



USAID | **LEBANON**
FROM THE AMERICAN PEOPLE

SUPPORT FOR LEBANON’S ACCESSION TO THE WORLD TRADE ORGANIZATION (WTO)

Regulatory Impact Analysis Report

Decision 720/1

“Import Conditions of Manufactured and Prepared Animal Products”

SUPPORT FOR LEBANON’S ACCESSION TO THE WORLD TRADE ORGANIZATION (WTO) PROJECT

September 2012

This document was produced for review by the United States Agency for International Development.

SUPPORT FOR LEBANON’S ACCESSION TO THE WORLD TRADE ORGANIZATION (WTO)

0

REGULATORY IMPACT ANALYSIS REPORT DECISION 720/1

Table of Contents

Background	2
Purpose of the Report.....	2
RIA Methodology	3
Identification of Affected Parties.....	4
Working Group Members Feedback per Article	4
Direct and Indirect Costs & Benefits per Article	9
Draft Process Model Worksheet.....	14
Challenges	15
Conclusion and Recommendations	15
Appendix A – Process Model Worksheet.....	17

Background

Public Agencies are increasingly called upon to respond to a variety of concerns raised by the globalization of trade in food, primarily to ensure public health and fair trade practices. With a growing number of issues in food safety and animal health problems, import requirements for agri-food products are of great importance to public health.

Several initiatives have been undertaken by the Lebanese Government to develop food standards and regulations to facilitate trade and support the agro-industrial sector with a specific focus on ensuring consumer's health. These include laws, decrees and decisions that set food standards and regulations for local food-businesses, manufacturers, exporters, and importers. Among these, decision 720/1 was issued by the Ministry of Agriculture and enacted in August 2011. This decision specifies the conditions and requirements for importing manufactured and prepared animal food products. Through eleven articles, the decision aims to regulate the conditions and requirements for the importation of animal food products and to introduce mandatory conditions for the implementation of a food safety management system in the exporting factories.

With support from MEFOSA¹, the supervision of the USAID Support for Lebanon's Accession to the WTO office in Lebanon, a working group composed of various private sector stakeholders was established to conduct an analysis to assess the potential costs and benefits of decision 720/1. At a high level, the analysis highlights the economic costs and benefits of Decision 720/1 to primary stakeholders including government officials, importers, manufactures, and consumers.

Purpose of the Report

This Regulatory Impact Analysis (RIA) initiative comes under a wider project funded by the United States Agency for International Development (USAID) aimed at strengthening the technical capacity of the private sector in the assessment of the legal and economic impacts that affect their business.

Regulatory impact analysis provides a detailed examination of the potential costs and benefits of regulatory measures to all stakeholders affected by a new or existing regulation. The increased use of regulatory impact analysis methodology is positioned to ultimately help build the foundation for a sound regulatory environment for trade.

This RIA was developed to help private sector stakeholders in institutionalizing advocacies against a regulation and in presenting a structured argument to the policy makers in order to ratify issues of concern and reduce the overall uncertainty for businesses from Decision 7201/1.

¹ MEFOSA is a food safety, food security and sustainability consulting service provider. Its main slogan is "trading in safe food and feed is a prerequisite for sustainable development". MEFOSA intends to help Lebanese and MENA farmers, traders, supply chain companies and consumers by enhancing their capacity to trade with safe feed and food at competitive prices in the local market. In addition it helps to build confidence in feed and food products among consumers both domestically and in the international markets. MEFOSA's experts, Mr. Atef Idriss (General Manager), Ms. Hala Romanos (Former Projects Manager) Ms. Intithal Sheet (Former member of the Services & Consultations department) and Mr. Patrick Accaoui (Quality and Food Safety engineer), participated in the working group and provided subject matter expertise and assistance on this analysis.

RIA Methodology

Effective participation by industry stakeholders is crucial to develop an accurate assessment of the costs and benefits of a regulation. As a result, several stakeholders affected by Decision 720/1 in Lebanon were identified and invited to working group meetings. The primary purpose of the working group meeting was to engage with stakeholders in the analysis, bring forward their perspectives to each of the articles in the decision and collect the necessary data to conduct this assessment.

The Working Group, through several meetings and discussions, gathered representatives from different institutions of the Lebanese private sector, including:

- Mr. Wissam Fares, the Supply Chain Manager of McDonald's Lebanon. McDonald's Lebanon is part of the international chain of quick service restaurants. McDonalds imports beef and chicken from the Nabil factory, a regional approved supplier located in Jordan. Decision 720/1 requires them to implement new processes and impacts their operations.
- Ms. Louna Jabbour, Deputy General Manager at M.Nassif & Fils. MNF specialty and business operations focus on import, representation and distribution of fast moving consumer goods in Lebanon with widespread business in Syria and Jordan. MNF also imports processed canned meats (luncheon meats, hot dogs, etc...) from European countries (e.g. Holland). Decision 720/1 requires them to implement new processes and impacts their operations.
- Mr. Joe Abdallah, Deputy General Manager of Moussalleh Bros. MB specializes in the importation and distribution of general foodstuff and is a representative of International brands. Its main suppliers are European companies from: Spain, Denmark, Hungary, Bulgaria, Thailand, Austria, Scotland, China, Germany, Italy, Belgium, France, Lithuania, Estonia, Vietnam, and United Kingdom. Decision 720/1 requires them to implement new processes in the importation of cold cut meats and canned meat products.
- Mr. Nasser Sinno, Plant Manager of Al Taghzia. Al-Taghziah is large factory of global proportions and with global footprints that produces a premium selection of gourmet cold cuts, canned luncheon meat, and pickles.

Based on the inputs provided by working group members the team set out to conduct a classical RIA analysis using a cost-benefit analysis framework which estimates the benefits and costs incremental to a set baseline. It aims at quantifying and valuing all the costs and benefits resulting from the adoption of the regulation or in this case the implementation of decision 720/1. To outline and summarize the results of the cost benefit assessment, the team set out to use a Process Model Worksheet (PMW) methodology (See appendix A) developed by Booz Allen Hamilton.

Unfortunately the working group was not able to identify credible data sources to complete a thorough analysis, as food product manufacturers and importers were unwilling to divulge proprietary financial information and no historical credible public data sources existed on the food manufacturing industry. Based on interviews and direct oral input provided by working group members, the analysis presented in the following sections is a qualitative summary of the costs and benefits to all stakeholders. This assessment represents a starting point in the quantification of costs and benefits that working group members will need to undertake once more detailed and specific quantitative data is identified.

Identification of Affected Parties

1.) Intended purpose of the regulation

The main objectives of Decision 7201/1 are regulating the importation of manufactured and prepared food products and ensuring the safety of imported food products consumed in the Lebanese market.

2.) Stakeholders

Primary stakeholders identified to be impacted by this regulation include:

- Consumers
- Importers of prepared and manufactured food products
- Local manufacturers and retailers
- Ministry of Agriculture
- International Exporters

Working Group Members Feedback per Article

Based on feedback collected as part of Working Group meetings, identified below is a formal description/summary and a list of general concerns for each article that working group members identified as either impacting or likely to impact their business operations.

3.) Article 1

The following definitions shall be adopted for the provisions of this decision:

1. *Prepared Animal Food Products: Food products prepared from raw materials of animal origin, such as the meat of livestock, poultry, fish or cooked / partially cooked aquatic animals, not intended for consumption in their final form, and not including refrigerated or frozen meat, or meat parts preserved in water and salt.*
2. *Manufactured Animal Food Products: Food products manufactured from raw materials of animal origin, ready for consumption in their final form.*

General Concerns:

According to the WG members the classification of imported food of animal origins featured in the first article is not clear. Importers are facing difficulties in identifying under which category some products fall. While the importation process and requirements are the same for both categories, the Lebanese customs' taxes are different. Whenever there is uncertainty over the category under which a product falls, it is the Customs departments who decide on the taxes applied. This creates an operational risk for importers limiting transparency into transportation costs.

4.) Article 3

The following documents should be attached to the imported manufactured or prepared animal products:

- 1- Certificate of origin issued by the concerned parties in the country of origin.*
- 2- Veterinary health certificate issued by the competent authorities in the country of origin.*
- 3- Bill of lading indicating that the goods are exported to Lebanon.*
- 4- Commercial bill of the manufactured or prepared products.*
- 5- Any other document imposed by the relevant in force decisions in the Ministry of Agriculture*

General Concerns:

WG members agreed that imposing stricter import requirements may affect Lebanese exports if the countries of origin apply reciprocal import requirements on Lebanese exporters. However they believe that compliance with Article 3, and in particular clause 3.1, will reduce parallel imports². This would ensure more traceability of imported products and is therefore beneficial to legitimate importers with regard to price competition, and beneficial to the safety of consumers.

Article 3.2:

In addition to the requirement of the veterinary health certificate from the country of origin stipulated in clause 3.2, importers are required to submit their shipments for testing by assigned Lebanese laboratories prior to entry to the market. Importers claim that the current testing infrastructure in Lebanon is not adequate and is causing delays to the importation process. The delay can vary between 3 and 10 days. Within this context, importers are mostly concerned about anticipating the costs associated with food storage and safety at the port and the potential loss of consumer confidence from unpredictable delays.

Article 3.5:

Provision 5 of article 3 highlights one of the major issues encountered by importers. Importers claim that the ministry of agriculture regularly updates and issues new regulations for importation that are not transparent to the business community, making it difficult to trace and plan for the latest importation requirements. They identified an estimated average cost incurred by this lack of transparency at about 1 to 5 % per line of product.

5.) Article 4

² A parallel import is a non-counterfeit product imported from another country without the permission of the intellectual property owner. Parallel imports are often referred to as grey product, and are implicated in issues of international trade, and intellectual property.

The expiry date of the imported manufactured or prepared animal products is two years maximum.

Each imported container of the manufactured or prepared animal products should mention the production and expiry dates in a clear, undeletable or unchangeable way.

Expiry date on the container may be sufficient provided that:

- *It mentions the expiry date and the Batch No. or the Lot No. on each individual container of the product in a clear, undeletable or unchangeable way.*
- *It mentions clearly the Batch No. or the Lot No. and the production and expiry dates on the health certificate or on any other attached document certified by the competent authorities.*

Any of these products is not allowed to enter after reaching half of the expiry period

General Concerns:

The 2-year limit enforced by Article 4 has created major difficulties and risks for importers of manufactured or prepared animal products. Working group members are concerned that the 2-year limit on the expiration date is very stringent and is not based on scientific studies or international standards. The limit on the expiration date in Europe is 5 years and is product specific. Their concern is specific to the loss of product lines that have an expiration date greater than 2 years. With Lebanon representing a relatively small market for these products, their concern is further validated because these goods cannot be sold in the short term, forcing importers to either compromise on the price or refrain from importing certain products. In the long-term this could significantly limit the number of available manufactured or prepared animal food products imported and thus sold in Lebanon.

6.) Article 5

The establishments wishing to import prepared animal products should submit an application to the Department of Imports and Exports at the Directorate of Animal Resources before starting to import, along with the following documents:

- 1- *Certified copy of the factory registration in the country of origin issued by the competent authorities proving that this factory is under health control.*
- 2- *Certified copy of implementing food safety management system certification based upon HACCP principles (for example, HACCP or ISO 22000 certifications or their equivalent) related to the factory and the product intended to be imported issued by the competent authorities.*
- 3- *List of establishments producing raw materials of animal origin used in the factory along with the following documents of each establishment:*
 - A- *Certified copy of the registration certificate in the country of origin proving that this establishment is under health control.*
 - B- *Certified copy of implementing food safety management system certification based upon HACCP principles, for example HACCP or ISO 22000 certifications or their equivalent.*
- 4- *Undertaking of the concerned party to bear travel and accommodation expenses of the Ministry of Agriculture employees to inspect the slaughterhouse or the factory in the*

Article 5.3

Working group members identified that providing a list of establishments producing the raw material used in the exporting factory is both burdensome and unnecessary. Article 5.3 is viewed by working group members as a duplicative requirement constituting an excessive regulatory burden. They believe that the Hazard Analysis & Critical Control Points (HACCP)³ certification of the exporting manufacturer, already enforced as part of article 5.2, is enough to ensure the safety of raw materials and their compliance to the norms. Moreover importers raised some concerns that some manufacturers for confidentiality and competitiveness reasons will not disclose information on their raw material intermediate inputs.

Article 5.4:

Article 5.4 constitutes a similar concern; it creates an additional direct cost of travel and accommodation, however minimal and contained. The same confidentiality concern as outlined for article 5.3 was assumed to reduce the number of suppliers, reducing competition and thus product availability.

7.) Article Six

Animal food products manufactured in the country of origin may be imported, in case they were re-exported from another country, provided that the following conditions are met:

- 1- The specific kind of products shall be originally allowed to be imported to Lebanon.*
- 2- The products shall be exported to the other country in containers intended for sale in their final form.*
- 3- The products shall be accompanied by the following documents:*
 - a- A copy of the certificate of origin issued by the country of origin and certified by the concerned authorities in the country exporting to Lebanon.*
 - b- A copy of the veterinary health certificate issued by the country of origin of the imported products and certified by the concerned authorities in the country exporting to Lebanon.*
 - c- An official certificate from the competent authorities of the country exporting to Lebanon, confirming that the goods covered by the certificate were not subject to any transformation or change in their containers or labels in this country.*
 - d- A veterinary health certificate issued by the veterinary authorities in the country exporting to Lebanon, or by the authorities allowed to issue the same.*
 - e- A packing list stating the production and expiry dates of the products.*
 - f- A copy of the commercial invoice showing clearly the type of the exported goods*

General Concerns:

Working group members identified that this article requires extensive paperwork and imposes a heavy compliance cost on importers. When goods are produced in one country and exported from

³ HACCP is a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product.

another, tracing back the certificate of origin and the veterinary health certificate to the country of origin is challenging.

Although importers mentioned the heavy cost of compliance, they agreed that this article ensures imported products are of the highest quality and that bad quality products are not repackaged and sold as good quality products in Lebanon.

8.) Article 7

Manufactured or prepared animal food products may be imported by transit, provided that these goods are accompanied by a veterinary health certificate issued by the Veterinary Quarantine in the free zone where the unloading took place, along with a copy of the original veterinary health certificate and certificate of origin certified by the veterinary authorities in the free zone where the unloading took place.

General Concerns

Working group members agreed that this article does not impose any costs on importers and is beneficial to both importers and consumers.

For importers this provided a formal and transparent process that all importers had to align their operations to. For consumers this ensured that only quality products are imported and sold in Lebanon.

9.) Article 8

This article forbids the receipt of any shipment of animal products proved to be heading to another country, and was not discharged at that country, for any reason whatsoever.

General Concerns

To voice their concern with this article working group members provided a specific example where this article imposed an opportunity cost to importers. In some cases shipments are unable to reach their destination because of mechanical issues and therefore they are redirected to the Lebanese market. Cases like these present opportunities for importers to buy cheaper products. Importers understand that this regulation is meant to ensure spoiled products are not redirected to Lebanon, as has taken place in the past, but suggest that rejection of shipments should instead be based only on safety and quality requirements already addressed as part of the other articles.

10.) Article 9

The Ministry of Agriculture shall have the right to reject any imported animal food products, in the event where it was established, in the country of origin, that the products are not safe, according to the specifications of the World Organization for Animal Health (OIE) or other international specialized organizations.

General Concerns

Working group members raised a general concern regarding international standards and specifications adopted by the Lebanese government. They stressed the importance of harmonizing

the adopted standards and that the government needs to follow the recommendations of Codex alimentarius⁴ with regards to food safety. This would reduce uncertainty by providing a level of transparency and process that importers/exporters could account for as a cost in their planning processes.

Direct and Indirect Costs & Benefits per Article

Food safety regulations exist to help safeguard the integrity of food and protect public health by mandating importers and suppliers to abide by a minimum set of quality standards and follow a documentable importation process. However, the price of food safety regulations could also impose costs on food suppliers, decreasing the types and quantities of products supplied and thus increasing prices for importers and consumers.

1.) Consumer Protection and Public Health

a. Direct Benefits to Consumers

The benefits of regulation designed to safeguard the quality and the integrity of food is designed to reduce the level of risk of illness. Direct benefits of imported food regulation are diverse and may include:

- Lowering the incidences of food poisoning and all associated costs;
- Protecting consumers from harmful long term health effects;
- Increasing consumer confidence in the safety of imported food;
- Preventing contaminated imported food ingredients from entering the food supply chain as intermediate inputs.

The documentation required in articles 2, 3 and 5 provide transparency and allow for better oversight by the government on the origins of the imported products and their quality. These requirements will ensure the safety and the quality of imported food products consumed in the Lebanese market.

An indirect benefit is intended by the compliance with the requirements of Article 6. The same regulatory tools imposed on normal shipments to Lebanon are imposed on shipments of products exported from a secondary port other than the port of origin. In this context these requirements provide security and quality assurance to the consumer that the product consumed meets the minimum health standards.

The provision of article 8 eliminates the risk of importing spoiled products and does not impose any direct cost on importers. However it eliminates the potential cost savings that the importers could gain from purchasing cheaper products that were redirected to Lebanon for purposes other than being spoiled (lack of compliance with other countries requirements, shipping problems, etc...)

Proper storage and quarantine measures imposed by article 7 are a means for the Ministry of Agriculture to ensure that the cold chain is not disrupted. Safeguarding suitable storage conditions decreases the risk of a spoiled shipment and thus is an indirect benefit to consumers and importers.

The continuous pressure of inspection by Lebanese authorities stipulated in article 5.4 places a positive pressure on manufacturers and importers to uphold the quality of their declared certification. This has a positive impact on the product quality and the health of the consumer.

⁴ . The Codex Alimentarius is a United Nations Food and Agriculture Organization (FAO) and aims, through a set of published standards, to ensure the safety of traded food products, and to facilitate trade

b. Direct Benefits to Importers

Import requirements stipulated in this decision increase consumer trust for local manufacturers and retailers in imported food products of animal origins. Increased confidence in the products may raise the level of demand and in turn benefit the importers sales growth.

Moreover, ensuring that imported foods meet food standards, the regulation protects the industry from the adverse effects of sale or consumption of unsafe or bad quality products. The release of unsafe food into the market would likely have a domino effect of repercussions, not only on the supplier of the product, but also on the entire sector as importers and domestic producers of similar products will also be affected as consumers lose confidence in Lebanese food products.

2.) General Compliance

a. Direct Cost to Importers

In ensuring that they comply with the requirements of Decision 720/1 (articles 3, 5 and 6), food importers will incur administrative costs in the preparation of paperwork and the time and processes associated with getting clearance. Direct costs include time for documentation, inspection charges, laboratory analysis fees, the cost of sampled products, lawyer fees and storage costs associated with the inspection and testing processes. Small importers are projected to be specifically impacted by these requirements as these costs will represent a large proportion of their total revenues and profits.

Articles 5.3 and 6 are specifically impactful to importers and international exporters. Article 5.3 requires importers to provide documentation from the manufacturer producing the raw material used in the exporting factory, including registration in the country of origin and a certificate from the food safety management system. Tracing this documentation back to the country of origin, which may be different than the actual exporting country is burdensome and imposes undue administrative costs on the importers. Working group member specifically highlight that this cost may not be necessary since the exporting factory is already required to provide the importer with HACPP and ISO certification. Similarly, Article 6 inflicts the same type of administrative compliance costs, requiring importers to provide documentation on the countries of origin for all goods exported or repackaged in another country.

b. Indirect Cost to Consumers

The impact of compliance requirements extends beyond the imported food sector and could also affect consumers. Additional requirements are imposed on importers as an additional cost of operations. Importers have the option to eat these costs, pass these costs along to consumers, or to not import a specific product into Lebanon all together. It is projected that producers are more likely to choose options two or three wherever possible, thereby limiting the number of products available to Lebanese consumers or directly increasing the price of these products to account for the additional transportation costs that they have to incur. In both instances this either results in cost increases, or reductions in competition among the availability of products which could also contribute to price increases for those products that now face less competition from imports.

3.) Inspection and Clearance Delays

a. Direct Benefits for Consumers

If conducted properly and with a clear timeframe, testing in Lebanon can further ensure the safety and the quality of the food products sold in Lebanon. However without a developed testing facility,

trained testing personnel, and clearer procedures, it is not clear if safety benefits will compensate for the losses incurred by the importers and the cost increases that may be passed along to consumers.

b. Direct Cost for Importers

Long and unpredictable delays represent a risk, impose a direct cost and could disrupt the importers business cycle. One reason is that importers have additional costs for storage and while delaying their supplies and causing additional uncertainty for their customers. The risk of long and unpredictable delays is particularly highlighted in the application of article 3.2, where the decision is requiring that all food samples are tested in Lebanon.

Storage costs vary considerably depending on the type of product imported and the method and place of storage. The working group members estimated that storage at the Lebanese customs is on average 130 USD per container per day and the port fees for quarantine are \$600 per shipment for the first 9 days.

Notably, delays in inspection and clearance perpetrate a more considerable impact on importers in case their business cycle is disrupted and delivery to the market delayed. The disruption of the business cycle may sometimes generate a chain of negative impacts from shorter time to market to loss of customer trust and eventually loss of customers. For businesses that import fresh food, the speed with which the imported product clears customs and quarantine processes can be critical to the price and the quality of the product. Delays in clearance may lead to a compromise on premium prices for the importer and might cause product spoilage. Although this slippery slope can be minor for short delays, it can have drastic impact to importers for longer and unforeseen delays. .

4.) Limits on the Expiration Date and Shelf Life at Importation

a. Direct Benefits for Consumers

The purpose of this article is to ensure that manufactured and prepared animal products sold in Lebanon are of the highest quality, thus ensuring consumers safety and reducing the amount they could potentially have to spend on healthcare. Reducing some proportion of this benefit, consumers are on the other hand impacted by cost increases that may result from a reduction the availability of products. If expiration date allowances are reset based on scientific benchmarks and are in line with international best practices, this would reduce some of the burden imposed on importers while still ensuring the safety of manufactured and prepared animal products in Lebanon.

b. Direct Cost for Importers

A two year expiration date imposed by Article 4 constitutes a direct cost to importers. This constraint limits the range of products eligible for importation, thus directly decreasing their sales volumes. However the scale of the cost depends on the number and volume of product lines normally imported and consumed in Lebanon and which have an expiration date of greater than 2 years.

The combination of the 2-year limit and a half shelf life constraint that is imposed on products imported into Lebanon significantly reduces the timeframe in which importers can market, distribute and sell their products. This is a direct to importers, which may have to compromise on price, increase their supply chain resources or refrain from importing certain products that they will not be able to sell in time. Small importers are projected to be impacted the most by this decision.

However, in order to assess the magnitude of this cost to small and large producers, specific data will need to be obtained outlining the number of products that could be impacted by this decision, and the potential revenues that would be lost by importers as a result.

c. Indirect Cost to Consumers

Working group members identified that reducing the expiration date allowance on all manufactured and prepared animal products is expected to impact the supply of imported products as importers and international exporters will have to reevaluate the types of products they continue to import into Lebanon. This is expected to reduce the number of products available to consumers, potentially increasing prices for substitute goods, reducing disposable personal income and impacting the overall economy.

5.) Transparency of Import Requirements

a. Direct Benefit for Consumers

A clear set of requirements put forth in the decision at hand, to the exception of article 3.5 and the current practices of the Ministry of Agriculture increase the trust of consumers, local manufacturers and retailers in imported food products of animal origins.

b. Direct Benefit for Importers

An indirect benefit ensues from the application of a clear, common and transparent set of regulatory procedures (all articles except 1 of the regulation). Transparency places importers at a level playing field, reduces the potential of preferential treatment and reduces the risk of regulatory capture. The appropriate cancellation of previous decisions enacted by article 10 creates clarity and transparency on the procedures and requirements for the importation of food products of animal origins. The increased transparency and confidence in imported products may also increase consumer demand and in turn benefit the importers sales growth.

Although the regulation evaluated in this analysis, among other things, set out to provide clarity and certainty on import requirements, the process and timing with which new regulations are being issued may actually add to importers uncertainty around decision 720/1.

6.) Regulatory Uncertainty

a. Direct Cost to Importers

A lack of consistency in the interpretation of food safety regulations increases risk and thus cost to businesses in ascertaining import requirements. For importers, the frequent issuance of new and sometimes contradictory regulations, mainly raised by article 3.5, have the potential to create confusion, necessitate contact with multiple agencies and lead to additional costs in demonstrating compliance with food standards. Regulatory uncertainty may also increase the risk of bribery, favoritism and discrimination among importers.

The lack of clarity resulting from the application of Article 1 imposes a direct cost on importers. In some instances, importers are not able to properly predict the taxes that will be levied on their shipments. Though the scale of regulatory uncertainty caused by Article 1 is minor, it should not be dismissed.

Regulatory uncertainty is a risk that creates uncertainty around an importers business and impacts business costs, investment, productivity and most of all profits. In particular regulatory uncertainty affects smaller importers on a greater relative scale than larger businesses who have greater power of negotiation with the government and in the market. Business growth and viability of small importers is greatly impacted by the lack of transparency creates additional hurdles and risk matrices that could impact their business processes.

b. Indirect Costs to Consumers

Without generating any additional benefit (safety could still be achieved with more transparent regulatory processes), the negative impact of regulatory uncertainty goes beyond importers to also impose a cost to consumers. Some of the costs incurred by importers and associated with the lack of transparency may be passed on entirely or partially to the consumer (whether end user or retailer or local manufacturer) through price increases. The overall relationship between the development of transparent processes, safety, import costs and potentially increased demand for food products is something that could be studied with more detail and rigor once working group members have access to quantifiable data.

7.) Reciprocal Export Requirements

a. Indirect Costs to Exporters and the Economy

Additional import requirements may lead to costs for exporters and can therefore restrict trade between countries. Therefore policy makers need to consider the potential impact that exhaustive import requirements may have on exporters of Lebanese products, in particular articles 4, 5 and 6. Exporting countries of origin may retaliate by imposing reciprocal measures on Lebanese exporters, which may restrict the exportation of Lebanese products. This of course presumes that currently the requirements on Lebanese exports are less demanding than the regulation at hand, and is something that will need to be evaluated once quantifiable data required to compare current and potential costs can be evaluated.

8.) Loss of Suppliers

a. Indirect Cost to Importers

In addition to the direct cost of paperwork and bureaucratic processes involved in tracking the certification of all raw materials used in the production process required by article 5.3, importers risk the loss of suppliers not wishing to disclose confidential information regarding the raw materials they use. The same concern is raised with the provision of article 5.4 where the ministry reserves the right to inspect all exporting factories.

b. Indirect Cost to Consumers

The loss of suppliers can also turn into a chain of negative impacts reaching the consumer in the form of limited supply and price increases.

9.) Factory Registration Requirements

a. Direct Benefits for Ministries

Article 5 requires the registration of all manufacturing suppliers with the goal of developing a database of suppliers based on a standardized list of requirements. The database will help government ministries track product origins, identify unsafe ones and potentially ban importation from manufacturers with bad reputations.

b. Direct Benefits for Consumers

These provisions provide confidence to the consumer regarding the health and food processing standards adopted in all manufacturing plants exporting to Lebanon.

c. Indirect Benefits for Importers

Access to this database will also provide importers with a list of potential manufacturers that meet the government's requirements, and thus reduce some of the administrative burden they would have to incur from having to replace one manufacturer or supplier for another.

Draft Process Model Worksheet

The summary of direct and indirect costs and benefits goes a long way at outlining the impacts of each article. However, in order to assess the overall cost/benefit of Decision 720/1 the working group will need to apply to each cost and benefit a quantitative assessment of the impact and the expected time frame associated with this impact. Included below in Figure 1 are two summary tables summarizing the costs and benefits of decision 720/1 using a PMW approach.

Beneficiary	Article	Direct	Indirect/ Induced	Size (1-5)	Time (1-5)
Government	Factory Registration Requirements	X		TBD	TBD
Domestic Importers/ Manufacturers/Retailers /Exporters	Consumer Protection and Public Health	X		TBD	TBD
	Transparency of Import Requirements	X		TBD	TBD
	Factory Registration Requirements	X		TBD	TBD
Consumer	Consumer Protection and Public Health	X		TBD	TBD
	Factory Registration Requirements		X	TBD	TBD
	Inspection and Clearance Delays	X		TBD	TBD
	Limits on the Expiration Date and Shelf Life at Importation	X		TBD	TBD
	Transparency of Import Requirements	X		TBD	TBD

Cost Bearer	Article	Direct	Indirect/ Induced	Size (1-5)	Time (1-5)
Government					
Domestic Importers/ Manufacturers/Retailers /Exporters	General Compliance	X		TBD	TBD
	Inspection and Clearance Delays	X		TBD	TBD
	Limits on the Expiration Date and Shelf Life at Importation	X		TBD	TBD
	Regulatory Uncertainty	X		TBD	TBD
	Loss of Suppliers		X	TBD	TBD
	Reciprocal Export Requirements		X	TBD	TBD
Consumer	Loss of Suppliers		X	TBD	TBD
	General Compliance		X	TBD	TBD
	Limits on the Expiration Date and Shelf Life at Importation		X	TBD	TBD
	Regulatory Uncertainty		X	TBD	TBD

Figure 1: Decision 720/1 Benefit and Cost Summary - DRAFT PMW

Once more data becomes available the working group can use this template and fill in the size and time frame columns to identify the relative impact of each article on the government, private sector and consumers. In the instance that exact data is not available, but the working group has some idea of the relative impact of each article, the PMW approach can also be used to assess the high level cost/benefit of Decision 720/1. A detailed description of the methodology and process for developing a PMW is included in Appendix A.

Challenges

A paper by the OECD states that “... [a] RIA’s most important contribution to the quality of decisions is not the precision of the calculations used, but the action of analyzing – questioning, understanding real-world impacts and exploring assumptions.”⁵ Although qualitative in nature, such “improved understanding” was the outcome of this specific RIA, as working group members were taken through the process of conducting a detailed RIA uncovering the difficulties associated with stakeholder engagement and data availability. Given the extent of new decrees that have already and are projected to be issued by the MoA in the near future, knowledge and understanding of this process is proving very beneficial as working group members plan to develop more rigorous and credible analyses going forward.

Challenges encountered by this Working Group in assessing the impact of Decision 720/1 include:

- **Time:** Conducting a thorough and credible quantitative analysis requires significant time for data collection and analysis. While working group members were getting organized and the project team was gathering appropriate data to analyze the specific components of decision 720/1, new decrees were issued by the MoA that also significantly impacted importers, exporters and manufacturers of manufactured and prepared animal food products. As a result getting stakeholder buy-in and collecting necessary data for this specific RIA was difficult, as participants quickly shifted their attention to the latest issued decree.
- **Stakeholder Buy-In** - The project team was not able to identify credible data sources to complete a thorough analysis, as food product manufacturers and importers were unwilling to divulge proprietary financial information, and very little publicly available/credible historical industry data/statistics currently exist to analyze the impact of decision 720/1. One reason for this was the lack of stakeholder buy-in for the RIA methodology. Per recent feedback from working group participants this issue may have been addressed with the issuance of new decrees as working group participants have now understood the value that a credible RIA could bring in advocacy efforts with the MoA and other public agencies. As an example, one of the syndicates did not have an appropriate grouping to address issues specific to processed cold cuts and were as a result unable to follow up on the specifics of the issue with the most relevant stakeholder. This also proved difficult in data collection efforts as working group participants faced difficulty in gaining appropriate stakeholder buy-in. This syndicate has since re-organized its working group structure creating 12 functional working groups, bringing together the necessary stakeholders to address some of the decrees being issued by the MoA.

Conclusion and Recommendations

Although potentially a moot point, working group participants are recommended to refocus their attention on decision 720/1, collect the necessary data to quantify the costs and benefits outlined in this report, and finalize a formal quantitative assessment of this decision.

Although each newly issued decree causes difficulties for importers and manufacturers of animal food products, since it is impossible to conduct an RIA for each decree, the short term term solution may be instead to focus on the uncertainty that is exacerbated with each new decree that is released

⁵ Regulatory Policies in OECD Countries: From Interventionism to Regulatory Governance. OECD (2002), p 47.

without advance notice and with no input from the private sector the MoA is regulating. Given the haste with which the MoA is issuing new decrees, the working group needs to finalize a credible quantitative assessment of one or more of these decrees as soon as possible and use them as advocacy mechanisms to request the MoA to reevaluate their overall regulatory processes.

As an example with the help of a credible analysis the working group could request that the MoA realign their operations, issuing an advance notice for each new decree and providing a comment period for private sector participants to identify any concerns. Such a step could significantly reduce the uncertainty associated with each decree, as private sector industries would be given an opportunity to highlight their concerns to MoA officials, while providing additional time for the manufacturers, importers, and retailers to prepare for each change.

Appendix A – Process Model Worksheet

The PMW presents a step-by-step method for completing a simple analysis. It has a logical flow, asks the key questions, facilitates collection of information, does not rely on quantitative analysis exclusively and is less “data dependent” than other CBA methods. Figures 1 and 2 shows a blank 2 page PMW.

The PMW consists of two pages: the benefits analysis is on one page and the cost analysis is on the second page.

Box #1 asks you to name the regulation, specify its intended purpose and list key stakeholders.

Box #2 asks you to specify the intended beneficiaries and state when each beneficiary is expected to realize the intended benefits. We make a purposeful distinction in using the adjective “intended.” The actual benefits expected to result from the regulation may differ significantly from the intended benefits.

In Box #3, we shift the focus to actual beneficiaries and ask you to identify them, breaking them out into different groups: government, industry and consumer/society. Box 3 asks you to first decide if the beneficiary is a direct beneficiary or indirect/induced, using the definitions provided to the right of Box 3. Box 3 also asks you to rate on a scale of 1 to 5 the actual expected benefit of the proposed regulatory change to that beneficiary, with 1 representing the lowest expected benefit and 5 being the highest expected benefit. We then total the numbers in each column.

Box 4 allows you to display the levels and trends of the actual expected benefits for each of the three groups of beneficiaries, using the information compiled from Box 3.

Page 1: Benefits Assessment **Process Model Worksheet®**

1

Title/Name of Regulation:

Purpose (Intended) of Regulation (1-3 Sentences):

Key Stakeholders:

2

1. Name the Intended Beneficiaries and Benefit Type

2. When will each beneficiary realize the intended benefits?

- Government:
- Industry/Firms:
- Consumer, Civil Society:

Does the regulation offer/provide certain firms or individuals a competitive advantage such as preferential access to inputs, pricing advantages, et.al?

3

Name the Expected (Actual) Beneficiaries and Benefit Type <small>(Reproduce Table for Additional Beneficiaries)</small>									
Beneficiary (specify for each subgroup)	Economic or Social/ Political	Direct	Size 1-5	Scope 1-5	Time 1-5	Indirect or Induced	Size 1-5	Scope 1-5	Time 1-5
Government	Economic	Beneficiary 1				Beneficiary 1			
		Beneficiary 2				Beneficiary 2			
		Subtotal				Subtotal			
	Social/ Political	Beneficiary 1				Beneficiary 1			
		Beneficiary 2				Beneficiary 2			
		Subtotal				Subtotal			
		Subtotal Government				Subtotal Government			
Industry/Firms	Economic	Beneficiary 1				Beneficiary 1			
		Beneficiary 2				Beneficiary 2			
		Subtotal				Subtotal			
	Social/ Political	Beneficiary 1				Beneficiary 1			
		Beneficiary 2				Beneficiary 2			
		Subtotal				Subtotal			
		Subtotal Industry/Firms				Subtotal Industry/Firms			
Consumer/Society	Economic	Beneficiary 1				Beneficiary 1			
		Beneficiary 2				Beneficiary 2			
		Subtotal				Subtotal			
	Social/ Political	Beneficiary 1				Beneficiary 1			
		Beneficiary 2				Beneficiary 2			
		Subtotal				Subtotal			
		Subtotal Consumer/Society				Subtotal Consumer/Society			
Total									

4

Plot Data Over Time

Indicators

Values in units, \$, etc.)

Examples:

- Government Revenue,
- Number of Jobs, Exports

Property of : BOOZ | ALLEN | HAMILTON

Figure 2: PMW Page 1 Benefits Assessment

Page 2 of the PMW is similar to Page 1 but addresses the costs. This page requests information to be inserted in Box #5 on the intended cost bearer and cost type, i.e., direct, indirect and induced, using the definitions to the right of page.

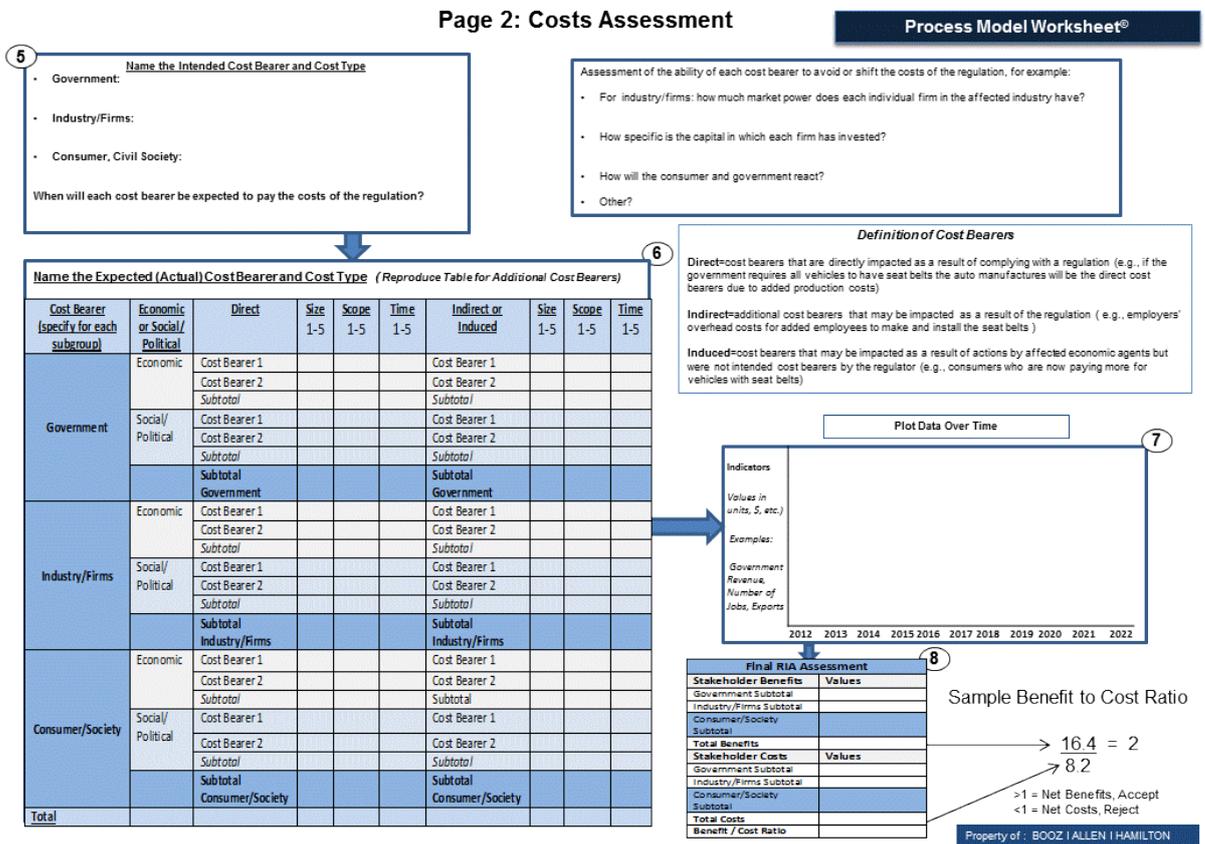


Figure 3: PMW Page 2 Costs Assessment

Box 5 asks you to note the timeframe during which the cost bearer is expected to pay the costs of the regulation.

Box 6 is similar to Box 3 (on the Benefits page) but this time focuses on costs.

Box 7 allows you to display volume/size and trends over time.

Box #8 brings the benefit analysis and cost analysis together for a simple ratio comparison. Using the sums from Boxes 3 and 6, completion of Box 8 allows you to compare total benefits to total costs. The ratio can also be “flipped,” to show the cost-to-benefit ratio. If the value of the benefit-cost ratio is greater than 1, it means that the expected benefits exceed the expected costs and that the regulatory change is expected to result in net benefits. If the benefit-cost ratio is less than 1, it means the opposite: the costs exceed the benefits or the regulatory action can be expected to result in net costs if the regulatory change is adopted. This ratio comparison provides a rough estimate of the costs versus the benefits.