



National U.S.-Arab Chamber of Commerce

**United States – Oman
Free Trade Agreement**

Hearing Before the International Trade Subcommittee
of the U.S. Senate Committee on Finance
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“From the first recorded contact -- the arrival in Muscat of a ship hailing from Boston named the *Rambler* in September 1790 -- until the present day, the bonds between Oman and the United States have been warm and enduring. Both nations share a seafaring heritage, mutual commercial interests, a tradition of tolerance and a desire for contact with other cultures as some of the distinguishing features of this long-term relationship.” U.S. Embassy, Muscat, Oman

Mr. Chairman, Mr. Ranking Member, and distinguished members of the Senate Finance Subcommittee on International Trade: Thank you for the opportunity to testify today on the proposed Free Trade Agreement (FTA) between the United States and the Sultanate of Oman. My name is David Hamod, and I serve as President & CEO of the National U.S.-Arab Chamber of Commerce (NUSACC). I have also been a regular visitor to Oman for most of the past two decades.

NUSACC, established nearly 40 years ago, is widely regarded as the voice of American business in the Arab world. We are America’s longest serving chamber of commerce dedicated to U.S.-Arab business, with membership rolls that now include more than 1,500 companies. With offices in New York, Houston, Los Angeles, and our headquarters in Washington DC, NUSACC is a nexus for U.S.-Arab business and the only chamber of its kind that covers the nation from coast to coast.

Moreover, NUSACC is the only entity in the United States with official recognition conferred by the League of Arab States and the General Union of Arab Chambers of Commerce, Industry, and Agriculture. As such, we serve as the U.S. point of contact for the national chambers of commerce in the 22 Arab nations -- including the Oman Chamber of Commerce and Industry. We also have longstanding relationships with the American Business Council of the Gulf Countries (ABCGC) and the Muscat American Business Council.

NUSACC supports free trade agreements between the United States and our trading partners around the world because we believe that such agreements create “win-win” opportunities. In our view, the FTAs that are currently being negotiated with countries in the Arab world will help both sides to increase exports, generate jobs, develop business practices that are well suited to the international marketplace and, over time, improve the quality of life in the United States and the Middle East.

We are pleased and honored that the Senate Finance Committee has invited us to provide this “big picture” assessment of U.S.-Oman relations and why we believe that an FTA between our two nations would be in the best interests of the United States and Oman alike.

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Under the thoughtful leadership of H.M. Sultan Qaboos bin Said al Said, Oman has been transformed from an economic backwater to one of the most progressive and attractive nations in the region. And unlike some of its neighbors in the Arabian Gulf area, Oman has achieved this status without the benefit of huge energy reserves -- relying instead on the resilience, determination, and entrepreneurial spirit of its people.

Oman's remarkable development is borne out in a just-released special issue of our chamber's newsletter, *U.S.-Arab Tradeline*, that focuses on U.S.-Oman economic relations. With your permission, Mr. Chairman, we respectfully request an opportunity to include that special issue of *Tradeline* in the record of today's hearing.

According to our chamber's forecast for 2006, U.S. merchandise exports to Oman are on track to reach nearly \$1 billion this year – which translates into more than 15,000 direct U.S. jobs. The 2006 figures represent an increase of nearly 56 percent over 2005, when U.S. merchandise exports totaled \$593.3 million.

The U.S. has become the third largest exporter to Oman, and if our two nations implement this FTA, market share for U.S. products in Oman is expected to close in on that of the United Arab Emirates and Japan, ranked first and second, respectively. The UAE is an important hub for re-exports to Oman. If and when the U.S.-Oman FTA enters into force, it is safe to assume that the FTA will increase profit margins for U.S. exporters by cutting out some of the transshippers and “middlemen” who drive up the costs of U.S. products. And as for Japan, it is moving aggressively to sign its own FTAs with Oman and other nations in the region.

Under the terms of the FTA, according to the Office of the U.S. Trade Representative, 100 percent of bilateral trade in industrial and consumer products, and no less than 87 percent of agricultural tariff lines, will become duty-free immediately upon entry into force of this agreement. The United States and Oman will phase out tariffs on the remaining products within ten years.

With this in mind, our chamber encourages the U.S. Congress to support the Free Trade Agreement with the Sultanate of Oman for a variety of reasons:

Successful Market for the United States -- In recent years, Oman has steadily grown its commercial relationship with the United States. As a result, there are upwards of 100 U.S. companies with a presence in Oman, and U.S. firms are playing an important role in Oman's strategic planning for the 21st century.

A little over a year ago, for example, the Dow Chemical Company entered into a partnership with the Oman Oil Company to build a polyethylene complex at the Sohar industrial port zone. H.E. Maqbool Ali Sultan, Oman's Minister of Commerce & Industry, hailed the new partnership as a “further milestone in the Omani Government's objective to attract foreign investment, diversify the economy, create job opportunities, and lay the foundation for future downstream industries.”

Equally impressive was the initial public offering (IPO) last year for shares of AES Barka, the largest operating independent power and water project in Oman. Led by the AES Corporation of the United States, the IPO was oversubscribed by more than 16 times, according to BankMuscat, amounting to nearly half a billion U.S. dollars. The company, which has an installed capacity of 427 MW and 20 million gallons of water, started commercial production in June 2003 and,

within the first year, it reached profitability. The project was named “Investment Project of the Year — 2003” at the Oman Awards for Excellence.

Another high profile undertaking involving a U.S. company is the \$3.5 billion Dolphin project, in which Occidental Petroleum is a joint venture partner. This ambitious project is linking the gas networks of Qatar, the UAE, Oman and, eventually, the Indian subcontinent. Under a deal reached in March 2003, Oman Gas Company (OGC) began supplying gas to Dolphin in the fourth quarter of 2003, and deliveries will continue for a period of up to five years. This agreement marks the first cross-border gas delivery in the history of the GCC.

Open Economy -- Oman has made significant progress over the years in integrating its economy into the global marketplace, and an FTA with the United States would further reinforce Oman’s efforts to promote economic liberalization. According to *Economic Freedom of the World: 2005 Annual Report*, published by The Fraser Institute (www.freetheworld.com), Oman has the seventeenth freest economy in the world. This ties Oman with Finland and places the Sultanate ahead of such nations as Germany (#19), Taiwan (#24), Spain and Japan (tied for #30), South Korea (#35), and Italy (#54).

Just a few years ago, some of Oman’s tariffs ranged as high as 15 percent (e.g.- food products). Today, according to the National Association of Manufacturers, Oman’s applied tariff rates range from 4.5 percent to 5.7 percent. The Government’s decision to lower tariffs is helping to make U.S. products more competitive in the Omani market, thereby serving Oman’s consumers and curbing overland imports from Dubai, the re-export capital of the Arabian Gulf.

Respect for the Rule of Law -- The best objective measure of Oman’s adherence to the rule of law may be Transparency International’s Corruption Perception Index 2005, which ranked Oman 28th in the world – tied with Israel – with a low level of perceived corruption. (www.transparency.org) Oman ranks number one in the Arab world and placed higher than such nations as Taiwan (#32) and Italy & South Korea (tied for #40) among the 159 nations that were studied. TI’s Corruption Perceptions Index draws on 16 different polls from ten independent institutions.

Oman is also making headway in its efforts to promote good governance. For example, the Central Bank of Oman (CBO), in association with the Arab Banking Union and the Oman Chamber of Commerce and Industry, has been hosting seminars on the role of corporate governance in Arab banking institutions. One such seminar recently attracted corporate leaders from throughout the Arab world.

Political Stability and Investment Appeal -- Under the leadership of H.M. Sultan Qaboos, Oman has been one of the most stable nations in the Arab world for more than three decades. This is not easy, given the “tough neighborhood” that the Middle East can sometimes be. Oman has a well deserved reputation for diplomacy and moderation, two traits that have enabled the Sultanate to stay on good terms with just about everyone in the region. Because of Oman’s commitment to tolerance, the Sultanate has also been very successful at accommodating traditional Islam while at the same time hosting a wide variety of cultures among Oman’s many expat residents and foreign visitors.

Oman remains heavily dependent on oil, which makes up approximately 40 percent of the country's GDP, more than 80 percent of the country's exports, and some 75 percent of the government's revenues. Such dependence is of great concern to the Government of Oman because the life cycle of the nation's oil fields is in decline. With this in mind, Oman is aggressively pushing for diversification and privatization, particularly in the form of "Omanization" -- replacing expatriate workers with Omanis.

In an effort to make Oman more attractive to prospective partners around the world, Oman has waived requirements that foreign businesses had to enter into exclusive agency agreements. In addition, a ministerial decision was issued in 2000 waiving the requirement for foreign firms to partner with a 51 percent Omani-owned company in order to obtain an import license.

Oman has also created a series of incentives in recent years that will encourage investments by U.S. partners and others. Some of these incentives include tax exemptions for five years for industrial enterprises that contribute to Oman's economy, a stable currency with full convertibility, no personal income tax and no foreign exchange controls, tax and import duty exemptions, and interest-free long-term loans for industrial and tourism projects that involve foreign investment. Oman also touts its price stability, with an inflation rate that has not exceeded one percent since 1992.

NUSACC sees these efforts to liberalize Oman's economy as important steps along the path to a U.S.-Oman Free Trade Agreement.

Adherence to International Agreements -- Oman is a member of the World Trade Organization (WTO) and is making steady progress in its efforts to support intellectual property rights (IPR). The Omani trademarks regime consists of Royal Decree 68/87, Decree Law No. 635/1991 and Royal Decree 33/91. Oman's latest Copyright Law, No. 37/2000, updated the earlier Royal Decree 47/96, enacted in 1996. In addition, Oman has joined the Patent Cooperation Treaty and has asked the World Intellectual Property Organization (WIPO) to register the Sultanate as a signatory to the Paris and Berne Conventions on IPR.

According to the International Intellectual Property Alliance (IIPA), Oman is enforcing its copyright laws and bringing down piracy levels. The piracy level for business software was 87 percent in 2000 and dropped to 71 percent two years later. The piracy level for motion pictures is even more impressive: from a high of 100 percent in 1995, it has dropped to below 25 percent -- making it one of the lowest rates in the region. However, the IIPA reports that there is still room for improvement when it comes to the WIPO Copyright Act and the Performances and Phonograms Treaty.

During my visits to Oman 15 years ago, the telltale signs were everywhere that there was relatively little enforcement of intellectual property rights. Pirated computer software, bootleg videos, and designer clothing knock-offs were widely available. Following its accession to the WTO, however, Oman began cracking down in earnest on IPR violations. Today, with support from the private sector, Omani authorities are keeping the heat on IPR offenders, routinely conducting sting operations on illicit video producers and busting rings of counterfeiters.

Strategic Support -- The Sultanate of Oman, with its close proximity to the strategic Straits of Hormuz, is an important asset for the United States military in the Middle East. Over the years, Oman has provided invaluable support to the U.S. forces in terms of forward deployments of U.S. servicemen and women and the pre-positioning of U.S. materiel. Oman hosts an estimated 3,000 U.S. servicemembers, particularly from the U.S. Air Force.

According to the U.S. Department of Defense, "Oman has been a coalition partner for over thirty years. Oman's active participation during the Gulf crisis and their willingness to allow access to port facilities and air bases make them vital to any coalition success in the region."

Supporting the Fight Against Terrorism -- Oman has been a strong and reliable partner in the war against terrorism. Since 2001, the Sultanate has taken decisive steps to combat money laundering and to shut down any financial resources that might be available to terrorists. Oman is also hoping to become the second Arab nation to put the U.S. Container Security Initiative in place, allowing U.S. personnel to inspect cargo bound for the United States.

Oman has been unequivocal about its willingness to stand "side by side" with the United States in America's fight against terrorism. H.E. Yousef Bin Alawi Bin Abdullah, the Head of Oman's Delegation to the United Nations, stated in New York not long after 9/11, "We would like to reaffirm again our solidarity with the United States of America in fighting all forms of terror against humans wherever they are." He went on to say, "Stemming from my country's firm position of condemning terrorism in all its forms, and in compliance with the goals of the United Nations of maintaining international peace and security, my country ensures its support toward the international efforts in fighting terrorism"

Commitment to Human Development -- When it comes to capacity building through social policies, Oman is one of the most progressive nations in the region, thanks to the enlightened leadership of H.M. Sultan Qaboos. The Sultan has encouraged women to play a leading role in the development of Oman on the grounds that to "exclude women is to exclude 50 percent of the country's potential." In large part as a result of the Sultan's encouragement over the years, there are more female graduates these days than male graduates.

Women in Oman have the right to vote and run for office in Consultative Council elections, held every four years. Oman has three women in its Cabinet, and it is no coincidence that Oman has produced the first fully accredited female ambassador to the United States from the Arab world, H.E. Hunaina Sultan al-Mughairy.

A strong commitment to education is a key component of a nation's ability to encourage economic development, and Oman has one of the most respected literacy rates in the Arab world. The Omanis have made remarkable progress since 1970, when H.M. Sultan Qaboos acceded to the throne. Before 1970, Oman had only three schools, and only boys were allowed to receive an education. Today, Oman boasts upwards of 1,000 schools, and boys and girls are equally represented.

There was also a time in Oman when the opportunity to learn English was only available to small number of Omanis. Today, in recognition of English as the *lingua franca* of international commerce and diplomacy, English is being taught in the first grade, with five lessons per week.

One academic success story that connects the United States to Oman is The American International School of Muscat (TAISM), which “pursues academic excellence for students in the international community through an American-based education that develops ethical, responsible, and globally conscious life-long learners.” TAISM, designed to afford expatriate children of all nationalities with an educational program in the context of an American-based curriculum, is accredited by the New England Association of Schools and Colleges (NEASC) and the Council of International Schools (CIS).

Respect for Workers’ Rights -- Oman joined the International Labor Organization in 1994, and the Sultanate has come a long way over the years in its efforts to encourage labor reform and support the rights of workers. This is still a work in progress, but NUSACC is encouraged by steps that Oman has taken and continues to take.

In NUSACC’s view, the most significant step forward came in 2003 with the passage of a new labor law (Royal Decree 35) that enables workers – Omanis and foreigners – to join “worker representative committees.” These committees represent an important step forward in effectively granting workers the right to strike, engage in collective bargaining, and take their employers to court. According to the Office of the U.S. Trade Representative, “Oman is currently working with the ILO on additional regulations to ensure that the implementation of collective bargaining provisions is consistent with international labor standards.”

Environmental Protection -- Under the leadership of H.M. Sultan Qaboos, a lifelong environmentalist, Oman has been dedicated for decades to the preservation of nature. Oman was the first country in the Arab world to establish a full-fledged Ministry of Environment, and Oman was one of the first nations in the region to design a strategic plan for the environment. As part of that nation’s efforts to raise public awareness, Omani Environment Day is celebrated each year on January 8.

In addition to establishing the Ministry of Regional Municipalities and Environment to handle environmental issues, H.M. Sultan Qaboos sponsors a major biennial conservation award, the first of its kind in the Arab world. The award is presented as part of the UNESCO “Man and the Biosphere” Program to highlight outstanding contributions to environmental preservation.

In recognition of his environmental stewardship, H.M. Sultan Qaboos has received the prestigious John C. Phillips Memorial Medal from the World Conservation Union and the Order of the Golden Ark from the World Wildlife Fund (WWF). In cooperation with the WWF, Oman has established six nature preserves to protect and support the breeding of endangered species.

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When the United States and Oman inked the Free Trade Agreement on January 19, 2006, U.S. Trade Representative Rob Portman noted, “With our signatures today, we cement our long-standing friendship and growing commercial ties and create new economic opportunities for both of our countries . . . For decades, Oman and the United States have shared a desire for peace, stability and economic opportunity in the Middle East. Today we take an important new step in our partnership.” The U.S. is well aware of “Oman’s enthusiasm for open trade and free

markets,” concluded Ambassador Portman. “We welcome that spirit and we are pleased to have Oman as a partner in our efforts to raise living standards and promote peace through trade.”

In many ways, these statements echo the sentiments of the House Ways and Means Congressional delegation that visited Oman in late 2004. Their report stated, “The delegation strongly supports the negotiation of an FTA with Oman and is pleased to see the commitment and drive by Oman to conclude such negotiations Oman has undertaken significant economic and political reforms in a short time, particularly in the banking and insurance sectors, demonstrating its capacity and willingness to use objective, transparent standards.”

A wide range of business leaders and U.S. policymakers recognize Oman’s genuine commitment to reform and to enhancing free trade with the United States. With this in mind, NUSACC lends its full support to a U.S.-Oman Free Trade Agreement, and we look forward to doing our part to help turn this vision into a reality in the months ahead.

Thank you for the opportunity to testify today, Mr. Chairman. I would be pleased to answer any questions that you may have.