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WTO Trade Policy Review: Oman*

Note: This text provides brief description of the conditions foreign business will encounter in trade with Oman. It is based on a WTO Trade Policy Review for Oman, issued end June 2008. Readers wishing for deeper analysis should turn to the original Trade Policy Review available on the WTO website. (www.wto.org/english/tratop_e/tp_r_e/tp301_e.htm)

Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals.

• THE ECONOMIC ENVIRONMENT

Since the mid 1990s, the Sultanate of Oman has been implementing a development strategy centred on a liberal trade regime and aimed at, inter alia, reducing its high dependence on crude oil and natural gas (almost 50% of its GDP, 65% of government income, and over 90% of merchandise exports). To this end, Oman is promoting downstream industries and tourism; improving education and health services; modernizing its infrastructure; and addressing some structural problems, including the privatization of state-owned enterprises (SOEs).

The development strategy has resulted in high real GDP growth of 5.3% on average per year during 2000-07, and low inflation of 1.2% on average annually over 2000-07 despite a surge to a 16-year high of 5.9% in 2007, due partly to an increase in private and public consumption. Oman has also registered surpluses in both its overall fiscal position (8.4% of GDP on average annually during 2001-06) and external current account (8.6% of GDP on average per year over 2001-07). With a population of around 2.6 million (26% being expatriates), and a per capita income estimated at US\$14,500 for 2007, Oman's main economic and social challenge is to provide more employment opportunities for its citizens. The "Omanization" programme, aimed at promoting employment of Omanis, is being implemented.

• INSTITUTIONAL FRAMEWORK

Formulation and implementation of Oman's trade policy is the responsibility of the Ministry of Commerce and Industry, in coordination with other ministries. The private sector provides inputs to trade policy formulation through the Oman Chamber of Commerce and Industry on an ad hoc basis.

The WTO Agreements and the GCC Treaty are the main factors underlying Oman's trade policy. To this end, Oman has been reviewing and amending its laws, including on contingency trade remedies, government procurement, commercial companies, and investment.

Oman became a WTO Member on 9 November 2000. It is a signatory to the WTO's Information Technology Agreement, and is an observer to the plurilateral Agreement on Government Procurement.

Oman participates in the GCC, and in the Pan Arab Free Trade Area (in which all six States of the GCC take part). Under the GCC, negotiations for a trade agreement with the EC are continuing, and possible trade agreements are also being discussed with, inter alia, Australia, China, and New Zealand. In 2005, Oman signed a trade agreement with the United States (not yet in force), the other GCC members are also negotiating bilaterally with the United States. GCC Heads of States have agreed that any new preferential agreement concluded by a member would apply *pari passu* to all members, except for agreements with the United States.

• TRADE POLICY INSTRUMENTS

Oman has a relatively simple MFN tariff; all rates are *ad valorem*, and there are no tariff quotas, and no other duties and charges on imports. Since 1 January 2003, Oman has been applying the GCC common external tariff, which consists of rates of zero (9.4% of all lines) and 5% (88.8%). On alcoholic beverages, tobacco and tobacco products, and pork and pork products, Oman applies a 100% tariff (1% of the lines). Oman's applied average MFN tariff rate is 5.5%, i.e. 9.9% on agriculture (WTO definition), and 4.6% on non-agricultural products. Oman has bound 100% of its tariff lines at rates ranging up to 200%, and averaging 13.8% (i.e. average bound rates of 28% on agricultural products, and 11.6% on non-agricultural goods); this leaves margin for applied tariff increases.

On aggregate, Oman's tariff displays positive escalation, from first-stage processed products, with an average tariff of 4.4%, to semi-finished goods, with an average of 4.8%, and fully processed products, on which tariffs average 6%. This positive tariff escalation stems from the lower applied tariffs (on average) on agricultural raw materials. At a more disaggregate level, there are mixed results: in some indus-

tries (e.g. textiles and apparel, wood products, and non-metallic mineral products) tariffs are uniform from the first to the final stage of processing); otherwise, tariff escalation is mixed (negative from the first to the second stage, and then positive) in the food, beverages, and tobacco industry, reflecting the high rates on tobacco and spirits. Escalation is negative in chemicals and plastics, and in the paper, printing and publishing industries, and other manufacturing because of duty-free imports of pharmaceuticals and certain books.

The documentation for all imported products must be authenticated by the Consulate of Oman or representative, or any Arab Embassy in the country of origin. Oman encounters some difficulties in implementing the provisions of the GCC customs law based on the WTO Customs Valuation Agreement, with goods such as tobacco and tobacco products still subject to minimum import prices. Import and export prohibitions and restrictions are maintained on a number of products, mainly for health, security, moral, and religious reasons. Oman is harmonizing its regime on standards and technical regulations at the GCC level.

Oman has adopted the GCC Treaty provisions on contingency trade remedies, but has never used them. Its government procurement regime provides for price preferences of 10% and 5% for local and GCC products, respectively. Oman has no competition legislation per se, but provisions of legal instruments such as Sultani Decree No. 38/2000 regulate aspects of competition. State ownership remains significant throughout the economy. Oman is to enact new laws on intellectual property rights (IPRs), a prerequisite for the entry into force of its bilateral trade agreement with the United States. During the last few years, Oman has made significant progress in enforcing IPR protection. Nonetheless, under-the-counter sales of unauthorized software and DVDs are reported to persist in some locations.

In addition to import duty concessions, other general incentives available in Oman, to national and foreign investors, include: exemption from the tax on profits for five years (renewable for another five years); long-term use of land at favourable rates; subsidized electricity, water, and natural gas for production; and "soft loans" for up to ten years, with a moratorium period of up to three years, at a subsidized interest rate.

• **SECTORAL POLICIES**

In accordance with Oman's long-term development strategy (Vision 1996-2020), the contribution of agriculture and

manufacturing to GDP are expected to increase, respectively, from 2.8% to 5%, and from 7% to 29% during the period, whereas the shares of services, and oil and natural gas are to fall to 47% (52.3% in 1996), and 19% (over 40% in 1996), respectively. One major state-owned enterprise, Petroleum Development Oman, dominates oil and natural gas activities, either directly or in cooperation with foreign enterprises, through production-sharing agreements. Oman is pursuing an intensive exploration drive to enlarge its known hydrocarbons reserves, so as to expand the duration of their exploitation, and broaden its production capacity. Oman is also increasing its electricity network in order to meet growing demand. The simple average applied MFN tariff on mining and quarrying (major division 2 of ISIC, Revision 2) is 4.9%.

Services constitute a crucial component in Oman's overall policy of economic diversification. Private sector participation is being encouraged by removing obstacles to foreign investment. Several SOEs in the sector operate under monopoly, or hold exclusive rights in some branches (e.g. Oman Telecommunications Company, Oman Postal Company, and Oman Air). Under the General Agreement on Trade in Services, Oman made commitments in all services categories, and has tabled its initial conditional offer in the ongoing services negotiations.

Oman's manufacturing sector benefits from its relatively large endowment of hydrocarbons used as inputs by industries producing chemicals and liquefied natural gas. The Government holds 100% stake or is an important shareholder in some manufacturing companies (e.g. Salalah Methanol Company, Oman Polypropylene Company, and Oman Cement Company). MFN customs tariffs on manufactured goods (major division 3 of ISIC, Revision 2) average 5.6%, with rates ranging up to 100% on alcoholic beverages, and tobacco and tobacco products.

Despite its small and decreasing share of total GDP, agriculture is an important sector in the economy because of Oman's food security objective, which is to be achieved mainly through relatively low customs tariffs. Oman is a net exporter of fishery products, but a net importer of agricultural products. The simple average applied MFN tariff on agricultural products (major division 1 of ISIC, Revision 2) is 3.9%. The Government assists agricultural producers by offering basic infrastructure (e.g. drainage and irrigation facilities), soft loans, and free inputs, such as new seed varieties, fertilizers, and chemicals.