23 percent respective growth in commercial banks deposits (decelerating to about 12 percent in 2010). These huge inflows of liquidity translated into decreasing interest rates, namely average lending rates in 2009 went down by 106 and 74 bps on LBP and USD respectively compared to 2009, as shown in Table 5 below.

Table 5. Weighted Average Lending Rates 2006-2010 (end of period)

(in percent)	2006	2007	2008	2009	2010
USD	8.55	8.02	7.47	7.28	6.74
LBP	10.37	10.1	9.95	9.04	7.91

Source: BDL

It is worth mentioning that average lending rates went further down in 2010 by 113 bps and 54 bps on LBP and USD respectively; however demand for cars halted in 2010 probably due to market saturation. The lower cost of fund may have contributed to stimulating demand for cars, as evidenced by the aggregate amount of outstanding car loans, which increased by 59 percent and 62 percent in 2008 and 2009 respectively. This in fact mirrors the increase in the number of cars imported, from 52,014 cars in 2007 to 100,333 cars in 2008 and 108,739 cars in 2009.

Table 6. Car Loans and Car Imports (2006-2010)

(LL billion)	2006	2007	2008	2009	2010
Car Loans	590	777	1,233	2,000	N/A
Number of Cars Imported	39,852	52,014	100,333	108,739	100,354

Source: BDL, Customs (Lite statistics)

[8] In addition, in May-June 2009, the authorities adopted countercyclical measures to stimulate the economy, fearing the repercussions of the international financial crisis on the domestic economic activity. As such, the monetary authorities issued circular number 185, prompting commercial banks to extend loans to the private sector against their Reserve Requirements deposited at Banque Du Liban (otherwise earning zero interest). Consequently, even if consumer loans were not included in the circular, the general easing of credit conditions encouraged demand for consumer loans, of which car loans.

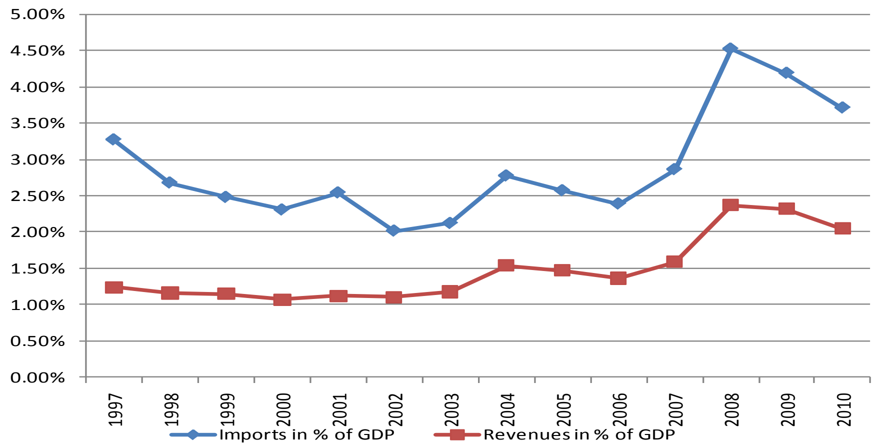
Finally, on the supply side, Lebanese car agents and car dealers reaped the benefits of the conducive domestic environment, coupled with the encouraging external factors, and started massive marketing campaigns to boost local demand for cars, competing for market shares.

IV. CAR IMPORTS AND PUBLIC REVENUES

IV.1 Direct revenues from car imports and sales

The upsurge in car imports during 2008 and 2009 translated into a noticeable rise in revenues from car imports and car sales, despite the fact that car imports receded in 2010 (in terms of both value and volume) – pointing out to a possible saturation in the market. These revenues consisting of excises, customs duties, VAT and car registration fees accumulated[9] to around 2.3 percent of GDP in 2008 and 2009, compared to a previous peak of 1.6 percent of GDP in 2007. At 2 percent[10], and despite a minor decline in 2010, revenues to the treasury from car imports and car sales sustained a level above the pre-2008 peak, as shown in Graph 3 below.

Graph 3. Car Imports and Related Government Revenues in Percent of GDP (1997-2010)



Source: MoF, Directorate General of Customs for import data (Lite statistics) & Directorate General of Finance for revenue data.

Table 7 below depicts the disaggregated revenues the Treasury collects from car imports (excise and customs), car sales (VAT and registration fees) and car ownership (road-usage fees). The Annex provides the detailed tax rates and tax structures of custom duties, excises, VAT, registration fees and road-usage fees.

In details, total collection from car import and car sales, recorded an approximate 12 percent catch-up in 2003, mostly attributed to the full year impact of the introduction of the VAT in February 2002 and a normalisation of import patterns[11]. This was followed by a more substantial 42 percent rise in collection in 2004 associated with a hike in imports during that year (underlying which is a 7.5 percent real growth, reference section II.1). The year 2007 witnessed a normalisation in collection after two years of depressed revenues and imports.

[9] Amounting to LL 1,075 billion and LL 1,222 billion in nominal terms for 2008 and 2009.
[10] Based on an estimated GDP of LL 58,000 billion.
[11] The VAT revenue impact in 2002 was mitigated by a drop in imports during that year, a typical pre-VAT implementation behavior.

More recently, revenues from cars grew by a remarkable 79 percent in 2008, mirroring an 89 percent surge in car imports. In 2009, revenues from cars went further up by nearly 14 percent, reflecting an additional 8 percent rise in car imports. In fact, the first seven months of 2009 witnessed a continuation of the rapid growth in car imports, before coming to a halt afterwards. This downward trend persisted throughout 2010, with car imports declining by 8 percent during this year, triggering a 3 percent decline in revenues from car imports and car sales.

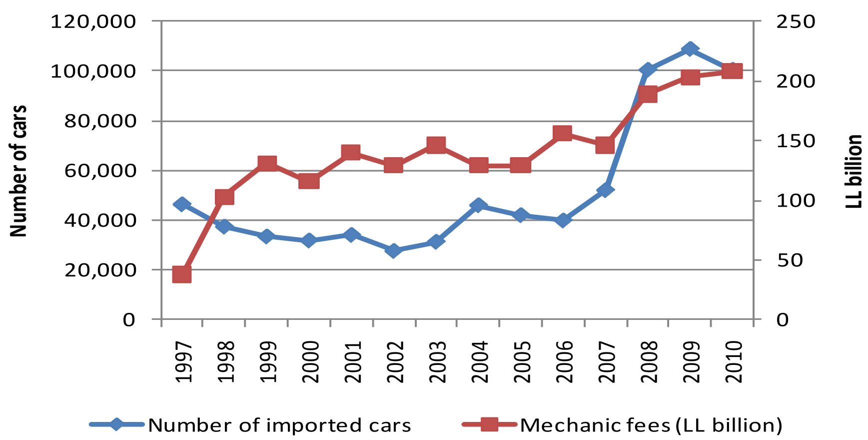
Table 7. Car Imports and Related Government Revenues (1997-2010)

Years	Imports		Revenues			
	Value (LL billion)	Number of Cars	Customs +Excise (LL billion)	VAT (LL billion)	Registration fees (LL billion)	Road-usage Fees (LL billion)
1997	793	46,343	228	0	73	38
1998	700	37,367	223	0	81	103
1999	650	33,423	216	0	86	131
2000	600	31,818	206	0	72	116
2001	676	34,047	214	0	84	140
2002	582	27,612	174	64	81	129
2003	642	31,294	191	83	82	146
2004	909	45,969	278	118	109	129
2005	847	41,986	265	111	108	129
2006	810	39,852	249	105	109	156
2007	1,085	52,014	331	141	130	146
2008	2,049	100,333	613	265	197	189
2009	2,204	108,739	695	289	238	203
2010	2,151	100,354	675	282	231	208

Source: MoF, Directorate General of Customs (Lite statistics) for import data, & Directorate General of Finance for revenue data.

The collection of road-usage ("mécanique) fees, on the other hand, follows a different pattern than imports. In fact, the larger the stock of cars in the country the higher the revenues the Treasury collects from road-usage fees. Also, the renewal of the car fleet further boosts overall collection (the newer the car, the more horsepower, the higher the fee). As such, in the period 2008-2010, the Treasury collected around 40 percent more revenues from road-usage fees than the average collection over the period 2004-2007 due to the enlargement of the tax base as the existent stock of cars in circulation in the country must have increased by around 309,426.

Graph 4. Car Imports and Road-usage Fees (1997-2010)



Source: MoF, Directorate General of Customs for import data (Lite statistics) & Directorate General of Finance for revenue data.

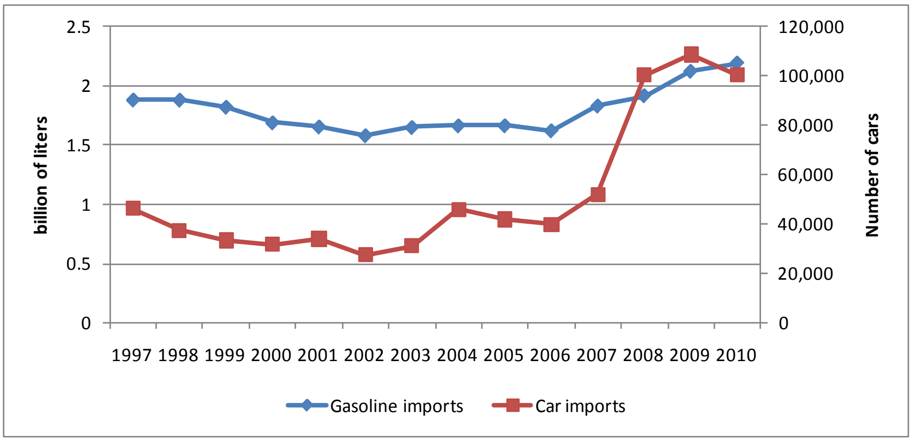
IV. 2 Indirect revenues from Gasoline Consumption

The upswing in car imports has, in principle, a bouncing effect on Government revenues as the buoyancy of car sales contributes to the increase in gasoline consumption, which induces a rise in the collection of the gasoline excise[12].

In fact, in parallel to the upsurge in car imports, gasoline imports rose by 4.7 percent in 2008 and 10.7 percent in 2009. It then peaked at 2.188 billion litres by end-December 2010, well above the 1997-2007 average of 1.7 billion litres, ascertaining the existence of a larger stock of cars in circulation in the country as mentioned above.

The incremental revenue yield from gasoline excise stemming from the surge in gasoline import in 2008-2010 is difficult to assess due to the fact that the gasoline excise rate was floating between May 2004 and January 2009 (as gasoline retail prices were capped domestically). This means that gasoline excise collection was highly volatile during that period, and did not mirror the increase in the volume of gasoline imports. In fact, despite the substantial rise in the volume of imported gasoline, revenues from the gasoline excise were as low as LL 112 billion in 2008 equivalent to 0.2 percent of GDP, falling from an average of 2 percent of GDP prior to the capping regime in 2004. Following the Council of Ministers' decision to uncap domestic prices of gasoline and fix the excise rate at an average of LL 470 per litre in January 2009, the Treasury resumed collection from gasoline excise which cumulated at LL 999 billion in 2009 and LL 1,040 billion in 2010, equivalent to an average of 1.8 percent of GDP.

Graph 5. Car and Gasoline Imports (1997- 2010)



Source: MoF, Directorate General of Customs (Lite statistics)

[12] Excise on gasoline is not an ad-valorem tax, it is a specific tax levied on liters of imports, and hence is function of volume. Note that gasoline is subject to low customs duties, as custom duties on gasoline were reclassified into excises in mid 2002, hence revenue yield from custom duties due to higher volume is minimal.

V. CONCLUSION

It is clear today that the developments in the domestic car market in 2008 and 2009 were exceptional. The year 2010 depicts a normalization in the trend, with car imports[13] declining by almost 8 percent from the peak in 2009; it however remains at around two times the yearly average number of car imported in the past.

Although the scope of this note is strictly confined to describing the recent developments in the car market[14], the underlying economic factors and the related fiscal considerations, it hopes to draw attention at possible drawbacks from such a surge in car sales. In this respect, it attempts to raise the following questions: can the existing domestic infrastructure cater for this increasing flow of cars in circulation, knowing that traffic problems are becoming one of citizens' major concerns? More seriously, what are the environmental hazards from this surge in the number of cars in circulation in the country?

Looking forward, it is inevitable to question how the car market, and namely consumers, will react to higher fuel price realities? Would consumption behaviour adapt to more energy saving – cost saving transport facilities as is the case in more advanced economies?

These constitute serious considerations to be addressed in the near future. In fact, the outgoing government has initiated a step in that direction by exempting hybrid cars from custom duties[15] to encourage more environmental friendly behaviour. Further, the government has allocated LL 577 billion as part of 2010 Budget Proposal to revamp the network of roads and highways, hoping to cater for an increased number of car users. However, the fact remains that a transportation sector strategy should be at the heart of any government's policy, so as to widen the network, increase its efficiency and improve public transportation services to citizens. This would help addressing environmental problems as well as enhancing the productivity of the economy by facilitating the transportation of goods and labour across regions and thereby promoting decentralized growth.

[13] Number of imported cars
[14] In terms of car imports and car sales
[15] As per Article 83 in 2010 Budget Proposal

ANNEX

The Treasury collects revenues from cars at imports, in the form of custom duties excise tax, and VAT. And it collects a registration fee upon car sale. The Treasury further collects a yearly road usage fee ("mécanique" fees).

Customs, Excises and VAT

- **For Used Cars** :

1-**Customs** are LL 500,000 for car values up to LL 20 million. 5 percent of the Car's Value if above LL 20 million.
2-**Excises** are LL 4,500,000 for car values up to LL 20 million. 45 percent of the Car's Value if above LL 20 million.
3-**VAT** is 10 percent of Car's Value plus Duty.

- **For New Cars**:

1-**Customs** are 5 percent of Car's Value.
2-**Excises** are 15% of Car's Value up to LL 20 million. 45 percent of Car's value of above LL 20 million.
3-**VAT** is 10 percent of Car's Value plus Duty.

Car Registration Fees

- **For Private Cars** :

Car Registration Fees are 4 percent of the vehicle's estimated value.

- **For Public Transportation Cars**:

Car Registration Fees are 2 percent of the vehicle's estimated value.

Table 8. Road-usage Fees (in LL)

Horsepower	Before 1997	1998-2005	2006-2008	2009-2010
1 to 10	33,000	75,000	155,000	325,000
11 to 20	53,000	120,000	245,000	525,000
21 to 30	109,000	240,000	505,000	1,050,000
31 to 40	140,000	310,000	730,000	1,525,000
41 to 50	230,000	510,000	1,200,000	2,500,000
Above 50	288,000	715,000	1,500,000	3,100,000

Source: Ministry of Finance

REPUBLIC OF LEBANON
MINISTRY OF FINANCE

For further information please contact:

UNDP Project – Economic Unit

Tel:	961 1 981057/8
Fax:	961 1 981059
Email:	infocenter@finance.gov.lb
Website:	www.finance.gov.lb