GULF COOPERATION COUNCIL

TRADE SUMMARY

The Gulf Cooperation Council (GCC) is an economic and political policy-coordinating forum for the six member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE)). Since the GCC cannot impose trade policies upon the member states, each is free to pass and enforce its own trade laws. However, there has been growing cooperation among GCC member states on issues such as customs duties, intellectual property protection, standards-setting, and intra-GCC investments.

As part of an overall plan for greater GCC economic integration, the six GCC members implemented a Customs Union in January 2003, unifying tariffs throughout the GCC. In theory, the Customs Union means the members have adopted unified customs laws and procedures, single point-of-entry with internally free movement of goods, and treatment of goods as national origin within the GCC. However, the practical details of numerous issues have yet to be resolved, including, but not limited to, tariff exemptions, standards, and revenue distribution. The GCC has set 2010 as the target date for adoption of a single currency, with 2005 as a deadline for agreement on convergence criteria.

The U.S. trade deficit with the GCC was $12.0 billion in 2003, a increase of $5.2 billion from 2002. U.S. goods exports in 2003 were $10.9 billion, up 3.6 percent from the previous year. Corresponding U.S. imports from the GCC were $22.9 billion, up 32.3 percent. The stock of U.S. foreign direct investment (FDI) in the GCC in 2002 was $8.2 billion, up from $6.8 billion in 2001.

IMPORT POLICIES

Tariffs

At the December 2001 Summit, GCC Heads of State adopted an across-the-board common external tariff of five percent for most products to start in January 2003 as part of the Customs Union agreement. The GCC states also agreed to develop a list of products to which a higher tariff will apply. Currently, some GCC countries maintain tariffs of 15 percent to 20 percent or higher on imported products. However, tariffs on tobacco, pork, and alcohol products can exceed 100 percent in countries where importation of such products is permitted.

In anticipation of the GCC Customs Union, Bahrain reduced customs tariffs to five percent in January 2002 for imported goods, except alcohol (125 percent) and tobacco (100 percent), and exempted a list of 417 food and medical items from customs duties entirely. Oman maintains a maximum five percent tariff on most imported consumer products, including automobiles. However, Oman's tariff on tobacco, pork, and alcohol products is 100 percent. On September 1, 2003, Kuwait increased tariffs from 4 percent to 5 percent on the vast majority of imported goods. Exceptions include 417 food and agriculture items, which will remain free of duties, as well as tobacco products, on which tariffs will remain at 100 percent.

Qatar maintains a five percent tariff on a wide range of products. Basic food products such as wheat, flour, rice, feed grains, and powdered milk are exempted from tariffs. The tariff on alcoholic beverages and tobacco products is 100 percent and on 12-millimeter steel bars is 20 percent. Projects funded by the Qatar Industrial Development Bank (QIDB) can be granted a customs duty waiver for the import of machinery, raw materials, and other industrial inputs.

In May 2001, the Saudi Supreme Economic Council reduced Saudi Arabia's tariff rate for most products to five percent from the pre-existing standard rates of 12 percent and 20 percent. The Saudi government also identified a list of 483 products to which a 12 percent tariff applies in order to protect local industries. Certain textile imports, including carpets but excluding apparel, are among the products to which the 12 percent rate applies. A number of Saudi infant industries enjoy 20 percent tariff protection,

including sesame extract, furniture, cooking salt, edible offal, rabbit meat, mineral water, and plastic pipes. In addition, nine agricultural products are subject to a 25 percent tariff on a seasonal basis to protect local production. Saudi Arabia also imposes a 100 percent tariff on dates, long-life milk products, and cigarette imports.

Import Licensing

Locally established companies must be at least 51 percent Bahraini-owned to receive import licenses for retail sales in Bahrain. Foreign companies established before 1975 may be exempt from this rule under special circumstances. Bahrain requires that pharmaceutical products be imported directly from a manufacturer with a research department and that the products be licensed in at least two other GCC countries, one of which must be Saudi Arabia. Drugs and medicines may be imported only by a drug store or pharmacy licensed by the Ministry of Commerce after approval by the Ministry of Health. Bahrain prohibits the importation of weapons (except under special license), pornography, wild animals, radio-controlled model airplanes, foodstuffs containing cyclamates, and children’s toys containing methyl chloride (and other articles declared injurious by the Ministry of Health). Bahrain is also taking steps to ban the import of 127 chemicals.

Kuwait prohibits the importation of alcohol and pork products, and requires a special import license for firearms. In Oman, companies that import goods must register with the Ministry of Commerce and Industry, and must be at least 51 percent Omani-owned. Importation of certain classes of goods, such as alcohol, firearms, narcotics, and explosives require a special license, and media imports are subject to censorship. In the UAE, only firms with the appropriate trade license can engage in importation, and only UAE nationals can get such a license.

Qatar requires importers to have a license for most products, and only issues import licenses to Qatari nationals. Only authorized local agents are allowed to import specific goods produced by the foreign firms they represent in the local market. However, this requirement may be waived if the local agent fails to provide the necessary spare parts and backup services for the product. The importation and distribution of alcohol is the exclusive right of the Qatar Distribution Company (QDC). Pork and pork derivatives may not be imported.

In Saudi Arabia, the importation of certain articles is either prohibited or requires special approval from competent authorities. Specifically, the importation of alcohol, firearms, illegal drugs, and pork products is prohibited, and imports of agriculture seeds, live animals, fresh and frozen meat, books, periodicals, movies, tapes, religious books and tapes, chemicals and harmful materials, pharmaceutical products, wireless equipment, horses, radio-controlled model airplanes, products containing alcohol, natural asphalt, and archaeological artifacts require special approval.

Documentation Requirements

Bahrain

Bahraini customs requires commercial invoices in duplicate in Arabic or English, a certificate of origin in Arabic or English (produced by a Chamber of Commerce and endorsed by an Arab Embassy), a copy of the insurance policy where applicable, and four copies of bills of lading (including gross weight and dimensions) and the statistical statement (in case that commodity is to be shipped to its final destination). For food items, presentation of a manufacturer’s certificate stating that the goods do not contain cyclamates is required. All imported beef and poultry products require a health certificate from the country of origin and a halal slaughter certificate issued by an approved Islamic center in the United States.

Kuwait

In Kuwait, the clearing process can be manually intensive, requiring numerous transfers, vast paper work, and an array of duplications. This process is prone to errors and fraud, since human judgment plays a major role in processing the transactions, especially auditing, valuation, and inspection. In most instances, the same task is repeated two or more times at different stages of the process in order to capture customs-related data or to validate documentation. The Customs Department is currently undergoing a major privatization effort that will include implementation of a state-of-the-art computer system, which should make the import process less complicated.

Oman

In Oman, with the exception of food products, an authentication procedure is not required if the importing company has an existing agency agreement with a U.S. exporter. In 1996, Oman began the process of simplifying customs clearance documentation to expedite the flow of goods and promote its ports and airports. For example, Arab League boycott-certification is no longer required. However, only Omani nationals are permitted to submit documents to clear shipments through customs, drive vehicles shipping commodities and products from wholesale centers, or own and operate food retail establishments.

Qatar

In Qatar, a letter-of-credit is the most common instrument for controlling exports and imports. When a letter-of-credit is opened, the supplier is required to provide a certificate of origin. The Qatari embassy, consulate, or chamber of commerce should notarize the certificate of origin in the United States. To clear goods from customs zones at ports or land boundaries in Qatar, importers must submit a variety of documents, including a bill of lading, certificate of origin, *pro forma* invoice, and import license.

All imported beef and poultry products require a health certificate from the United States and a halal slaughter certificate issued by an approved Islamic center in the United States. The Qatari embassy, consulate, or chamber of commerce in the United States must legalize all shipping documents.

Saudi Arabia

To export products to Saudi Arabia from the United States, the U.S.-Saudi Business Council and the Saudi Embassy or Consulate must authenticate the documentation. Some products, most notably agricultural biotechnology products, need a certificate from the country of origin attesting to the product's fitness for human consumption and that it is sold widely in the country of origin. Products that are regulated by the Saudi Arabian Standards Organization (SASO) must have a certificate of conformity issued through Saudi Arabia's International Conformity Certification Program (ICCP) before entering the country. The categories of regulated products include, but are not limited to, playground, amusement and fairground equipment, toys, electrical elements and electronics, automotive, and chemicals.

UAE

Since July 1998, the UAE has required that documentation for all imported products be authenticated by the UAE Embassy in the United States. There is an established fee schedule for this authentication. Without the validation in the United States, customs authorities will apply the fee schedule when the goods arrive in the UAE.

Customs Valuation

Bahrain has notified the WTO Customs Evaluation Committee of its legislation and started implementing the Agreement in January 2002. Kuwait began implementation of the Agreement in September 2003. Oman implemented the Agreement when it joined the WTO in 2000, and currently is working on further enhancing its customs valuation system. Qatar has not yet implemented the Agreement. The UAE was granted an extension to delay implementation until the start of 2004.

Textiles

Import tariffs on textiles in Bahrain are five percent. Textiles accounted for approximately seven percent of Kuwait's imports in 2003, and tariffs are five percent. Textile manufacturing represents approximately 11 percent of the UAE's gross domestic product, and Ministry of Economy officials have said that the textile sector is key to the UAE's efforts to diversify its oil-dependent economy. The UAE has attracted a number of garment manufacturers because of its close proximity to the Indian subcontinent and the lack of corporate or personal income taxes. The majority of garment factories are located in free trade zones, where they operate exempt from UAE commercial law and can be owned 100 percent by foreigners.

STANDARDS, TESTING, LABELING AND CERTIFICATION

As part of the GCC Customs Union, member countries are working toward unifying their standards and conformity assessment systems, and have progressed considerably toward the goal of a unified food standard, originally targeted for adoption by 2006. However, each country currently applies either its own standard or a GCC standard, causing confusion among business.

GCC standards and labeling practices have restricted trade in many of the GCC countries. In particular, shelf-life standards are set at arbitrary levels that restrict imports of a variety of food products of interest to U.S. suppliers. The situation has deteriorated in recent years, as shelf life durations for a large variety of food products have been shortened to one year. In some cases, this time frame is one-half the previous artificially set period. Further, a product must have more than half of its defined shelf life remaining at the time of importation. Recent developments are more troubling, with port officials detaining imported food products not arriving within three months of production. While detention is short, the penalty effect is steep as the product's marketable life is shortened. To avoid such difficulties, importers are sourcing from nearby suppliers the more perishable, shorter-life products. The removal of GCC shelf life standards could significantly increase U.S. food exports to the region.

The Gulf Standards and Metrology Organization (GSMO), the central accreditation organization for the GCC, adopted a resolution in October 2002 to implement a AGCC Conformity Certification Scheme for Countries Exporting to GCC Member Countries, a conformity assessment program similar to Saudi Arabia's current International Conformity Certification Program (ICCP). Saudi Arabia initiated the ICCP in 1995 as a pre-shipment certification program to monitor and control the quality of certain products imported into the country. The ICCP currently applies to 76 regulated consumer product lines and is managed by a private firm that inspects and tests shipments bound for Saudi Arabia on behalf of Saudi Arabia Standards Organization (SASO). In December 2002, Kuwait notified the WTO of its proposal to implement the ICCP as well.

The United States and many other WTO members have raised concerns about the ICCP during meetings of the WTO Committee on Technical Barriers to Trade (TBT) and as part of Saudi Arabia's efforts to join the WTO. Among other concerns, the United States and many other exporting countries believe the ICCP is not consistent with the WTO TBT Agreement, accords favorable treatment of local products manufactured in the Gulf Region, is more trade-restrictive than necessary, charges *ad valorem* fees, and lacks transparency.

Although the proposal for a AGCC Conformity Certification Scheme for Countries Exporting to GCC Member Countries is still under consideration by member countries, Saudi Arabia announced in October 2003 that it would abandon the ICCP in favor of a new, yet to be determined, system. The United States is working to develop a constructive dialogue with GCC countries on this issue and establish alternative regulatory practices that address clearly-identified concerns raised by GCC countries, while also recognizing a country's right to take appropriate measures to ensure the health and safety of its citizens and the safety of both imported and domestic products.

Bahrain

Bahrain has replaced its product shelf-life requirements, a major impediment to U.S. processed food exports to the Gulf region, with international (Codex) standards. Food labels must include product and brand names, production and expiration dates, country of origin, name and address of the manufacturer, weight in metric units, and a list of ingredients and additives in descending order of importance. All fats and oils used as ingredients must be listed in Arabic or Arabic and English. Although stickers providing such information are not legally accepted, if they provide required labeling information exceptions normally are made. Small quantities of products with English-only labels may be approved for import on a case-by-case basis for test marketing purposes.

Kuwait

Kuwait maintains restrictive standards that impede the marketing of some exports. Kuwait strictly enforces shelf life standards on 44 of 75 food products listed in Gulf Standard 150/1993, but recognizes the manufacturer's set shelf life on all other food products. Shelf life requirements for processed foods are far shorter than necessary to preserve freshness and result in those U.S. goods being non-competitive with products shipped from countries closer to Kuwait. Meanwhile, standards for medical, telecommunications, and computer equipment tend to lag behind technological developments, with the result that government tenders frequently specify the purchase of obsolete, often more costly items.

In October 2002, Kuwait announced it was considering adopting an import standards program similar to Saudi Arabia's International Conformity Certification Program (ICCP). The Kuwaiti government has said the program, which would apply to between 15 and 45 consumer products (primarily electrical goods and motor vehicle parts), was being implemented because Kuwait lacked laboratory facilities to properly conduct its own inspections. In December 2002, Kuwait submitted a proposal for this program to the WTO. Kuwait implemented this new program on March 17, 2003, dividing imports under the program into five groups: (1) household appliances and electronics; (2) new and used cars and vehicles; (3) chemicals, including motor oil and paint; (4) building materials, including cement, gypsum, and bricks; and (5) paper and plastic items. The United States, and many other WTO members, have raised concerns about the ICCP during WTO TBT Committee meetings, as indicated earlier in this section.

Oman

In its accession to the WTO, Oman committed to eliminate mandatory shelf-life standards for shelf-stable foods from the date of accession and revise its shelf-life requirements program to meet the substantive requirements of relevant WTO Agreements. Oman also agreed to establish regulations and procedures in line with international norms for highly perishable refrigerated food products and gradually replace remaining shelf-life requirements with a science-based regulatory framework by December 31, 2000. In late 2000, Oman announced by Ruler Decree that all labeling of food products should conform to labeling standards as defined by CODEX and that all labels should be in Arabic.

Qatar

Most Qatari standards are derived from GCC standards. In October 2002, Qatar established a General Authority for Standards and Specification to replace the Standards Office of the Ministry of Economy and Commerce. The Ministry of Health provides input on standards related to public health issues, and Qatar enforces shelf life standards for about 75 food products. Qatar also requires importers to comply with self-life standards defined in Gulf Standard 150/1993, Part II, although this standard was never officially endorsed. Food products must arrive at the destination with at least half the shelf life remaining. Shelf-life validity of all foodstuffs should not be less than six months at the time of entry of the products into Qatar. All foodstuffs are examined at government central laboratories before they are distributed to consumers.

Saudi Arabia

In Saudi Arabia, the Saudi Arabian Standards Organization (SASO) imposes shelf life requirements on food products. In practice, the Saudi government requires imported food products to arrive in port with at least one-half of their shelf life remaining, calculated from the date of production. Over the past few years, SASO has shortened the shelf life duration for baby foods, eggs, stuffed cookies, chilled meats, and some snack foods, all products of interest to U.S. exporters.

Saudi Arabia has taken a number of actions over the past several years that inaccurately implied a health or safety risk associated with U.S. products and have seriously disrupted U.S. exports, including import bans on rice, poultry, beef, lamb, and livestock offal, therapeutic medicines used in animal feed, and the entire range of Firestone tires. After extensive interventions by U.S. Government officials and Saudi importers, only the ban on therapeutic medicines used in animal feed currently remains in effect. The Saudi Ministry of Commerce also requires that poultry meat and further processed poultry products must be derived from birds that have not been fed animal protein, animal fats, or animal by-products. These measures were taken with little to no advance notice, contrary to Saudi statements to follow the provisions of the relevant WTO agreements.

The Ministry of Commerce imposed a mandatory labeling requirement for agricultural biotechnology products in late 2000, and a requirement that importers sign a pledge stating that they were aware of the possible health risks of such products. After a period of uncertainty, the Ministry of Commerce announced a positive-labeling-only requirement (i.e., containing ingredients derived from biotechnology), rather than requiring labels for both the presence and absence of such ingredients, and delayed implementation until December 1, 2001. The Ministry also imposed a ban on imports of agricultural biotechnology products manufactured from animal products. In November 2002, the Ministry of Commerce agreed to language that it would accept on an export certificate to accompany all shipments containing agricultural biotechnology products entering Saudi Arabia. The export certificate must be issued by a government entity from the country of origin, preferably at the federal level, although the sub-federal level is acceptable. U.S. companies found to be in violation of Saudi Arabia's biotechnology labeling requirements will be banned from exporting the product in question into the Kingdom, but may continue to export other products that have been suitably labeled.

UAE

UAE officials have advocated implementing a conformity assessment program similar to Saudi Arabia's current ICCP on a GCC-wide basis and established the Emirates Authority for Standardization and Metrology (EASM) under the auspices of the Ministry of Finance and Industry in October 2002 to manage issues of standardization arising from the GCC Customs Union.

GOVERNMENT PROCUREMENT

Bahrain

In October 2002, Bahrain implemented a new government procurement law that establishes the basic framework for a transparent, rules-based government procurement system. It provides that certain procurements may be conducted as international public tenders open to foreign suppliers. To implement this law, a tenders board, chaired by a Minister of State, was established in January 2003 to oversee all government tenders and purchases. While the new law sets out the basic elements of its procurement system, the implementing regulations, which have not yet been issued, will be key to gaining a full understanding of how the system is intended to operate. Bahrain is not a signatory to the WTO Agreement on Government Procurement, but is considering acceding to the Agreement.

Kuwait

Kuwait's government procurement policies specify the purchase of local products when available and prescribe a 10 percent price advantage for local firms in government tenders. However, this local firm price advantage is not commonly applied in government tenders. In January 2002, the Kuwaiti government transformed its offset program into the major vehicle for inducing foreign investment in Kuwait. The new offset requirements will impose an offset obligation on civilian contracts with the Kuwaiti Government of 10 million Kuwaiti Dinar (approximately $33 million) or more and on defense contracts of KD 1 million (approximately $3.3 million) or more. The obligation will amount to 35 percent of the contract value, which must be invested in an approved offset business venture. A supplier must sign a memorandum of agreement with the Offset Program Division at the Ministry of Finance before the contract is signed. The supplier must also present a bank guarantee totaling 6 percent of the value of the offset obligation. Kuwait is not a signatory to the WTO Agreement on Government Procurement.

Oman

Oman provides a 10 percent price preference to tenders that contain high content of local goods or services, including direct employment of Omanis. The government considers the quality of a product or service and support, as well as cost, in evaluating bids. For most major tenders, Oman typically invites firms either already registered in Oman or preselected by project consultants. To increase transparency in the tendering process, Oman advertises tenders in the local press, international periodicals, and on the tender board's website. Also, bidders are now requested to be present at the opening of bids, and interested parties may view the process on the tender board website. In the past, bidders' costs have sometimes increased dramatically when award decisions were delayed, sometimes for years, or when bidding was reopened with modified specifications and, typically, short deadlines. Oman is known to have an offset program only with the United Kingdom. Offsets are not standard adjuncts to government contracts and have not been associated with any U.S. defense transactions, whether commercial or foreign military sales. In 2001, Oman became an observer to the WTO Committee on Government Procurement. As part of its accession to the WTO, Oman has also committed to begin negotiations to join the WTO Agreement on Government Procurement.

Qatar

Qatar gives preferential treatment to contractors that include high local content in bids for government tenders. As a rule, bids must be submitted through local Qatari agents, but in practice certain exceptions exist. Qatar gives a 10 percent price preference to local firms and a five percent price preference to GCC

firms in all government procurement. Qatar is not a signatory to the WTO Agreement on Government Procurement.

Saudi Arabia

Saudi Arabia's government contracts on project implementation and procurement are regulated by several royal decrees that strongly favor GCC nationals. However, most defense contracts are negotiated outside these regulations. Under a 1983 decree, contractors must subcontract 30 percent of the value of the contract, including support services, to majority-owned Saudi firms. An exemption is granted in instances where no Saudi company can provide goods and services to fulfill the procurement requirement. In addition, Article 1(d) of the tender regulations requires that Saudi individuals and establishments be given preference over all other suppliers in government procurement. The same regulations also accord preference to other suppliers as long as Saudi nationals hold at least 51 percent of such suppliers' capital. Article 1(e) of the tender regulations gives preference to products of Saudi origin that satisfy the requirements of the procurement, even when the product is inferior to that of a foreign counterpart. Saudi Arabia also gives priority in government purchasing programs to GCC products. These items receive up to a 10 percent price preference over non-GCC products in all government procurements in which foreign suppliers participate.

Foreign suppliers involved in government projects are required to establish a training program for Saudi nationals. Some government contracts will also require a minimum amount of subcontracting with Saudi companies. In addition, the Saudi Government may favor Saudi-foreign joint venture companies as opposed to foreign firms and will also support companies that use Saudi manufactured goods and services. However, foreign companies providing services to the Saudi Arabian government can do so without a Saudi service agent and can market their services to various other public entities directly. For large military projects, there is frequently an offset requirement. The Saudi government reportedly has asked for offset commitments in other procurement areas.

Foreign contractors operating solely for the government, if not already registered to do business in Saudi Arabia, are required to obtain temporary registration from the Ministry of Commerce and Industry within 30 days of contract signing. Foreign companies also may be allowed to establish a branch office through the new Foreign Investment Regulations. These branch offices were usually approved only for foreign defense contractors and high-tech companies, while for others, a liaison office may be established to supervise work in Saudi Arabia and to facilitate coordination between the government and home offices.

In June 2003, the Saudi Council of Ministers passed a resolution calling for increased transparency in government-budgeted projects and government contracts. The Saudi Council of Chambers of Commerce and Industry has begun publishing the details of government contracts on its website. The contract information to be published includes: title, parties, date, financial value, brief description, duration, place of execution, point of contact information.

UAE

The UAE does not require that a portion of any government tender be subcontracted to local firms, but it grants a 10 percent price preference for local firms in government procurement. The UAE requires a company to be registered to be invited to receive government tender documents. To be registered, a company must have 51 percent UAE-ownership. However, these rules do not apply on major projects or defense contracts where there is no local company able to provide the goods or services required. Established in 1990, the UAE's offset program requires defense contractors that are awarded contracts valued at more than $10 million to establish joint venture projects that yield profits equivalent to 60 percent of the contract value within a specified period (usually seven years). There are also reports, as

well as anecdotal evidence, indicating that defense contractors can sometimes satisfy their offset obligations through an up-front, lump-sum payment directly to the UAE Offsets Group. The projects must be commercially viable joint ventures with local business partners, and are designed to further the UAE objective of diversifying its economy away from oil. To date, more than 40 projects have been launched, including, *inter alia*, a hospital, an imaging and geological information facility, a leasing company, a cooling system manufacturing company, an aquiculture enterprise, Berlitz Abu Dhabi, and a firefighting equipment production facility. Two of the largest offset ventures are an international gas pipeline project (Dolphin) and the Oasis International leasing company -- a British Aerospace offsets venture. The UAE is not a signatory to the WTO Agreement on Government Procurement.

EXPORT SUBSIDIES

Bahrain has phased out most subsidies for export industries, but permits duty-free importation of raw materials for export products and of equipment and machinery for newly established export industries. All industries in Bahrain, including foreign-owned firms, benefit from government subsidized utilities.

The Industrial Bank of Kuwait offers below market rate loans to local industry. Land is also provided at low cost. In the UAE, subsidies for manufacturing firms are available only to those companies with at least 51 percent local ownership.

The Oman Development Bank (ODB) provides export payment guarantees at below local-market interest rates, protecting Oman's few non-petroleum exporters from payment problems on transactions. These guarantees are subject to ODB approval of buyer and country risk. The Omani Ministry of Commerce and Industry also offers soft loans to projects in the industrial, tourism, health, education, and some other service-related sectors. Formerly interest-free, these loans now bear about a four percent interest rate.

Saudi Arabia contends that it has no export subsidy programs for industrial production. However, the costs for establishing productive facilities in the industrial cities in Saudi Arabia are artificially low. Land is available at little or no cost, and low interest loans are available from the Saudi Industrial Development Fund (SIDF). Because input prices are relatively low in Saudi Arabia, investment in the production of petroleum and related downstream products is comparatively attractive. The Saudi Government contends that low input prices reflect Saudi Arabia's low costs for domestic oil production. Saudi Arabia began a substantial reduction in wheat production subsidies in 1993. The Grain Silos and Flour Mills Organization (GSFMO) controls wheat production through assignment of production quotas to each of the country's grain farmers. Farmers can only receive government support prices within preassigned quotas. This conforms with current policy to produce for domestic needs. Production support prices remain $400 per metric ton, a level well above world prices.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

The GCC Secretariat has declared protection of intellectual property to be a priority and is working to strengthen GCC laws in the six member states, particularly for patent protection. In this respect, the GCC has adopted a unified patent law with the goal of creating a patent system for all member states. However, concerns remain regarding the law relative to member states' obligations under the TRIPS Agreement. The GCC patent office in Riyadh has received approximately 3,000 applications since it began accepting patent applications in October 1998, and issued its first patent certificates in late Spring 2001. Its third round of patents is expected in early 2004. The GCC patent office plans to complete a review of all applications within two to three years of receipt. According to GCC patent regulations, once the GCC patent office grants a patent, all GCC states automatically afford its owner protection. The GCC has also indicated an interest in creating common trademark and copyright laws and regimes. However, no progress has been made so far in these areas.

Bahrain

Revised legislation to implement Bahrain's obligations under the TRIPS Agreement is currently under review. Bahrain is also considering joining the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. The government has made dramatic progress in reducing copyright piracy, and there are no reports of significant violations of U.S. patents and trademarks in Bahrain. The government's copyright enforcement campaign, based on inspections, closures, and improved public awareness, began in late 1997 against the video industry, followed by the audio and software industries, with impressive results. The commercial pirated video and audio markets have been virtually eliminated. However, software piracy remains problematic, shifting from retail to end-user violations.

Kuwait

Kuwait's copyright law must be amended to make it consistent with its obligations under the TRIPS Agreement, the government is currently in the process of drafting these amendments, but has not yet set a date by which these will be submitted to the National Assembly. Kuwait's revised patent and trademark legislation took effect on January 14, 2001.

Although improving, enforcement of these laws remains inadequate to prevent widespread marketing of pirated products. In October 2002, the Government's Ministry of Information launched a joint work team that combines forces with the Ministry of Interior and the Kuwait City Municipality in an effort to enhance investigation abilities. Cooperation with owners of intellectual property and raids and seizures against intellectual property violators have increased significantly since then. However, sales of pirated goods remain high in Kuwait, and the use of unauthorized computer software continues in private enterprise. Uncertain and slow judicial action remains a hurdle, and penalties, when imposed, are generally too weak to deter future crimes.

Oman

As part of its WTO accession, Oman adopted the GCC patent law with derogations as needed to comply with its obligations under the TRIPS Agreement. Oman issued a copyright protection law in 1996, and in 1999 enacted decrees banning the local sale of pirated videocassettes, sound recordings, and computer software. Enforcement of the copyright protection decree by the Ministry of Heritage and Culture, the Ministry of Commerce and Industry, and the Royal Oman Police has been effective, as once plentiful pirated video and audiotapes and computer software have disappeared from local vendors' shelves. While some under-the-counter sales of unauthorized software persists, authorities continue to implement credible and effective enforcement against business use of unauthorized software. In late October 2003, 16 Omani companies signed the Business Software Alliance (BSA) Code of Ethics. The Code of Ethics declares that the signatories would neither commit nor tolerate the manufacture or use or distribution of unlicensed software and would only supply licensed software to customers.

Qatar

Qatar was removed from the Special 301 Watch List in 2003 in recognition of the passage of the 2002 Copyright Law (Law No. 7/2002) and its improved, sustained enforcement actions against copyright infringement. In September 2003, the government of Qatar and Microsoft signed a three-year software licensing agreement that covers all Qatari government ministries and agencies. Qatar has recently authorized government officials responsible for IPR enforcement to independently conduct raids and seize pirated material without Ministry of Interior officials. In June 2002, Qatar promulgated Law No. 9 for Trademarks and Geographic Indicators.

In July 2001, the Emir approved Qatar's accession to the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works. The Copyright Office of the Ministry of Economy and Commerce continues to prosecute resellers of unlicensed video and software.

Qatar utilizes the GCC patent law with derogations as needed to comply with its obligations under the TRIPS Agreement. It also established a joint committee between the Ministry of Economy and Commerce and the Ministry of Health to coordinate their efforts and ensure that only patented products or authorized copies of pharmaceutical products are registered for sale. Qatar provides protection for trademarks registered with the Office of Commercial Registration.

Saudi Arabia

Saudi Arabia is currently working to revise its intellectual property laws to bring them into conformity with the TRIPS Agreement as part of its efforts to join the WTO. An updated Trademark Law took effect at the end of 2002, and an updated Copyright Law will take effect in March 2004. Both laws allow for increased deterrent penalties for violators, including fines and prison sentences. A new unified law on patents, industrial designs, plant varieties, and integrated circuits is working its way through the legislative process.

Saudi Arabia has made progress on copyright enforcement over the past few years, with a steadily increasing number of raids/seizures and fines imposed. However, U.S. software manufacturers seek greater Saudi government enforcement action against software copiers and end-users of unauthorized software. Another area of concern is counterfeiting of U.S. trademarked products. The Saudi government is aware of these problems and is considering options to combat them. U.S. industry has expressed frustration with the lack of transparency in the enforcement system, procedural hurdles to judicial enforcement, and lack of application of the higher end of deterrent penalties.

The United States continues to have serious concerns over the protection and enforcement of patents. Although Saudi Arabia has recently taken measures to hire and train more examiners, the approval of patents often takes several years due to extreme delays in the processing of patent applications. The currently inadequate patent application process has resulted in a large backlog of patent applications and prevents U.S. patent holders from obtaining adequate protection. The United States has urged Saudi Arabia to enact the new Patent Law legislation as soon as possible, and to ensure some form of de facto patent protection in the near term to address the backlog of pending applications.

UAE

The UAE has begun to make the protection of intellectual property a priority in recent years. The UAE repealed previous copyright, trademark, and patent laws and issued improved legislation in 2002, providing high levels of protection for U.S. intellectual property, while an agreement between the UAE and U.S. pharmaceutical companies provides *de facto* patent protection for a number of copies of U.S. patent-protected medicines.

The new copyright law, enacted in July 2002, grants protections to authors of creative works and expands the categories of protected works to include computer programs, software, databases, and other digital works. Efforts to combat computer software piracy in the UAE have been successful. According to 2002 industry estimates, the rate of software piracy in the UAE is the lowest in the Middle East. The UAE is recognized as the regional leader in fighting computer software piracy.

The UAE's new Trademark Law, also issued in July 2002, confirms that the UAE will follow the International Classification System and that one trademark can be registered in a number of classes. The new law provides that the owner of the registration shall enjoy exclusive rights to the use of the trademark as registered and can prevent others from using an identical or similar mark on similar, identical or related products and services if it causes confusion among consumers.

The UAE published the official and final version of the long-awaited Patent Law in November 2002.

Specifically, the Patent Law provides for national treatment for property owners from other WTO Members, product and process patent protection, and enforcement of intellectual property rights utilizing civil and criminal procedures and remedies. In October 2003, the Ministry of Health issued a circular providing data exclusivity protection in the UAE market for pharmaceutical products equal to the patent term of the pharmaceutical product in the origin country.

SERVICES BARRIERS

Insurance

Bahrain has opened the life insurance sector to foreign competition, but foreign companies may not sell most other insurance products in Bahrain. The Bahrain Monetary Agency, which assumed regulation of the sector in 2003, plans to open the sector to more foreign competition. As part of its WTO accession, Oman introduced legislation allowing majority foreign-ownership of up to 70 percent in most insurance sectors. Oman is also phasing in commitments over a period of years to allow 100 percent foreign-ownership for most insurance sectors.

In Qatar, the Organization of Foreign Capital Investment Law (Law No. 13/2000) restricts foreign investment in banking, insurance, commercial agencies and the purchase of land. Foreign insurance companies wishing to operate in Qatar are subject to the same laws that apply to foreign firms in all other sectors. Foreign insurance companies can establish a presence in the UAE by operating a branch or representative office. This option allows for 100 percent foreign-ownership, yet generally limits business activities to offshore operations.

In the last two years, the Saudi Arabian Government has implemented a series of laws giving structure to what had been an essentially unregulated sector and mandating certain types of insurance coverage within the Kingdom. In June 2002, the Cooperative Health Insurance Council issued the by-laws of a mandatory cooperative health insurance scheme. The scheme will be implemented gradually and will require employers to pay for insurance coverage of foreign workers and dependent family members. In November 2002, third party motor vehicle insurance became mandatory in the Kingdom.

In October 2003, the Saudi Arabian Government enacted the Control Law for Co-Operative Insurance Companies. The law requires all insurance companies operating in the Kingdom to be locally registered, publicly owned firms. In keeping with adherence to Islamic principles, insurance companies will need to operate on a co-operative or mutual basis. Firms will need to register with the Saudi Arabian Monetary Agency (SAMA). The law sets capitalization requirements for insurers at SR100 million ($26.7 million). SAMA began accepting applications for insurance operations in November 2003. Insurance firms operating in the Kingdom may offer any insurance product in both the commercial and personal markets as long as the firm is organized consistent with the co-operative insurance structure.

Banking

International financial institutions operate in Bahrain, both internationally and domestically, without impediments. In 2003, Bahrain's central bank issued 10 new licenses (six investment advisory and other financial services institutions, one investment bank, one offshore banking unit, one financing company and one representative office). Under Kuwait's 2001 Foreign Direct Investment law, foreigners may own up to 100 percent of existing or newly formed Kuwaiti banks, subject to approval by the Central Bank.

While Oman has laws permitting foreign banks to operate, it has barred new non-GCC banks from establishing operations on the grounds that there is excess capacity in the sector. Oman does not permit representative offices or offshore banking. In Qatar, regulations for local and foreign bank practices are the same, with new licenses available through the Qatar Central Bank application process. In 2003, the Qatar Central Bank allowed foreign banks to establish representational offices and the existing foreign banks in Qatar to open new branches.

Although the Saudi Banking Control Law does not limit foreign participation, for the past twenty years the Saudi Arabian Monetary Agency has capped foreign ownership in commercial banks to 40 percent of any individual bank operation. In the last few years, the Saudi Government has taken steps to increase foreign participation in its banking sector by granting operating licenses to foreign banks. The Bahrain-based Gulf International Bank (GIB), Dubai-based Emirates Bank International, and Kuwait Bank currently operate in the Kingdom. In November 2003, the Saudi Government granted an operational license to Deutsche Bank. Saudi Arabian investment banking will likely see significant growth when the Saudi Capital Markets Law comes into effect in February 2004. The law provides for the creation of investment banks and brokerages in the Kingdom. Allowed levels of foreign participation in these ventures have not been finalized.

With 21 national banks, 26 foreign financial entities, a total 457 branches, the UAE government considers the country overbanked, and is reluctant to further open its financial services sector to foreign competition in the ongoing WTO services negotiations. Following a banking crisis caused by accumulating bad debts after the oil boom in the mid-1980s, the Central Bank stopped giving licenses to new foreign banks. However, in September 2003, the UAE Central Bank announced that it would allow the operation of more banks from other countries on a reciprocal basis. The Central Bank is also considering allowing foreign banks operating in the UAE to set up new branches provided that they undertake to employ UAE nationals. Figures by the Central Bank show national banks enjoy a stronger financial position than foreign banks operating in the UAE, with assets peaking at the end of March 2003 at nearly $68.3 billion compared with foreign banks' assets of around $21.5 billion. The UAE does not allow offshore banking.

Shipping

Bahrain presents no major impediments to shipping. Currently, Bahrain is evaluating procedures for privatizing its two major ports, a decision issued by decree in July 2002. Kuwait has prevented foreign shipping lines access to cargo for government projects by granting the United Arab Shipping Company the right of first refusal on all such cargoes. However, Kuwait no longer applies this requirement to shipments from U.S. ports. Saudi Arabia gives preferences to national carriers for up to 40 percent of government-related cargoes. Under these rules, the Saudi national shipping company and United Arab Shipping Company receive preferences.

Agent and Distributor Rules

Bahrain's 1998 Agency Law eliminated the sole agent requirement; in October 2002 an amendment to the Agency Law eliminated the requirement for a local agent, except in retail sales, and abolished mandatory commissions. In Kuwait, local agents are currently required in all sales transactions.

Since 1993, Oman has permitted an importer to bring in goods without paying a commission to a registered agent, provided that the goods are imported through an Omani port or airport. However, in practice, it is difficult for a foreign firm to sell directly to the government without an Omani agent identifying and bidding on tender opportunities. In addition, termination of an agency agreement can be difficult, as a supplier may not unilaterally terminate an agency agreement without justifiable cause. Since September 1996, Oman has registered non-exclusive agency agreements. Most recently, Oman has attempted to address unemployment through mandating local hire quotas, through limiting distribution from food wholesale centers to Omani nationals, and in the fall of 2002, through restricting small grocery food retail sales to businesses owned and operated by Omani nationals.

The vast majority of foreign firms operating in Qatar are required to engage local agents. Only firms granted 100 percent foreign-ownership in five sectors - agriculture, industry, tourism, education, health - are excluded from the local agent requirement. In June 2002, Qatar passed a new commercial agents law that allows individuals other than exclusive agents to import products provided they pay up to five percent commission to the registered agent/distributor. In practice, some Qatari ministries may waive the local agent requirement for foreign companies that negotiate directly with the government of Qatar.

Saudi law requires that domestic distributors receive licenses from the Ministry of Commerce and Industry. Only Saudi citizens can obtain licenses. However, a recent GCC decision may broaden this to include GCC citizens. Nationals from the GCC countries are also allowed to engage in trading and retail activities, including real estate. In July 2001, the Saudi Council of Ministers canceled the requirement for foreign companies with government contracts to have a Saudi service agent.

The UAE's Commercial Agencies Law requires that foreign principals distribute their products in the UAE only through exclusive commercial agents that are either UAE nationals or companies wholly owned by UAE nationals. The foreign principal can appoint one agent for the entire UAE or for a particular emirate or group of emirates. All UAE commercial agents must be registered with the Ministry of Economy and Commerce. Once chosen, agents/distributors have exclusive rights, and the law provides that an agent may be terminated only by mutual agreement of the foreign principal and the local agent, notwithstanding the expiration of the term of the agency agreement. Since 1996, the UAE has not recognized new agency agreements in the food sector. Agency agreements in existence prior to this period are still recognized.

INVESTMENT BARRIERS

Bahrain

Bahrain permits 100 percent foreign-ownership of new industrial entities and the establishment of representative offices or branches of foreign companies without local sponsors. Wholly foreign-owned companies may be set up for regional distribution services and may operate within the domestic market as long as they do not exclusively pursue domestic commercial sales. Protection of foreign investments is strong. The 2001 U.S.-Bahrain Bilateral Investment Treaty (BIT) provides benefits and protection to U.S. investors in Bahrain, such as the better of national or most-favored-nation treatment, the right to make financial transfers freely and without delay, international law standards for expropriation and compensation cases, and access to international arbitration.

Since January 2001, foreign firms and GCC nationals may own land in Bahrain. Non-GCC nationals may now own high-rise commercial and residential properties, as well as property in tourism, banking, financial and health projects, and training centers, in specific geographic areas. The Bahrain stock exchange allows GCC firms and persons to own up to 100 percent of listed companies. Non-GCC firms/persons may only own up to 49 percent of listed companies. The Minister of Commerce may

increase this percentage at his discretion. There are presently five wholly foreign-owned companies (four GCC and one non-GCC) listed on the Bahrain stock exchange. Any new additions to these five companies must be approved on a case-by-case basis. Individuals had been previously restricted to owning only 1.5 percent of a company's stock. Now Bahrainis and GCC nationals may own up to 100 percent as individuals, and non-GCC foreigners may own up to 49 percent. Bahrain is planning to open its stock market completely for all investors by the end of 2004.

Kuwait

Kuwait currently maintains restrictions on direct foreign investment and applies discriminatory taxation policies. In May 2000, Kuwait's National Assembly approved legislation that allows foreign nationals to own stocks listed on Kuwait's stock exchange. Implementing regulations allow foreigners to own up to 100 percent of all listed companies except banks. Under that law, foreign-ownership in banks was limited to 40 percent with the additional restriction that any foreign-ownership above 5 percent must be approved by Kuwait's Central Bank. In March 2001, the National Assembly passed a direct foreign investment bill that authorizes majority foreign-ownership in new investment projects (up to 100 percent foreign-ownership in selected sectors to be determined by Kuwait's Cabinet). The law also authorizes up to 10-year tax-holidays for new investors. As the National Assembly has not addressed implementing rules and regulations, the law has not yet taken effect.

Oman

In September 2003, Oman amended its tax law and extended the national tax treatment (i.e., a corporate tax rate of 12 percent) to all Omani and GCC companies regardless of the percentage of foreign ownership. Taxes on branches of foreign-owned companies remained at 30 percent. In addition, Oman exempted companies in the education, health, and aquaculture sectors from taxes. Foreign airlines are now tax-exempt subject to reciprocal agreement. The new tax exclusion also extends to capital gains on disposal of securities listed on the local stock market as well as joint investment funds. Oman constantly reviews and modifies its laws and procedures to attract increased foreign investment. Majority foreign-owned investments are eligible for tax-holidays of up to 10 years, a benefit also enjoyed by Omani firms. The tax-holiday waives corporate income tax, as well as customs taxes on goods imported for business purposes under certain categories of projects. Oman now permits 100 percent foreign-ownership on a case-by-case basis with the approval of the Minister of Commerce and Industry, although no applications for such enterprises had been made through the end of 2003.

In Oman, foreigners are permitted to purchase shares on the Muscat Securities Market (MSM). As of mid-year 2003, approximately 15 percent of the MSM's total market capitalization was foreign-owned.

Qatar

Qatar issued a new Investment Law (Law No. 13 of 2000) that allows foreign investors to own up to 100 percent of projects in the agriculture, tourism, education, industry, and health sectors. In the energy sector, foreign companies may own 100 percent of projects subject to approval from the government. The law also gives foreign investors the right to lease land for up to 50 years, which is renewable (also subject to government approval). The new law annuls provisions of Law No. 25 (1990) that restricted foreign-ownership of limited liability business concerns to a maximum of 49 percent. Foreign equity is limited to 49 percent in other sectors. However, this restriction can be waived by the issuance of an Emiri Decree.

Qatar allowed foreign nationals to participate directly in the first public offering of shares of the privatized telecommunications company Q-Tel. Foreign nationals may invest in other publicly offered companies indirectly through local investment firms.

Saudi Arabia

In April 2000, Saudi Arabia's Council of Ministers approved a new foreign direct investment code with the goal of facilitating establishment of foreign companies, both joint-ventures and 100 percent foreign-owned, in Saudi Arabia. Key provisions allow foreign investors to transfer money freely from their enterprises outside the country, allow joint-venture companies to sponsor their foreign investors as well as their foreign employees, and permit foreign investors to own real property for company activities. The Saudi Arabian General Investment Authority (SAGIA) was established to manage investments under the new code under the guidance of the Supreme Economic Council. In March 2003, SAGIA opened a Women's Investment Center in addition to its existing Service Centers. In theory, SAGIA must decide to grant or refuse a license within 30 days of receiving an application and supporting documentation from the investor. While SAGIA is intended as a one-stop-shop for foreign investors, some companies still experience delays in subsequent steps, for example, in obtaining a commercial registry or purchasing property. Following SAGIA's recommendations, the Supreme Economic Council released a negative list in February 2001 of sectors in which foreign investment is prohibited. The Council updated the negative list in 2003, further reducing the number of sectors and subsectors prohibited to foreign investors. (SAGIA publishes the negative list at www.sagia.gov.sa.) SAGIA reportedly approved about 2000 projects representing more than $14 billion by the end of October 2003, with foreign investors accounting for 85 percent of the total. However, figures on actual projects initiated or foreign direct investment inflows are not available. Though statistics for foreign direct investment inflows are imprecise, aggregate SAGIA information indicates that 36 percent of project capital comes from US sources, by far the largest single contributor. In October 2003, SAGIA announced that additional foreign direct investments of nearly $1 trillion will likely be required over the next 20 years (over $100 billion in the energy sector alone).

In October 2003, the Saudi Government passed the Capital Markets Law. The law took effect in February 2004. It allows for the creation of financial intermediaries (stock brokerages and investment banks). The law creates an independent stock market and an independent stock market regulatory body. The law sets SR50 million ($13.3 million) capitalization requirements for brokerages and provides penalties for insider trading and wrongful dissemination of information. The law also allows for the development of long-term investment instruments. Allowed levels of foreign participation in investment banks and brokerages have not been finalized. The new law does not repeal the prohibition on direct foreign participation in the Saudi stock market. However, foreigners can continue to purchase shares in bank operated investment funds. Foreign participation in these funds is limited to 10 percent of the total value of the fund.

UAE

Except for companies located in one of the free zones, at least 51 percent of a business establishment must be owned by a UAE national. A business engaged in importing and distributing a product must be either a 100 percent UAE owned agency/distributorship or a 51 percent UAE/49 percent foreign limited liability company (LLC). Subsidies for manufacturing firms are only available to those with at least 51 percent local ownership.

The laws and regulations governing foreign investment in the UAE are evolving. There is no national treatment for investors in the UAE. Non-GCC nationals cannot own land, but the emirate of Dubai currently is offering so-called free hold real estate ownership for non-GCC nationals within certain properties. However, the exact legal status of this scheme is still uncertain. Only one stock currently is open to foreign investors and is capped at 20 percent total foreign ownership, although limited participation by foreigners in a few mutual funds is permitted. There have been no significant investment

disputes during the past few years involving U.S. or other foreign investors. Claims resolution is also a problem as foreign companies tend not to press claims for fear that doing so may jeopardize business activity in the UAE.

ELECTRONIC COMMERCE

In September 2002, Bahrain implemented an Electronic Transactions law, recognizing the validity of electronic transactions. In a push to make use of this technological opening, the Commerce Ministry has implemented electronic government, banks offer electronic banking, and the parastatal telecommunications company now accepts electronic transactions for bill payments.

In October 2003, Oman officially inaugurated Knowledge Oasis Muscat (KOM), an information technology park within its Rusayl Industrial Estate.

Qatar has established national committees to explore the possibilities of enhancing electronic commerce and E-Government. Some government services, including immigration services, driver license renewals, and donations to the Zakat Fund are now available online. Some Qatari banks have recently established online electronic banking facilities.

Saudi Arabia is studying various options to incorporate electronic commerce into government and private industry. A proposed National Information Technology Plan encompasses infrastructure, industry, electronic government, and electronic learning. The Ministry of Commerce and Industry completed a national project in 2001 for safeguarding dealers' rights, establishing a dispute-settlement mechanism, and endorsing digital signatures. In December 2003, the Saudi Government approved an electronic system for the official authentication of documents (similar to notarization) through the Internet. Called the e-attestation service, it will be available to members of the Chambers of Commerce and Industry.

In the UAE, the Emirate of Dubai passed The Law of Electronic Transactions and Commerce No. 2/2002 in 2002, which protects certain electronic records and signatures, and some electronic communications. This law also provides penalties for any person who knowingly creates, publishes, or otherwise makes available false signature or certificate, or provides false statements online for fraudulent or any other unlawful purpose. In March 2003, the International Bar Association hosted a conference in Dubai entitled, Middle East Law and the Internet Age. The conference addressed the legal developments related to new technologies, with a focus on electronic commerce in the Middle East. The Emirate of Dubai has established the Dubai Technology, Electronic Commerce and Media Free Zone (TECOM), which houses both Internet City and Media City, two subdivisions which cater, respectively, to the information technology and media sectors.

OTHER BARRIERS

Corporate Tax Policies

Saudi Arabia and Kuwait tax foreign companies, but domestic entities are only required to pay zakat (a charitable donation). Additionally, several GCC countries tax royalties as if they were 100 percent profit and maintain a variety of other tax policies considered unfair to foreign companies.

Bahrain has no personal or corporate taxation, except on oil company profits. There is no income tax or consumption taxes in the UAE. Foreign banks pay 20 percent tax on their profits, and foreign oil companies with equity in concessions pay taxes and royalties on their proceeds.

In Kuwait, foreign firms are currently subject to a maximum income tax rate of 55 percent, although the government is currently drafting a new tax law that would reduce the tax rate. Kuwaiti-listed companies are not subject to income tax, but are required to make an annual contribution of 2.5 percent of their net profits to the Kuwait Foundation for the Advancement of Sciences (KFAS). They must also contribute 2.5 percent of their net profits toward a National Labor Force Fund.

In October 2003, Oman extended national tax treatment to all companies registered in Oman regardless of the percentage of direct foreign investment, i.e., a maximum rate of 12 percent tax on net profits. The Omani branch of a foreign firm is regarded as a foreign firm and is taxed at a maximum rate of 30 percent. These rates do not apply to foreign petroleum companies, which pay royalties according to their concession agreements. Oman now levies a 10 percent tax on services performed offshore for Omani firms.

Qatar levies corporate income taxes on foreign firms at rates from 5 percent to 35 percent of net profits, including profits from majority-owned Qatari joint ventures exceeding 100,000 Qatari riyals (approximately US$30,000). All Qatari owned firms and joint ventures are exempt from corporate income taxes. Under Law No. 13 of 2002, the Ministry of Finance may grant a tax-holiday of up to ten years for new foreign investments in key sectors. Other foreign companies may be granted tax exemptions on a case-by-case basis by Emiri Decree.

In Saudi Arabia, only foreign-owned corporations and the foreign-owned portion of joint ventures are subject to the corporate income tax, which ranges up to 30 percent of net profits. Domestic corporate partners are subject to a 2.5 percent tax on assets, or zakat. A resolution issued by the Council of Ministers in April 2000, also eliminated the 10-year tax holiday previously enjoyed by companies and instead provided loss carry-forward provisions without any time limits. In January 2003, the Shoura (Consultative) Council rejected a proposed income tax on expatriate workers.