

# Free Trade Zones in Oman: A Descriptive Analysis

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## Abstract

*The aim of this paper is to present a descriptive analysis about the free trade zones in Oman. Oman has established its Free Trade Zones (FTZ) at the beginning of 2000 in order to diversify its non-oil revenues and investments into its national economy. In fact, the FTZ of a country provides opportunities to the investors a free access to industrial infrastructure along with the option of 100 per cent return of their revenues. It also creates boosting international trade relations and Foreign Direct Investments (FDI) of the country.*

*Note: Topic of the article covers economics, business and management.*

## Introduction

The Sultanate of Oman is an independent country established in 1650 following liberation from Portuguese colonial rule. It is one of the founding members of the Gulf Cooperation Council (GCC) states since 1981. Muscat, the capital of Oman, is located in the north east of the country. The Kingdom of Saudi Arabia (KSA), the United Arab Emirates (UAE) and Yemen are its neighboring states. The country is a sultanate monarchy led by Sultan and Prime Minister Qaboos bin Said Al-Said who has been in power since 1970. Oman is a country with a small population size of around 3 million people, of which about 20% are non-Omanis. The official language of the country is Arabic.

Oman, with a total land area of 309,500 sq.km, is the second largest country in the (GCC). The country has been able to grow significantly in recent years with a gross domestic product (GDP) growing on average by more than 5% per year from 2000-2014. With a growing population of 3 million people, Oman has been experiencing the challenge of providing improved quality of life and jobs to its citizens and residents.

## An Overview of Oman Economy

Oman's stable economy has made it second only to Saudi Arabia in GCC member states' in terms of rankings. The GDP growth has been strong, led primarily by oil and gas. For example, in 2009, it was second in the GCC region in terms of GDP growth, at 3.6%, just behind Qatar's 8.5%. The country is actively pursuing a development plan based on diversification, industrialization and privatization in order to reduce the oil sector's contribution to GDP.

Currently, Oman offers a competitive environment for international investors. It was ranked 12<sup>th</sup> for Government Efficiency, according to the World Economic Forum. It is one of the top ten most secure nations in the world to do business, and has a strong track record for controlling

corruption and streamlining its regulatory environment. In 2009, a free trade agreement (FTA) between the United States and Oman came into force. This FTA is one of only 13 currently active bilateral and multilateral FTAs entered into by the United States.

The economy of the Sultanate of Oman has been growing steadily since the last two decades, taking advantage of its geographic location along the Europe-Asia trade lane and in the middle of a broader region spanning from Eastern Africa to the southern borders of Central Asia, and India to Pakistan.

The stability of the country has largely participated in its progress and prosperity. It enjoys solid financials, a high GDP per capita, along with the other GCC countries, a positive trade balance, and is abundant in natural resources especially oil, gas, and minerals. Oman's FDI has increased significantly in the last year, reaching \$12 billion since 2001.

The Omani GDP is heavily dependent on the oil sector. In 2005 the sector contributed to 49% of the country GDP and decreased to 40% in 2009. Based on Omani Government Vision, the share of oil and gas in the GDP should decrease to 20% by 2020.

Oman is planning to boost mining and quarrying in order to contribute more than 2% of GDP by 2020 with an estimated yearly growth of 10.8%. Tourism is a growing sector of the economy and is expected to grow 7.5% annually.

Infrastructure projects throughout the country are planned by the government. Existing seaports, airports and roads are to be expanded to accommodate higher capacities. Omani electricity is heavily dependent on gas, while alternative and coal natural resources are now more and more discussed and proposed as means of diversification from gas.

### **A. Opportunities and Advantages**

The geographical location of Sultanate of Oman is very crucial. The North of the country is adjacent to the Strait of Hormuz, a critical transit route for global crude oil and to the South of the country lies the vital equatorial trade sea route. Oman is an economically, politically and socially stable nation with a substantial trade surplus and a low inflation. It is one of the most liberalized markets in the region and has invested heavily on economic diversification. Projects have been initiated in sectors like natural gas, chemicals & petrochemicals, metals and international transshipment.

### **B. Diversification**

The development of FTZ across Oman has been a centerpiece of the Sultanate's plan to diversify the national economy beyond the oil sector by developing the growth of value-added, export-focused industries such as manufacturing, shipping and logistics. FTZ serves as catalysts for this

growth by providing infrastructure (e.g. roads, ports), regulatory framework and financial incentives (e.g. income tax and customs duty waivers) that encourage high-end foreign and domestic companies to set up operations.

In addition FTZ's aim to build an industrial and trade base in the Sultanate in order to promote sustainable economic growth, using the countries strategically important position with its commercial harbors of Sohar and Salalah to boost trade, bringing new technologies and creating jobs in higher value-added fields. The goal is to create an economically favorable environment to attract and concentrate companies in a business focused environment. Another goal of establishing free trade zones is to stimulate the private sector to contribute in the economic and social development.

With each free zone project that was announced, the authorities overseeing and controlling the FTZ have ensured that companies brought in investments into various industries, apart from just oil and gas.

### **C. Vision 2020**

"Vision 2020", a plan for Oman's economic future up to the year 2020, was announced in 1995, and provides a roadmap for the achievement of the country's economic and social goals over 25 years leading up to 2020. This is the second phase of a development project, the first phase having taken place between 1970 and 1995.

The 2020 Vision's key objectives are:

- Economic and financial stability
- Changing the role of the Government in the economy and broadening private sector participation
- Diversifying the economic base and sources of national income
- Globalizing the Omani economy
- Upgrading the skills of the Omani workforce and developing human resources

Free Trade Zones can play an important role in helping the nation to meet these key objectives.

### **D. Free Trade Zones in Oman**

At the moment mainly three FTZ are existing in Oman: Salalah, Sohar and Al Mazunah. The large free zones in Salalah and Sohar are important features of the Omani economic landscape, while Al Mazunah is a smaller, newer and lesser known free zone that has recently been set up located in the Dhofar region near the Oman-Yemen border.

## **E. Advantages and Incentives**

Advantages of the three free trade zones are the strategically good position of its locations. Apart from that, there are various economic incentives common to all three FTZ. For example the fact that they are ring-fenced enclaves exempt from national import and export duties and/or formally operating outside customs area of the country.

Other included business friendly incentives are as follows:

- 100% foreign ownership
- No customs on imports and exports
- No taxes on profits and dividends for 30 years
- No restrictions on repatriation of capital, profits and investments
- Minimal omanisation requirements (e.g. 10% in FTZ Sohar)
- No minimum capital investment or requirement
- No tax on personal income.

### **1. Free Trade Zone in Salalah**

Oman's first FTZ in Salalah became operational in 2005. It consists of three major projects – Octal Petrochemicals, Salalah Methanol and Dunes Oman – along with a smaller project from Sapphire Marine who manufactures yachts and commercial fishing boats. Today companies like ABI Showatech (casting, machining and assembly of light engine products) and SAGA (operating and leasing of stores and warehouses) are established at the FTZ Salalah. The Salalah free zone has completed its first phase of development and has progressed to the second stage. It is planned to develop the free zone over an area of 19 square kilometers.

It is an advanced and important step towards the establishment of the free zone in Salalah Port after studies have proved its value and advantages. That step was exemplified by signing an understanding memorandum related to the development of the first stage of free zone project with Salalah Company of Ports Service.

After developing Salalah Port in a way that it would be one of the leading containers port in the Indian Ocean, the free zone aimed at developing Salalah, making it a successful regional center of distribution. Studies proved the great advantages anticipated from establishing the free zone which is exemplified in:

- The great anticipated increase in the volume of investments, manpower, and commerce.
- Expected prosperity of the activities related to reactivating the partitioning of big shipments.
- The activity of international companies in distribution commerce.

- The free zone is expected to play the role of the customs storehouse.
- Prosperity of other services along with the area activity is also expected.
- The area is to provide the international ships with fuel.

The FTZ Salalah is dedicated to attract major investments in the areas of logistics, light and medium industries, re-export, trade and information technology. There are investments of over 2 billion OMR provided to be realized within the next five years.

Companies operating within the Salalah Free Trade Zone are:

- US-based company Octal Petrochemicals with a polymer products manufacturing facility exporting PET-Film via the Port of Salalah.
- Salalah Methanol Company operated by Oman Oil Co already started production of methanol using liquefied natural gas supplied by Oman Oil.
- Sapphire marine - Manufactures powerboats for law enforcement and military use. For the civil market Sapphire Marine makes luxury power boats.
- Oswal Caustic Soda
- Dunes Oman - Set up to produce automotive castings, an activity of Brakes India Limited of the TVS group.

Dunes Oman owned by Brakes India operates a foundry inside the zone, capable of producing 17,500 tonnes of ductile iron and grey iron castings annually, for the automotive industry. Another investor in Salalah Free Trade Zone is Dofar Nutraceuticals, targeting the market for food supplements and energy drinks. The Salalah Free Trade Zone has a second location in the Adhan area, close to the Salalah Hilton. Developments on this site include warehousing units and leased offices.

## **2. Free Trade Zone in Sohar**

Sohar Free Trade zone in the North of Oman is located on a 4500ha plot of land near the Port of Sohar. Sohar is the second city of Oman - located on an hour drive from the Hatta border with the UAE. Sohar Free Trade zone currently under development is operated by Sohar Industrial Development Company. The current Free Trade Zone investors are the Government of Oman, the Port of Rotterdam in The Netherlands and SKIL Infrastructure in India. Confirmed investments in the port of Sohar include a deepwater jetty for an iron ore pelleting plant by Brazilian company Vale.

The first phase of Sohar Free Trade Zone covers an area of 500 hectares and forms part of the 4,500 hectare Sohar Free Trade Zone master plan. Sohar offers modern infrastructure and is operated on the basis of the Landlord model. Phase One includes a number of downstream

industrial and petrochemical ventures (to mention only a few: trading and logistics – 121 hectares, light manufacturing – 68 hectares, petrochemicals – 26 hectares, aluminum related activities – 18 hectares, iron and steel – 100 hectares, cement grinding – 7 hectares, education and services – 20 hectares). Sohar Free Trade Zone facilitates industrial and petrochemical ventures, warehousing and logistics services, and associated investments in educational and medical facilities.

### Guiding Principle of Sohar FTZ

Sohar Free Trade Zone is a location with distinct strategic advantages. It has considerable benefits in terms of wide market access and smooth global logistics. Moreover, the Sultanate nowadays enjoys a basic complementary infrastructure due to the availability of industrial regions, lands, utilities of electricity, water, gas, post, communication services and different transport means. Oman encourages the setup and operation of foreign business in its Free Trade Zones which entitle such business with special incentives, merits and facilities according to the Free Zones Law.

#### I. Strategically Located

Sohar Free Trade Zone lies at the gateway of the booming markets of the Gulf and sub-continent. Excellent road systems, international airports and key rail links offer unlimited growth potential. Sohar lies on the crossroads of east and west offering easy access to global markets. Its location and relationship with the Port of Sohar present significant benefits. Furthermore, its position before the Strait of Hormuz avoids increased insurance premiums associated with passing through this waterway and ensures immediate access to the world's shipping lanes.

Sohar Industrial Area which is considered the second industrial area in Oman was founded in November 1992. It is situated in Batinah Region which is 200 km from Muscat and 180 km from Dubai. The Sohar Free Trade Zone is connected to a state of the art transport network which includes current highways Muscat-Al Ain-Dubai road and planned expressways such as the new 275 kilometer Southern Batinah super-highway with rapid links to Muscat and other GCC countries. Plans include the Batinah rail system connecting directly with the dry bulk port in Barka and running up the Batinah coastline. The international airports of Muscat and Dubai are less than 220 km away and the construction of Sohar International Airport is already underway.

Sohar Port, which is located nearby the industrial area, is a deep sea port in the Middle East, 220km northwest of Omani capital Muscat, which encompasses the fifth generation of containers. The management of this industrial port lies with Sohar Industrial Port Company SAOC (SIPC), a 50/50 joint venture between the Government of Oman and the Port of Rotterdam. With current investments exceeding \$14billion it is one of the world's largest port development projects.

## II. The Procedure of the Registration of a Company at Sohar Free Trade Zone

The following documents shall be prepared and are required in order to start with the registration of a Free Zone Company at Sohar Free Trade Zone:

- Name of the main investors with country of origin,
- Plot size required,
- Project summery,
- Total capital investment,
- Feedstock details,
- Aimed market,
- Projected cargo volume,
- Total Electricity requirement,
- Total Water requirement,
- Total Employment generation,
- Feasibility study / business plan (if available),
- Address details of main investor,
- Contact person for this project,
- Oman based representative (not mandatory)

### Step 1: Submit a complete Plot Application Form (PAF)

Submitting a complete and correct Plot Application (including the requested annexes) is very important. SIPC (Sohar Industrial Port Company L.L.C) requires the PAF for several approvals, commercial proposal and due diligence. A reference to the PAF is made in the eventual Land Lease Agreement.

### Step 2: Agreement on the Commercial terms

Before SIPC's "One Stop Shop" department starts obtaining the required pre-contract clearances. SIPC requires an agreement on the Commercial terms, basically the land lease price (USD/m<sup>2</sup>/year) and the contract term. The reason for this is to avoid unnecessary deployment of resources with all parties involved.

### Step 3: Pre contract clearances

For Industrial projects SIPC always seeks a "No Objection Letter" (NOL) from the Ministry of Environment and Climate Affairs (MECA) in the pre-contract phase. This NOL is not the final clearance for the project but it is a statement from MECA that there is no principal objection to the project and that the project can be realized under good management and international best practices. Process time is expected to be one week. For large power and/or water consumers

SIPC seeks principal acceptance from the utility companies. Although Sohar Free Trade Zone has secured large quantities of power and water, SIPC introduces large consumers to the utility companies in the pre-contract phase (the utility companies will bill directly to Free Zone Sohar Companies).

#### Step 4: Due Diligence

Due diligence will be performed on the main shareholders/promoters of the proposed Free Zone Working Company. For stock listed companies it will be quit basic and therefore quick. For individual promoters SIPC looks for background, past projects and clients. Maximum process time is one month.

#### Step 5: Plot Selection and Approval of the Plot Application

Even though plot options will have been discussed before, at this stage SIPC requires to select the definitive plot size and location. Once selected, SIPC's technical department will issue the final plot plan with all technical data of the plot and the surrounding infrastructure.

#### Step 6: Payment of first Quarter Lease, Incorporation and License Fees

SIPC requests payment of the first Quarter lease (regardless of the effective date of the contract), as well as the Incorporation and License Fees.

#### Step 7: Incorporation of the Free Zone Company

The Land Lease Agreement will be signed between the Sohar Free Trade Zone Authority and the new Free Zone Company. Incorporation of this new company prior to contract execution is therefore a must. Incorporation includes registration with the Ministry of Commerce and Industry (MoCI), membership in the Oman Chamber of Commerce and Industry and the issuance of the Free Zone license.

#### Step 8: Signing of the Land Lease Agreement

A draft of the very comprehensive Land Lease Agreement (LLA) will have been circulated in an earlier phase, including the separate terms and conditions. Normally SIPC will aim to organize a signing event to commemorate this important moment. However if a joint signing is difficult the document can be signed by circulation. Once signed, you are officially a Free Zone Company and we will be able to proceed with the various pre-construction clearances.

### III. Fees and Expenses for the Formation of a Free Zone Company

#### Official Fees for Registration



- OMR 1050 – OMR 1550 (one time only) business registration,
- OMR 385 p/a commercial / logistics license,
- OMR 385 p/a industrial / manufacturing license,
- OMR 201 for 2 years- visa for expatriate workers,
- 10-25 years tax exemption,
- 5 years minimum lease,
- 100 % ownership possible.

Further initial costs depend on the license(s) for which one intends to apply. In addition to these official fees costs as for maintenance, annual service, electricity, telecommunication and yearly renewal will apply.

### **3. Free Trade Zone in Al Mazunah**

Al-Mazunah Free Economic Zone commenced operations in November 1999 and is located in Oman's southern region of Dhofar, close to the Yemen border. The Free Zone is located 260 kilometres from Salalah, 245 kilometres from Al Gaydah and 500 kilometres from Sayun, the two closest Yemeni cities. Given the nature of the Free Zone it lies outside the lit of Oman's tax boundaries, and as such, businesses are able to enter Al Mazunah without visa or completing border procedures between Oman and Yemen. Indeed, Al Mazunah offers excellent opportunities to those wishing to trade goods through Oman into Yemen, or locate warehouse facilities. The Free Zone occupies 450 hectares which is divided into 100 plots ranging in size from 2,000 to 16,000 square meters. To date, 21 businesses and an exhibition area are in operation on the Free Zone.

In order to develop the free zone, the Omani government signed an agreement with the Kuwaiti-based company Golden Hala Trading to establish the infrastructure. An investment of an estimated 680 million Omani Rial in the project is pledged over the next five years. Focus areas for the free zone's growth plans are the processing, storage and shipment of products from Dhofari agricultural heartland, along with the automobile and industrial vehicle trade.

The Mazunah area provides excellent chances for those who are interested in trading between Oman and Yemen or establishing storage utilities. There are commercial shops and exhibitions in the area, in addition to the general storage and other utilities plus communication services and the essential setup services such as electricity, water, and roads.

The Supreme Royal Decree No. 2005/103 issued on 21st December 2005 allowed establishing a free zone in Al Mazunah. The General Corporation of Industrial Areas can ask any other party to operate this area after getting the permission of free zones committee, granting it with all incentives, merits and facilities stipulated in Free Zones Law.

## Conclusion

As we know that a free trade zone is designated area that eliminates traditional trade barriers, such as tariffs, and minimizes bureaucratic regulations. The goal of a free trade zone is to enhance global market presence by attracting new business and foreign investments. A Free trade zone can be utilized by everyone from large manufactures to small businesses to individuals. Any person or entity that intends to import or export goods and can consider taking advantage of free trade zones.

Operating within a country's free trade zones offers many benefits to importers and exporters. Common economic benefits include the deferral or elimination of customs duties, exemption from certain taxes, and inverted tariff relief. Free trade zones also offer operational benefits such as indefinite storage opportunities, increased security and insurance on goods, and top-of-the-line operating facilities.

Based on above, Oman's free trade zones appear to play an increasingly important role in the Sultanate's economic future and are considered to be a sector to watch closely for companies that already do business in Oman and those that seek to do business in the future.

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