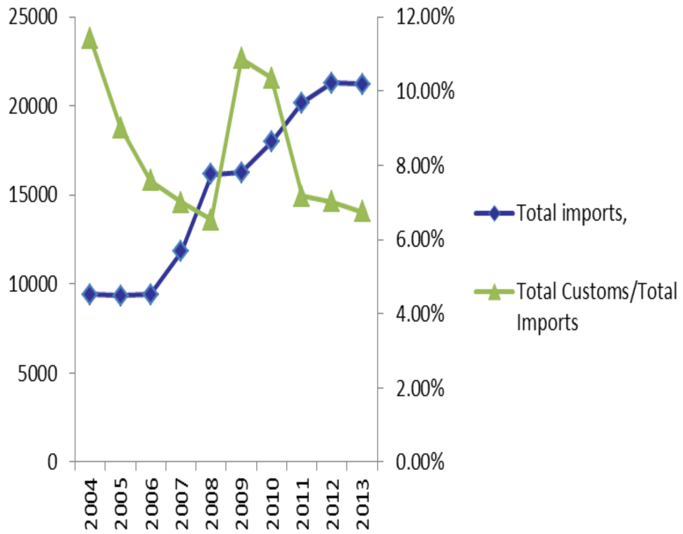
Uncovering the links between Lebanon's imports and customs' revenues

BLOMINVEST BANK



Source: Lebanese Customs, Blominvest

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Far from being a simple figure, Lebanon's imports account for almost 50% of its GDP. Not a shocking fact when you see that ten years ago, imports also stood at 43% of the country's GDP. The matter to discuss here is neither the structural trade deficit of the country nor the possible room to enhance self-sufficiency in at least food consumption, but rather, to assess the relationship between these ever growing imports and the government revenues from their customs.

Over the past ten years, Lebanon's imports grew by around 130% to reach $21 billion by the end of 2013. Customs on the other hand, have increased by one quarter of this percentage, i.e. around 33%, with a collected amount of $1.4 billion in 2013. Naturally, customs' growth is not expected to match the imports' evolution, given that many items are spared from taxes, and demand elasticity on highly taxed imports vary from one item to the other. However, they are expected to at least go in the same direction, unless economically justified.

An indicative ratio here would be that of customs over imports. Plainly calculated, this ratio seems to have fluctuated over the past 10 years as shown in the graph below, going from a high of 11.41% in 2004 to a low of 6.53% in 2008. The latter fall is justified given the critical times surrounding 2008 when Prime minister Hariri was assassinated and a series of subsequent murders of high profiles politicians and figures caused a nation-wide fear and instability.

But the striking behavior is the sharp decline of the customs to imports ratio during the past 3 years, 2011 to 2013 period, just when imports were following a particularly aggressive uptrend. *(See chart above).*

A closer look at the drivers of imports and customs during this period clears out the mystery. At each point in time, an item in imports was taking the hike, dragging along the imports' bill, but leaving the customs' level unaffected. The major factors are oil, cars, gold and basic necessities, which we will discuss in detail.

Imports of oil have surged by 60% between 2010 and 2012 and by 36% between 36% between 2010 and 2013. This increase, primarily attributable to re-exports to Syria but also to the continuous rise in oil prices from an average of 70$/ barrel in 2010 to an average of $90/barrel by 2013, was not matched by a similar increase in customs. In fact, the abolition of VAT on oil imports in January 2012, have limited customs revenues from oil to excises only. This came on top of a previous 50% reduction applied to fuel excises in February 2011, which cut collected excised in half from $690 million in 2010 to $360 million in 2011. Fuel excises have since averaged $330 million per year.

Hence, the first step was to correct the ratio by deducting the excises on the single largest item that drove imports upwards, fuel.

The second factor to diverge imports and customs revenues was cars. Imports of cars dropped 23% in 2011 resulting in a loss impact of 25% in car excises. The latter went from $400 million in 2010 to $300 million in 2011. In fact, cars' excises can reach up to 45% of the vehicle's value, which explains the considerable influence of a lower demand. In 2013, a 6% rise in car imports came to satisfy a shifting demand towards low-value cars. However, cars below the LBP 20million mark are subject to a lower excise of 22.5%, which meant customs growth will fail to match the imports' increase.

Worth noting that customs revenues to the government encompass 3 types of excises: fuel, cars and tobacco. Excluding these excises, customs drop to $542 million (2013), almost one third of all customs revenues. Moreover, Fuel and Cars excises alone account for 50% of total customs revenues.

After the correction of imports and customs to exclude fuel and cars' imports and excises, the ratio of customs to imports better retraces the evolution of imports, increasing in 2012 and slightly decreasing in 2013 to 7.57% and 6.84% respectively.

The third factor to account for was the skyrocketing of Gold prices especially influencing 2011 onwards. Gold moved from trading at around $400 in 2004 to $1400 by the end of 2010, only to shoot up to $1800 in 2011 and 2012. The resulting impact on imports was a surge in precious metals' bill from $1.16 billion in 2010 to $2.14 billion in 2011, solely attributable to the price fluctuations since imported volumes barely changed between the 2 years. Meanwhile, customs and VAT on precious metals are mostly null, hence not contributing to an equivalent increase in revenues to the government.

Finally, we adjusted the ratio for exempted items and major low tariffs sections. (See table 1 for exempted items). Many of these imports have dramatically increased during the last few years, resulting in less than proportionate increases in customs revenues.

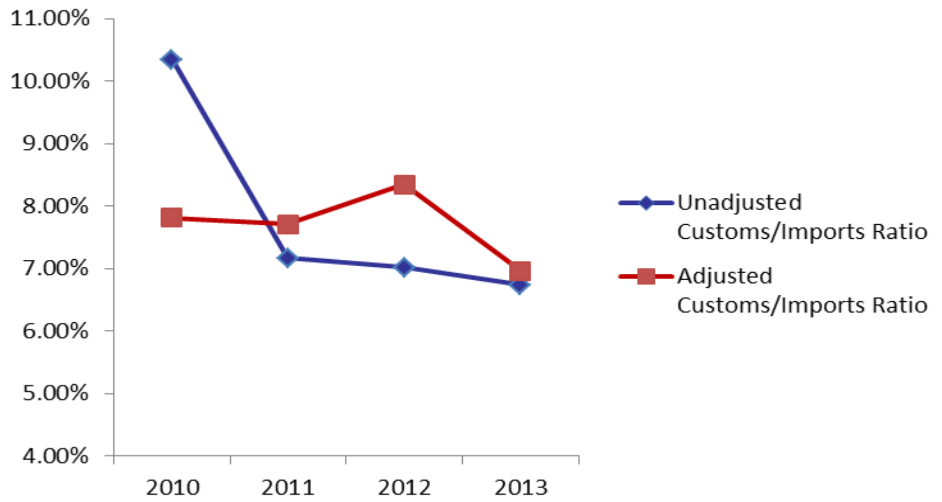
1: Exempted Goods in Lebanon, which imports are similarly exempted from Tax
a. Livestock, poultries, live fish and agricultural alimentary products sold in their raw state;
b. Bread, flour, meat and fish, milk and yogurt and their derivatives, rice, borghol, sugar, cooking salt, vegetable oil, macaroni and all different kinds of pasta and baby's food;
c. Books and similar publications, magazines, newspapers, paper and paperboard of a kind used for writing and printing, newsprints in rolls or sheets, printing ink;
d. Postal, fiscal stamps and paper money;
e. Gas for household consumption (butane);
f. Seeds, fertilizers, feeds and agricultural pesticides;
g. Agricultural machinery;
h. Medicines, drugs and pharmaceutical products including those used for health and pharmaceutical purposes (like for example intrauterine devices, condoms, sanitary pads and tampons, baby's diapers and similar products
i. Medical tools, installations and equipment;
j. Precious and semi-precious stones, precious and semi-precious stones destined for mounting or renewed, pearls, diamonds, gold, silver and other precious metals.
k. Negotiable money in paper or coins.
l. Yachts and other excursion or sports sailboats with a length exceeding 15 meters that are only owned to non-Lebanese.
m. Means of air transportation used for both persons and goods.

For instance, basic necessities such as (a & b in above list) have also increased following the start of crisis in Syria, in order to satisfy the growing population of refugees which accounts now for almost one third of Lebanon's population. Worth noting here that all imports made by the United Nations Organizations or other non-governmental bodies are also exempted from tariffs. Hence, the exclusion of these items further deflated imports, and brought back the ratio of customs to imports to a mirroring trend to that of imports.

2: Exemptions at Imports

1. The importation of goods in above list
2. The transactions provided for in the customs legislation and related to the exemptions specific to the Presidency of the Republic, Parliament, Prime Ministry, United Nations Organization, the political and consulate exemptions, and the donations granted to the public administrations and institutions,
3. The personal luggage, household equipment, and the specimens with no commercial value according to the criteria adopted by the customs law.
4. The importation of military vehicles, weapons and ammunitions. back to top

After all the above corrections, the results as shown in the chart below, reveal the true evolution of the customs/imports ratios versus the evolution of imports over the past few years.



**Adjusted for fuel and cars excises and major low tariffs sections.*
Source: Lebanese Customs, Blominvest

The adjusted ratio has thus been stable in 2010 and 2011, rising in 2012 and returning to slightly lower than normal levels by the end of 2013. This clarifies the previous ambiguity over the inverse relation between customs and imports. It also relieves confusion on whether smuggling has increased in the past 3 years through the Lebanese borders, causing customs revenues to decline. In fact, if smuggling activities were to exist, whether on the level of goods declaration or even inspection, they would have been a historical phenomenon, and not related to the previous 3 years.

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