

BAHRAIN

I. PROFILE

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| Location | The country consists of a group of 33 islands, situated halfway down the Arabian Gulf. The largest island is Bahrain from which the country takes its name. It is connected by causeways to Muharraq, the second largest island, and to Sitra which is mainly an industrial area. Other important islands are Nabih Saleh, Jiddah and Umm Al-Nassan. Bahrain is 28km from the coast of Qatar and 24km by causeway from the east coast of Saudi Arabia. |
| Official name | Kingdom of Bahrain |
| Area | 712 square km |
| Population | 650,604 inhabitants in 2001 |
| Capital | Manama |
| Major cities | Muharraq, Rifaa, Jidhafs, Sitra, Isa Town, Hamad Town |
| Language | Arabic is official language, English is used in business |
| Currency | Bahrain Dinar (BD) ; BD 1= 1000 fils ; US \$ 1 = BD 0.38 |
| Climate | The Bahrain climate can be generally described as cool winters with sparse rainfall and hot summers with high humidity. The winter season from December to February is influenced by low-pressure systems from the Mediterranean, which travel East into the Gulf and cause periods of disturbed weather. January is usually the coolest month when lowest temperatures are experienced, and prevailing winds are North-Westerly. Between March and May and between October and November the weather is normally warm and dry, with pleasant breezes and many hours of sunshine. The summer season from June to September is generally hot and completely dry, but with a noticeable increase in humidity. Temperatures average 38 to 42 Centigrade and average humidity ranges from 67 to 82%. |
| Main holidays | Eid-ul-Adha*, Eid UL-Fitr*, 1 st Mouharram*, Eid Al Mawlid*, 9 and 10 Moharram (Achoura)*, January 1st, and December 16 th (National Feast) |
| Weekly day off | Friday. Government offices also close Thursday. Many company offices also close half day on Thursday or all day on Saturday. |
| Local time | GMT +3 |
| Working hours | Government offices: 07:00-14:15 (Saturday-Tuesday), 07:00-14:00 (Wednesday). Banks:07:30-12 noon (Saturday-Thursday) Shops: 08:30-12:30 and 16:00-20:00 (Saturday to Thursday). Many shops open half or full day on Friday as well. |
| Principle Growth Sectors | Agriculture, Manufacturing, Construction and Hydrocarbons. |

(*) Variable dates

II. ECONOMIC SECTORS

The main economic sectors of Bahrain are: oil and gas industry, manufacturing, agriculture and tourism.

II.1. AGRICULTURE

Bahrain is not self-sufficient in food production.

The agricultural sector, which is heavily subsidized, produces some vegetables, fruits, dairy products, shrimp and poultry. Water demands have lessened agricultural production and current production from local farms provides for about 50% of domestic demand for fish, eggs and poultry.

II.2. OIL AND GAS INDUSTRY

For the time being, oil will continue to account for 80% of Bahrain's export receipts.

At the current level of 36,000 barrels per day, it is estimated that total recoverable oil reserves are put at 69.6 million barrels, sufficient to last five years at current rates of production.

The Supreme Oil Council under the chairmanship of the prime minister manages the industry, with decisions implemented by the Ministry of Development and Industry. The government owns several refineries on a 60-40 basis with private companies and only exports petroleum products. Bahrain recently saw its reserves increased dramatically with the addition of production from the Abu Safa oilfield, an offshore oilfield jointly owned by Saudi Arabia and Bahrain. Earlier in the year, Saudi Arabia agreed to allocate the balance of oil production from the field to Bahrain.

A significant share of Bahrain's exports consists of petroleum products made from imported crude oil from Saudi Arabia. The country has started a program of non-associated gas production and exports some liquefied natural gas.

II.3 INDUSTRY AND MANUFACTURING

With Bahrain's focus on economic diversification, the manufacturing sector has grown in importance and now provides about 12% of GDP. Aluminium is the mainstay of the manufacturing sector, but ship repairing and light industry are also well-developed. Bahrain is also the base for several pan-Arab heavy industry ventures in which the Bahraini government holds the majority stake.

During the last 20 years, Bahrain actively fostered economic diversification by investing in basic industries such as aluminium smelting, petrochemicals, and ship repair. Since its inception, Bahrain's aluminium sector has evolved from basic smelting to a variety of downstream operations. Aluminium operations now include a rolling mill, an extrusion plant, a factory producing aluminium powder, and two automobile wheel factories. This sector has been led by Aluminium Bahrain (ALBA), a joint venture majority owned by the government and shared with Saudi Arabia's Public Investment Fund.

ALBA has developed a number of expansion plans. Aluminium has been exported to Europe, the Middle East, and the Far East.

Several secondary industries based on smelter have been developed in the past twenty years, and Bahrain has several companies that deal in smelter products. Other achievements include the development of a large-sized petrochemical complex at Sitra, a sulphur derivatives plant, and shipbuilding and repair Yard Company.

II.4 TOURISM

Tourism is Bahrain's fastest-growing industry, a major source of employment and an important feature of the country's development, contributing just over 10% of GDP. Since the early 1990s, the Supreme Council for Tourism and the Tourism Projects Company have helped plan tourism strategies and infrastructure.

The opening of the King Fahad Causeway in 1986 had a major impact on tourism, since some 75% of the country's three million visitors per year arrive through Saudi Arabia. About two-thirds of these are Saudi Arabians; most of the remainder are visitors from other GCC states. Since leisure visitors comprise the largest segment, the government has identified tourism developments and resorts as a priority investment area, and has encouraged private sector participation. The country's reputation as a venue for regional conferences is also increasing, with facilities such as an exhibition centre, a convention centre, and a conference centre, as well as close to 5,000 hotel rooms, nearly half of which are of five-star standard.

III. INFRASTRUCTURES

III.1 ROAD NETWORK

As Bahrain is relatively small, it is not a difficult place to get around.

Bahrain has a well-developed and comprehensive road network, linking all the main areas and islands. Renovations to the old bridge linking Muharraq and Manama were recently completed, and ongoing improvements to older roads are constantly being reviewed. There is a good bus system, which links most of the towns on the island to both Manama and Muharraq.

Manama, the Capital is provided with a good road network.

King Fahd Bridge, inaugurated in 1986 constitutes the main road, which connects the country to Saudi Arabia.

III.2 AIR TRANSPORT

Bahrain International Airport (BIA) enjoys the unrivalled standing as the region's leading air hub. Served by around 40 commercial airlines and home to Gulf Air, the region's airliner, the airport operates more than 300 flights to over 50 destinations in the Middle East and North Africa every week. Worldwide, BIA connects to over 70 destinations. The airport recently opened a new passenger terminal which has dramatically increased the airport's passenger handling capacity to 10 million passengers a year.

III.3 MARITIME TRANSPORT

Bahrain's ports provide exceptional services, and facilities for ships maintenance.

Mina Salman Port, Bahrain's highly advanced port, is equipped with the latest technology in container handling, in excess of 1.5 million tons/annum. The Port has two container and 14 conventional berths, accommodating vessels up to 65,000 tons, a 24-hour pilotage service and a container capacity of 150,000 TEUs per year. For storage, Mina Salman has over 120,000 square meters of closed shed warehousing, over 18,000 square meters of open-sided shed space and 242,000 square meters of open storage.

South Hidd Port and Industrial Area is currently under construction, covering 650 hectares. The port will house two 300-meter container berths which will be served by the latest gantry cranes, with a vessel capacity able to handle in excess of 6,000 TEUs per year. The port will also boast two 40-ton and two 50-ton post panamax gantry cranes and 14 straddle carriers, in addition to

forklifts, Tugmaster units, low bed trailers and a computerized container and cargo tracking system.

III.4 TELECOMMUNICATIONS

Bahrain's telecommunications facilities rank with the best in the world. Direct dial, fax and telex facilities are available to over 180 countries.

Bahrain's telecommunications infrastructure is the GCC's most advanced system, and is continually developed and upgraded by the Bahrain Telecommunications Company (Batelco). In 1991, Bahrain became one of the first countries in the world to have a fully digitized network.

IV. CONVERSION AND TRANSFER POLICIES

There are no restrictions on converting or transferring funds, whether or not associated with an investment. As the financial and banking center of the Middle East, Bahrain offers ample and instant access to the international banking systems. Foreign exchange is readily available.

As well as having no corporate or local income taxes, Bahrain has no restrictions concerning the convertibility of currency or repatriation of fees.

V. FINANCIAL AND BANKING SYSTEM

Bahrain has become an important onshore and offshore regional financial centre because of its time zone advantage bridging Asian markets' closing and European opening times, its well-developed communications system, market stability, and liberal regulatory environment. The financial sector is now the largest contributor to the country's economy, accounting for over 20% of GDP.

Bahrain is home to some 90 commercial banks, investment houses and offshore banking units (OBUs). In addition, there are over 50 representative offices, money and foreign exchange brokers, and about 60 local, foreign and exempt insurance companies.

The financial and banking sector has become a significant pillar of the Bahraini economy. With an ideal geographical position and an excellent communications system, Bahrain boasts a number of commercial banks, offshore banking units, and foreign exchange units.

Commercial banks have operated in Bahrain from well before the 1970s. Thus, by 1975 when the first offshore bank was given a licence the core of a financial system already existed. Since then, the development of banking has been rapid.

There are four types of banks operating in Bahrain:

- Commercial banks;
- Offshore banks;
- Investment banks;
- Specialised banks.

There are **19 commercial banks** operating in Bahrain. These include National Bank of Bahrain, Bank of Bahrain and Kuwait, British Bank (formerly British Bank of the Middle East), Standard Chartered, the Dutch bank ABN Amro, France's Banque Paribas and Citibank of the US.

There are nearly **50 offshore banking units** operating in Bahrain today, but two -ABC and GIB-account for the major share of assets.

Both ABC and GIB see themselves as primarily in the wholesale banking business. Most of their clients are large corporations, governments and banks.

Nevertheless, ABC has a large retail operation in Spain with over 200 branches through its subsidiary Banco Atlantico and holds the majority share in International Bank of Asia, a very successful retail bank in Hong Kong.

Of the **29 investment banks** in Bahrain, perhaps the most notable is Investcorp. Through aggressive management this bank has acquired and subsequently sold a number of internationally known companies such as Tiffany's and Saks in New York and Gucci's of Italy. Among the foreign investment banks licensed to operate in Bahrain are Merrill Lynch and Nomura Investment Banking.

Finally, there are the **two specialised banks**- the **Bahrain Development Bank** and the **Housing Bank**. The Bahrain Development Bank was established in 1991 to advance loans for local project finance, provide working capital for Bahraini firms, and to support small businesses. The Housing Bank, besides providing housing finance citizens, is also involved in financing of housing projects and property development.

The banking and financial sector in Bahrain employs around 5,000 people , a majority of them local citizens. The banking sector contributes about 15 percent of overall economic activity.

VI. FOREIGN TRADE RELATIONS

VI.1. LEGAL FRAMEWORK OF TRADE RELATIONS

Bahrain is a member of the following international organizations:

- World Trade Organization (W.T.O);
- Organization of the Islamic Conference (O.I.C);
- Gulf Co-operation Council
- United Nations Organization (UN)
- Economic and Social Commission for West Africa (ESCWA)

Bahrain is a member of the League of Arab States and signed economic and trade co-operation agreements with several countries, of which Egypt, Syria, Iraq, Turkey, China, India and Singapore.

VI.2. TRADE STRUCTURE:

VI.2.1. Main imported products:

- * Cars and spare parts,
- * Cement;
- * Metallic products;
- * Antibiotics and products thereof
- * Paints
- * Cigarettes.
- * Wheat.

VI.2. 2. Main exported products:

- * Oil products;
- * Aluminium products;
- * Aluminium;
- * Methanol;
- * Toilet paper; towels and table napkins;
- * Paints;
- * Vegetable oils and fats

VI.2.3. Trading partners:

| Main suppliers | Main customers |
|-----------------------|-----------------------|
| - Saudi Arabia | - India |
| - United Kingdom | - USA |
| - USA | - Japan |
| - Germany | - Saudi Arabia |
| - Japan | - Singapore |

VI.3. FOREIGN TRADE REGULATIONS:

Customs barriers are customs tariffs fixed by the WTO.

VI.3.1. Imports regulations

All products are subject to a detailed customs declaration made by the importer. The latter must have an authorization delivered by the trade register administration. He must also be a member of the Chamber of commerce of Bahrain. Imported products require the authorization of the brand's representative.

The following products are prohibited or subject to restrictions:

- All obscene publications offending public decency, religion and traditions;
- Arms and explosives;
- Food products and beverages containing cyclamate.;
- In spite of being packed in boxes, cigarettes and tobacco products must also bear a warning against the health damages of tobacco.

Licenses are required for the following products:

- Horses;
- Fresh eggs;
- Slot machines.

The following documents are also required for imports:

1. A copy of bill of lading;
2. A delivery order issued by the carrier or its representatives;
3. An original copy of the certificate of origin;

4. A copy of the insurance policy if goods are insured.

VI.3.2 Exports regulations

Exports regulations are governed by a few formalities, the exporter must have:

- 1) A registration number at the trade register delivered by the Ministry of trade;
- 2) A register number at the importer's register issued by the Chamber of Commerce and Industry of Bahrain;
- 3) A copy of the insurance policy of the concerned good;
- 4) 4 copies of the bill of lading. The information in this document must include the overall weight along with measurements;
- 5) A certificate of origin in Arabic or in English delivered and certified by the Directorate of Customs and Ports of the Ministry of Finance and National Economy.

VI.4. FINANCIAL REGULATIONS OF FOREIGN TRADE OPERATIONS:

VI.4.1. Banking system:

Bahrain is a regional financial center. The banking sector is among the most important economic sectors of the country. In Bahrain there are 17 commercial banks, 47 foreign banks, 22 investment banks, 38 agencies and 3 specialized banks.

VI.4.2. Exchange system:

There are no restrictions on exchange transactions made for the payment of imports. The authority in charge of controlling exchange transactions is Bahrain Monetary Agency, but there is no legislation concerning this kind of control. Exchange authorization is valid for 360 days. The payment of an advance is allowed.

VI.4.3. Methods and means for international settlement:

There are three methods for international settlement:

- 1) Documentary credit
- 2) Check
- 3) Bank transfer.

VI.5.CUSTOMS TAXATION:

Bahrain is applying Customs Tariff according to the H.S. Codes, issued by the World Customs Organisation (WCO). The Customs Tariff is worked out on the percentage system for all commodities, except for Tobacco and all other Tobacco related products. For these products, the Customs duty is per a ceiling which is a minimum of 100% of the value, or it will be evaluated based on the quantity or weight. The higher value out of these will be taken into consideration.

Bahrain Customs Tariff rates are broadly divided into the following Tariff Groups: Free Duty, 5%, 100% and 125%.

Please refer to the annexure for various commodities which are classified in the respective groups.

VI.5.1. Applicable duties and taxes:

There are 4 products groups according to the rate applied for each product: See <http://www.bahraincustoms.gov.bh/>

ANNEXURE:

| Rates | Products |
|------------------------------------|--|
| Free duty | vegetable, fruits, fresh and frozen fish, meat, books, magazine and catalogues |
| 5% | All other imported items like clothes , cars , electronics items and perfumes |
| 100% and the duty structure | Tobacco and Tobacco related products. These are also evaluated based on the quantity or weight, and the higher value is taken into consideration for duty. |
| 125% | Alcoholic beverages. |

VI.5.2. Special provisions:

- There is no particular tax;
- Duties and taxes are imposed on an ad valorem basis;
- In 1983, customs duties on the imports of the products manufactured in the other GCC countries (GUL CO-Operation Council) were abolished;
- Samples that are not intended for sales are exempt from customs duties

VII.FOREIGN INVESTMENT

Bahrain has been a top business destination long before the country began to explore its tourism potential. Its extremely liberal economic policies, a strategic position at the hub of booming Middle East economics, a supportive government and a relaxed lifestyle made Bahrain the financial capital of the Gulf.

Bahrain offers several advantages for foreign firms to consider setting up base here. The workforce is highly skilled, very cosmopolitan in both Arabic, the language of the Middle East, and in English, the global language of business. Telecommunication and transport facilities- road, sea and air - are excellent.

Expatriates have always been welcome in Bahrain and the country is one of the safest in the world.

VII.1 OPENNESS TO FOREIGN INVESTMENT

Generally, the Government of Bahrain has a liberal approach to foreign investment, and is in the process of improving the Bahraini financial sector's attractiveness to international investors. In general, large private families or corporations own by the state or most businesses in Bahrain. However, development of the Bahrain Stock Exchange and continual improvements in the already highly-regarded Bahrain Monetary Agency are intended to allow and encourage the structural changes perceived to be necessary in Arab economies privatisation, desegregation of assets and an attraction of capital to regional projects and investment products.

As part of its program to diversify the economy, the Government of Bahrain actively encourages foreign private investment, especially in sectors which are export-oriented and do not compete directly with established local enterprises. Although the Government of Bahrain has expressed interest in encouraging Bahraini and foreign private investment in infrastructure projects, it has not yet chosen to permit any such projects.

In 1996 the Gulf Cooperation Council (GCC), of which Bahrain is a member state, approved a model law intended to make the region more attractive to international investors. Among other incentives, the model law contains provisions under which some firms could be exempted from the 51 percent local partnership requirement.

In general, Bahrain's existing laws already provide incentives equal to or greater than those in the GCC model law.

Bahrain has aggressively encouraged foreign investment.

This stance has led to regulations allowing 100% foreign ownership of new industrial ventures and the establishment of representative offices or branches of foreign companies without local sponsors.

Foreign investment has been primarily encouraged in sectors which are export-oriented and do not compete directly with local producers.

Currently, 100% foreign-owned firms may set up for regional distribution services, or representation and such companies may operate within the domestic or offshore market.

VII.2 INCENTIVES OFFERED TO FOREIGN INVESTORS

There are no special performance requirements imposed on foreign investors. Foreign and Bahraini-owned companies must meet the same requirements and comply with the same environmental, safety, health, and other labour requirements.

Companies wishing to qualify for investment incentives must hire a specified percentage of Bahraini employees: 30 percent Bahraini employees in existing industries, and, for pioneering and downstream industries, there is a requirement for 15 percent Bahraini employees the first year and 25 percent in subsequent years. In order to qualify for incentives, foreign or Bahraini-owned factories must also produce a local value-added of at least 40 percent, and must export at least 25 percent of their production.

Investment incentives offered to foreign firms are equal to those available to Bahraini companies.

These incentives include:

- ◆ A developed infrastructure with excellent transportation and communication facilities;
- ◆ Personal corporate tax exemption;
- ◆ No restriction on capital and profit repatriation;
- ◆ Duty free access to GCC member states for products manufactured in Bahrain.

Joint ventures allow for up to 49% foreign ownership and individual expatriates living in Bahrain for more than one year can buy up to 1% of the shares in any publicly-listed Bahraini corporation. Foreign firms receive the same investment incentives available to Bahraini companies.

Manufacturing investments receive the following incentives:

- ◆ Subsidies for foreign nationals hired;
- ◆ Electricity rebates: 50 percent rebate for the first five years, in all industries;
- ◆ Land rental rebates: 100 percent rebate of rental in government industrial areas for the first three years, for all industries;

- ◆ Customs duties: 100% rebate for the first five years for all industries;
- ◆ Export credit facilities: available for all industries;
- ◆ Tariff protection that is subject to the approval of the National Committee on Tariff Protection (10-20 percent protection may be given to pioneering or downstream industries).

Currently two free trade zones exist in Bahrain:

Mina Sulman, Bahrain's major port, provides a free transit zone to facilitate the duty-free import of equipment and machinery. Another free zone is located in the North Sitra Industrial Estate. Raw materials intended for processing in Bahrain and machinery imported by Bahraini-owned firms are also exempt from duty. Such imported goods may be stored duty free. The same facilities in the two free zones are used for the temporary import of goods for re-export.

VII.3 INVESTMENT AGREEMENTS

As of June 1996, Bahrain has a bilateral investment protection agreement in place only with the U.K., although a U.S.-Bahrain bilateral investment treaty is under consideration.

There are also economic and commercial cooperation agreements with Australia, Bangladesh, China, Cyprus, Denmark, Egypt, France, Greece, India, Iraq, Jordan, the Netherlands, Russia, Singapore, South Korea, Syria, Tunisia, Turkey and the U.K. Bahrain has air transportation tax agreements with the U.S., China, Cyprus, France, Germany, Greece, Singapore, Turkey, the U.K., and Yemen. France and Bahrain also enjoy a double taxation avoidance agreement.

VIII. USEFUL ADDRESSES

| ORGANISATIONS AND PUBLIC ESTABLISHMENTS | ADDRESS | TEL/FAX/E-mail/Website |
|---|-------------------------------|---|
| Ministry of Trade | P.O. BOX 5479 Manama | Tel: (973) 531531 Fax: (973) 530455 Website: www.commerce.gov.bh |
| Ministry of Foreign Affairs | Post Office Box 547 Manama | Tel: (973) 258-200 or 262-277 Fax: (973) 256-199 Website: www.bahrain.gov.bh |
| Stock exchange | P.O. BOX. 3203 | Tel: (973) 261260 Fax: (973) 256332 Website: www.bahrainstock.com |
| Economic Development Board | P.O. Box 11299 Manama | Tel: (973) 58 33 11 Fax : (973) 58 33 22 Website : http://www.bahrainedb.com |
| Bahrain Chamber of Commerce and Industry | P.O. Box 248 Manama 316 | Tel: (973) 229555 Fax: (973) 224985 Website: www.bahchamber.com |
| Bahrain Customs. Directorate General of Customs | P.O. Box 15 Manama | Tel: (973) 725333 Fax: (973) 727556 Website: www.bahraincustoms.gov.bh |
| Ministry of Finance and National Economy | P.O.Box 333 Manama | Tel: (973) 530800 Fax: (973) 532853 |

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