

CUSTOMS

CORRUPTION STATUS

سكّر الدرّكّانة

Sakker El Dekkene aims to fight corruption and engages people in the process by asking them to report bribery and corruption on the Sakker platform (website and mobile app). Customs and the Port of Beirut are often mentioned in these bribe reports and rank as the 5th most corrupt institution. Since corruption in these institutions strongly harms the finances of the state, a more detailed analysis was deemed necessary to evaluate wasted revenues and the opportunity cost on government income.

Our study is based on field interviews to assess small bribery amounts, official data from Comtrade Database to determine losses due to discrepancies in the value of declarations between Lebanon and main trade partners, and legal analysis to show how the laws themselves allow corrupt practices.

I. PETTY CORRUPTION

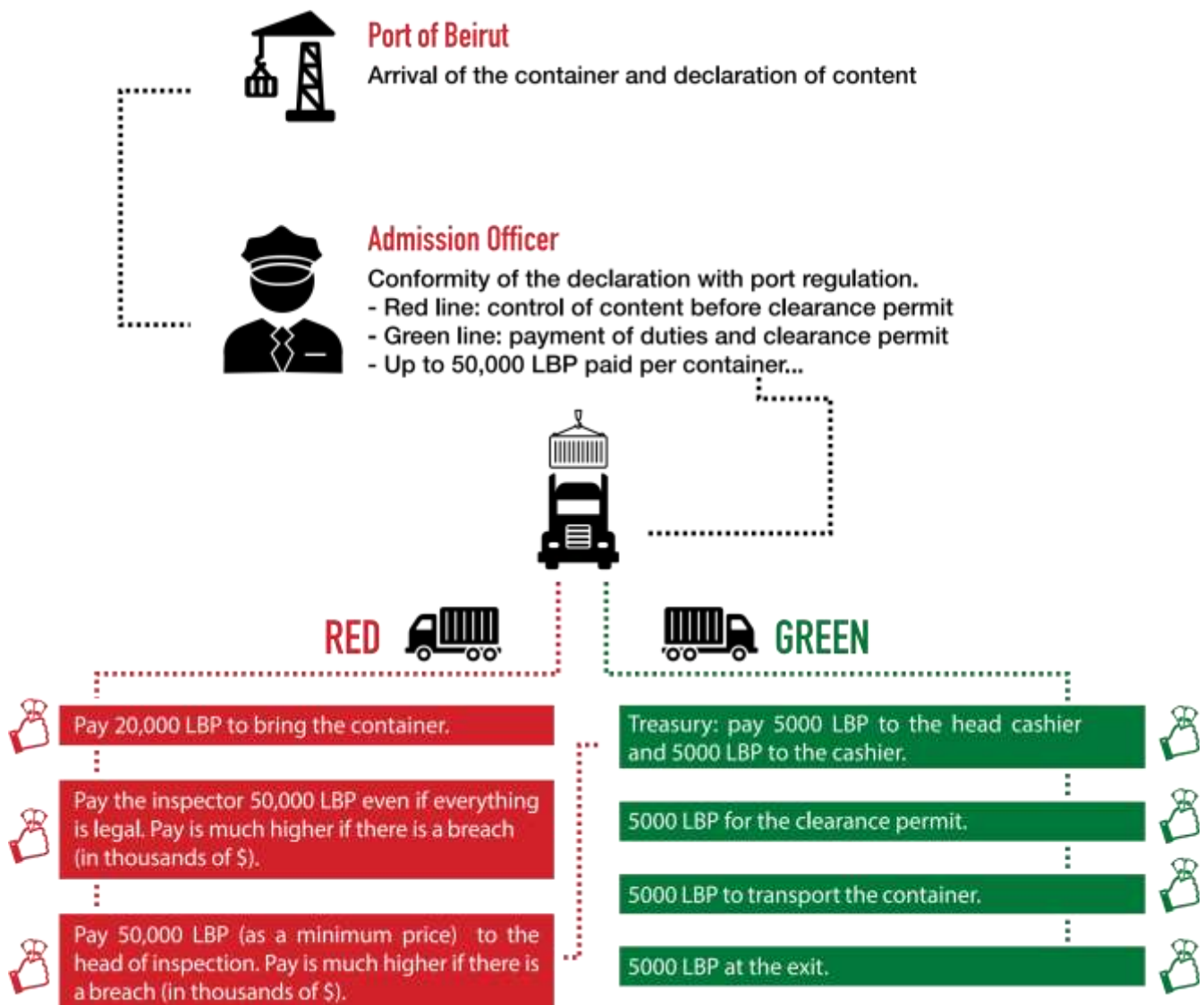
Our team interviewed several forwarding agents to understand what kind of deals they strike and what is the cost of getting imported goods into the country without much trouble.

We also visited the Port of Beirut to check how imported goods are handled by customs, and learn more about the “lucky” civil servants engaged in this profitable business.

Guess what we found out!

The cost per container for a trouble-free ride through customs varies between 75,000 LBP (for green line) and 150,000 LBP (for red line), whether the declaration is legal or not.

Here are the step by step details for small bribe payments on every container entering Lebanon:



When formalities are done, the importer will finally walk away with the goods and an overhead cost which will be charged to his client, including side payments. Below is the reproduction of a real invoice provided by a forwarding agent.

INVOICE N° 001	Date
Description	Total
Chareh (states where is the container in the port)	5000
Bayan Mou3akkat (temporary declaration to have an inspector from Ministry of Economy evaluate a sample of the content in laboratory)	11000
Tesjil (temporary declaration registration at customs)	11000
Khafir (guard at the entrance of the port)	5000
Scanner	10000
Khafir (guard at the entrance of the port)	15000
Workers (they help carry and transport)	10000
kachef iktisad (employee from Ministry of Economy again comes to evaluate)	30000
Iktisad (Ministry of Economy has an office on the port)	22000
Temcheye (counter)	20000
Saheb (prepare container)	5000
Tohdir (prepare container)	5000
Mkass (to open the container)	10000
Workers	10000
Kechef (inspector)	50000
Ra2is (head of inspection)	50000
3oumoule	3000
Sandouk (cash register)	5000
Sandouk (cash register)	5000
Ekhraj (exit)	11000
Taswir (photocopy)	3000





Total: 295000

In light of the above, and using the approximate number of containers being processed by customs yearly, it is possible to compute a total amount of annual payments made on small bribes.

Three pieces of information can be integrated into the final formula:

- 1) At least 300 containers are processed per day.
- 2) The rule requires that 20% of the containers go on green line and 80% on red line (for inspection) through random selection.
- 3) Small bribes can be approximated to be \$50 for green line containers and \$150 for red line containers.

Knowing that bribery payments can vary a lot depending on the goods imported and on how much there is a need to hide irregularities, total amount of bribes paid approximates \$14,235,000 per year (excluding fraud or tax evasion). Computations are shown below.

	COST PER DAY	COST PER YEAR
GREEN LINE 	60 containers * 50\$ = 3,000 \$	 1,095,000\$
RED LINE 	240 containers * 150\$ = 36,000 \$	 13,140,000\$
TOTAL	39,000 \$	14,235,000 \$

Note: rule was initially 80% green and 20% red, but changed recently to 20% green and 80% red.

II. TAX EVASION - GLOBAL ESTIMATION

After estimating petty corruption, we used trade flow data to measure trade discrepancies and deduce fraud on declared imports. Data was taken from the Comtrade Database (2013).

1. First estimation: global fraud on imports

In 2013, Lebanon's trade with the world represented \$21 billion. Trade with China, USA, Italy, France, Germany, Turkey, United Kingdom, Switzerland and Greece represented around 50% of total trade. We focused on trade with those nine partners.

To estimate tax evasion for imports from the nine partner countries, we compared total imports declared by Lebanon with total exports to Lebanon declared by these partner countries. The difference amounts to 1.95 billion US dollars of products that entered Lebanon coming from its 9 main partners, but are not acknowledged by official custom data. In short, out of 10.84 billion imports, 1.95 billion are not registered as merchandise entering the country.

Country	Total declared imports to Lebanon	Non declared merchandise
China	2,489,249,364	515,037,232
USA	1,032,604,253	245,446,647
Turkey	818,619,452	106,427,012
France	1,705,280,522	274,870,615
Germany	1,059,586,168	192,461,990
Greece	658,913,260	73,685,033
Italy	1,716,341,990	118,632,477
Switzerland	578,002,192	160,692,350
United Kingdom	783,177,776	257,898,169
TOTAL	10,841,774,977	1,945,151,525

2. Second estimation: big corruption and tax evasion

In this section, we compute big corruption amounts and uncollected VAT taxes. When merchandise is passed fraudulently through customs, payments vary, but constitute on average about 10% of the undeclared merchandise. This average percentage was provided by several forwarding agents. Consequently, 10% of the 1.95 billion of undeclared goods has been paid in big corruption, which yields 195 million US dollars gone in the pockets of custom civil servants.

With regards to taxes, we need to add another 10% VAT tax evasion which should have been paid if the merchandise was passed through customs, that's another \$195 million US dollars which should have been collected by the Lebanese State.

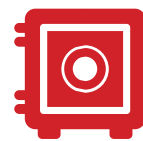
The following section shows how much is lost from 50% of the trade through customs:



\$1.95 billion
of undeclared
merchandise



\$195 million paid in big bribery
to let the merchandise pass
undeclared (10% of total amount)



Additional \$195 million
of unpaid VAT
(10% of total amount)

3. Examples of a few products which are commonly under-declared when imported:



China

Articles of apparel and clothing accessories, knitted or crochet: \$120,796,303 of non-declared merchandise

Furniture; bedding, mattresses, mattress supports: \$93,067,514 of non-declared merchandise



Italy

Articles of apparel and clothing accessories: \$17,860,613 of non-declared merchandise



Turkey

Natural or cultured pearls, precious or semi-precious stones: \$18,996,329 of non-declared merchandise

III. WHEN THE LAW ENCOURAGES CORRUPTION

In our country, the legal framework can encourage corruption practices instead of controlling them. Laws, directives, and decisions often open the way for arbitrary choices which compromise citizen equality before the law, encourage arbitrary decision and corruption, and cause huge losses to the budget. For instance, Article 385 of the Customs Law states that “The customs administration may make reconciliation with violators, before or during legal pursuit and following the issuance of the decision of the customs court mentioned in Article 391 of the present Law. Hence, the customs administration may substitute regulatory sanctions by a monetary penalty.” The law further states that “The customs Administration shall also be authorized to disregard violations discovered by the customs officials, if the circumstances that led to such violations justify so.” When, in Lebanon, the law allows to initiate arbitrary “reconciliations”, even if the court has already issued a decision, all becomes possible. What is needed is not a cancelation of the reconciliation practice, but more control on how to do it, in which conditions, and within which limits.

In addition, decision number 280 made by the President of the Higher Council of Customs (on October 31st, 2001) reserves the right to Council to issue additional payments to employees. Those payments are deducted from the mutual endeavour fund, on the basis of quotas for the distribution of shares to public servants. Unfortunately, the value of the share is decided, solely and without supervision, by the Higher Council of Customs, which clearly shows a conflict of interest and the potential for clientelism that is deeply rooted in the system.

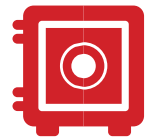
CONCLUSION



**\$14,235,000 on small
bribes**



**\$390 million on big
corruption to cover
for fraud**



**\$390 million of unpaid
VAT**

To conclude, millions of dollars are wasted due to the lack of efficiency in processing containers entering the country and due to the absence of control. It normally takes 4 to 10 days for a container to be approved, but very often custom agents are absent during their work time, slowing down the process...unless you pay bribes!

It is almost impossible to go through customs without a solid network inside the department to help processing the merchandise and to avoid paying thousands of dollars on the side.

In our analysis of the 2013 trade data, a total of **\$390 million** is lost in unpaid VAT (double the amounts previously estimated on 50% of trade), **\$390 million** is paid in big bribes (double the amounts previously estimated on 50% of trade), and **\$14.2 million** is paid in small bribes.

These losses and corruption transactions take place under a law that gives discretionary power to customs officials and does not impose any transparency with regards to their decisions.

All figures in this report are minimal estimations of the country's losses. To be more exhaustive, we should factor in corruption related to exports, fraud, and smuggling in the airport, in the ports in Tripoli, Saida and elsewhere, as well as land border crossings. In addition, market distortions, unfair competition, and the impact on investments or economic growth in the country should not be forgotten. Finally, one should not ignore corruption's harmful effect on citizen health and well-being due to the import of bad products.

عزير الكافيه

A more detailed study would surely show that the opportunity cost of customs in Lebanon is more than \$1 billion per year! Let's imagine for a second what could have been done with all this money: with \$500 million, we can build a power generation plant that can provide 7 additional hours of electricity per day for each citizen. Within a year, we can save enough money to build two of them and add 14 hours of electricity per day!

Fighting corruption is not an easy task. We chose to shed the light on a big black box called customs, knowing that if politicians are willing to work towards change, they can do it very easily: ports can be tightly controlled, and an amount of \$1 billion is waiting there!

سَكْرَةُ الرِّكَائَةِ

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بَلِّغْ عَنِ الْفُسَادِ لِيَصِيرَ عَنَّا بَلَدٌ

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