GULF COOPERATION COUNCIL

This section of the report analyzes trade policies of the six member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (U.A.E.)) of the Gulf Cooperation Council (GCC).

In 1996, the U.S. trade surplus with the GCC was $868 million, a shift of $1.2 billion from the U.S. trade deficit of $350 million in 1995. U.S. merchandise exports to the GCC were $12.5 billion, an increase of $2.3 billion (22.3 percent) from the level of U.S. exports to the GCC in 1995. U.S. imports from the GCC were $11.6 billion in 1996, an increase of $1.1 billion (10.0 percent) from the level of imports in 1995. Improved U.S. export performance in the region in 1996 was in part attributable to higher export earnings of the GCC states due to sustained higher oil prices and consequently more robust economic performance in those predominantly oil-based economies.

Recent figures indicate that the stock of U.S. foreign direct investment (FDI) in Saudi Arabia had reached $3.4 billion in 1995. U.S. FDI in the U.A.E. was $675 million in 1995, up 27.1 percent from that in 1994. In the GCC as a whole, U.S. FDI is largely concentrated in the manufacturing, petroleum extraction, and petrochemical sectors.

The GCC is an economic and political policy-coordinating forum for its members. Since it cannot impose trade policies upon its member states, each is free to pass and enforce its own trade laws. However, there has been growing cooperation among GCC members on certain issues, such as intra-GCC investments, standards-setting, establishing tariff ranges, and intellectual property protection. There is also consideration being given to forming a customs union and continuing work on a free trade area between the GCC and the European Union (EU).

The United States favors strengthening common action among GCC members, as well as enhancing U.S.-GCC economic and commercial ties. The U.S. Government engages in high-level economic policy talks with GCC members through the U.S.-GCC Economic Dialogue. The most recent dialogue meeting took place in March 1996 in Bahrain, with follow-on working group meetings in Washington in June 1996.

IMPORT POLICIES

Tariffs

The GCC leadership has long discussed, but failed to attain, a unified tariff structure. Many GCC countries maintain high (15-20 percent) tariffs to protect similar products produced locally. The U.A.E., which is the regional commercial hub and has traditionally depended on foreign trade, continues to push for low tariff rates throughout the GCC. As the GCC moves to harmonize its tariff schedule, there is concern that a "highest common denominator" approach could significantly increase the number of products across the GCC that face high tariffs. For health reasons, GCC members plan to raise tariffs on cigarettes.

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Of the GCC countries, Bahrain, Kuwait, Qatar, and the U.A.E. are members of the WTO. All four of these countries entered the GATT and WTO under simplified procedures, based on the United Kingdom's previous application of the GATT 1947 on their behalf. Saudi Arabia applied for GATT membership in July 1993 and converted this application to WTO accession early in 1996. Negotiations for the terms of Saudi Arabia's accession are now underway, and are being conducted under the standard procedures of Article XII of the WTO.

Oman became an observer to the WTO in April 1995 and submitted its formal application for WTO accession in 1996.

Import Licensing

Except in Bahrain, varying degrees of licensing procedures are enforced to protect domestic industries or restrict importing to nationals of GCC countries. In Saudi Arabia, the importation of certain articles is either prohibited or requires special approval from competent authorities. The following products require special approval: 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, products containing alcohol, and natural asphalt. In the U.A.E., only firms with the appropriate trade license can engage in importation. Restrictions are placed on the importation of alcohol, tobacco, firearms, and pork products.

Documentation Requirements

All GCC countries impose unusually complicated export documentation requirements for goods imported by the GCC. The documents must be certified by the National U.S.-Arab Chamber of Commerce and authenticated by the consulate of the country for which the goods are destined, a costly and time-consuming process. In Oman, this documentation is not required if the importing company has an existing agency agreement with the U.S. exporter, although for food products, health certificates, and (for meat) halal certificates must be certified as stated above. In late 1995, Oman committed to simply customs clearance documentation over the next few years, expedite the flow of goods, and promote its ports and airports. Arab League boycott certification is no longer required. Only Omani nationals, however, are permitted to submit documents to clear shipments through customs.

STANDARDS, TESTING, LABELING, AND CERTIFICATION

The United States has become concerned with certain restrictive standards in various GCC member states. In particular, shelf life requirements for a number of food products of interest to U.S. exporters are far shorter than necessary to ensure safety. These requirements favor European competitors over U.S. suppliers who face longer shipping times. This situation has worsened in recent years. Several GCC shelf life requirements have been shortened, in some cases by half, under Gulf Standard 150/1993, and GCC countries have begun to enforce these regulations more strictly.

In Saudi Arabia, the Saudi Arabian Standards Organization (SASO) imposes shelf life requirements on food products. Over the past few years, SASO has shortened shelf life standards for baby foods, eggs,

stuffed cookies, chilled meats, and some snack foods, all products of interest to U.S. exporters. Most of the information regarding shelf-life problems originates from GCC members other than Saudi Arabia, but as the largest market among GCC members, Saudi Arabia has preponderant influence. Some sources claim that SASO has shortened shelf life standards to protect Saudi Arabia's expanding food processing industry; Saudi Arabia has become self-sufficient in egg production, and is growing in importance as a biscuit and cookie producer.

In 1990, the United States entered into a highly successful arrangement with SASO to encourage cooperation in the development of standards. SASO's work frequently leads to the creation of regional GCC standards. The United States-SASO partnership, which includes a U.S. technical advisor in Riyadh funded by the U.S. Government, has led to greater transparency in the Saudi system and has increased opportunities for American exporters to comment on draft Saudi standards. SASO has already adopted ISO 9000 as approved standards for Saudi Arabia and acts as an accreditation body through the Quality Assurance Department. The United States and the GCC concluded a Memorandum of Understanding on standards at the March 1996 Economic Dialogue meeting in Bahrain.

In October 1995, Saudi Arabia initiated a pre-shipment certification program to monitor and control the quality of certain products imported into the country. The International Conformity Certification Program (ICCP) currently applies to 76 regulated consumer products, and is designed for expansion to others. The ICCP is managed by Inchcape Testing Services, which inspects and tests, on behalf of SASO, shipments bound for Saudi Arabia. The United States and many other exporting countries have questioned the manner in which the ICCP has been implemented. Problems include the transparency of ICCP regulations, as well as the ad valorem-based fee system.

Standards and labeling issues are also a problem in Kuwait. In addition to processed food shelf life standards, electrical standards are based on those of the United Kingdom, placing U.S. products at a disadvantage. Similarly, telecommunications and computer equipment standards tend to lag behind market developments, which often results in government tenders that specify purchase of obsolete and more costly items.

Oman has invited technical assistance from the U.S. in establishing its own ISO certification process.

The GCC plans to implement a system for registering companies that comply with international standard ISO 9000. The central accreditation organization will be the Gulf Standards Organization (GSO). An agency in each of the six countries will inspect factories, make recommendations, and issue registrations. The GSO is negotiating with the EU to put the program in place, and the EU is sending experts to help the GCC in technical and training aspects of the program and to set up mutual recognition systems for certification and quality control mechanisms. In January 1995, a GCC standardization official reported that the GSO has set some 580 unified standards for the GCC countries to date, and plans to increase that number to 1,000 soon.

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GOVERNMENT PROCUREMENT

Most GCC countries maintain preferential “buy national” policies and/or offset provisions requiring that a portion of major (and usually military) government tenders be subcontracted to local firms. Oman prefers, but does not require, that a portion of a government tender be subcontracted to local firms. Qatar is reportedly considering establishing a formal offset program. In an attempt to engineer greater technology transfer, several GCC states, including Saudi Arabia and the U.A.E., actively support the creation of offset companies in diverse fields as part of defense procurement.

Kuwaiti government procurement policies specify use of local products when available and prescribe a 10 percent price advantage for local firms in government tenders. Offset regulations introduced in Kuwait since the liberation specify that foreign firms awarded government contracts worth over $17 million must invest 30 percent of the contract value in a project in Kuwait, the GCC, or other Arab nations.

Saudi Arabian government contracts on project implementation and procurement are regulated by several royal decrees which strongly favor GCC nationals. Most defense contracts, however, are negotiated outside these regulations. Under a 1983 decree, for example, contractors must sub-contract 30 percent of the value of the contract, including support service, to majority-owned Saudi firms. An exemption is granted in instances where no Saudi company can provide goods and services to fulfill the obligation. In addition, article 1(d) of the tender regulations requires that Saudi individuals and establishments have preference over all other entities in government dealings. The same regulations also accord preference to "mixed" entities as long as Saudi nationals hold at least 51 percent of the mixed entities capital. Article 1(e) gives preference to products of Saudi origin which satisfy the requirements of the procurement, even when the product specifications are inferior to those of a foreign counterpart.

Saudi Arabia 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 contracts contested by foreign contractors. Likewise, Oman provides a 10 percent price preference to Omani nationals for Omani goods and services. Additionally, the government considers quality of product or service and support as well as cost in evaluating bids. For most major tenders, Oman typically notifies firms either already registered in Oman or preselected by project consultants. Bidders' costs soar when some award decisions are delayed, in some instances for years, or when bidding is reopened with modified specifications and typically short deadlines. Oman is known to have an offset program only with the United Kingdom, although the investment can originate from any country. Offsets are not standard adjuncts to government contracts and have not been associated with any U.S. defense transaction, whether commercial or foreign military sales.

The U.A.E. has no requirement that a portion of any government tender be subcontracted to local firms. There is a 10 percent price preference for local firms on procurement and tenders. The U.A.E. requires a company to be registered in order to be invited to receive government tender documents. To be registered, a company must have 51 percent U.A.E. ownership. However, these rules do not apply on major project awards or defense contracts where there is no local company able to provide the goods or services required. The U.A.E. requires offset investments by winners of defense contracts. The requirements state that an investment must generate returns within seven years equal to 60 percent of the value of the contract.

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 exceptions exist. For example, government procurement of defense equipment does not require use of local agents. However, local agents are often used, and have proved to be very useful in securing contracts. Qatar gives a 10 percent price preference to local firms and a 5 percent price preference to GCC firms in all government procurement.

EXPORT SUBSIDIES

While there appears to be no GCC-wide export subsidy program, certain member states have programs to support local industries that, in effect, equate to export subsidies.

Saudi Arabia contends that it has no export subsidy programs for industrial production. However, costs for establishing productive facilities in the industrial cities in Saudi Arabia are artificially low: land is available at little or no cost, utilities are priced below cost of production, and low interest loans are available from the Saudi Industrial Development Fund. Because input prices are relatively low in Saudi Arabia, industrial production and subsequent in 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 by assigning production quotas to each of the country's grain farmers. Farmers can only receive government support prices within preassigned quotas. GSFMO production quotas for 1996 were reduced to 1.3 million metric tons, compared to 2.0 million metric tons in 1995. The reduction in quotas coincides with a June 1995 decision by the Saudi Government to reduce production support prices for wheat from $533 per metric ton to $400 per metric ton, still well above world prices.

The Oman Development Bank offers interest subsidies to the relatively few non-petroleum sector exporters obtaining commercial bank letters of credit and some below market “insurance” against delay in payment of receivables.

LACK OF INTELLECTUAL PROPERTY PROTECTION

Considerable progress has been made in recent years by GCC states in adopting laws and regulations regarding the protection of intellectual property. The GCC Secretariat has declared the protection of intellectual property rights (IPR) to be a priority and is working to facilitate this in the six member states, especially in the area of patent protection. The GCC has published a Unified Patent Law that has yet to take effect and has plans to set up a GCC patent office. In addition, all GCC states have trademark laws; the GCC itself is reportedly working on a unified trademark regulation.

Saudi Arabia enacted patent and copyright laws in 1989. The U.A.E. enacted copyright, trademark, and patent laws in 1992. Bahrain enacted a highly deficient copyright law in 1993. Qatar enacted a strong copyright law in 1995. Oman enacted a copyright law in June 1996. Kuwait remains in the process of drafting its copyright law.

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Qatar provides protection for trademarks registered with the Commercial Registration Department of the Ministry of Finance, Economy and Trade. Promulgated in the early 1980's, Qatar's trademark law is known as the "commercial indications law." Bahrain, Kuwait, Saudi Arabia, and the U.A.E. have patent laws, although Saudi Arabia's patent office is grappling with a backlog of thousands of unprocessed applications.

The GCC countries are in various stages of acceding to international intellectual property conventions, such as the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the Geneva Phonograms Convention. Saudi Arabia became a member of the Universal Copyright Convention on July 13, 1994. Bahrain became a signatory of the Berne and Paris Conventions on October 29, 1996. The U.A.E. has recently joined the Paris Convention for the Protection of Industrial Property, the first treaty for protection of intellectual property to which the U.A.E. has acceded. The U.A.E. is also a member of the World Intellectual Property Organization (WIPO).

Despite the progress to date, IPR protection problems continue throughout the region due primarily to difficulties with enforcement. Pirated video cassettes, computer software, and sound recordings are available to varying degrees in all GCC countries, and improperly reproduced videotapes are generated for export in Bahrain. Counterfeit products such as clothing, auto parts, and household products are also widely available.

Saudi Arabia

Saudi Arabia enacted copyright and patent laws in 1989, and the Saudis assert the copyright law is consistent with international standards. The United States has raised a number of concerns about the law, the most important of which is that U.S. sound recordings are not clearly protected. Saudi Arabia claims that through its accession to the Universal Copyright Convention, it is obliged to protect U.S. and other non-GCC member works.

While Saudi Arabia's patent law provides a generally adequate legal basis for protection, as of December 1996, the patent office has issued only four patents, and has a backlog of over 4,000 applications. Saudi Arabia has made significant progress on copyright enforcement in the video and sound recordings market, particularly in clearing shelves in retail stores of pirated video and music cassettes. However, much pirated video and audio material has reportedly gone "underground" in Saudi Arabia. In addition, U.S. software manufacturers look for greater Saudi Government enforcement action against software copiers.

The United Arab Emirates

The U.A.E. Government has cracked down on piracy of audiovisual works and sound recordings. As a result, shops in the U.A.E. do not carry pirated audio/video works and sound recordings. Modern movie theaters have opened since September 1994 and show western movies obtained from licensed distributors. Pirate video products enter the country from neighboring Oman but are not generally available in shops registered and licensed by government authorities.

Underground piracy remains an issue of concern. The central government is starting to counter computer software piracy, which is widespread. The U.A.E. patent law, currently being amended, protects

pharmaceutical processes but not products. A factory in the U.A.E. produces pirate versions of patented drugs.

Bahrain

Recent industry reports indicate that Bahrain has become an export center for pirated video cassettes. Evidence available to the U.S. Embassy indicates that the Government of Bahrain has improved its copyright enforcement record, although the 1993 Copyright Protection Law remains deficient in that it does not explicitly protect foreign works and sound recordings. Bahrain has relatively good patent and trademark laws.

Kuwait

Kuwait became a member of the World Intellectual Property Organization in April 1996. Kuwait continues to enforce ministerial decrees against copyright violation of U.S. and U.K. audio and video materials, but has not made progress in passing a strong copyright protection law that would meet WTO requirements. Kuwait drafted a new copyright law in early 1993, but the law remains under consideration.

Kuwait has had patent and trademark laws in effect since 1962, but penalties under both are so low as to be ineffective in deterring illegal activities. The patent law, moreover, excludes certain chemical inventions involving foods, pharmaceuticals and medicines, and grants a term of protection of only 15 years, rather than the standard 20 from the date of application. It also contains provisions for compulsory licensing whenever a patent is insufficiently worked in Kuwait or is of "great importance to national industry."

Qatar

Qatar's copyright law officially took effect on October 20, 1996, but the Qatari Government has yet to define what agency is responsible for implementation of the law. The Qatari Customs Department is taking de facto responsibility for current enforcement, but no official pronouncement has endorsed this. Qatar provides no patent protection for pharmaceutical products.

Oman

In June 1996, Oman issued a copyright decree that provides no more than 25 years of protection, or the balance of protection under an existing international copyright, whichever period is shorter. Oman may not establish an enforcement mechanism, however, until late in 1997. In the prelude to copyright enforcement, imported pirate software and imported and domestic copies of video and audio cassettes remain readily available in retail outlets. However, government offices and major firms acquire legal software copies. As part of their contract, applicants for Internet access must pledge to respect international copyrights. Oman has no patent law, but points to its acceptance of future GCC patent protection. Also, the Omani Ministry of Health plans to verify patent compliance when reviewing import applications for pharmaceutical products.

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The GCC Secretariat has issued a patent law whose ultimate purpose is to create one patent system for the member states. The law has several significant problems, including a lack of protection for pharmaceuticals (products or processes for production) and biological inventions. In addition, the law contains a broad compulsory licensing regime. The GCC Secretariat Patent Office, which exists largely in name only, has no registration or enforcement mechanism. The GCC also has made efforts to create common trademark and copyright laws, although these are not as far advanced.

SERVICES BARRIERS

Visa Issuance Policy

Saudi Arabia took steps to liberalize its business visa policy in 1993. Formerly, all persons coming for business had to be sponsored by a local citizen, and the Saudi Embassy or Consulate required approval from the Foreign Ministry in Riyadh to issue a visa, resulting in substantial delays. The new policy was aimed at improving upon the old system by eliminating the need for businessmen representing well-known U.S. firms to have a Saudi sponsor. The new policy allows business travelers whose firms are involved in joint ventures in the kingdom to obtain multiple-entry visas valid for six months. The Saudi Embassy or Consulate has the discretion to issue a visa without obtaining approval from the Foreign Ministry. These policies have not yet been fully implemented, and few American executives have multiple entry visas.

Kuwait in 1995 significantly liberalized its visa policy for U.S. citizens. U.S. citizens no longer need a Kuwait sponsor for travel to Kuwait for business or personal reasons. Americans traveling to Kuwait receive 10 year multiple entry visas. Only in the case of extended visits (beyond 30 days) are residency visas and Kuwaiti sponsors required.

Oman has liberalized its visa issuance policy. Oman reciprocally offers U.S. citizens two-year multiple entry business or tourist visas, with each stay up to six months for a business visitor, through its diplomatic missions, including those in Washington and New York. These, and single entry "no objection" certificates, can be obtained with the assistance of an Omani sponsor, typically a major hotel for tourists, or an Omani firm or the Oman Chamber of Commerce and Industry for a business visitor. A U.S. citizen with proof of more than one year's residence in a GCC country, more than six months remaining validity on his/her resident visa, and the required four visa-sized photographs, may apply for a "no objection" certificate on arrival in Oman, without prior arrangement, as can U.S. citizens arriving directly from a country without Omani diplomatic representation.

The U.A.E. issues multiple entry visit visas to U.S. citizens through U.A.E. embassies. These visas require no sponsor and are valid for up to 10 years. The U.A.E. also permits Americans residing in another GCC country and possessing a residence permit valid for at least a year beyond the duration of their intended visit to travel to the U.A.E. without obtaining visas in advance. Such visitors receive U.A.E. visas in the airport upon arrival, upon payment of a 100 dirham ($27.49). However, recent reports from the U.S. business community in the U.A.E. indicate that the U.A.E. Embassy in Washington often declines to issue long-term multiple entry visas, even when specifically requested by qualified U.S. citizen applicants.

The United States has a reciprocity agreement with Qatar and Bahrain for ten-year and five-year multiple entry visas, respectively. Many U.S. citizens using the multiple entry visas in their commercial dealings with these countries.

Insurance

Most GCC countries discriminate against foreign insurance companies, generally by restricting foreign participation (as in Kuwait), or by requiring operation through a local sponsor (as in Saudi Arabia and Oman). Foreign insurance companies can establish a presence in the U.A.E. by operating a branch or representative office. This option allows 100 percent foreign ownership, but, in general, limits business activities to offshore operations. At present, Qatar bans the establishment of new insurance companies, and there is no indication the ban will be lifted soon. In December 1996, Bahrain issued a decree amending the country's insurance law to allow foreign companies to open life insurance businesses. The companies are being allowed to enter the life insurance sector because of a lack of local experience in the field. Prior to the new law, companies could establish only representative offices in Bahrain. While Saudi Arabia has permitted foreign insurance companies to operate in the kingdom, there is no insurance law governing the sector. In 1996, Saudi authorities raised questions regarding the nature of policies issued by foreign life insurance companies. The Saudi authorities insist that these policies, which contain an investment component, ought to be regulated under the banking laws.

Banking

Banking activity in GCC states is subject to a variety of restrictions. Saudi regulations require that Saudi nationals must own 60 percent of any bank. In Kuwait, foreigners are permitted to own up to 40 percent of Kuwaiti banks. Bahrain has not issued licenses for new commercial banks since 1983, though the majority of commercial banks in Bahrain are foreign bank branches. Bahrain encourages the establishment of offshore or representative offices of foreign banks.

While Oman, Qatar, and the U.A.E. have laws permitting foreign banks to operate, these countries have barred new foreign banks from establishing operations on the grounds that their countries are "over-banked." There are more foreign bank branches in the U.A.E. than domestic banks. Foreign banks may open representative offices in the U.A.E., but offshore banking is not permitted in the U.A.E. Like the U.A.E., Qatar does not allow foreign banks operating in the country to open branch offices; this right is restricted to Qatari-owned banks.

Shipping

Kuwait has prevented foreign shipping lines access to government project cargo by granting the United Arab Shipping Company the right of first refusal on all such cargoes, but no longer applies this requirement to shipments from U.S. ports. Bahrain continues to favor the United Arab Shipping Company on cargo contracts for government projects. Saudi Arabia gives preferences to national carriers for up to 40 percent of government cargoes. Under these rules, the Saudi National Shipping Company and United Arab Shipping Company receive preferences.

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INVESTMENT BARRIERS

Foreign equity is limited to 49 percent in Kuwait, Qatar, and the U.A.E. Although the U.A.E. has exempted the Jebel Ali Free Zone from this barrier, products entering the U.A.E. from the free zone are treated as foreign products. The 49 percent limit on foreign equity in Qatar can be overcome by the issuance of an emiri decree.

Oman provides national tax treatment for joint venture public shareholding firms with no more than 49 percent direct foreign investment. Corporate tax rates on net profits have dropped from 50 percent to no more than 30 percent for most other forms of foreign investment. Further legislation now under consideration would make Oman more attractive as a site for foreign investment in joint ventures. Special authorization is required for projects with majority direct foreign ownership. Five year, one-time renewable tax holidays can initially offset higher tax rates imposed on firms not granted national tax treatment.

Kuwait maintains restrictions on foreign investment, including limits on foreign ownership (a maximum of 49 percent, and 40 percent in bank investment) and discriminatory taxation policies (see below). The Government of Kuwait has authorized establishment of a free trade zone in which many of these restrictions would not apply, but final agreement on the free trade zone remains under discussion.

While Saudi Arabia maintains no legal restrictions on the share of foreign ownership, under current policy wholly foreign-owned investment proposals are unlikely to receive government approval. Moreover, Saudi government incentives such as tax holidays and Saudi industrial development fund lending normally are not available unless there is at least 25 percent Saudi ownership. Wholly foreign-owned branch offices are generally approved, however. The foreign capital investment regulation requires that foreign investment be made consistent with the nation's development priorities and that investments include some technology transfer. Foreigners may not invest in joint ventures engaged solely in advertising, trading, distribution, or marketing. Real estate ownership is restricted to wholly-owned Saudi entities or citizens of the GCC. Foreign equity is taxed at the rate of 40 percent of profits; Saudis are not subject to a tax on profits, although they do pay a wealth tax ("zakat").

Bahrain may allow 100 percent foreign equity ownership of direct investments. Oman permits 100 percent foreign ownership on a case-by-case basis, with approval of the Council of Ministers.

Non-GCC investment in real estate and stocks of publicly traded companies is banned in all GCC countries.

OTHER BARRIERS

Agent and Distributor Rules

In GCC countries, U.S. firms may find that compliance with U.S. law presents special challenges when selecting a local agent. Many GCC business leaders are also prominent government officials. Local agents are required in all sales transactions in Kuwait and Oman.

Saudi law requires that in-country distributors be licensed by the Ministry of Commerce. Only Saudi citizens can obtain licenses, although a recent GCC decision may broaden this to include GCC citizens. Direct sales are possible except in the case of sales to government agencies, where a "service agent" is required. The U.A.E. permits two types of commercial entities to import and distribute products. One is a 100 percent U.A.E.-owned business and the other is a limited liability company in which foreign ownership up to 49 percent of equity is permitted. All U.A.E. commercial agents must be registered with the Ministry of Economy and Commerce. U.S. exporters seeking U.A.E.-wide coverage must appoint a separate agent for each of the seven emirates, or appoint a master agent with offices or sub-offices in each emirate. Once chosen, agents/distributors have exclusive rights, and cannot be replaced without their agreement. Since September 1996, Oman will register non-exclusive agency agreements. 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. The Government of Kuwait is currently discussing elimination of agency requirements in its military procurement contracts.

Termination of agency agreements can be difficult in all the GCC countries and may involve considerable financial losses to the foreign supplier. A commercial agency law adopted by Bahrain in 1992 makes it easier to terminate agency agreements in cases where the agent has not carried out his responsibilities satisfactorily.

Corporate Tax Policies

Saudi Arabia, Oman, and Kuwait tax foreign companies but not domestic entities. Additionally, several GCC countries tax royalties as if they were 100 percent profit and maintain a variety of other tax policies considered to be unfair to foreign companies. The U.A.E. imposes a 20 percent income tax on foreign banks. No tax is levied on domestic banks. As of January 1997, Oman provides national tax treatment to joint venture public shareholding firms with no more than 49 percent direct foreign investment. Taxes were reduced from a maximum rate of 50 percent to 30 percent for other categories of joint ventures with no more than 90 percent foreign direct ownership. In Saudi Arabia, foreign investors may receive incentives, including a ten year tax holiday, for approved agricultural and manufacturing projects with a minimum 25 percent Saudi participation. However, foreign equity investors in joint ventures are taxed at 40 percent of profits. Saudi Arabians are not taxed on income. Qatar levies corporate income taxes at rates from 5 to 35 percent of net profits earned by foreign firms in Qatar. While no income tax is charged to Qatari owned firms or to Qatari shareholders of joint ventures, foreign firms only avoid income taxes through the issuance of an emiri decree. Kuwait currently imposes a maximum income tax rate of 55 percent on foreign firms doing business in Kuwait. Kuwaiti firms are not subject to income tax. The Minister of Finance, however, recently announced plans to lower the maximum income tax rate to 30 percent.

Procedural and Financial Irregularities

Procedural and financial irregularities can be significant barriers to trade in GCC countries. Such irregularities have resulted in lost opportunities for U.S. suppliers of goods and services and have forced some U.S. businesses out of some markets. Disregard of irregularities may subject U.S. citizens or companies to prosecution under the Foreign Corrupt Practices Act (FCPA).

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In August 1995, Kuwait passed Law Number 251, requiring disclosure of all commissions and other payments made in relation to securing a government contract valued at 100,000 Kuwaiti dinars or more (approximately $335,000). This requirement increases transparency in procurement practices, assists U.S. firms in their compliance with the FCPA, and represents a modest first step toward addressing the problem of illicit payments.

The Arab League Boycott of Israel

On September 30, 1994, the GCC announced that it would end adherence to the secondary and tertiary aspects of the Arab League boycott of Israel, eliminating a significant trade barrier to U.S. firms. In January 1996, Oman and Israel signed an agreement to open trade missions in the other country. In April 1996, Qatar and Israel agreed to exchange trade representation offices. Israel opened its office in May 1996. In March 1996, the GCC reiterated its commitment to end the secondary and tertiary boycott, and recognized the "total dismantling of the Arab boycott of Israel as a necessary step in advancing the peace process and promoting regional cooperation in the Middle East and North Africa." Although all GCC states are complying with these stated plans, some commercial documentation continues to contain boycott language; consequently, U.S. companies must notify the U.S. Office of Antiboycott Compliance. Since the adoption of these policies, the incidence of boycott language in commercial documentation is decreasing (see the Arab League chapter for further information).

Kuwait no longer applies a secondary boycott of firms doing business with Israel and has taken steps to eliminate all direct references to the boycott of Israel in its commercial documents. Kuwait still applies its primary boycott of goods and services produced in Israel.

In 1996, some Omani procurement documents contained vestigial boycott language, although Omani policy no longer requires compliance with the boycott. Current difficulties in the peace process have complicated Oman-Israel normalization and resulted in the recall of the Oman trade representative in late 1996. Subsequent to the agreement between Israel and the Palestinian Authority concerning the withdrawal of Israeli troops from Hebron, Oman informed U.S. authorities that it hoped to have a new trade representative in Tel Aviv early in 1997.