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ROUNDTABLE ON BRINGING COMPETITION INTO REGULATED SECTORS

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-- Session I --

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ROUNDTABLE ON BRINGING COMPETITION INTO REGULATED SECTORS

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1. Bringing competition into regulated sectors: the case of banks, insurance, telecommunications & electricity

1. Awaiting the new law and authority in charge of enforcing it, the few existing regulators are assuming both the technical and the competition control oversight role. Syndicates, orders, and even professional organisations are also regulating their practices and in many instances engaging or promoting anticompetitive practices. The role and mandate of the Ministry of Economy and Trade is limited given the constraints imposed by existing laws and the overall policy of support private sector initiatives without assessing fully the impact on the economy as a whole or considering consumer welfare. Just a couple weeks ago, the Lebanese Parliament ratified a new and modern consumer protection law which revamps the old archaic law and creates a new authority to protect consumers. This authority, also linked to the Ministry of Economy and Trade, will complement and enforce the upcoming competition authority.

1.1 Banks

2. Lebanon has a vibrant banking sector with over 60 banks (4mn population) regulated by a strong Central Bank and a Banking Control Commission. Mergers, pricing, and other regulatory measures are overseen, and for decades now, by the sectoral regulator. Moreover, the Association of Banks is a powerful lobby, led by 5 or 6 top banks, and an authority which influences interest rates and policy of commercial banks.

3. Introducing competition and “imposing” a new authority on this sector is proving to be a challenge especially that a law regulating bank mergers is operational giving the regulator and the council of ministers the right to approve mergers. A dialogue has been launched with the regular and the banking sector to agree on a mechanism that will serve both the interest of the sector but also the consumer and the potential entrant.

1.2 Insurance

4. The Insurance sector, relatively small compared to banks or to the region, is regulated by a young control commission linked directly to the Minister of Economy. And since the upcoming competition authority will be linked directly or indirectly to the same minister, we do not and we are not observing any major resistance from the regulator. A dialogue has also been launched with the Insurance Control Commission who has been operational for a few years only. Hence, carving a role for the competition authority in the sector is proving to be easier. Note as well that the sector is small in terms of volume of activity and thus less powerful as a lobby group.

1.3 Telecommunications

5. The sector includes a landline network owned and operated by the state, two mobile networks (previously private, established through a 12-year BOT license in 1992, turned into management contracts with state ownership), and a number of privately-owned internet and data providers.

6. A telecommunications law was passed in July 2002 which calls for an independent regulatory authority entrusted, among other things, to ensure a competitive environment and to regulate the sector as a

whole. The law calls for the establishment of “Liban Telecom,” an entity which will own the landline network and has the right to get the third mobile license. Liban Telecom would be fully owned by the state at the start, later to be privatised through an Initial Public Offering and/or partially selling shares to an international strategic partner.

7. The designation of the members of the telecom regulator and the creation of Liban Telecom has been put on hold until now. The Government expects to set up the regulator in the first quarter of 2005 and formally establish Liban Telecom and hence offer a third mobile license.

8. Once in place, the regulator is expected to oversee competition within the sector but the language of the law is general and the relationship with a future competition authority remains unknown. Discussions with officials from the ministry of telecommunications have advanced and a memorandum might be signed to divide the tasks between the two authorities. The situation in this sector is not clear given that there is a regulator “on paper” and a ministry interested in strengthening its role however this regulator has not been tested yet as the one in the banking sector. Moreover telecommunications is a cash-cow for state treasuries and thus clearly defining the relationship between the regulator and the authority remains a challenge.

1.4 Electricity (power sector)

9. Utilities in Lebanon such as electricity and water are by and large quasi-private, and/or are moving in the direction of privatisation. The Electricité du Liban (EDL) is a public institution under the tutelage of the Ministry of Energy; however it is not the only body in-charge of generating power as concessions have long been awarded to private enterprises. An electricity law was passed in September 2002 and once EDL is restructured and the operational losses curbed, the privatisation process will be launched and an independent regulatory body set up. The timeframe of power sector is less advanced than the telecom sector with a regulatory body still not formed and hence no clear mandate is envisioned for it.