



U.S. Department of State FY 2000 Country Commercial Guide: Bahrain

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I. EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at Bahrain's commercial environment, using economic, political and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. embassies through the combined efforts of several U.S. Government agencies.

Bahrain has always been an excellent place to do business, and has the potential to become even more hospitable in the coming years. The March 1999 ascension of Shaikh Hamad as amir, the government's drive to diversify--if not privatize--in the wake of depressed global oil prices in late 1998 and early 1999, and the country's removal from the U.S. Special 301 Watch List, will all serve as incentives for greater U.S. economic relations with Bahrain. Bahrain also offers the advantages of no personal or corporate taxation, no restriction on capital or profit repatriation, a modern infrastructure, and duty free access to members of the Gulf Cooperation Council (GCC). U.S. firms continue to perform well in Bahrain, and the government is eager to attract more investment.

Bahrain offers a wealth of trade and investment opportunities in a number of sectors. Despite ongoing efforts to diversify away from the petroleum sector, oil and gas continue to play a dominant role in Bahrain's economy, accounting for about 54 percent of total export earnings in 1998. Bahrain has overcome its relatively small size by positioning itself as a regional leader in a number of key sectors, enabling a foreign firm to leverage its investment and reach a broader consumer base. Bahrain has served as the financial hub of the region for the past two decades, for example, and is poised to offer new and expanded financial services in the coming years. Similarly, the Bahrain Telecommunications Company (BATELCO) is considered a key regional force in telecommunications and information technologies. BATELCO invests about USD 54 million annually to upgrade and expand its products and services. Although the education, training, and tourism sectors are less mature on a regional basis, the government has placed high priority on them as engines for future growth.

The Government of Bahrain is continuing with a number of large projects despite the budget crunch caused by low oil prices in early 1999. As the government forges ahead with a number of projects, the downstream effect should continue to boost the economy. In particular, power and water projects such as Hidd offer possibilities to U.S. firms for sales in related sectors over the coming five years. In addition to the Phase I power and desalination plant, the long-term plan calls for development

of the Hidd Port and Industrial Area plus a bridge connecting the site to Manama. Other major infrastructure projects include construction of a new water distribution network, upgrade of the Sitra power and water station, expansion of the Ras Abu Jurjur desalination plant, upgrade of the Riffa power station, upgrade of BAPCO's refinery, and expansion of the Tubli and other waste treatment facilities.

In general, establishing a business presence in Bahrain can be relatively easy and straightforward. Firms may be 100 percent foreign-owned, but companies wishing to produce for the local market must have majority Bahraini ownership. In either case, the U.S. Embassy highly recommends that U.S. firms find a local partner, or at least hire a local agent, to facilitate the establishment and operation of the enterprise. As government tendering procedures for large projects are often not transparent and negotiated contracts are common, the right agent often seems as important as price, sales conditions and technical qualifications. U.S. companies interested in opening in Bahrain are strongly encouraged to consult the Bahrain Promotions and Marketing Board (BPMB) and/or the U.S. Embassy for additional details and guidance.

Country Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or through the Internet. Please contact STAT-USA at 1-800-STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at <http://www.stat-usa.gov>; <http://www.state.gov>; and <http://www.mac.doc.gov>. They can also be ordered in hard copy or on diskette from the National Technical Information Service at (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at 1-800-USA-TRADE or by fax at (202) 482-4473.

II. ECONOMIC TRENDS AND OUTLOOK

MAJOR TRENDS AND OUTLOOK

Bahrain has always been an excellent place to do business, and three developments in 1999 will only further enhance the country's hospitable business climate and create additional investment opportunities. Depressed oil prices in early 1999 revived momentum towards privatization and revitalized the government's continuing effort to diversify away from the oil sector. Shaikh Hamad, who became the new Amir following his father's death in March 1999, is formulating an economic agenda to encourage the private sector to lead Bahrain's economic development in the new millennium. Lastly, Bahrain's removal from the U.S. Special 301 Watch List in April 1999 was in recognition of the country's greatly improved protection of

intellectual property rights. This development should help spur increased development in Bahrain's high-technology sectors.

While still facing obstacles to its development--such as its small size and paucity of natural resources--Bahrain continues to have visible growth underway. Government and private construction projects continue, consumer traffic is increasing in new retail centers, and visitors arrive in droves from its Gulf Cooperation Council (GCC) neighbors. The ongoing liberalization of business laws and practices, new initiatives in the financial services sector, and a thriving information technology sector all should contribute to helping Bahrain further diversify away from oil.

Bahrain's historical position as a regional trading center has been severely challenged in recent years, particularly by Dubai, forcing Bahrain to change. In response, Bahrain continues to modernize and streamline its business laws and procedures, to update its technology, to expand its industrial base as well as to construct key new facilities like the industrial area and port adjacent to the large Hidd power and desalination project. Employing both private and public sector initiatives to provide market-sensitive training to its population, which is already highly employable by Gulf standards, Bahrain is working to establish itself as a regional training center. Bahrain is also becoming a regional air cargo hub; air cargo volumes continue double-digit annual growth and companies like DHL have set up regional hubs and continue to expand their facilities. The signing in May 1999 of an "open skies" agreement between Bahrain and the U.S. should provide further opportunities for U.S. firms in the aviation services business.

The country continues to retain its regional leadership in the financial, communications and information technology spheres. Efficient procedures, good regulation and a strong financial community give this small island nation a standard of commercial activity with which other Gulf countries are hard-pressed to compete. The presence of the U.S. Fifth Fleet, Bahrain's status as a founding member of the World Trade Organization (WTO), and its membership in the UN Security Council, all have given the country international recognition and should help attract the foreign investment the government of Bahrain is seeking.

The new power and water projects at Hidd and other major infrastructure projects offer possibilities to U.S. firms for sales in related sectors over the coming five years. As the government of Bahrain moves forward with a number of projects, the downstream effect should continue to boost the economy. As government tendering procedures for large projects are not always transparent and negotiated contracts are common, the right agent often seems as important as price, sales conditions and technical qualifications.

As of June 1999, approximately 90 U.S. firms were operating, in one form or another, from a Bahrain base and new ones continue to arrive. There are many U.S. franchises, joint industrial ventures remain strong, and the United States consistently is one of Bahrain's leading trading partners. U.S. products have done particularly well in the categories of information technology, financial services, tourism, telecommunications, furniture, air-conditioning equipment, and vehicles. High-value U.S. food products with strong market potential in Bahrain include frozen poultry parts, beer, condiments, processed fruits and vegetables, packaged rice, and fruit and vegetable juices.

PRINCIPAL GROWTH SECTORS

Financial Sector. For the past twenty years, Bahrain has served as the financial center for the Gulf region and much of the Arab world. Bahrain's financial institutions attract funds from the Gulf and beyond. Bahrain is seeking to exploit the rapidly growing market for Islamic finance to augment its substantial traditional banking and finance operations.

Islamic banking is a system that conducts normal banking operations according to the interpretations of the Islamic Sharia law. As such, Islamic banking avoids the payment or charging of interest--as well as involvement in other activities that religious scholars may consider un-Islamic--while meeting the Islamic requirement that liquid funds be invested in a manner that will benefit the economy and society. The global Islamic Banking industry has been estimated to be worth USD 100 billion and to be growing by 10-15 percent a year and demand for new instruments is rising.

Bahrain is already one of the main global Islamic banking centers and by early 1999 was already host to 20 Islamic banks and financial institutions, the largest concentration in the Middle East. More new institutions are in the planning phase, including a number focusing on investment as opposed to commercial banking. These new institutions and funds are seeking to attract capital in particular from neighboring Saudi Arabia, which retains its sensitivity to the charging or paying of interest in banking operations.

Despite the economic crisis in Asia and depressed global oil prices, Bahrain's financial sector has continued to grow in 1999, albeit more slowly than in 1998, which was a banner year for most banks here. The consolidated balance sheet for the banking system in Bahrain, comprising offshore banking units (OBUs), full commercial banks (FCBs) and investment banks (IBs), totaled USD 99.5 billion in December 1998.

The Bahrain Monetary Agency (BMA) issued 12 new licenses to financial institutions, bringing the total number licensed by

the agency to 180 as of December 1998. Of the 12 new licenses issued, four were for OBUs, four for investment banks, two were for representative offices and two for investment advisory and other financial services. With this, Bahrain's financial sector comprised 19 commercial banks, two specialized banks, 48 OBUs, 32 investment banks, 37 representative offices, 12 investment advisory and other financial services, 24 money changers and six money brokers, as of the end of 1998. In addition, the number of commercial bank branches had increased to 81.

Important new steps have been taken to accelerate the growth of the Bahrain Stock Exchange (BSE). The BSE is developing into a regional capital market. It already crosslists some stocks with Oman and Kuwait. Later in 1999, BSE operations will become fully automated, enhancing regional links and other services. Also, Gulf Cooperation Council (GCC) nationals are now permitted 100 percent ownership of listed companies on the Exchange and other foreign nationals may own up to 49 percent. The new law allows the Ministry of Commerce to increase this percentage according to the general interest of the national economy. More than 40 companies are listed in the country's stock exchange; equities, bonds, mutual funds, and currency warrants currently are the listed securities and financial instruments. For more information on investing in the BSE, including listing your company/instrument, please contact Mr. Shaker Al Shater, Director of Operations, Bahrain Stock Exchange, at (973) 261-260.

We agree with the assessment by Bahrain's Ministry of Finance and National Economy that identifies three main growth areas for Bahrain's financial sector for the next few years: Islamic Banking, Regional Capital Market Development, and Investment Banking. (See Chapter V: Leading Sectors for U.S. Exports and Investments.)

Petroleum Sector. Despite the government's efforts to diversify, oil and gas continue to play a dominant role in the country's economy, providing about half of government revenue. Bahrain's oil export earnings plunged by 38 percent in 1998 over the previous year. Although 1998 production was the highest ever, the slump in world oil prices hit so hard that Bahrain's oil-associated export earnings were lower than they had been before Bahrain began receiving the full production from the Abu Safaa field of 140,000 barrels per day (b/d).

Oil's share of total export earnings has dropped steadily since 1996 when it reached 67 percent. In 1997 it had fallen to 62 percent and in 1998 it dropped further, to 52 percent. Oil import costs (mainly crude from Saudi Arabia for the refinery) likewise dropped, by 52 percent to USD 727 million, compared to USD 1404 million during 1997.

Oil and Oil byproduct Exports (USD billion)

	<u>1998</u>		<u>1997</u>		<u>1996</u>
Oil Exports	1.69	2.71		3.15	
Total Exports	3.26		4.38		4.68
Oil as a % of Total Exports	52%		62%		67%

Note: Includes oil from the Abu Saafa Field.
(Source: Bahrain Monetary Agency.)

Bahrain's onshore oil production (at Awali) delined by 2.6 percent during 1998 to 37,674 b/d from 38,695 b/d in the previous year, according to Ministry of Oil and Industry statistics. During 1998 average daily gas production rose slightly, to about 800 million cubic feet per day from about 750 million cubic feet per day in 1997. Onshore oil and gas production levels have remained within a fairly constant range for some time. Bahrain consumes all of this gas domestically, although some of it is converted into gas-derived petrochemicals that are eventually exported. Almost a third of non-associated gas production is re-injected into the Awali field to maintain pressure.

In February 1998 Chevron and the Ministry of Oil & Industry signed a major exploration and production sharing agreement covering 5,900 km of Bahrain's north and west offshore area. These blocks do not include areas affected by Bahrain's border dispute with Qatar over the Hawar Islands. Chevron opened a representative office in Bahrain in early 1999 and plans to drill its first well in early 2000.

In late 1998 the Supreme Council for Oil decided to merge BAPCO and Bahrain National Oil Company (BANOCO) into a single company. BAPCO operates Bahrain's--and the Gulf's--oldest refinery, set up in 1936, which has the capacity to refine up to about 260,000 b/d of crude oil. The company is now 100 percent owned by the government as it bought the remaining 40 percent stake held by the U.S. firm Caltex in 1997. Caltex remains committed to Bahrain and plans to focus on other opportunities here, including continuing to provide the refinery technology and skilled manpower under a Technical Services Agreement. BANOCO is responsible for domestic oil production, which stood at 38,000 b/d in 1998, and distribution. It also markets liquefied petroleum gas (LPG), naphtha, gasoline, kerosene, aviation fuel, diesel oil, heavy lube distillate, fuel oil and asphalt produced at BAPCO's refinery.

Bahrain's business potential in the oil and gas sector is enhanced by its location. With the oil-rich Eastern Province of Saudi Arabia only 25 kilometers away and linked by the causeway and pipelines, and other Gulf States easily reached by sea and air, Bahrain has usefully served as a regional marketing and support center. Bahrain offers a relatively comfortable and accessible gateway to larger regional markets, and especially appeals to firms that are new. A pipeline grid including

Bahrain has been proposed linking Gulf consumers with Qatar's vast supplies.

Potential business opportunities in Bahrain oil and gas sectors include the modernization of BAPCO's 260,000-b/d refinery. The seven-year USD 800 million modernization plan launched in 1999 is comprised of a number of packages, the largest of which is the low sulphur diesel production upgrade. Other packages include the replacement of the existing jet fuel plant with a 50,000 b/d merox process unit; the upgrade of control instrumentation on some of the catalytic reformer compressors and the mild hydrocracker; and the replacement of compressor equipment on the fluid catalytic cracker.

Private-sector proposals have surfaced periodically to build a new refinery in Bahrain, at a cost reportedly of 25 to 50 percent greater than that of refurbishing the old one. None have moved beyond the discussion stage. The Gulf Petrochemical Industries Company (GPIC) added a major urea line in 1998; other producers are considering petrochemical projects such as in the plastics field.

See Chapter XII, Market Research and Trade Events, for information on upcoming conferences and exhibitions in the oil and petroleum sectors.

Telecommunications and Information Technology Services. Bahrain is positioning itself to become the regional telecommunications hub of the Gulf, offering a broad range of advanced communications services through Bahrain Telecommunications Company (BATELCO) to the general population, business community and investors. BATELCO is the sole provider of national, international and Internet telecommunication services. It is regulated by the Ministry of Transportation (although the Minister of Transportation is also chairman of BATELCO's board). BATELCO was established in 1981 as a shareholding company and is 37 percent government-owned. Cable & Wireless (C&W) of the U.K. owns 20 percent and the remaining 43 percent is owned by 14,000 investors on the Bahrain Stock Exchange. C&W, which has had a long association with BATELCO, has supplied much of the organization's current management. BATELCO has an equity in the International Telecommunications Satellite Organization (Intelsat), which provides telecommunications services between countries across the world, and has also participated in the SEA-ME-WE international fiber optic cable project, which links Asian countries with Europe through the Middle East. BATELCO also provides Internet service to Saudi Arabia.

An average annual investment by BATELCO of USD 54 million towards extending and enhancing Bahrain's telecommunications network and introducing new products and services presents opportunities to U.S. suppliers of telecommunication equipment and information technology services. Actual 1998 investment was

even higher, having reaching USD 80 million. (See Chapter V, Leading Sectors for U.S. Exports and Investment.)

BATELCO's net profit rose up by 33 percent in 1998 to USD 114.3 million. The company attributed the profit rise to growing demand for mobile phones and the Internet. During 1998, the number of mobile phone users rose by 75 percent and the Internet by 53 percent. The total number of mobile lines in Bahrain had risen to 100,000 by May 1999 and BATELCO plans to increase the network's capacity to 150,000 by the end of 1999.

See Chapter XII, Market Research and Trade Events, for information on upcoming conferences and exhibitions in the telecommunications sector.

Education and Training Services. Creating new job opportunities and equipping young Bahrainis with the right skills is a daunting challenge in the face of Bahrain's extremely high population growth rate of 3.6 percent. The regional market in the Gulf for education, training and human resources development is growing rapidly and is estimated to be USD 5 billion annually. Bahrain is currently undergoing Bahrainization, a process of economic restructuring replacing increasing numbers of expatriates with local employees in the public and private sectors. Training is a top priority and local industry and training institutions are currently looking for materials and/or partners to improve their education and training facilities. The government's 1999/2000 budget allocates approximately USD 509 million to education.

As of late 1998, 13 training centers for international companies had opened in Bahrain and a further 14 had applied. The government is simultaneously working toward attracting trainees from throughout the Middle East and has actively encouraged the establishment of international training institutions in Bahrain. (See Chapter V, Leading Sectors for U.S. Exports and Investment.) The government offers a series of facilities and incentives for organizations setting up training establishments in the country. The training promotion office of the Ministry of Labor and Social Affairs provides assistance to institutions looking to open training centers in Bahrain.

The Directorate of Manpower Development in the Ministry of Labor also provides vocational training to many Bahrainis. In 1998, over 1,000 job seekers participated in 12 training courses. The Ministry also supervises training courses conducted by private sector establishments that employ 100 or more people. A training levy, designed to encourage training in the private sector, affects more than 170 companies. The government has also set up the High Council for Vocational Training and several subcouncils, known as specific councils, for sectors such as Hotel and Catering. This Specific Council acts as the custodian of hotel vocational training, is managed by hoteliers and tourism experts, and trains a significant number of Bahrainis.

In 1998 the Specific Councils for Hotel and Catering and for Finance and Banking trained more than 600 Bahrainis. (See Chapter V, Leading Sectors for U.S. Exports and Investment.)

See Chapter XII, Market Research and Trade Events, for information on upcoming conferences and exhibitions in the education and training sectors.

Tourism. The government of Bahrain has identified tourism, particularly conference-related and family-oriented tourism, as a major potential source of income. Currently most of Bahrain's annual 2.4 million visitors arrive across the causeway linking Bahrain to neighboring Saudi Arabia; these numbers have been increasing every year. In an effort to improve the quality of the tourism experience, the government is encouraging the development of theme parks, resorts, top-class resort hotels and other family-oriented projects. One of the hotel projects underway in Bahrain is construction of another deluxe five-star hotel, one that will be held jointly between the Oberoi Group of hotels and EBH Holdings, a Bahraini company. The five-star Gulf Hotel opened the deluxe, ultramodern Gulf International Convention Center in May 1997. The Royal Meridien and the Holiday Inn also have first-class convention centers. The Bahrain International Exhibition Center has just completed a major expansion of its facilities and has a strong trade show schedule lined up for 2000, including an increasing number of regional shows. The Bahrain Promotions and Marketing Board has stepped up its efforts to place Bahrain on the tourism map. It has developed marketing materials, including a video and a series of elaborate brochures designed particularly to appeal to business visitors and potential investors.

Bahrain offers a variety of tourist attractions, including a number of archeologically interesting excavation sites, a small ice rink, grass and sand golf courses, and leisure resort facilities in five-star hotels, two excellent museums, and a small wildlife park. The government is considering creating a much-needed resort beach for the joint use of the major hotels. Bahrain's current public beaches hold little appeal for visitors.

Aluminum Sector. Bahrain launched its aluminum industry more than 20 years ago to take advantage of its relatively low energy costs and to diversify the economy. Over the years, the sector has expanded from basic smelting to a host of downstream operations, including a rolling mill, an extrusion plant, a cable plant, factories producing aluminum powder and wire mesh screening, and two automobile wheel factories. In 1997, the smelter operation, Aluminum Bahrain (ALBA), completed a series of expansions and 1998 production exceeded 500,000 metric tons for the first time. It is the second largest single-site aluminum smelter in the world and is 77 percent owned by the Bahraini government. 1998 earnings were down due to financial problems in Asia, ALBA's primary export market, but ALBA's

limited product mix actually worked to its advantage as premium product demand suffered more than that for raw ingots. ALBA has begun a feasibility study to evaluate its ideas for further capacity expansion. In early 1999 ALBA began producing 60 tons a month of a new aluminum alloy bar aimed at the U.S. market. The government would also like to attract additional downstream investment in the aluminum sector, including additional factories using molten aluminum supplied directly from ALBA's smelter. Individual downstream aluminum industries are also seeking joint venture partners to expand their range of products and markets. (See Chapter V, Projects section.)

Food Processing. The local food processing industry will continue to expand, offering export opportunities for semi-processed agricultural products. Major growth sectors are vegetable oils, beverage bases, poultry, breakfast cereals and snack foods. (See Chapter V, Leading Sectors for U.S. Exports and Investments.)

GOVERNMENT ROLE IN THE ECONOMY

The 1999-2000 budget (Bahrain's budgets are prepared biannually) was prepared amid very difficult circumstances because the deterioration in oil prices caused a difficulty in estimating expected oil revenue over the next two years. Government revenues have been forecasted at USD 3.0 billion, down 8.6 percent from USD 3.3 billion in the previous budget. Conversely, government expenditures are projected at USD 3.9 billion, up 4.5 percent. Oil revenues constitute about 49 percent of government revenues. According to the budget, oil revenue is estimated to be USD 690 million in 1999 and USD 679 million in 2000.

The resulting deficit is to be covered by internal borrowing and loans from Arab funds and the Jeddah-based Islamic Development Bank. Mounting budgetary pressure is forcing serious discussion of privatization of some government services, including in the transportation, electricity and water sectors.

At present, wholly or partially government-owned enterprises still dominate much of the economy, but the government would like to see private sector activity increase. Laws and regulations have been overhauled to some extent in recent years, particularly since 1990, to make the business climate more conducive to free enterprise and to attract foreign companies. The government encourages foreign investors to set up industries here, with 100 percent foreign ownership permitted for export industries under certain conditions. In 1998 the Ministry of Commerce issued commercial registrations (CRs) to 24 new foreign owned companies, 26 percent more than the 19 issued during 1997. (See Chapter VII, Investment Climate.) The government likewise encourages commercial firms to set up regional offices and distribution centers here; all of these operations may be completely foreign-owned.

Bureaucracy and poor coordination between ministries can impede the establishment of industrial ventures. When entrenched local business interests are threatened, even private sector ones, government decision making can become opaque. There also can be a lack of transparency in some government project tendering, which can act to the disadvantage of U.S. companies. (See Chapter VII, Investment Climate.)

The government set up the Bahrain Promotions and Marketing Board (BPMB) to coordinate efforts to attract businesses and investments and to offer streamlined assistance to foreign firms from the U.S. and other countries wishing to establish themselves in Bahrain. The BPMB has a webpage (www.bpmb.com) and an e-mail address (bahrain7@BATELCO.com.bh).

The Ministry of Oil and Industry has established a Small and Medium Enterprise Unit (SMEU) to assist both local and foreign businesses in establishing new industrial ventures here. Contact Dr Haitham Al Qahtani, Head of the SMEU in the Directorate of Industrial Development, Ministry of Oil and Industry, at (973) 525-559.

The Ministry of Finance and National Economy and the Bahrain Monetary Agency (BMA) have worked hard to maintain Bahrain as the principal banking and financial center of the Gulf Region, creating and maintaining a stable and secure regulatory environment with advanced technological infrastructure support.

BALANCE OF PAYMENTS SITUATION

Bahrain's balance of trade went into the red in 1998--after three years of surplus--mainly because of the plunge in oil revenues, which dropped by 38 percent in 1998 compared to 1997. The trade balance went to a deficit of 360 million from a surplus of 193 million. Bahrain's total exports dropped by 26 percent in 1998 to USD 3.3 billion, in comparison to USD 4.4 billion in 1997. Non-oil exports amounted to USD 1.6 billion in 1998, a decrease 6 percent over the 1997 figure of USD 1.7 billion.

Total imports shrank by 13 percent to USD 3.5 billion 1998, from USD 4 billion in 1997, because of a plunge in oil import costs (mainly crude oil for processing at Bahrain's refinery). On the imports front, oil imports declined by 48 percent to USD 730 million in 1998, from USD 1.4 billion in 1997. Non-oil imports was the only category of trade activity to show an increase in 1998, rising by 4.6 percent to USD 2.7 billion in 1998, from USD 2.6 billion in 1997.

Oil exports, including oil from Abu Saafa field, amounted to USD 1.7 billion in 1998, down 38 percent from USD 2.7 billion in 1997. As a result, oil exports' share of Bahrain's total exports dropped to 52 percent in 1998, from 62 percent in 1997.

INFRASTRUCTURE

Bahrain's infrastructure is already fairly well developed. Most roads are paved and well maintained, streetlights are replaced, quality hospital services are available to all, electricity and water arrive as required, telecommunications facilities are excellent, and the financial sector offers an extremely wide range of products and services.

Bahrain is the regional leader in providing education for all citizens; the first public school was established in the 1920s for boys, with a girl's school following a few years later. The literacy rate is the highest in the region. Free public education is available to all Bahraini school-age children. Due to growing deficiencies in the state school system, however, most parents who can afford it send their children to one of a large number of private schools. The increasing number of private schools and pupils is causing the government to consider establishing mandatory standards for these schools. A U.S. Department of Defense-affiliated school and a number of private schools offer education in English with an American-style curriculum. Bahrain also boasts three universities.

Throughout the oil boom years, the country invested wisely in the development of hospitals, road networks, telecommunications facilities, public utilities, ports and other infrastructure projects, all of which give major portions of the island the image of a modern, technologically sophisticated economy. The Bahrain International Airport, highly rated by travelers in regular international surveys of comfort and convenience, is in the process of a major expansion and modernization. Although the port is adequate for current volumes of sea-borne freight, a second port is being developed at Hidd, with significantly larger facilities for container handling, to allow for continuing industrial development and to remain competitive with other Gulf seaports. Bahrain has built an extensive power and desalination network, but demand already taxes capacity and constrains short-term industrial growth. Bahrain's great challenge today is to provide more of all of the facilities mentioned above to meet the demands of a rapidly increasing population, resulting in many opportunities for private sector projects.

Current restrictions on the government's budget have restrained some infrastructure spending, but construction is underway of the much needed Hidd Phase I power generation and water desalination facility and associated infrastructure; improvements to existing power stations and to hospitals and medical facilities have also been among the government's priority undertakings.

Despite the USD 420 million annual budget deficit projected for 1999 and 2000, the government is intent on making assets

available for development projects. The government has budgeted for a series of vital projects costing approximately USD 690 million in 1999-2000. The projects include upgrading existing electricity stations and water desalination plants and building new ones, developing the new Hidd industrial areas and port, developing Bahrain International Airport and building a new headquarters for Civil Aviation Affairs, constructing new homes for citizens, building new schools and maintaining Bahrain's road network. In 1998 the government borrowed USD 200 million from Arab and Islamic development funds in order to meet its target of setting up projects.

III. POLITICAL ENVIRONMENT

NATURE OF RELATIONSHIP WITH THE U.S.

The U.S. has long enjoyed extremely warm relations with Bahrain, even during periods of strained relations between the U.S. and many other Arab countries. The U.S. Navy's operations in the Central Command area (the Gulf, the western Indian Ocean, and the Red Sea) have been based in Bahrain since the end of World War II; the Navy headquarters its Fifth Fleet in Bahrain.

As a member of the Arab League, Bahrain is nominally committed to the enforcement of the primary aspect of the League's boycott of Israel. However, Bahrain has joined the other Gulf Cooperation Council (GCC) countries in a joint announcement officially ending participation in the secondary and tertiary boycotts. Enforcement of the boycott is quite lax.

SYNOPSIS OF POLITICAL SYSTEM

Bahrain is governed as a traditional emirate, under the Al Khalifa family, which has ruled the country for over two hundred years. Shaikh Hamad bin Isa Al Khalifa is the Amir of Bahrain, assuming this mantle in March 1999 after the sudden death of his father, Shaikh Isa bin Salman Al Khalifa. Shaikh Hamad rules with the assistance of his uncle, the Prime Minister Shaikh Khalifa bin Salman Al Khalifa; his son, the Crown Prince Shaikh Salman bin Hamad Al Khalifa; and an appointed Cabinet of Ministers. In 1975, the government suspended some provisions of Bahrain's 1973 Constitution, including articles relating to the National Assembly, which the government disbanded in the same year. The Consultative Shura Council, which was established in 1993, is wholly appointive and possesses no legal powers. There are no political parties, and no elections for government positions. The Shura Council has recently been given the capacity to discuss some issues of its own choosing, but it still has only an advisory role.

POLITICAL ISSUES AFFECTING BUSINESS CLIMATE

Bahrain experienced intermittent civil unrest from 1994 through 1996. Since then, public demonstrations of antipathy toward the government have subsided. While the disturbances were directed primarily against the regime, several South Asian expatriates were killed, and in some cases expatriate property, including homes, vehicles and places of business, were damaged or destroyed. Recent incidents of violence have been few and generally are limited to small-scale vandalism. On the infrequent occasions when they have occurred, arson attacks have been on specific, mostly Bahraini-owned, enterprises. Most expatriate residents say they feel safer here than they would in most other urban centers of the world. The government puts a high priority on the enforcement of law and order, and the U.S. has a very good cooperative security relationship with Bahrain.

IV. MARKETING U.S. PRODUCTS AND SERVICES

INTRODUCTION

Bahrain's primary commercial importance is as a regional center, serving not only the Gulf countries but the Middle East in general. Because the country has limited oil and other natural resources, the government has long worked to secure Bahrain's place as a strong financial and commercial center for the Gulf region, and also to attract downstream industries. Laws, regulations, and infrastructure have been developed with that goal in mind. About 60 U.S. companies conduct business regionally from a Bahrain base as of mid-1999.

Establishing a business in Bahrain, whether for services, sales or manufacturing, appears to work best after:

- Carefully researching the market, economic, and social systems
- Carefully choosing a Bahraini partner/advisor/consultant with good access to the country's leadership.
- Conducting due diligence in establishing a business relationship.
- Requiring confirmed Letters of Credit for purchases, especially in the initial stages of a business relationship.

Joint ventures in light to medium industry can work well in Bahrain if the proper groundwork is laid as suggested above. The technology transfer and marketable name provided by American companies are valuable and potentially profitable commodities likely to be attractive to Bahraini partners.

DISTRIBUTION AND SALES CHANNELS

Commercial sales within Bahrain can only be made through a Bahraini agent or a joint company set up with at least 51 percent Bahraini ownership. Exceptions are made for factories manufacturing in Bahrain and for regional offices established in

Bahrain, enabling these firms to sell locally. In early 1998, Bahrain abolished its sole-agency framework in order to promote competition and growth and to comply with its World Trade Organization (WTO) obligations. The Ministry of Commerce now has greater authority to dissolve agency relationships and the consent of both parties is no longer required. If one party is dissatisfied and documents clearly inadequate performance by the other, that is enough for the Ministry to take action to terminate the relationship. Commissions are capped at five percent and will be phased out entirely by 2003. In certain cases, no commission is paid (e.g., on items intended for private use).

Agency agreements should be established as limited-term contracts, rather than being open-ended as before; check with the U.S. Embassy Commercial Section for updates. Also, the merchant may import products that have assigned agents, on the condition that the importer pays the assigned agent a commission decided by the Ministry of Commerce, not to exceed the five percent cap.

USE OF AGENTS AND DISTRIBUTORS

Bahraini law does not require foreign companies to hire a local agent or partner in order to set up or operate a regional office in Bahrain. Nevertheless, U.S. companies setting up regional offices have found it useful to have some sort of facilitating relationship with a local company or individual, particularly to deal with the local bureaucracy. While this is a matter of individual company preference, the U.S. Embassy strongly recommends this step.

American firms only interested in marketing product here may wish to appoint an "agent." In Bahrain, a commercial agency exists whenever a foreign party appoints a Bahraini party as the exclusive representative of any product or service of the foreign party. Regardless of whether a relationship is structured as a distributorship, sales agency or otherwise, local law will govern it. The appointment of a commercial agent often enables the foreign party to achieve significant market penetration without establishing a direct presence.

The Commercial Agencies Law of 1975 (amended in 1992 and 1998) regulates commercial agencies. The 1998 amendment modernizes the law considerably, bringing Bahrain into line with its WTO obligations. Sole or exclusive agencies have been abolished, so foreign principals now have the option to appoint more than one agent in Bahrain. Additionally, agency agreements can now be written for a fixed term, and the principal has the right to obtain termination of an unproductive agreement. Also, traders may import products that have assigned agents on condition that they pay the assigned agent a commission decided by the Ministry of Commerce, not to exceed five percent in any case.

There will be a five-year transition period during which the existing "agent of record" will be paid a commission of up to five percent for imports by third parties. No commission will be required if individuals import goods for their own use and, importantly, industries can now import raw materials and certain other goods without paying a commission.

Use of the term "agent" often raises difficulties from the standpoint of U.S. firms when a contract for an agreement is being drawn up due to definitional differences. The Bahrain Ministry of Commerce has informed the U.S. Embassy that the Bahraini "agent" also can be identified in the contract as "distributor," thereby clarifying what his functions are in U.S. terminology.

Contracts between the Principal and a Bahraini agent should contain the names, nationalities, and assets of the parties, along with a description of the types of products handled. In addition, there is a specific clause in the Commercial Agencies Law that requires the agent to be responsible for providing spare parts and tools needed to maintain and repair any machinery or equipment sold by the agency (Article 3, paragraph h, Legislative Decree No. 10 of 1992).

In the early stages of Bahrain's adjustment to the new agency law, it is anticipated that there could be too many agents for some products, possibly flooding the market and depressing profit margins. There is also some question about who will provide after-sales service where required. We recommend that you talk to the Commercial Section of the U.S. Embassy or to the Bahrain Promotions and Marketing Board (See Chapter XI, U.S. and country contacts) if you have specific questions.

Bahrain is no different from the rest of the world in that the step of appointing a representative here requires thought and care. There is no special trick to finding an agent in Bahrain. It is as challenging and personal here as anywhere. Advanced, lengthy investigation by the interested Principal is necessary, but the Commercial Section of the U.S. Embassy can be helpful in this search. The Section will also track the progress of the revised agency law, as well as any other relevant new commercial laws or regulations. The company law is expected to be revised formally later in 1999.

FRANCHISING

About 30 U.S. franchises are already operating in Bahrain. U.S. fast food and restaurant franchises are particularly prized by local companies. Most of the major U.S. fast food franchises are already established in the market and include McDonald's, Hardees, Dairy Queen, Kentucky Fried Chicken, Pizza Hut, Dominos, and Fuddruckers. Also, Chili's, Mrs. Fields and The CheeseCake Factory have all opened in the biggest mall in

Bahrain. Bennigans and Ponderosa are scheduled to open in Bahrain by the end of 1999

JOINT VENTURES/LICENSING

Joint ventures set up exclusively to produce products for export may have up to 100 percent foreign ownership; however, a maximum of 49 percent foreign ownership is allowed in joint venture companies selling in Bahrain. These joint ventures may take several legal forms, including as partnerships, simple commodity companies, or companies with limited liability (W.L.L.). For more information, contact the Bahrain Promotions and Marketing Board (BPMB) at tel: (973) 533-886, fax: (973) 531-117, or e-mail: bahrain7@batelco.com.bh.

STEPS TO ESTABLISHING AN OFFICE

The Bahrain Promotions and Marketing Board is a government office under the Ministry of Commerce established to assist international and local businesses in achieving their objectives on the island. It offers services to foreign companies wishing to set up businesses in Bahrain, including a "fast-track" company registration. There is further assistance available from the Small and Medium Enterprise Unit (SMEU) of the Ministry of Oil and Industry. Contact Dr. Haitham Al Qahtani, Head of the SMEU in the Directorate of Industrial Development, Ministry of Oil and Industry, at (973) 525-559.

Establishing a manufacturing facility, while easier here than in many parts of the world, requires a good local partner. The process can be straightforward, or it can be very complex, depending on the local partner's ability to manage the incorporation strategy and to finalize necessary arrangements with local authorities. The Ministry of Commerce has begun computerizing registrations, dramatically streamlining the process.

SELLING FACTORS/TECHNIQUES

In general, U.S. companies should select a local partner or advisor carefully and should pay attention to his advice on advertising, promotion and pricing. Due to local culture and conditions, techniques and phraseology that may work in the U.S. may not necessarily be effective here.

Toll-free (1-800) numbers cannot easily be accessed from outside the U.S. American companies who advertise their products and services should try always to include non-1-800 phone and fax numbers in any promotional or informational material, including publications, labels and advertisements. U.S. companies that normally turn off their faxes after business hours should keep in mind that they are potentially losing business from foreign firms; for many of these the business day falls during the U.S. night. E-commerce is on the increase in Bahrain, which has a

high percentage of computer-literate people who are quick to recognize the value of the Internet as a commercial medium and the monopoly Internet provider, BATELCO, reports that new internet accounts are being opened at an extremely rapid pace.

Face-to-face contact with importers will significantly increase a company's business prospects. Maintaining that relationship with regular communication is equally important to success. U.S. suppliers should stress U.S. origin, competitive prices, high quality and, if applicable, new-to-market status. Arabic labels are required. U.S. companies willing to print Arabic labels and provide bilingual promotional and marketing assistance will have a competitive edge.

ADVERTISING AND TRADE PROMOTION

Bahrain is a small country, and word of mouth carries a great deal of weight. The best trade promotion is a reputation for reliability and fair prices. Use of advertising media is increasingly sophisticated and widespread; several internationally affiliated public relations/advertising firms are in operation in Bahrain, as well as several high quality local firms.

Principal local newspapers:

Arabic language

Akhbar Al Khaleej
P.O. Box 5300
Manama, Bahrain
Tel: (973) 620111
Fax: (973) 624312

Al-Ayam
P.O. Box 3232
Manama, Bahrain
Tel: (973) 727111
Fax: (973) 727552

English language

Gulf Daily News
P.O. Box 5300
Manama, Bahrain
Tel: (973) 620222
Fax: (973) 622141

Bahrain Tribune
P.O. Box 3232
Manama, Bahrain
Tel: (973) 828111/827111
Fax: (973) 827222

PRICING PRODUCTS

Shipping generally adds considerably to the cost of items manufactured in the U.S., which face stiff competition from European and Asian suppliers. This disadvantage is periodically counterbalanced in the short term by exchange rate shifts between the dollar and European and Asian currencies. American companies that are successful at establishing a market niche during periods of favorable exchange rates should plan ahead to retain market share when the exchange rate shifts in favor of other nations' goods and services.

The average importer markup on food products is about 10-15 percent. Retail food prices are generally 25-30 percent above import prices.

SALES SERVICE/CUSTOMER SUPPORT

The provision of after-sales service directly affects product reputation. A good agent/distributor relationship facilitating provision of quality service is crucial to success in this market. The abolition of the sole-agency law will affect after-sales service in Bahrain. Many believe that agents who offer superior after-sales service will have a competitive advantage over the medium and long term.

SELLING TO THE GOVERNMENT

It is generally necessary to have a local agent. In a few cases (e.g., sales to the Bahrain Defense Force), however, an agent is not permitted. Even where there is no formal agent, it is advisable to have a local company serving as a point of contact, providing advice and acting as "eyes and ears." It is important to follow the local agent or contact's advice closely in preparing tenders. Tender documents should always be presented to the agent or contact for vetting before submission, and legal advice may also be appropriate. The local contact's advice on pricing and timing can be crucial and should be carefully considered.

Government tendering procedures for large projects are often not transparent, and U.S. companies have sometimes reported operating at a disadvantage compared with other international firms. Contracts are not always decided solely on a basis of price and technical merit. A local representative with strong connections can be important in the bidding process.

We recommend that American companies consider visiting the U.S. Embassy for a commercial briefing and to discuss your product/services in advance of bidding for a Government of Bahrain project, or indeed before engaging in any local venture.

PROTECTING YOUR PRODUCT FROM IPR INFRINGEMENT

Bahrain's removal from the 1999 U.S. Special 301 Watch List was in recognition of greatly enhanced IPR protection in Bahrain. The government has made dramatic progress in reducing copyright piracy; patent and trademark protection has always been strong and there continue to be no reports of significant violations of U.S. patents and trademarks in Bahrain. The government's copyright enforcement campaign--based on inspections, closures, and improved public awareness--began in late 1997 against the video industry, followed by the audio and software industries, with impressive results. The commercial pirated video and audio markets are nearly gone.

Bahrain is a founding member of the WTO, and is in the process of becoming fully TRIPS-compliant. The country signed the Berne Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property in 1996.

For more details about copyright protection in Bahrain, contact the U.S. Embassy or Jamal Dawood Salman, Acting Director of Publications and Press, Ministry of Cabinet Affairs and Information at (973) 717-525.

NEED FOR A LOCAL ATTORNEY

Although it is not technically necessary to use a local attorney to draw up agency and sales agreements, it is generally advisable to do so. The U.S. Embassy can provide a list of local attorneys. Many well known international, including U.S., law firms have offices in Bahrain.

V. LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

INTRODUCTION

Oil wealth, both its own and its neighbors', fueled Bahrain's rapid infrastructure development, the development of its manufacturing base, and the evolution of its international status as a financial and business center for the Gulf. With the contraction in Bahrain's oil revenues due to continuing lower oil prices, government-financed investment is diminishing and Bahrain is looking to the private sector to pick up the slack. The government is considering allowing private investment in some major future infrastructure development projects (such as Hidd Phase II, see below), and is already encouraging private development of projects like schools and hospitals.

Trade figures discussed elsewhere in this document indicate that while the trend is for flatter growth, there are still trade and investment opportunities in Bahrain.

Due to the generally untaxed nature of the Bahrain economy, certain data is not available. Service sector market values, in particular, are not tracked or quantified by any private or government organization. Where such data is not available, we have supplied other information to indicate market size and trends.

ELECTRICAL POWER SYSTEMS - ELP

The current total power generation in Bahrain is 1,240MW. ALBA provides another 240 MW on standby for emergencies, but the demand during the peak summer months is so close to capacity that the government is forced to draw on it more frequently than they would like. The consumption of electricity per capita in Bahrain is about 7,000 units a year. Domestic consumption accounts for 57 percent of demand, industries 16 percent, and commercial establishments 27 percent. Other industries use natural gas to produce their own power.

Demand is growing an average of five percent annually and will outstrip even the expanded capacity resulting from in-process power projects within a few years due to the ongoing industrial expansion and unprecedented population growth. By 2005 it is projected to reach 1600 MW. Bahrain will need significant new capacity beyond construction already underway to meet this demand, providing significant prospects for U.S. firms, particularly leading firms with experience in the region.

The government is also discussing the possibility of future power projects being privately owned and operated, potentially providing a new field of opportunities for U.S. firms.

The government plans to spend USD 65 million a year over the next seven years on power/water projects but more spending will be needed to keep up with demand. The major project under construction to increase current generating capacity is Phase I of the Hidd Power and Water Station. Construction of the second phase is currently projected to begin in year 2002 but funds have not yet been budgeted. It will probably need to be borrowed, as were the funds for Phase I. (Local and regional demand for energy finance is projected to grow--see below in Financial Services (FNS) section). No decision has been made on the third phase. The rehabilitation of Sitra Power and Water Station and the Riffa Power Station also are underway. (See Projects - Water and Power.)

Key Subsectors (USD million)

Parts for Gas Turbines (HS 84119900)

	<u>1997</u>	<u>1998</u>	<u>Jan-Jun 1999</u>
Total Market	N/A	N/A	N/A
Local Production	-	-	-

Total Exports	N/A	N/A	N/A
Total Imports	5.10	19.72	7.33
U.S. Imports	0.57	3.13	1.03
U.S. market share	11.2%	15.7%	13.7%

Non-Insulated Electric Wire and Cable (HS 73121010)

	<u>1997</u>	<u>1998</u>	<u>Jan-Jun 1999</u>
Total Market	N/A	N/A	N/A
Local Production	-	-	-
Total Exports	N/A	N/A	N/A
Total Imports	2.46	4.55	0.03
U.S. Imports	0.01	0.0	0.0
U.S. market share	0.3%	0.2%	1.3%

Electricity Meters

	<u>1997</u>	<u>1998</u>	<u>Jan-Jun 1999</u>
Total Market	N/A	N/A	N/A
Local Production	-	-	-
Total Exports	N/A	N/A	N/A
Total Imports	0.65	0.47	0.11
U.S. Imports	0.0	0.18	0.0
U.S. market share	0.4%	38.7%	0.1%

Instruments for Measuring Voltage (HS 90303900)

	<u>1997</u>	<u>1998</u>	<u>Jan-Jun 1999</u>
Total Market	N/A	N/A	N/A
Local Production	-	-	-
Total Exports	N/A	N/A	N/A
Total Imports	0.61	0.21	0.07
U.S. Imports	0.11	0.08	0.0
U.S. market share	18.1%	40.2%	8.5%

(Source: The Central Statistics Organization, Government of Bahrain.)

WATER RESOURCES EQUIPMENT/SERVICE - WRE

Bahrain is a desert island nation on the Zone C aquifer that for centuries supplied artesian water to a head of 30 feet. This aquifer stretches all the way to Riyadh. Many years of heavy demand in Saudi Arabia and Bahrain have significantly depleted it, threatening its long-term viability and allowing seawater to infiltrate the reservoir. The "sweet water" for which Bahrain was long famous is now brackish and requires treatment before use for drinking or as process water for industry. The average daily potable water consumption of about 33 million gallons a day 10 years ago has more than doubled to 70 million gallons per day, half of which comes from Bahrain's desalination plants.

Total daily demand is now 150 million gallons a day; the balance is for industrial, agricultural and domestic non-drinking use such as watering gardens. This growth has outpaced population growth and is rapidly depleting natural fresh water sources. The Council of Ministers in 1994 set a ceiling for the maximum daily potable water supply at 70 million gallons, which remains unchanged. Excess demand is not accommodated. Because this ceiling still drains the water table at an unsustainable level, many ground water wells in Manama were forced to close in 1998 as a result of high salinity.

Work is ongoing to increase desalinated water production through an additional 30 million gallons per day once Hidd Phase I is completed, but additional desalination capacity will be needed to reduce the unsustainable demand on the water table. Multi-Stage-Flash (MSF) is clearly the technology of choice for the government in treating large quantities of the extremely saline waters of the Gulf. Opportunities for reverse osmosis (RO) technology are mainly in smaller private projects.

Other projects being undertaken by the government to increase the water production include the rehabilitation of Sitra Power and Water Station, Ras Abu Jurjur plant, and Al Dur Water plant. (See Projects-Water and Power)

Opportunities are increasing in wastewater processing as part of the government's increasing emphasis on environmental issues. U.S. technologies and firms are particularly in demand in this sector and the government aims eventually to have all water for irrigation come from treated effluent and is exploring pilot programs.

Key Subsectors (USD million)

Distilling or Rectifying Plant (HS 84194000)

	<u>1997</u>	<u>1998</u>	<u>Jan-Jun 1999</u>
Total Market	N/A	N/A	N/A
Local Production	-	-	-
Total Exports	N/A	N/A	N/A
Total Imports	0.99	0.01	N/A
U.S. Imports	0.01	N/A	N/A
U.S. market share	1.7%	N/A	N/A

Water Filtering Machinery (HS 84212190)

	<u>1997</u>	<u>1998</u>	<u>Jan-Jun 1999</u>
Total Market	N/A	N/A	N/A
Local Production	-	-	-
Total Exports	N/A	N/A	N/A
Total Imports	7.21	3.41	1.17

U.S. Imports	6.36	0.64	0.17
U.S. market share	88.1%	18.8%	14.8%

Water Filtering Apparatus (HS 84212110)

	<u>1997</u>	<u>1998</u>	<u>Jan-Jun 1999</u>
Total Market	N/A	N/A	N/A
Local Production	-	-	-
Total Exports	N/A	N/A	N/A
Total Imports	0.12	0.16	0.04
U.S. Imports	0.09	0.0	0.03
U.S. market share	80%	0.4%	76.8%

(Source: The Central Statistics Organization, Government of Bahrain.)

FINANCIAL SERVICES - FNS

Bahrain has long been an international financial hub. Bahrain remains attractive to financial firms due to its relative political stability, open and tax-free business climate, prime location, ultramodern communications, low costs, and, most importantly, the outstanding reputation of the Bahrain Monetary Agency. The firmly regulated but liberal local financial regime remains the best in the region according to area bankers. This climate in turn encourages other investors and businesses to consider Bahrain as a regional base taking into account its other social, political and cost advantages.

The regulatory regime embodied in the Bahrain Monetary Agency (BMA) inspires confidence as it adheres to international standards, has sound reporting practices and rigorously enforces regulations. The BMA has an international reputation for excellence. The BMA is responsible for the licensing, supervision and regulation of banks and financial institutions, including the information technology (IT) side of operations. The BMA directed banks and financial institutions to adopt and confirm Y2K compliance by mid-June 1999 or their licenses would be revoked. The BMA is noted for its sound reporting practices and for adhering to international standards.

As of June 1999 Bahrain had 19 full commercial banks (FCBs), 48 offshore banking units (OBUs), 32 investment banks (IBs), 37 representative offices, 12 investment advisory and other financial services, 24 moneychangers and 6 money brokers.

The financial sector is backed by strong communications and information technology sectors and has the largest volume of transactions in the region. The country is well established as an international and regional wholesale interbank money market. Most banks made large profits in 1998 despite some write-offs for Asian investments. Offshore and regional business in 1999 is expected to be more competitive and may push down profits

somewhat for the losers. As of mid-1999, the retail banking system was very liquid with strong competition for customers and investments. The sector is supported by a well-regarded training institution, the Bahrain Institute of Banking and Finance.

We concur with the Ministry of Finance's assessment identifying three main growth areas for banking and financial services in Bahrain: Islamic Banking, Regional Capital Market Development, and Investment Banking.

Bahrain is a regional and global leader in responding to the local, regional and international demand for Islamic banking and finance. This is an Islamic investment system that adheres to the Sharia Law and avoids the payment or charging of interest, as well as involvement in other activities which some religious scholars may consider un-Islamic, while meeting the Islamic requirement that liquid funds be invested to benefit the economy and society.

Twenty Islamic banks and financial institutions have already been established here and more are in the planning stages. In 1998 Arab Banking Corporation and Citibank opened their Islamic banks, and other conventional banks are following suit into the diversification opportunities offered by this new banking trend. In February 1999 the Dow Jones Islamic Index (DJII) was launched; it tracks 600 companies listed in 33 countries with a total market capitalization of USD 7.5 trillion.

A case in point of a canny U.S. investor moving in early is Citibank, which has provided an Islamic banking service in Bahrain since the early 1980s, managing assets totaling more than USD 1 billion for Islamic investors. Citibank launched a full-fledged Islamic banking unit in Bahrain in early 1997. The Bahrain-headquartered Citi Islamic Investment Bank has a capital stock of USD 20 million, and is a wholly owned subsidiary of Citicorp Banking Corporation. Other prominent Islamic banks and financial institutions in Bahrain include Bahrain Islamic Bank, Faysal Islamic Bank, ABC Islamic Bank, ABC Islamic Fund, Albaraka Islamic Investment, Bahrain Islamic Investment, First Islamic Investment Bank and Islamic Investment Company of the Gulf, which recently merged with Arab Islamic Bank.

From December 4-6, 1999 Bahrain will host the World Islamic Banking conference, the largest of its kind. The theme will be Islamic Banking and Finance - Charting a Course for the 21st Century. It will be organized by Middle East Global Advisors (MEGA) and will be staged under the patronage of the Bahrain Monetary Agency (BMA), in cooperation with the Bahrain Institute of Banking and Finance. See Chapter XII, Market Research and Trade Events, for information on its associated exhibition, which will focus on information technology solutions for Islamic banking.

The Bahrain Stock Exchange (BSE), opened in June 1989, is establishing itself as a regional exchange and already lists companies from Oman and Kuwait. The BSE is seeking to grow even faster by opening to non-Bahraini investors, offering an increasingly diverse range of financial instruments, and embracing automation to increase efficiency. In 1999 EFA Canada won a USD 2.6 million contract to set up an automated clearing and central depository system, scheduled to be completed in mid-1999, and an automated trading system, planned to be operational before the end of 1999.

The BSE currently lists 42 companies with a market capitalization of roughly USD 7.3 billion, and offers trading in equities, bonds, mutual funds, and currency warrants. Chase Manhattan Bank was the first U.S. firm to list funds on the BSE and had 13 listed as of June 1999. Citibank introduced currency warrant trading to the BSE. A new comprehensive system of regulation is being introduced, including specifying financial and managerial criteria in detail. The BSE is seeking to come into line with international standards in financial reporting and has already issued the first phase of its regulations, requiring that all investors disclose any stake in a company if it exceeds 5 percent of the paid-up capital. The BSE is seeking to grow while reducing its risks.

In March 1999 an Amiri decree was issued further opening the Bahrain Stock Exchange to foreign investors. Gulf Cooperation Council (GCC) citizens can now own 100 percent stakes in companies listed in the BSE. Other foreigners are allowed a stake of 49 percent, but the Minister of Commerce has been vested with the authority to increase this limit. This step enhances the economic environment in Bahrain, attracts new investors in the market, and creates more liquidity and new financial resources.

Another growth area is for the development of Islamic instruments beyond basic murabaha (deferred payment) short-term trade finance facilities. Longer-term investments with greater liquidity than before, such as leasing (ijara) funds, are just beginning. Project finance that avoids securitisation of debt is another attractive area, one that appeals to new entrants like the new USD 1.5 billion Islamic Development Fund, operated by the U.S. firm Emerging Markets Partnership. This is the first large private fund in the region with a component specifically set up to cater to Islamic investors. It is seeking investors and investments here in Bahrain, including discussing with the government buying out Bahrain's equity in the major power and water project at Hidd (See Chapter V, projects section.)

Energy financing of all types is a growth area that Bahrain is well placed to service. Government demand in the region for

energy financing is expected to exceed USD 50 billion in the next decade.

The number of investment banks operating in Bahrain has risen steadily since 1991, as has the number of firms offering investment advice and other financial services. Internationally known Investcorp is a prime example of a successful Bahrain-based investment management company with part U.S. ownership. Bahrain's Al-Ahli Commercial Bank has set up a joint venture--Mann Ahli Investment Bank--to market investment funds. Funds need to be approved by the BMA before they can be marketed. So far, over 300 funds are for sale in Bahrain and many are U.S.-based. There is room for more.

Additional investment banking expertise is needed, particularly to mediate rising capital flows, to offer funds management to the expanding regional market, to develop new Islamic instruments, and to educate and develop the local market further. The U.S. is the world's preeminent supplier of financial expertise and is well positioned to make additional inroads into Bahrain's financial services sector.

Financial Subsector (USD billion)

<u>Offshore Banking Units (OBUs)</u>	<u>1997</u>	<u>1998</u>
Total domestic assets	3.4	3.6
Total foreign assets	74.9	84.1
Total domestic liabilities	5.3	5.4
Total foreign liabilities	73.0	82.2
Consolidated Balance Sheet	72.1	87.6

<u>Full Commercial Banks (FCBs)</u>	<u>1997</u>	<u>1998</u>
Total domestic assets	2.06	2.09
Total foreign assets	1.08	1.19
Total domestic liabilities	2.54	2.71
Total foreign liabilities	0.595	0.572
Consolidated Balance Sheet	3.14	3.28

<u>Investment Banks (IBs)</u>	<u>1997</u>	<u>1998</u>
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Total domestic assets	0.451	0.513
Total foreign assets	2.66	2.57
Total domestic liabilities	0.575	0.698
Total foreign liabilities	2.53	2.39
Consolidated Balance Sheet	3.12	3.08

(Source: The Bahrain Monetary Agency, Government of Bahrain.)

TELECOMMUNICATIONS SERVICES AND EQUIPMENT - TEL, TES

Telecommunications are intrinsic to Bahrain's success as an international business and financial center. In order to sustain its position as the center of the Gulf's financial marketplace, Bahrain has dramatically expanded its already sophisticated and competitive telecommunications network to become a Gulf communications hub.

Bahrain Telecommunications Company (BATELCO), the majority state-owned telecommunications company, is central to Bahrain's telecommunications capabilities and a monopoly service provider for local, long distance and Internet communications.

Telecommunications in Bahrain started in 1864 when the country was selected to extend the undersea telegraph cable connecting the Indian sub-continent with Europe. Local and international services in Bahrain started in the 1930s through facilities provided by Britain's Cable & Wireless. The arrangement continued until 1981 when BATELCO was established as a shareholding company.

BATELCO's shareholders own 80 percent of the company and include the government of Bahrain, quasi-government institutions, financial and commercial organizations and Bahraini and Gulf nationals. Cable & Wireless owns the remaining 20 percent.

BATELCO's communication services include Global System for Mobile (GSM), Paging, the Internet, FaxMail, Integrated Services Digital Network (ISDN), Maritime Communications, International Direct Dialing (IDD) and Voice Data. In 1998 it added Corporate Messaging Services, Pre-Paid Calling Card, Fax Plus Package and Call Control Barring. BATELCO hired a U.S. auditing firm to recommend improvements in internet systems and is now spending USD 4 million to expand capacity to 40,000 users and to add new technologies, networks and value-added services such as ISDN Internet access, Internet roaming, etc. BATELCO has also

developed an electronic commerce platform and expects to introduce that service shortly.

Every household in Bahrain has at least one telephone. The fixed line penetration stands at 30 lines per 100 of the population. Every two in ten people already have mobile phones and demand is still rising fast. Fifteen out of a hundred have a pager. Public phones that are operated by coin, phone card or credit card are widely available throughout Bahrain.

BATELCO's profits in 1998 rose to USD 114.1 million due to the dramatic increase in demand for mobile phones and, especially, for internet access across all sectors (private, economic, financial, educational and health). In turn the company has given the public two well-advertised reductions in international call tariffs. Another reduction in May 1998 in mobile telephone tariffs was implemented. Tariffs for lucrative services like ISDN lines and Internet access remain high, as does demand.

In 1998 BATELCO invested USD 15.9 million in a program to ensure Y2K compliance. It also invested USD 6.4 million in the form of expansion and enhancement of current services as well as the introduction of new features and services. The GSM mobile telephone switch capability has increased twice, expanding capacity to 100,000 users in March 1999; by October 1999 capacity will reach 150,000. BATELCO is poised to award a major USD 30 million contract for IT services which will reportedly go to a U.S. firm.

BATELCO signed its 100th international roaming agreement with Microcell of Canada in June 1999. It also signed its first international contract to provide Global Management Data Services (GMDS) with Arab Banking Corporation (ABC). The GMDS is an integrated data communications service that delivers seamless end-to-end global networking, primarily serving multinational business requirements. GMDS will link ABC with its branches in Tunis, Milan, Paris, Frankfurt, New York, Singapore and London.

In February 1999 BATELCO signed a Memorandum of Understanding with Ali Al Ghanim & Sons Group of Kuwait to develop and expand the Internet and digital data services in Kuwait. When Saudi Arabia finally introduced Internet service in January 1999, BATELCO formed a joint venture with Saudi Arabia's Al-Jeraisy Group to become the largest Internet provider in the Kingdom. BATELCO has unofficially provided service to Saudi customers for years through long distance calling to Bahrain for dial-up access.

Although BATELCO is not expected to lose its monopoly status any time soon, its success creates rising demand for expansion and the latest products and services to market to its increasingly sophisticated customers, who know U.S. products and services are world leaders.

See Chapter XII, Market Research and Trade Events, for information on upcoming exhibitions in the telecommunications sector.

Telecommunications (USD million)

	<u>1997</u>	<u>1998</u>	<u>Jan-Jun 1999</u>
Total imports	28.4	31.9	13.3
U.S. Imports	0.75	0.93	0.56

BATELCO's Profit (USD million)

<u>1997</u>	<u>1998</u>	<u>Jan-March 1999</u>
85.9	114.330.3	

Note: These figures are for subsectors HS codes 85171000-85179090.

(Source: BATELCO)

INFORMATION TECHNOLOGY SERVICES - CSV

A substantial and rising percentage of Bahrain's consumers are computer-aware and receptive to frequent upgrades in this rapidly changing area. The government is engaged in an ongoing process of transferring all ministries and departments out of ledger books and into an integrated financial management information system and communications network. Most of the data for the Subsector Data Tables in this report were obtained from the networked stations of the Central Statistics Organization. Private consultants are heavily involved in this undertaking and several government ministries have put out several tenders for new computers. Some ministries have already set up websites. The government is procuring computers for use in schools in increasing numbers in the face of rising demand from parents knowledgeable about the benefits, importance and effects of IT on children's education.

Bahrain's world-class financial sector relies on leading-edge information management to retain its competitiveness and profitability. Major industries also are adopting cutting-edge IT systems in order to remain competitive. ALBA, for example, initiated a USD 11.4 million IT upgrade in mid-1999. Many Bahraini companies have web pages on the Internet, many of which were designed by international firms.

In 1995 Bahrain launched its Internet node, I-net, and has since seen demand rise sharply and steadily. This has boosted retail sales of hardware and software, and enhanced the environment for consumer applications and specialist services. The personal computer market is well supported and highly competitive. Shops vie for business supplying consumers with impressive arrays of hardware, software and peripherals. Margins are very narrow; and high-spec equipment appears to have the edge in salability.

Most PCs marketed in Bahrain are imported from Asia. Demand for U.S. hardware is still there but retailers attribute Asia's dominant market share to lower prices, quality products, easier customs, reduced paperwork, quicker shipping, and cheaper freight prices. American software sells well and sales are up since the government cracked down on piracy beginning last year. Many retailers will buy new hardware with software once Y2K arrives. American computer products imported into Bahrain, whether software, hardware or peripherals are mainly via neighboring Dubai. Direct sales could increase demand through lower prices to consumers.

Bahrain has made great strides in improving IPR protection, including for computer software. Bahrain is the only country in the Gulf to be off USTR's 301 Watch List, acknowledging a substantial level of IPR protection and aggressive enforcement. PCs are no longer offered for sale loaded with pirated software. Developers of sophisticated information management programs that sell for thousands and tens of thousands of dollars are also protected now by the government, which will take action against unauthorized users. This has contributed to a small boom in the local IT sector. Global companies like Novell have moved here since 1998. The news is full of IT contracts, including many won by U.S. firms. Opportunities abound for all sizes of U.S. companies. BATELCO, the monopoly telecom here, is reportedly poised to award a major USD 30 million contract for IT services to a U.S. firm.

See Chapter XII, Market Research and Trade Events, for information on the December 1999 Islamic Banking IT Exhibition being held in Bahrain.

Information Technology (USD million)

	<u>1997</u>	<u>1998</u>	<u>Jan-Jun 1999</u>
Total imports	16.7	12.6	8.0
U.S. imports	2.66	3.5	2.4
U.S. market share	15.9%	27.8%	30%

Note: These figures are for subsectors HS codes 84711000-84719900.

(Source: The Central Statistics Organization, Government of Bahrain.)

EDUCATION SERVICES - EDS

Among the Gulf countries Bahrain is considered to have a well-educated population; large numbers of highly skilled Bahrainis work in Bahrain's industries and businesses, including at the top management level. Nevertheless, most students leaving

school lack the skills needed in a modern economy, and Education and Training remains a major sector in which services need to be increased and expanded. The government is seeking private sector involvement to bolster its own efforts in this arena and particularly wants to attract more U.S. involvement in this field historically dominated by UK institutions and firms.

Rising population growth and economic restructuring necessitated by changes to the oil-based economies of the region are imposing a demand for training in new skills throughout the Gulf. Unemployment in Bahrain is semi-officially estimated at over 15 percent and reaches above 30 percent in the villages. The government workforce is 90 percent Bahraini and accounts for 11 percent of employment in the country. The private sector workforce was 40 percent Bahraini in 1998. The total workforce in the country in 1997 was 38 percent Bahraini, a figure the government would like to raise. The government has launched an economic restructuring program known as Bahrainization. This program aims to replace increasing numbers of expatriates with local employees in the public and private sector. At the same time, the government is working to ensure that job seekers are equipped with better skills.

The government is seeking to develop Bahrain as a regional center for training and human resource development. The government is encouraging, already with some success, international training institutions to tap this commercial potential, and is also encouraging international manufacturers and suppliers to set up training centers in Bahrain to support their regional markets. There are more than 30 private institutions, government establishments and an assortment of industry-based training arrangements, both local and international, already established in Bahrain. Many of the private facilities focus on computer-related or language skills. For example, IBM opened its regional IT Education Center to train business users throughout the Gulf in early 1999. At the same time, the Dale Carnegie Training Foundation launched its first training base in the Middle East in Bahrain.

The High Council for Vocational Training, which is funded through a levy on companies with 100 or more workers, coordinates training activities in the private sector. Ten major companies, which have their own full-fledged training centers, have been exempted from the levy. Under the umbrella of the High Council for Vocational Training, there are specific councils for the hotel and catering and for the banking and finance sectors.

Government efforts to improve job skills have so far focused on training for those who have graduated from or otherwise left the regular educational system, although there have been some efforts to augment the programs at the state-run University of Bahrain.

Private sector initiatives, such as the University of Virginia's Darden Graduate School of Business Administration, are also moving in to fill a gap. The Darden Graduate School, in cooperation with the Bahrain Institute of Banking and Finance (BIBF), developed the Gulf Executive Development Program to provide advanced business training to future management leaders. The main goal of the program is to create visionary leaders and innovative managers in Bahrain's private and public sectors. As of June 1999 the University of Bahrain was attempting to establish similar relations with American University in Washington, D.C. Bahrainis are already favorably disposed toward the U.S. educational system as increasing numbers of those who can afford it now send their children to university and beyond in the U.S. rather than the U.K. U.S. educational institutions have rising opportunities to bring their programs to Bahrain. The U.K. is already doing this.

The government realizes that changes are needed in the educational system, but change comes slowly and financial resources are limited. The government allocated USD 218.3 million for the development of education in Bahrain for the 1998-99 academic year, including for building new schools and improving existing facilities. The Ministry of Education has designed a model commercial school in Riffa that will include commercial and technical specialties at a projected cost of USD 17 million.

Previously, many teachers came from countries such as Egypt; the government has successfully replaced many of them with Bahrainis: 94 percent of female teachers and 85 percent of male teachers are now Bahraini. Major improvements are still needed at all levels of the state school system. These requirements will have to be addressed by the government, and should offer future opportunities for business involvement. The United Nations Development Program (UNDP) is funding a USD 800,000 project to help Bahrain revamp its basic education system. The private school sector is growing rapidly in response to the demand for alternative education opportunities.

The U.S. faces particularly stiff competition from the U.K. in establishing itself as a primary provider of training services. The British National Vocational Qualifications Scheme is being developed for application in Bahrain; a joint venture set up by Bahraini and U.K. investors in 1997 to train employees for the hotel and catering sector is well established. Companies are trying to cut costs and overseas training is expensive; American companies like New Horizons Computer Training have successfully set up franchises locally to meet rising demand for U.S.-quality training in Bahrain. Market observers suggest that there is room for an aggressive approach to training, possibly based on the successful Technical and Vocational Institutes funded by local governments across the U.S.

See Chapter XII, Market Research and Trade Events, for information on upcoming exhibitions in the education and training sectors.

Education

Budget (in USD million) allocated for training conducted under the supervision of the High Council for Vocational Training in the private sectors.

<u>1997</u>	<u>1998</u>	<u>1999</u>
53	53.3	63.3

MEDICAL EQUIPMENT (MED)

There is no medical equipment manufacturing in Bahrain so all equipment must be imported. Despite financial constraints, the government continues to give priority for budgetary resources to health and education services. Health facilities and services fared well in the government's 1999-2000 budget as USD 310 million was allocated to the Ministry of Health, a 5.7 percent increase over the previous budget cycle. High-level government officials regularly reassure the public that lower government revenues and depressed oil prices will not affect health services, which will continue to be free for all Bahrainis.

Several projects in Bahrain present opportunities for U.S. suppliers of medical equipment. These projects include plans to upgrade or replace existing medical equipment at the Sulmaniya Medical Complex, the expansion of the American Mission Hospital, and the planned construction of the new world-class Bahrain Specialist Hospital as well as the Gulf Specialist hospital. The Bahrain Defense Forces Hospital is also rumored to be considering expansion plans. Bahrain has long depended on U.S. suppliers for medical equipment, importing USD 2.73 million of U.S. medical equipment in 1998 and USD 3.57 million in 1997. Some recent major purchases have been made from non-U.S. suppliers but interest in U.S. products remains high.

See Chapter XII, Market Research and Trade Events, for information on the November 1999 Medical Exhibition being held in Bahrain.

Medical Equipment Trade (USD million)

	<u>1997</u>	<u>1998</u>	<u>Jan-Jun 1999</u>
Total Imports	16.2	10	5.3
U.S. Imports	4	3.2	1.4
U.S. market share	24.7%	32%	26.4%

(Source: The Central Statistics Organization, Government of Bahrain.)

AIR CONDITIONING - ACR

The Air Conditioning and Refrigeration Institute describes Bahrain as a "small but lucrative market" for air conditioning and refrigeration equipment. Bahrain's hot and humid climate for much of the year makes air conditioning equipment essential for every home and business in the country. U.S. producers of such equipment enjoy a reputation for quality and service unmatched by other suppliers. The country already has a large inventory of installed U.S.-origin equipment, generating continuing demand for parts.

The construction of major commercial buildings, banks, hospitals, housing developments, large private residential compounds, as well as expansions of resorts and hotels provide opportunities for improved air conditioner sales.

There is increased competition from regional producers, including firms manufacturing U.S. equipment under license. However, high-quality U.S.-made air conditioning equipment still receives a very positive reception from Bahrain's agents, distributors, and, most importantly, consumers.

Air Conditioning Sector (USD million)

	<u>1997</u>	<u>1998</u>	<u>Jan-Jun 1999</u>
Total Imports	47.6	49.29	23.49
U.S. Imports	5.7	5.04	2.39
U.S. market share	12%	10.2%	10.2%

Note: These figures reflect data only from sub-sectors HS 84151010 through 84159000, and are therefore only a rough estimate for the air conditioning sector.

(Source: The Central Statistics Organization, Government of Bahrain.)

AUTOMOBILES - AUT

A modern road system, a burgeoning population and the relative prosperity of the oil boom years fostered a small but lucrative market for automobiles. Car sales in Bahrain increased by 50 percent in 1998 compared to the previous year. In 1998 people in Bahrain took advantage of the Asian financial crisis by snapping up more cars and sports utility vehicles. The vast majority of cars were imported from Japan with an engine capacity of 1001 to 3,000cc. Sales of Japanese makes, which represented 66 percent of total private car imports in 1998, are expected to bottom out once the yen strengthens.

Bahrain imported 746 new cars from the U.S. in 1998, 224 percent of 1997 imports of 333 cars. They represented six percent of total car imports in 1998, compared with four percent in 1997.

Total Value of Vehicle Imports (USD million)

	<u>1997</u>	<u>1998</u>	<u>Jan-Jun 1999</u>
Total Imports	185.36	274.93	92.12
U.S. Imports	20.57	24.28	8.49
New cars	13.89	17.73	6.43
Used cars	4.56	4.3	1.43
Spare parts	2.22	2.25	0.63
U.S. market share	11.1%	8.8%	9.2%

(Source: The Central Statistics Organization, Government of Bahrain.)

INSURANCE SERVICES - INS

Insurance is a developing sector in Bahrain, and offshore insurance services have been identified by the government as growth areas. The Ministry of Commerce predicts steady interest in the insurance market, particularly for Exempt Companies offering offshore services to other regional countries, and for loss adjustment firms, for which there is limited local expertise. In addition, the government currently is revamping its regulatory oversight of the insurance industry in an effort to encourage growth, with a view to establishing Bahrain as the hub of the regional insurance market. If successful, the potential payoff to local insurance companies--including foreign firms that establish a presence in Bahrain--is substantial. There is plenty of room to grow in the market; per capita spending on insurance in 1998 was USD 175, well below the U.S. per capita of USD 2,062.

The Ministry of Commerce supervises and controls the Insurance Sector in accordance with Amiri Decree No. 17 of 1987. The Bahrain Insurance Association (BIA) was established in 1995, with the goals of developing cooperation between companies in the insurance market, standardization of underwriting and claims procedures, increase of public awareness and compilation of insurance-related data. The BIA has performed well, and the well-regarded Bahrain Institute of Banking and Finance (BIBF) has added courses in insurance to its syllabus.

Industry observers note that a potential market lies in developing "captive insurance" for large companies in Saudi Arabia and elsewhere in the region. The government would also like to develop Bahrain as a regional hub for reinsurance; most reinsurance for the region is done in Europe currently. Also, Bahrain's Takaful International--formerly the Bahrain Islamic Insurance Company--announced plans in late 1998 to create the world's largest Islamic re-insurance company with capital of USD 100 million.

Health insurance, currently virtually non-existent due to heavily subsidized medical care in Bahrain, could develop into another lucrative market. The government is expected eventually to look for private medical insurance programs to relieve the burden of providing free or subsidized medical care, particularly to expatriates. The government is already studying a compulsory medical insurance scheme for expatriates in order to cover at least some of its current costs. Private hospitals will provide further markets for insurance programs including for Bahrainis. Major foreign and Bahraini companies already supply purchased medical insurance coverage for some or all of their employees. If the Cabinet approves a public insurance body will be created to provide local health insurance coverage for all expatriates and their families. American companies such as American Life Insurance Company (ALICO) and The Hartford are already beginning to make inroads into the marketplace.

Insurance

Total number of insurance companies and organizations registered in Bahrain

	<u>1995</u>	<u>1996</u>	<u>1997</u>
National companies	10	10	9
Foreign insurance companies	10	10	10
Exempt insurance companies	58	59	62
Representative offices	7	7	8
Insurance brokers	12	14	18
Surveyors/Loss Adjustors	9	9	8
Consultants	2	2	3

Total number of insurance policies

<u>Type of Policy</u>	<u>1995</u>	<u>1996</u>
General Accident	5,8398,391	
Life	6,8517,891	
Auto	798,695	738,519
Marine	34,320	28,864
Fire	9,946	10,875
Aviation	48	24
Engineering	1,9721,668	
Miscellaneous	8,2139,693	
TOTAL	860,045	797,134

Total gross premiums (USD million)

<u>Type of Policy</u>	<u>1995</u>	<u>1996</u>
Life	16.1	19.2
Auto	35.6	38.1
Marine	7.8	7.6

Fire	19.4	24.9
Aviation	1.3	0.5
Engineering	5.5	5.7
Miscellaneous	14.3	15.3
TOTAL	99.8	111.3

(Source: Market statistics drawn from the "Ninth Annual Report of Insurance Activities in Bahrain, 1995-1996," published in 1998.)

AGRICULTURAL PRODUCT SECTORS - AG

High-value U.S. food products with strong market potential in Bahrain include canned fruit and vegetables, snack foods, breakfast cereals, dried nuts (particularly almonds), condiments (particularly mayonnaise and sauces), frozen beef (mainly for five-star hotels) and beer. In addition, growth in the local food processing industry is driving demand for semi-processed products such as beverage bases, vegetable oils, raw peanuts, specialty flours and a variety of food ingredients.

There are numerous food importers, many of whom are also wholesalers, distributors, and retailers. Five companies dominate retail food sales. Industry observers report that retail food sales have been less hard-hit by recent economic changes in the country than have other retail sectors, although wholesale food sales have not fared as well. The fast-food sector has recovered somewhat and some U.S. franchises are expanding. New entries in the food franchise business continue to arrive such as Chili's, Ponderosa, Bennigans and others.

Bulk Corn Oil: Since the opening of a major vegetable oil refining and packing facility (SAVOLA) in 1991, U.S. exports of corn oil to Bahrain increased significantly, thus becoming the leading U.S. food and agricultural export to the country. Most corn oil exported to Bahrain is processed and re-exported to other countries in the region. A devastating fire at the SAVOLA plant in 1996 halted all production and thus exports of U.S. corn oil were severely curtailed. SAVOLA resumed its operation in late 1997 and has already surpassed its previous production levels.

Crude Corn Oil Market ('000 metric tons)

	<u>1998</u>	<u>1999 (est.)</u>	<u>2000 (est.)</u>
Total market	12	13	14
Total local production	0	0	0
Total exports	12	14	15
Total imports	24	27	29
Total U.S. imports	17	19	20
U.S. market share	70.8%	70.4%	70%

(Source: U.S. Agricultural Trade Office, Dubai.)

See Chapter XII, Market Research and Trade Events, for information on upcoming exhibitions in the food sector.

SIGNIFICANT INVESTMENT OPPORTUNITIES/MAJOR PROJECTS PLANNED

The sharp and prolonged decline in oil prices and continuing government deficits have already delayed some projects but a number are still moving ahead. The government's 1999/2000 budget allocated only USD 344.5 million per year to projects, a 17.5 percent reduction from the previous budget cycle. As a result, only essential projects, or those that have already arranged funding, are being undertaken. Hidd Phase I, however, is allocated a separate budget for operations--USD 11.3 million in 1999, 14.05 million in 2000. Hidd construction costs were financed through borrowing.

The question of privatization is back under discussion due to budgetary pressures. Although the Amir has stated that no "essential services"--such as water or electricity--will be privatized, this may be creatively interpreted as economic necessity forces change. Small-scale privatization is already underway, such as the meat processing industry and the small public bus network. The World Bank has just completed a study on the privatization of the water and power sector aimed at assessing the future of the sector and ways of attracting investments from the private sector to finance new expansion projects. Former Electricity and Water Minister Abdulla Juma said in May 1998 that the sector requires investment of USD 1.8 billion over the next seven years to meet projected demand. In addition, the government substantially subsidizes the cost of utilities. Electricity is produced at USD 0.038 a unit and sold at USD 0.028 per unit (about 70 percent of cost). Water is produced at USD 0.74 per cubic meter and is supplied at USD 0.14 per cubic meter (about 15 percent of cost).

The government has told the public that it is considering three ways of privatizing the water and power services, but that prices for consumers will be kept at current very low levels. The government may transfer projects owned by the Ministry of Electricity and Water to a shareholding company, in which it will hold 51 percent. The second option is to set up a commercial entity to run the facilities under government administration. A more radical change would be to completely privatize the assets, operations, and maintenance of the facilities and for the government to buy water and power from the private sector.

Bahrain pursued a proposal from British Gas in the early 1990s to build the Hidd station as a private project, but talks foundered over pricing; reportedly the risk premium was the main sticking point. Tariffs for power and water cover substantially less than the current cost of supply, especially for water. Conservation efforts are being made to cut consumption through

education and new measures to improve building insulation and cut waste. The Ministry of Finance, following up on the above-mentioned World Bank study, is looking at a more radical step and had invited several financial organizations to present proposals to take over completely Phases I and II of Hidd. Transmission and collection would remain the responsibility of the government, which would buy the power from Hidd. If the private sector proposals are lower than the Ministry of Electricity and Water's real cost to produce the same power, then the government will probably go ahead. The winner would need a foreign partner to actually build, operate and maintain the facilities. Discussions are already underway with U.S. and other firms.

POWER AND WATER

Phase I Hidd Power and Desalination Plant

A landmark deal was signed in 1997 launching Phase I of the long-awaited power and desalination project in Hidd. Most of the contracts related to the project have already been let. The first turbine is scheduled to come on line in July 1999 in Bahrain's main bid to boost power generation and water desalination capacity to meet demand that has reached critical proportions in recent years.

Phase I of the Hidd power and desalination plant is being built by a consortium led by Zurich's ABB Asea Brown Boveri and Italy's Fisia Italimpianti. ABB is responsible for engineering, civil works and project management. The company also is supplying two gas turbines, heat recovery steam generators, electrical generators, the overall plant control system, auxiliary systems and sea water intake facilities (in large part already subcontracted; see below). Fisia Italimpianti is providing the desalination capacity, valued at about USD 168 million.

Hidd is projected to be developed in three phases, each producing 280 MW of power and 30 million gallons of water, bringing the total production capacity of the complex to 840MW of power and 90 million gallons per day (MGPD) of water. The second phase is projected to come on-line in 2002 and the final phase is uncertain. This timetable is likely to slip since no financing has been arranged and no tenders have been issued for Phase II.

The first gas turbine unit, producing 140MW of electricity, is scheduled to be commissioned in July 1999. The first two desalination units are to be commissioned by August 1999 to produce 15 MGPD of water. The second gas turbine unit, producing another 140 MW of electricity, is set to go onstream in October 1999 while the last two desalination units are to be commissioned in November 1999, producing an additional 15 MGPD of water.

Germany's Lahmeyer International and the local Mohammed Salahuddin Consulting Engineering Bureau are the consultants for Phase I. Their contract covers design review, management and site supervision.

The Bahraini firm A.A. Nass Contracting has a subcontract valued at USD 40 million for the civil works, including the seawater uptake and discharge system and foundations for the plant. (See also Hidd Gas Pipeline Project, below.)

The U.S. firm Black & Veatch is supplying electrical and mechanical subsystems for USD 19 million, with Ex-Im financing. These include two station auxiliary transformers, power centers, motor control centers, all HVAC and fire protection equipment, an emergency diesel generator, the communication system, exterior lighting, emergency power cells with chargers and UPS, most of the electrical system and all of the fiberglass reinforced water piping, for which Black and Veatch has subcontracted with Beetle Engineering of the U.S.

In October 1997 the Bahrain National Oil Company (BANOCO) awarded a USD 22 million contract to A.A. Nass and the UK's Christiani & Nielsen for the supply and installation of pipelines to supply gas to the new power station. (See Hidd Gas Pipeline Project, below.)

The USD 530 million cost of Phase I required bank financing of USD 215 million, which was secured from local and international banks in late 1997. The remaining USD 315 million came from international export credit agencies, including the U.S. Ex-Im Bank. With the first installment due in 2000, lenders have already been contacted to extend a grace period for repayments. Bankers say that any new loans for power and water would require higher pricing and sovereign guarantees. The government is now understood to be in exploratory talks with the private sector for the sale of its equity in the Phase I development and to turn Phase II into a BOO project (see above).

Water Network

In September 1997 the U.K.'s Binnie & Partners, a wholly owned subsidiary of the U.S. firm Black & Veatch, was awarded the consultancy contract for a new water distribution network to be built for the Ministry of Electricity and Water. The network will link the Hidd combined-cycle power and desalination plant to the government's existing water network. Binnie & Partners will prepare tender documents for the project, evaluate bids and supervise construction work. The contract for engineering design and construction supervision is valued at USD 2.5 million; completion is scheduled for the end of 1999. Binnie & Partners will carry out the work in association with the Bahraini firm Adel Ahmadi Associates.

The new water network will include:

Water tanks: In September 1998 the Ministry of Electricity and Water awarded a USD 22.5 million contract for the construction of ground water tanks to Ahmed Mansoor Al A'ali and the Scottish firm Weir. The 63-meter-diameter steel structures will be 19 meters high and have a storage capacity of 10 million gallons each. The contract consists of three parts. The first is to construct three 10-million gallon ground water tanks at the Hidd pumping and blending station. The second is to construct one 5-million gallon and three 1-million gallon tanks at the Seef blending station, and the third is to construct two 5-million gallon and three 2-million gallon ground water tanks at the West Riffa blending station.

The contract also covers construction of foundations for the tanks, painting of the tanks, provision of a cathodic protection system and installation of control equipment for the water levels in the tanks. The purpose of the project is to increase the desalinated water storage capacity, including accommodating the 30 million gallons per day produced by Hidd Phase I beginning in 1999.

Water transmission pipeline: The Electricity and Water Ministry has awarded Habib Ali Awachi and Sons/Saldo/Thermomech the project of transmitting desalinated water from the Hidd power and desalination plant to Muharraq, Hora, Seef and Janusan. The project's USD 18.5 million civil works package includes the installation of a 46-kilometer pipeline. The contractor will lay an 800-1,000-millimeters-twin pipeline in some areas and a single pipeline of similar size in other areas. Binnie & Partners is also the consultant on this project. Work on the project started in October 1998 and is due to finish in December 1999.

Treatment and blending stations at Sanabis and West Riffa: Construction of these stations is anticipated because the Hidd water is expected to require chemical treatment to correct the pH, and also to need blending with brackish water to restore a balanced salt content, in order to be fit for drinking. No tenders have been issued as of June 1999.

Pump capacity expansion: Some of the pumps in existing blending stations will eventually be replaced with larger capacity ones. No tenders have been issued as of June 1999.

New substations: The Ministry of Electricity and Water has appointed GEC Alstom to build the new USD 39.8 million substation that will serve the power and desalination plant being built at Hidd. The company will supply and install 220-kV switchgear and carry out associated civil works.

Prequalified contractors were invited to bid by mid-July 1999 for four of the five packages (valued at USD 80 million) on a Ministry of Electricity & Water project to supply and install

six new 66-kV substations. The project is part of a program to expand and upgrade the existing capacity of the national grid.

The first package calls for supply of switchgear, the second for transformers, the third for cables, and the fourth involves installation. The fifth package will involve civil works. Two substations are to be installed in the ALBA industrial area and one each at Bahrain International Airport, Awali, Saar, and Salamabad.

The Gulf Cooperation Council (GCC) Power Grid Project

The last GCC summit in Kuwait approved the GCC Power Grid Project. The Grid is intended to help the Gulf States to maximize existing power facilities and better distribute power, thus making the generation of electricity more economical.

The first phase of the project will link Bahrain, Saudi Arabia, Qatar and Kuwait, followed by a second stage, including Oman and UAE. The third stage will help countries such as Oman to complete its electricity infrastructure. The estimated cost of the first phase of the project is USD 2.2 billion. The four states (Bahrain, Kuwait, Qatar and Saudi Arabia) would be required to contribute USD 870 million as equity while the rest will come from commercial loans. Bahrain will have to contribute USD 99 million, including an initial contribution of USD 5 million.

Under the terms of the load-sharing arrangement of the grid, Bahrain will be given an allocation to take or provide a load factor of 600 MW through the Al-Jasra substation that will be connected to Saudi Arabia's Ghunan plant near Dammam via a 90 kilometers, 220-kV line. The link will comprise a 60 kilometers overhead line and a 30 kilometers submarine cable. Bahrain is expected to be a net user as power demand is expected to outpace domestic production capabilities in the short- to medium-term.

The project is still in the planning phase and is not likely to come on line before 2004 at the earliest, depending on the availability of financing.

ALBA Desalination Plant Project

Aluminium Bahrain (ALBA) has signed a USD 400 million contract with Germany's Mannesman KTI for the construction of a calcining coke plant. (See below, Coke Calcining Plant Project). The project includes the construction of a desalination plant with a capacity of 43,000 cubic meters a day. The plant will use waste heat from the coke plant to generate desalinated water, which will be made available to the Ministry of Electricity and Water. This project will provide the government water network with 41,000 cubic meters of potable water daily. Entropie, part of the British Weir Group, won the USD 26 million contract to supply the plant and its associated seawater intake system.

Sitra Power and Water Station Upgrade

The Ministry of Electricity and Water has released tender documents to five international prequalifiers for the rehabilitation of the Sitra power and desalination plant. Prospective bidders have been given until July 1999 to prepare bids for the work, which is valued at up to USD 50 million. The client has also requested companies to include a financing offer in their technical bids. The prequalifiers are understood to be Zurich-based ABB Asea Brown Boveri, Italy's Ansaldo Energia, Deutsche Babcock of Germany, South Korea's Hanjung and India's Power Plants Performance and Improvements.

The contract calls for the upgrade of the plant's four 25-MW steam turbines, boilers and distillers to increase desalination capacity by 2.5 MGBD, as well as some of the balance of plant, including the instrumentation and control systems. The plant has a current capacity of 126 MW and 20 MGPD. The aim of the project is to extend the plant's life by a further 10 years.

The consultant is Germany's Fichtner. The site work is expected to be carried out in two stages, the first at the end of 1999 and the whole project is to be completed by summer of 2001.

Al Dur Water Plant

The existing sea water reverse osmosis (RO) desalination plant at Al Dur currently produces about 3 million gallons a day, despite an original capacity of 10 million gallons a day. The government plans to refurbish it to restore production to its original capacity.

The Ministry of Electricity and Water hired Sweden's consultants Sweco to supervise the investigation of feed seawater, prepare technical specifications, evaluate bids, pre-qualify contractors and supervise the implementation of rehabilitation works.

In September 1998 a Japanese consortium won the USD 20 million contract to rehabilitate the plant. The consortium comprises Sasakura Engineering Company, Kawasaki Heavy Industries, and Sumitomo Corporation. Rehabilitation will include upgrading the feed seawater pre-treatment system, replacing reverse osmosis membranes that have reached the end of their working lives, replacing obsolete instrumentation and upgrading the post-chemical treatment system. Work is scheduled to be completed by February 2000.

Ras Abu Jurjur RO Plant Expansion Project

The design capacity of the Ras Abu Jurjur plant, which was commissioned in 1984, is 10 million gallons per day. The original plant consists of seven reverse osmosis (RO) trains, which were supplemented by an eight-train addition in 1994. Under the expansion scheme, two additional RO trains will be installed, increasing total plant production capacity to 15.8 MGPD gallons.

Riffa Power Station Upgrade

In August 1998 the Ministry of Electricity and Water awarded a USD 756,000 contract to Kuljian Corporation of the U.S. to provide engineering services for expansion of the plant. Kuljian will prepare engineering designs, technical specifications, tendering documents, as well as pre-qualify contractors, evaluate bids and provide site supervision.

The Riffa power station, with an installed capacity of 709MW, was commissioned nearly 20 years ago and built by Germany's Siemens. The estimated USD 50 million upgrade is aimed at extending the life of the five 50MW gas turbines.

The Ministry of Electricity and Water has appointed Kuljian Corporation as consultant for the upgrade of the Riffa power station. There were eight other bidders: Fichtner and Lahmeyer International, both of Germany, Electrowatt Engineering Services and Imetag, both of Switzerland, Mott MacDonald and Merz & McLellan, both of the U.K., Ireland's ESB International, and Black & Veatch of the U.S. Tender documents for the project are expected to be issued during the first quarter of 2000.

GAS AND OIL

Bahrain Petroleum Company (BAPCO) Upgrade

In 1998 BAPCO announced a major upgrade program for the refinery that experts had felt was needed for some time. The refinery, built in 1936, will benefit from a USD 800 million upgrade program to be carried out over four years. BAPCO is currently reviewing letters of interest submitted by international firms and has already let some contracts for the upgrade.

The U.S. Citibank has been appointed as the financial adviser by BAPCO for the upgrade. The bank has been given the mandate to put in place a financing package for the project, estimated to cost about USD 450 million. It is expected to finalize a transaction by December 1999.

The two biggest projects, the low sulfur diesel project and the in-line blending project, are discussed separately below.

Another key package, worth USD 30 million, will involve the replacement of the existing outmoded jet fuel lead sulfide (PbS) treaters with a 50,000-b/d merox process unit. Work on this package is expected to start by the end of 1999 after the completion of the tender process by July. Another package will entail the upgrade of control instrumentation on some of the compressors on the catalytic reformer and the mild hydrocracker. Front end engineering and design work is already being carried out by Foster Wheeler Corporation of the U.S. for the estimated USD 15 million package that calls for the replacement of compressor equipment on the fluid catalytic cracker. The project, which was due for tender in mid-1999, will reduce

operating costs by USD 5 million a year. An estimated USD 6 million package will involve a technology upgrade for the catalytic reformer to produce 20,000 b/d of a higher-grade unleaded gasoline for sale in Bahrain and abroad. Tenders are expected to be issued within the next two years.

Low Sulphur Diesel Project

Four technology licensors have been chosen for the USD 400 million low sulphur diesel production package which is aimed at reducing the sulfur content in the diesel produced by BAPCO to 0.05 percent from the current 0.75-1 percent. The U.S. firm UOP was picked for the new 70,000-b/d diesel hydrotreater and the pressure swing absorption unit. Kinetics Technology International (KTI), also of the U.S., was selected for the new 60 million-cubic-feet-a-day hydrogen plant. TPA, another U.S. firm, was picked for the two new 200-ton-a-day sulfur plants. The licensors for the upgrade of the existing mild hydrocracker are Mobil, Akzo, and Kellogg (MAK).

Following the appointment of KTI as technology licensors for other elements of the project (see above), KTI signed in November 1998 an engineering and licensing agreement with BAPCO for the engineering design package (EDP) on the new hydrogen plant of its low diesel sulfur production project. Work on the package is already under way at KTI's office. The EDP will be delivered to the front-end engineering and design (FEED) contractor on the project. In March 1999 BAPCO awarded International Bechtel Company the FEED study contract for its low diesel sulfur production project.

In-Line Blending Project

In September 1998, Japan's JGC Corporation won the engineering, procurement and construction (EPC) contract for the in-line blending project at BAPCO. The project is for the conversion of the existing batch-blending method of finished products to automated in-line blending.

BAPCO estimates implementation of the project will save USD 14.2 million through reduced tank repair costs and the sale of inventory. More importantly, it will facilitate flexibility in changing the product mix to respond to spot market opportunities. JGC has been given 21 months to complete the project, scheduled to come on line by mid-2000. Local contractors will carry out all construction work. The project is anticipated to cost about USD 65 million. A USD 43 million syndicated loan is being arranged by Arab Banking Corporation (ABC), Bank of Bahrain and Kuwait, ANZ Grindlays Bank and Bahraini Saudi Bank. Bank of Bahrain and Kuwait has been appointed agent for the seven-year loan.

Sulfur Pellets Project

BAPCO has started a feasibility study for setting up a project to produce sulfur pellets. Sulfur pellets are made of liquid sulfur, of which BAPCO produces approximately 50,000 tons a day

as a by-product of its main refining operations. The study, launched in 1997, is still considering technology alternatives, and seeks to raise pellet production to closer to 200 tons a day.

Universal Chemicals currently produces 190 tons a year of sulfur pellets and buys all of BAPCO's output of liquid sulfur as raw material. However, the company's plant is old and may need to be replaced at a potential cost of USD 7-10 million.

BANOCO New Gas Wells Project

Bahrain National Oil Company (BANOCO) plans to spend USD 60 million on new gas projects in order to meet increased demand. The new projects include a distribution network to feed the Hidd power and desalination plant (see below, Hidd Gas Pipeline Project). Other gas projects include the drilling of new wells. Details of the number and location of wells have not been released.

Hidd Gas Pipeline Project

An agreement has been reached with BANOCO to supply the new Hidd power and desalination plant with natural gas. BANOCO has appointed a Dutch consultancy firm, Tebodin Middle East Company, to carry out front end engineering and design work on the gas infrastructure to be developed in the Hidd area. In October 1997 BANOCO awarded a USD 22 million contract to A.A. Nass and the U.K.'s Christiani & Nielsen for the supply and installation of 18-inch diameter pipelines. The pipelines are to be laid on the seabed in order to connect the new power and desalination plant station on Hidd Island to the mainland's existing gas network.

BANOCO also intends to build a metering station at Hidd and a valve station at Sitra as part of the project. BANOCO is considering whether to undertake the construction of the new stations itself or to issue tenders for the work.

ROADS AND BRIDGES

Manama-Hidd Causeway

A USD 35.8 million contract has been awarded to the Netherlands' Boskalis Westminster M.E. for the initial phase of the construction of a third causeway between Manama and Muharraq Island called the Manama-Muharraq Third Crossing Project. The contract, which includes dredging, reclamation and rock armoring, is the first phase of a USD 79.5 million project that will link the existing port at Mina Sulman with the new power/desalination plant, industrial area and port now under construction at Hidd.

The electricity and water produced at the new power and water station in Hidd will be transmitted over the Third Crossing, which will also serve as a crucial transportation link to the emerging industrial development in Hidd and the new port

facilities. The 6.4 kilometers long crossing will include a 400-meter multi-span, 10-meter-high marine bridge (to enable vessels to reach marinas on the Manama side of the crossing) and a four-lane road.

The Ministry of Work and Agriculture has appointed the U.K.'s Hyder Consulting as consultant for the bridge section of the project. The construction tender, estimated at USD 26 million, is anticipated during the third quarter of 1999. The selected contractor will be given two years to complete the job.

PORT AND AIRPORT

The Hidd Port Development

The Ministry of Works and Agriculture has awarded the consultancy contract for the planning and design of a new port and industrial area at Hidd to the U.K.'s Posford Duvivier with ACE-Almoayed as local partner. The new port is to have a capacity of 234,000 20-foot equivalent units (TEUs).

Phase one of the development is valued at USD 530 million and includes the following main elements:

- Dredging and reclamation involving around 60 million cubic meters of fill material.
- 1,800 meters of quay with minimum 15 meters water depth designed for containers, general cargo, dry bulk and roll-on-roll-off (Ro-Ro) traffic.
- Small craft berths.
- A container terminal including container freight station, aluminum packing shed, entrance gate complex, control tower and other buildings.
- Onshore general cargo area (including warehousing) and a Ro-Ro park.
- Onshore container and general cargo handling equipment.
- Tugs and pilot boats.
- An industrial area (see below).
- Infrastructure for the above.

Stage 1 of the consultancy comprised a comprehensive Study Report, which reviewed and updated previous reports on the project. It included traffic forecasts for the port and projected demand for industrial land, an environmental review, a review of engineering issues, cost estimates and financial analysis, a program and contract strategy, an updated master plan and recommendations for the project implementation. The Stage 1 Study Report was submitted in December 1996 and approved in January 1997.

Stage 2 is to include detailed site investigations, hydraulic studies, environmental impact assessment and preliminary design. Stage 3 is to include detailed design and contract documentation.

The phase 1 works are programmed to be completed in 2001 but budgetary funds have not yet been made available to the Ministry of Works for most of the work and few tenders have been issued as of June 1999.

Bahrain-based Al Hoty Analytical Services (AHAS) has won the first contracts, worth USD 1.6 million for preliminary work associated with the superport and industrial area in Hidd. The first contract, worth USD 1.4 million, involves geotechnical investigation, and is said to be the biggest contract of its kind currently being undertaken in the world in terms of volume and value. Another contract, worth USD 260,000, to study the profile of the seabed and topography of the land area was also awarded to AHAS.

New Hidd Industrial Area

The Oil and Industry Ministry has appointed International Development Ireland (IDI) to prepare a master plan for the new industrial area south of Hidd. The plan will include a strategy for zoning and marketing industrial estates and development of a management structure for the new area, which is intended to bolster Bahrain's drive to attract foreign and local investors. The government will spend USD 52 million on reclamation work plus USD 81 million on infrastructure development.

The industrial area will be developed on around 750 hectares of reclaimed land, of which 246 hectares will be reclaimed in the first phase. It will house small and medium-sized industrial units that will provide up to 30,000 jobs for Bahrainis. The project will also involve the construction of a sewage treatment plant, partly financed by the Arab Development Fund. Natural gas from the Bahrain field will be supplied to the industrial area through three pipelines that are near completion. Reclamation was due to be completed by April 1999 but the project has remained largely in the planning stage pending availability of government funds

Arabian Ship Repair Yard

In a related development, also near Hidd, there are plans to expand the Arabian Ship Repair Yard (ASRY) floating dock and repair facility, already the Gulf's largest. The three-phase project will involve dredging a channel and building a new pier, with all associated equipment and services, at an estimated cost of USD 87 million. Plans to build a second graving dock, at a cost of USD 120 million, are under consideration for the future.

ASRY specializes in the internal coating of ballast and cargo tanks and has increased its percentage of bulk carrier and cargo vessel customers. Over 1,600 bulk carriers and general cargo vessels trade in the Gulf every year. An additional 1,000 product carriers, gas carriers, livestock carriers and RO-RO Vessels also trade in the area.

Bahrain International Airport

The Ministry of Works and Agriculture has appointed the British firms Gibb and MSCEB as consultants for the project involving the resurfacing of the runway and link taxiway at Bahrain International Airport. As of June 1999, no tenders had been issued. The next phase of expansion will include a USD 13.2 million project to resurface the runway and link taxiways at Bahrain International Airport. The Ministry of Works and Agriculture has again appointed Gibb and MSCEB as the consultants for the project.

Bahrain International Airport Development Company (BIADCO) is expected to issue tender documents in July 1999 for construction of a new aircraft maintenance complex including a hangar (for narrow-bodied commercial aircraft and business jets), a business jet terminal, multi-level parking, workshops and an administration block at Bahrain International Airport. It will feature substantial amounts of high-tech aviation and fire-fighting equipment. The complex will become operational in 2001. The facility, once completed, will be leased to recently established Gamco Bahrain, a joint venture between Gulf Air Maintenance Company (GAMCO) and Bahrain Airport Services (BAS).

BIADCO, in cooperation with the Ministry of Civil Aviation Affairs, is also planning to begin construction in 1999 of a USD 2.1 million cargo hub to attract even more international cargo operators and freight forwarding companies to Bahrain. The common user facility is to have a 6,000 square meter warehouse/office building to be divided for use by individual companies with airside and landside access. Completion is expected within 10 months. It is modeled on the Dubai Cargo Village.

Bahrain Airport Services (BAS) has also embarked on a major expansion project to double the size of the terminal to 13,000 square meters. By 2000 Bahrain International Airport should have 30,000 square meters of air cargo and related terminal capacity. BAS and the Ministry of Civil Aviation Affairs are working to develop a cargo computerization system.

ALUMINUM

Coke Calcining Plant

The Aluminum Bahrain (ALBA) signed an agreement in December 1997 with Germany's Mannesmann KTI--now part of France's Technip--to set up a coke calcining coke plant. The plant will have a production capacity of 450,000 tons per year of calcined coke and be situated at ALBA's marine terminal, located 10 kilometers from the smelter.

The project includes construction of a petroleum coke calcining plant, and a seawater desalination plant that will utilize waste heat from the calcinating plant (see above under Major Projects-

Water). The 41,000 cubic meters per day of desalinated water will help meet Bahrain's growing water demand.

The local Mannai Engineering Company has won the onshore piling contract on the coke calcining project. The USD 7.1 million contract calls for the installation of bored concrete piles to support the calcined and green coke storage silos, and the main calciner kiln. The 25-week contract follows the award in late January 1999 of a USD 15.8 million package to the local A.A. Nass Contracting for the construction of a new jetty, capable of handling ships of 60,000 dwt. Ahmed Mansoor Al-Aali has already completed the reclamation of 141,000 square meters of land at ALBA's marine terminal. Construction work on the main coke plant will start once the onshore piling contract is completed.

The contractor Mannesman KTI is understood to be in the process of subcontracting the foundation work for the plant. A contractor is to be appointed soon.

In July 1998 a USD 400 million loan facility was signed by ALBA with a consortium of regional and international banks to finance the project. The consortium consists of Chase Manhattan Bank, Al-Ahli Commercial Bank, Arab Banking Corporation, Arab National Bank, Societe Generale and Sumitomo Bank.

The plant will enable ALBA to produce its own calcinated coke instead of relying on imports, which in the past have come mainly from the U.S. ALBA will also have greater control over the quality of the coke, which is used as feedstock in the smelting process. Surplus production will be exported.

With a current production capacity of about 500,000 tons per year, ALBA is the biggest aluminum producer in the Middle East. The Bahraini government holds a 77 percent stake in ALBA, the public investment fund of Saudi Arabia owns 20 percent and Germany's Breton Investments holds 3 percent. Despite lower earnings in 1998, ALBA is considering further expansion projects although all were still in the feasibility study phase as of June 1999.

SEWAGE TREATMENT

Tubli sewerage plant

The Works and Agriculture Ministry has appointed the local/Lebanese ACE-Almoayed Consulting Engineers as consultant for the Tubli sewage plant project to produce treated effluent for use in irrigation. The contract is valued at USD 2 million, and design work has been completed. The decision to extend the plant followed from a report prepared for the government by Engineering Science of the U.S., which recommended the increased use of water from treated effluent for irrigation in order to conserve ground water.

Work has started on the first package of the Tubli sewage plant expansion project. The USD 23 million first package has gone to a partnership of the local Habib Ali Awachi and Britain's Wabag. The first package involves raising the capacity of the secondary effluent plant to 200,000 cubic meters a day (cm/d) from the present 120,000 cm/d. The Works and Agriculture Ministry is funding the work through a USD 33.3 million loan signed by the Finance Ministry in March 1998 with the Kuwait Fund for Arab Economic Development.

The Tubli expansion project involves 13 other packages. One package will be awarded for the tertiary treatment plant and one for the sludge treatment plant. Three packages will be awarded for expansion of the transmission network; five for expansion of the distribution network and one for expansion of the drainage system. The tertiary treatment tender was issued in June 1999 to local and Gulf contractors. The sludge treatment tender is set to be issued in September 1999.

The total cost of the expansion program, scheduled to be completed by 2001, is estimated at USD 118 million.

TELECOMMUNICATIONS

Bahrain Telecommunications Company (BATELCO)

BATELCO has awarded Ericsson Group of Sweden two contracts, totaling USD 25 million, to expand the country's telecommunication network. The first contract, worth USD 20 million, was signed with Ericsson Radio AB (the same company that won the original contract to set up the GSM network) and will nearly double the Global Standard for Mobiles (GSM) system from its current capacity of 80,000 units to 150,000 units. The new GSM expansion program will be implemented in three phases and will be completed in October 1999. The project will also involve adding 17 new base stations, bringing the total to 64 stations around Bahrain.

The second contract, worth USD 5 million, was signed with Ericsson Telcoms in April 1999 and will add two GSM new switching centers in Sanad and the Diplomatic Area to handle the greatly increased transit traffic between the various local and mobile exchanges. Completion is projected for October 1999.

VI. TRADE REGULATIONS, CUSTOMS, AND STANDARDS

TRADE BARRIERS (including tariffs, non-tariff barriers, and import taxes)

Standards. Bahrain enforces shelf-life standards for a variety of food products. Production and expiration dates must be printed on the original label or container by the manufacturer. Suppliers should work closely with their local importers to ensure compliance with local shelf-life requirements.

Pharmaceutical products must be imported directly from a manufacturer that has a research department and must be licensed in a least two other Gulf Cooperation Council (GCC) countries, one of which must be Saudi Arabia.

Investment. The government actively promotes foreign investment and has in recent years promulgated regulations permitting 100-percent foreign ownership of new industrial establishments and the establishment of representative offices or branches of foreign companies without local sponsors. However, all commercial investments are subject to government approval and most must be made in partnership with a Bahraini national controlling at least 51 percent of the equity. Although sleeping partner arrangements are a common way to meet the 51 percent threshold, they can lead to problems and should be approached with care.

In principle, nationals of all Gulf Cooperation Council (GCC) states are permitted to purchase land in Bahrain and other expatriates are not, with rare exceptions. The government encourages the employment of Bahraini nationals by setting national employment targets in each sector and by restricting the issuance of expatriate labor permits. (See Chapter VII, Investment Climate, for more details on the government's labor policies.)

Government procurement practices. The government makes major purchasing decisions through the tendering process. For major projects, the concerned ministry extends invitations to selected, pre-qualified firms. Likewise, construction companies bidding on government construction projects must be registered with the ministry; smaller contracts are handled by individual ministries and departments, and are not necessarily subject to pre-qualification.

Bahrain 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 Bahraini ownership. The government also nominally gives preference to Bahraini and Gulf Cooperation Council (GCC) products up to a price differential of 10 percent, provided that standard specifications of kind and quality are met. This provision, however, is not always enforced.

Government tendering procedures for large projects are not always transparent and U.S. companies have reported sometimes operating at a disadvantage as compared with other international firms. Contracts are not always decided on a basis of price and technical merit. A local representative with strong connections is important for success in the bidding process.

Customs procedures. As a member of the Arab League, Bahrain is officially committed to enforcement, through its customs

clearance procedures, of the primary aspect of the League's boycott of Israel. However, Bahrain does not enforce the secondary and tertiary aspects of the boycott.

The government announced in July 1999 that importers can now clear goods as soon as they arrive at Bahrain's ports rather than wait one or two days for customs clearance. Under the new procedures, which have been facilitated with newly-installed automated systems, traders are permitted to pay a deposit for insurance purposes and then return to the port later to settle customs duties.

CUSTOMS VALUATION

Customs duties are imposed on the basis of Cost Insurance Freight at 5 percent on foodstuffs and non-luxuries, 10 percent on general luxuries, 20 percent on cars and boats, 70 percent on cigarettes and tobacco, and 125 percent on alcoholic drinks.

Bahrain levies a five percent ad valorem import duty on all food products from non-Gulf Cooperation Council (GCC) countries. There is a protective duty of 20 percent on corn and palm oil imports. The import duty on tobacco may be increased to 100 percent in compliance with an earlier GCC health ministers' decision on the matter. In principle, no tax or duty is payable on imports of raw materials or semi-manufactured goods for manufacture, on imports required for development projects (but not including spare parts), on transshipments, or on re-exports.

A GCC customs union has been under discussion for some time, but is not expected to become a reality in the near future.

IMPORT LICENSES

Import licenses for items to be sold in Bahrain are issued only to locally established companies that are at least 51 percent Bahraini-owned. Foreign companies established prior to 1975 may be exempt from this rule under special circumstances. For more information or inquiries please contact the External Commercial Relations Directorate, Ministry of Commerce, at tel: (973) 531-063 or fax: (973) 536-145.

All imported beef and poultry products require a health certificate from the country of origin and a halal slaughter certificate issued by an approved Islamic center in the country of origin.

EXPORT CONTROLS

Bahrain imposes standard international export controls.

IMPORT/EXPORT DOCUMENTATION

For imports, Bahraini Customs requires commercial invoices in duplicate in Arabic or English; a certificate of origin in Arabic or English (produced by a Chamber of Commerce and endorsed by an Arab Embassy); a copy of the insurance policy, if applicable; and bills of lading (four copies), including gross weight and dimensions. For food items, the Bahraini Customs Directorate Handbook declares that presentation of a certificate from manufacturers certifying that goods do not contain cyclamates is an important requisite.

Imported and exported goods are classified according to the Standard International Trade Classification (SITC), Revision 3.

TEMPORARY ENTRY

Facilities in the two free zones, Mina Sulman and the North Sitra Industrial Estate, may be used for the temporary import of goods for re-export.

LABELING, MARKING REQUIREMENTS

Food labels must include product and brand names, production and expiration dates, country of origin, name of manufacturer, net weight in metric units, and a list of ingredients and additives in descending order of importance. All fats and oils used as ingredients must be specifically identified on the label. Labels must be in Arabic or Arabic/English. Although stickers are not legally accepted, the law is not rigorously enforced as products do appear on store shelves with stickers. Small quantities of products in English-only labels may be approved for import on a case-by-case basis, for test marketing purposes.

PROHIBITED IMPORTS

According to the Bahrain Customs and Ports Directorate Handbook, a number of items are prohibited from import. These include: irradiated food products; weapons, except under special license; pornography and materials considered salacious; wild animals; radio-controlled model airplanes; children's toys containing methyl chloride and other articles declared injurious by the Ministry of Health; and foodstuffs and sweets containing cyclamates. Presentation of a certificate from manufacturers certifying that foods do not contain cyclamates is an important requisite. Drugs and medicines may only be imported by a drug store or pharmacy licensed by the Ministry of Health. For a copy of the prohibited items list of this handbook, please contact the U.S. Embassy's Commercial Section or contact Mr. Jassim Jamsheer, Director General of Customs' Affairs at tel. (973) 727-171 or fax 727-556.

STANDARDS

Bahrain's standards are consistent with the established--albeit relatively strict--norms of the Gulf Cooperation Council (GCC). Shelf-life standards, in particular, are stricter than deemed scientifically necessary. To help address these issues, the U.S. NIST and the GCC countries concluded a memorandum of understanding on standards, metrology, and technical assistance in 1996, but progress has been slow.

A significant number of Bahraini manufacturing facilities have received ISO 9002 certification and several others are still undergoing the necessary audits and procedures. The GCC states, including Bahrain, are planning to implement a system for registering companies that comply with international ISO 9002 standards under the auspices of the Gulf Standards and Metrology Organization (GSMO).

The Ministry of Commerce has an ongoing process of examining and adopting international standards for manufactured and imported products.

FREE TRADE ZONES/WAREHOUSES

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--the imported goods may be stored duty-free. These same facilities in the two free zones may be used for the temporary import of goods for re-export.

SPECIAL IMPORT PROVISIONS

None, other than provisions identified above.

MEMBERSHIP IN FREE TRADE AGREEMENTS

Duty-free access to neighboring Gulf Cooperation Council (GCC) countries is possible from Bahrain. Exported products must have a minimum of 40 percent local value-added to qualify for duty-free status.

CONTRACTING/ENGINEER REQUIREMENTS

Engineers, both indigenous and foreign, are required by law to have a license to practice in Bahrain. The "Committee For Organizing Engineering Professional Practice" (CFOEPP), under the Ministry of Works and Agriculture, is the government agency responsible for licensing.

Engineering offices: A foreign engineering company is not required to have a local representative to practice in Bahrain. However, it needs approval by the Ministry of Cabinet Affairs and the Ministry of Commerce to set up without a local agent.

All foreign engineering companies are required to register with the CFOEPP (mentioned above). It is a violation of the law for an engineering company or an engineer to practice engineering in Bahrain without a license. This applies whether such practice is being undertaken in Bahrain or physically elsewhere for a project in Bahrain.

Contracting companies: Generally, a foreign contracting company is required to have a local representative to practice in Bahrain. Only Bahraini citizens can be appointed as local representatives for contracting by the Ministry of Commerce. All engineers working for a contracting company are required to seek registration with the CFOEPP (mentioned above).

For public tenders, a foreign company must have a local representative who must be a Bahraini citizen. Tenders are issued and proposals are called for and assessed by a public committee. For large projects involving design and construction supervision, a consultant is usually chosen from about half a dozen pre-qualified companies that are invited to bid on detailed terms of reference.

As of June 1999, there are no regulations governing the level of local participation in government and international contracts. However, the government does have mandatory formulas for the percentage of Bahraini employees to be employed by firms of varying sizes. Government contracts and purchase orders will not be awarded to companies that fail to fulfill these requirements. Some argue that companies employing more Bahrainis should receive preferential treatment when government contracts are awarded, but this does not noticeably affect contract awards. The CFOEPP regulations also require that the local participation in a Bahraini office with a foreign partner be 51 percent Bahraini, provided that both parties meet the requirements for registration in accordance with the applicable government decree.

GOVERNMENT CONTRACTING

All tenders are subject to Bahrain's unified rules giving priority to Bahraini products and products of Bahraini origin. (Article 8, Prime Ministerial Edict no. 21 of 1987.)

Government tendering procedures for large projects are not always transparent, and U.S. companies have reported sometimes operating at a disadvantage as compared with other international firms. Contracts are not always decided on the basis of technical merit, price and commercial terms. A local representative with strong connections is important for success in the bidding process.

Bid bonds are required from all international contractors. The bonds are flat fees rather than a percentage of the total bid because knowledge about the amount of the bid-bond deposits may

alert competitors to each other's bid price. The fees are stated in Bahraini Dinars and vary from a nominal amount to approximately five percent of the expected bid. Performance bonds are usually 10 percent of the total contract for the contract period and any maintenance defects period. Requirements do not vary with the experience of the firm in Bahrain, nor do they change when the contractor is in a joint venture with a Bahraini company. The government requires unconditional bank guarantees for performance bonds.

"Force majeure" is defined in the tender conditions. Strikes are prohibited in Bahrain, so work stoppages are not a significant problem. If they were to occur, the government would likely be reasonable in judging the effect on a contractor's progress. Delivery delays due to port congestion are considered force majeure conditions.

All contracts stipulate that Bahraini law should be used for the settlement of disputes. If a company insists, the government may consider recourse to the International Chamber of Commerce or to the Gulf Cooperation Council (GCC) Arbitration Center. However, arbitration procedures are a contractual matter.

All bids must be in English and the specifications in metric measurements.

The government of Bahrain prefers fixed price bids. Generally speaking, it insists on a one-year, fixed-price agreement on equipment and materials and expects the contracting firm to be in a position to order and import all or most of its requirements within the one-year period. The government may agree to a longer period, depending on the type of contract.

It is possible to apply for a waiver of customs duties on imported machinery, but it must then be re-exported at the conclusion of the project. The original customs assessment must be paid if the machinery is sold on the local market. Bonded areas are available.

Theoretically, the practices of the Bahraini private sector follow those of the government. However, private negotiations and understandings reached between the contracting parties vary from project to project.

VII. INVESTMENT CLIMATE

OPENNESS TO FOREIGN INVESTMENT

The government of Bahrain has a generally liberal approach to foreign investment, and is in the process of improving Bahrain's attractiveness to international investors. The new Amir, Shaikh Hamad, and senior government officials have publicly stated that attracting foreign investment to spur private sector development

is one of the government's top priorities. In general, most large businesses in Bahrain are owned by the state or by large private families or corporations. However, development of the Bahrain Stock Exchange and continual improvements in the already highly regarded Bahrain Monetary Agency (BMA) are intended to encourage the structural changes deemed necessary in Arab economies--privatization, disaggregation 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 that are export-oriented and do not compete directly with established local enterprises. Although the government has expressed an interest in encouraging Bahraini and foreign private investment in infrastructure projects, no such projects have been launched yet.

Bahrain offers several advantages to foreign investors, including: no personal or corporate taxation, no restriction on capital and profit repatriation, a developed infrastructure with excellent transportation and communication facilities, and duty-free access to Gulf Cooperation Council (GCC) member states for products manufactured in Bahrain.

Firms being established as industrial investments in Bahrain may be 100 percent foreign-owned. In addition, 100 percent foreign-owned companies may be set up for regional distribution services, or representation, and such companies may operate within the domestic market and offshore. Procedures for obtaining commercial licenses for all businesses have been streamlined and automated. All the necessary formalities can usually be accomplished within one week for representational offices.

In general, the Bahraini government does not license companies wishing to compete with existing government-owned or parastatal companies, or which would be a danger to public health or other aspects of the general welfare. Foreign-owned companies may not be set up for the exclusive purpose of engaging in commercial sales in Bahrain, except in minority partnership with one or more Bahraini companies. Sales in Bahrain of foreign-produced products are mostly accomplished through Bahraini agents. Bahrain's revised agency law, implemented in 1998, eliminated the sole agent requirement, capped agent commissions at five percent, and provided for the phasing out of commissions entirely by 2003. The law also allows for the unilateral dissolution of an agency contract as long as reasonable cause is established. The Ministry of Commerce adjudicates these on a case-by-case basis, and foreign firms have been able to successfully terminate unproductive agent relationships.

Generally speaking, there is no special screening of foreign investment; all significant investments, whether by Bahraini or

foreign firms, must go through a lengthy and complicated government approval process. Items prohibited for import would also be prohibited for production. In government-project bidding, all tenders are subject to Bahrain's unified rules giving priority to Bahraini products and products of Bahraini origin (Article 8, Prime Ministerial edict number 21 of 1987). Foreign firms generally partner with a local firm or agent in such bids.

Taxation and import laws apply equally to Bahraini and foreign-owned companies, and foreign investors comply with the same requirements and legislation as do local firms.

Periodically, due to local emphasis on Bahrainization of the workforce (replacing expatriate workers with Bahraini employees), foreign firms experience some difficulty in obtaining the required work permits and residence visas for expatriate employees. However, this does not appear to be a matter of high-level policy, and often can be resolved on a case-by-case basis. Where problems occur, U.S. businesses are encouraged to apply to the highest levels of the concerned ministries, and to consult the U.S. Embassy. A good local "fixer" with extensive contacts can be very effective in overcoming bureaucratic inertia.

Joint ventures are permitted with Bahraini companies, but a 100 percent purchase of an existing Bahraini company would probably not be permitted, as the new incentive arrangements are aimed at attracting additional companies, rather than at reducing the number of Bahraini-held companies.

The government makes major purchasing decisions through the tendering process. For major projects, the Ministry of Public Works and Agriculture and the Ministry of Electricity and Water extend invitations to selected pre-qualified firms. Construction companies, bidding on government construction projects, must be registered with the Ministry of Public Works and Agriculture. To be registered, a company must have 51 percent Bahraini ownership. Bahrain also gives preference in government tenders to Bahraini and GCC products up to a price differential of 10 percent, and provided that standard specifications of kind and quality are met. Smaller contracts are handled by individual ministries and departments and are not subject to pre-qualification.

Foreign-owned companies are eligible for partial financing from the state-owned Bahrain Development Bank (BDB), if they meet certain criteria such as providing employment to a significant number of Bahrainis. Private investment (foreign or Bahraini) in petroleum extraction is permitted only under a production-sharing agreement with BANOCO, the state-owned petroleum company. In general, industrial enterprises that would compete with government-owned or parastatal firms are not permitted;

this rule applies equally to Bahraini and foreign-owned companies.

CONVERSION AND TRANSFER POLICIES

Bahrain's currency, the Bahraini Dinar (BD), is fully and freely convertible at the fixed rate of USD 1.00 = BD 0.377 (1 BD = USD 2.65). The U.S. Embassy purchases local currency at this rate. There is no black market or parallel exchange rate. There are no restrictions on converting or transferring funds, whether or not associated with an investment. Foreign exchange is readily available. As the financial and offshore banking center of the Middle East, Bahrain offers ample and instant access to the U.S. and international banking systems.

A devaluation of the Bahraini Dinar over the next year is highly unlikely.

EXPROPRIATION AND COMPENSATION

There have been no expropriations in recent years, and none are anticipated. Nor are there any outstanding investment disputes involving the government.

The most recent, prominent expropriation occurred back in 1976 when the Bahraini government fully nationalized the extraction of petroleum, paying compensation to the foreign owners of the company which had previously operated in that field. Following a Gulf-wide trend, in 1980 the Bahraini government offered to buy a 60 percent share in the petroleum refinery, BAPCO, at terms acceptable to its original owner, the U.S. firm Caltex. Caltex remained involved as administrator and 40 percent owner until April 1, 1997, when its remaining share was purchased by the government at a mutually satisfactory price. Caltex continues to provide technical assistance and managerial personnel to BAPCO.

DISPUTE SETTLEMENT

Bahrain has a long-established framework of commercial law. English is widely used, and well-known international--including U.S.--law firms, working in association with local partners, provide expert legal services both nationally and regionally. Fees are charged according to internationally accepted practices. Although only a Bahraini lawyer can argue in a Bahraini court of law, lawyers of other nationalities can and do work on cases.

The few disputes that have arisen in recent years have been adequately handled through the local court system or through arbitration. There were a few investment disputes in Bahrain over the past several years involving nonpayment of government incentives, but settlements were reached and payments were made in all known cases involving U.S. firms. The difficulties may

have reflected a reconsideration of the government's incentives plan, which was abandoned in 1997. There have been cases of lawsuits against businesses and businessmen for nonpayment of debts. Such debt cases are adequately handled by Bahrain's court system. Bahrain's revised agency law, as explained above, now facilitates the termination of unproductive agent relationships.

Arbitration procedures are a contractual matter; disputes can be referred to an arbitration body as specified in the contract, or to the local courts. Increasingly, Bahraini companies, in dealings with both local and foreign firms, include arbitration procedures in their contracts. Nevertheless, most commercial disputes are resolved privately without recourse to the courts or formal arbitration. Bahraini law is generally specified in all contracts for the settlement of disputes that reach the stage of formal resolution. The guidelines laid down by the International Chamber of Commerce (ICC) in Paris are generally respected, and disputes are occasionally referred to arbitration at the ICC in Paris.

Bahrain is a signatory to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitration Awards. An international arbitration center, established in Bahrain in 1995, is located near the Bahrain Chamber of Commerce and Industry. Chairmanship of the center revolves among the Gulf Cooperation Council (GCC) states that send representatives from their chambers of commerce and industry. Thus far few cases have been brought to arbitration, though a large number of arbitrators have been impaneled.

PERFORMANCE REQUIREMENTS/INCENTIVES

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 labor requirements. Officials at the Ministry of Labor and Social Affairs and the Ministry of Oil and Industry supervise, on a non-discriminatory basis, companies operating in Bahrain.

Industries must be set up in identified industrial areas. An Environmental Impact Statement (EIS) must be filed by all manufacturing facilities.

After one complete year of operation, a manufacturing facility is eligible for relief from tariffs imposed by other Gulf Cooperation Council (GCC) states on imported goods.

RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

Bahrain actively promotes foreign investment and permits 100 percent foreign ownership of new industrial entities and the establishment of representative offices and branches of foreign

companies without local sponsors. However, all commercial investments are subject to government approval and usually are made in partnership with a Bahraini national controlling at least 51 percent of the equity. In principle, private entities may freely establish, acquire, and dispose of interests in business enterprises, subject to the limitations noted here.

Although foreigners may not acquire legal control of an existing Bahraini company, new guidelines permit non-Gulf Cooperation Council (GCC) investors to own up to 49 percent of a new public company. However, they must retain their shares for at least three years following the creation of the public company. Foreigners who have been resident in Bahrain for over a year can hold up to 24 percent of the shares in a single existing public company.

With few exceptions, foreigners, other than nationals of some of the other five GCC states, may not own land or buildings in Bahrain. Foreign-owned banks may own their own premises and, on a case-by-case basis, expatriates who retire in Bahrain after long-term employment here may own their own residences.

PROTECTION OF PROPERTY RIGHTS

The Bahraini legal system adequately protects and facilitates acquisition and disposition of property rights. The concept of a mortgage exists, and there is a recognized and reliable system of recording such security interests.

Bahrain's removal from the 1999 U.S. Special 301 Watch List was in recognition of greatly enhanced IPR protection in Bahrain. The government has made dramatic progress in reducing copyright piracy; patent and trademark protection has always been strong and there continue to be no reports of significant violations of U.S. patents and trademarks in Bahrain. The government's copyright enforcement campaign--based on inspections, closures, and improved public awareness--began in late 1997 against the video industry, followed by the audio and software industries, with impressive results. The commercial pirated video and audio markets are nearly gone. The government is addressing the few remaining issues--primarily making the necessary legislative amendments--to become fully TRIPS-compliant by January 1, 2000. Bahrain signed the Berne Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property in 1996.

There is no legal or regulatory protection of trade secrets.

TRANSPARENCY OF THE REGULATORY SYSTEM

While the government of Bahrain clearly intends to encourage foreign investment, its laws and procedures are not always transparent. Bureaucratic procedures can create significant stumbling blocks, particularly affecting the establishment of

manufacturing facilities. These appear to be due to a lack of coordination between government ministries, most of which must sign off on one stage or another of the licensing procedure. However, some manufacturing facilities, including some joint ventures with U.S. partners, appear to have had little difficulty navigating the obstacles; choosing the correct partner is an important key to the successful development of a project.

Foreign investors in Bahrain occasionally, albeit rarely, suffer from the unequal or inconsistent application of domestic laws. Entrenched local business interests with government influence can cause problems for potential competitors. Interpretation and application of the law sometimes seemingly vary by ministry, and may be dependent on the stature and connections of an investor's local partner. In one instance, a new Bahraini company, with a minority U.S. investor representing several major U.S. film studios, has met with unexpected roadblocks in its bid to challenge the monopoly cinema company in Bahrain. In a second case, a U.S. restaurant franchise was issued an alcohol license by the Ministry of Information's Tourism Office--and sized its investment accordingly--only to have it revoked eight months later by the Ministry of Commerce. Inconsistencies also can arise with issues such as visa applications and customs valuations. Departures such as these from the consistent, transparent application of regulations and the law remain rare, however, and investors are usually well pleased with government cooperation and support.

EFFICIENT CAPITAL MARKET AND PORTFOLIO INVESTMENT

Consistent with the government of Bahrain's liberal approach to foreign investment, government policies facilitate the free flow of financial resources. Foreigners and Bahrainis alike have ready access to credit on market terms. Generally, credit terms are variable, but often are limited to 10 years for loans under USD 50 million. For major infrastructure investments, banks will often offer to assume a part of the risk, and Bahrain's banks have shown extensive cooperation in syndicating loans for larger risks. Generally, Bahrain's banks are described as hungry for solid investment opportunities.

The banking system is sound, and undergoes examination and supervision by the Bahrain Monetary Agency (BMA), which has an international reputation for excellence. The estimated total assets of Bahrain's commercial banks as of the end of 1998 were USD 8.7 billion; the total assets of offshore banks in Bahrain were USD 87.6 billion. Portfolio investments are increasingly encouraged.

The Bahrain Stock Exchange (BSE) opened in June 1989 and currently lists 42 companies with a market capitalization of roughly USD 7.3 billion. The exchange is heavily dominated by commercial banks, investment firms, and insurance companies.

The top three firms--Investcorp, the Bahrain Telecommunications Company (BATELCO), and the Arab Banking Corporation--account for nearly one-half of the exchange's total capitalization. The exchange is open only two hours a day, five days a week, and averages 80-90 transactions per day. Equities, bonds, mutual funds, and currency warrants currently are the listed securities and instruments.

Important new steps have been taken to further open the exchange to non-Bahrainis, including allowing 100 percent ownership in listed companies by Gulf Cooperation Council (GCC) nationals, and up to 40 percent ownership by non-GCC nationals. The new law also allows the Minister of Commerce to increase this percentage according to demand and the state of the local economy. Previously, GCC nationals could own up to 49 percent in listed firms whereas other foreigners, as a collective, were limited to 24 percent ownership. An individual could only hold one percent in any given listed firm.

The exchange is an independent organization that operates under the aegis of the Ministry of Commerce, is administered by a board of directors, and is under the daily supervision of a director. The board is chaired by the Minister of Commerce and is composed of four representatives from the government and five from the private sector. The BSE serves as a regular stock exchange as well as Bahrain's securities regulator. The exchange's performance should improve dramatically by the end of 1999 when the new automated trading system and a unified depository and clearing system come on-line.

POLITICAL VIOLENCE

Bahrain has experienced intermittent civil unrest since 1994, but since 1997 there has been a marked improvement. The disturbances have been directed primarily against the regime, but in a few cases expatriate property, including homes, vehicles, and places of business were damaged or destroyed, and several south Asian workers were killed in a fire a few years ago. The current low level of unrest--primarily the occasional burning of tires in a village road or exploding gas cylinders in unoccupied areas--is sporadic, and minor in comparison with crime problems in most Western metropolitan areas. Most expatriate residents say they feel safer here than they would in other urban centers of the world, including the U.S.

CORRUPTION

Corruption is a global problem that is sometimes a part of doing business in the Gulf region. According to U.S. firms, high-level corruption is sometimes an obstacle to foreign direct investment, particularly in the contract-bidding process and in operating notably successful investments. In the case of some high-value contracts, government tendering procedures are not always transparent and contracts are not always decided on the

basis of price and technical merit. On the other hand, petty corruption is not a problem here. The bureaucracy is sometimes inefficient but it is honest. Giving or accepting a bribe is illegal, although the relevant laws are rarely enforced. Officials have been dismissed for blatant corruption, but it is never so stated officially; no one has been tried in court for corruption. Bahrain is not a signatory of the OECD Convention on Combating Bribery.

LABOR

The Bahraini labor force numbers about 272,000, of whom approximately 60 percent are expatriates. A majority of the roughly 108,000 Bahraini workers are government employees, and women make up about 19 percent of the Bahrainis in the workforce. There are no government-provided unemployment figures; the United Nations Development Program (UNDP) estimates the unemployment rate to be at least 15 percent, and possibly as high as 30 percent.

The government is seeking to establish Bahrain as a regional center for human resource development. In addition to several universities, there are a number of training centers, such as the Bahrain Training Institute (BTI) and the Bahrain Institute of Banking and Finance (BIBF) that are designed to better prepare recent graduates for the modern, technology-driven work force.

In early 1996, the government of Bahrain launched a Bahrainization campaign by announcing quota requirements for the percentage of Bahraini employees to be employed within a given sector and by firms of varying sizes. Every company must have at least one Bahraini employee; those employing more than 10 workers must increase their Bahraini percentage by 5 percent per year up to the government target of 50 percent; all new projects should be launched with a minimum of 20 percent Bahraini employees, to be increased by 10 percent per year. In-house policies to train Bahrainis--locally or abroad--can increase a firm's opportunities to receive government incentives such as relaxed visa restrictions.

Government contracts and purchase orders are not awarded to companies that fail to fulfill these requirements, and companies employing more Bahrainis will receive preferential treatment when government contracts are awarded. Companies failing to meet their targets also may have problems with work permits and visas for expatriate staff members.

Private employers tend, however, to favor hiring expatriate workers on the grounds that they are more productive, are cheaper for less-skilled jobs, and because of shortages of available Bahrainis with competency in various key skills. In addition, turnover among Bahrainis is high as they often change jobs in pursuit of higher salaries.

Worker representation in Bahrain is based on a system of Joint Labor-Management Committees (JLC's) established by ministerial decree. As of June 1999, the total number of JLC's has risen to 19. JLC's provide a means for labor and management to discuss issues of mutual concern, including labor disputes, wages, working conditions, and productivity. The JLC system covers approximately 70 percent of Bahraini industrial workers, plus some expatriate workers. There are no western-style labor unions. Labor-management relations in Bahrain are relatively smooth; there have been no major strikes in recent years. Bahrain is a member in good standing of the International Labor Organization (ILO).

There is no labor tax in Bahrain. The Government Office of Social Insurance (GOSI) program requires that the employee pay five percent of base rate and the employer pay seven percent toward retirement benefits.

All Bahrainis receive free health care from the state; most companies offer their expatriate workers some sort of health coverage, either through insurance companies, in which case rates are negotiable, or through arrangements with one or more of the local private hospitals. There is a fee, about USD 10, for expatriates attending an emergency clinic in a government hospital.

BILATERAL INVESTMENT AGREEMENTS

Bahrain and the U.S. plan to sign a bilateral investment treaty (BIT) in the fall of 1999. This will be the first BIT between the United States and a Gulf country and will result in the further opening of the Bahraini economy to U.S. investors.

As of June 1999, Bahrain had a bilateral investment protection agreement in place only with the U.K. 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 China, Cyprus, France, Germany, Greece, Singapore, Turkey, the U.K., and Yemen. A similar agreement with the U.S. was under discussion as of June 1999. France and Bahrain also enjoy a double taxation avoidance agreement.

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

On April 25, 1987, Bahrain and the U.S. Government signed an agreement regarding activity in Bahrain by the Overseas Private Investment Corporation (OPIC). The agreement opened the way for extension of such OPIC facilities as investment insurance, reinsurance, and investment guarantees to U.S. private investors interested in doing business in Bahrain.

FOREIGN TRADE ZONES/FREE PORTS

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. These imported goods may be stored duty-free. Foreign-owned firms have the same investment opportunities in these zones as Bahraini companies.

A new law introduced in 1999 requires that investors in industrial, or industry-related, zones launch a project within one year from the date of receiving the land, and development will have to conform to the specifications, terms and drawings submitted with the application. Changes are not permitted without approval from the Ministry of Oil and Industry.

CAPITAL OUTFLOW POLICY

Bahrain has no restrictions on the repatriation of profits or capital and no exchange controls.

MAJOR FOREIGN INVESTMENTS

Foreign investments in Bahrain range from partial foreign ownership of large parastatals in the oil and telecommunications sectors to restaurant franchises. The government does not, however, maintain statistics on stocks or flows of foreign direct investment. The largest, by value, foreign holdings in Bahrain include:

-- Aluminum Bahrain (ALBA) and the Gulf Petrochemical Industries Complex (GPIC), each of which are owned as joint investments by several Gulf states.

-- The Arab Shipbuilding and Repair Yard (ASRY), which is jointly owned by Bahrain, Kuwait, Saudi Arabia, the United Arab Emirates, Qatar, Iraq (participation frozen) and Libya (participation frozen).

-- Britain's Cable and Wireless' 20 percent holding in the Bahrain Telecommunications Company (BATELCO).

According to U.S. Embassy records, approximately 90 U.S. companies were operating, in one form or another, in Bahrain as of June 1999. Many of the U.S. firms are in the services sector and thus do not have a large capital investment in Bahrain despite a significant local presence. Among the larger U.S. investments are:

-- A USD 33 million tissue factory, owned jointly by Kimberly-Clark (U.S.) and Olayan Saudi Holding Company (Saudi Arabia), that opened in 1994.

-- Coca Cola's controlling interest in its local bottling plant.

-- A manufacturing plant owned by Shaw Industries, a U.S. pipeline manufacturer, in partnership with a Bahraini firm, A.A. Nass.

-- DHL's USD 12 million regional distribution center at the Bahrain International Airport. Inaugurated in 1993, the facility recently completed a multi-million dollar expansion to meet sharply rising demand.

Looking ahead, in addition to two Pakistani-owned textile firms which began export operations in 1999, new foreign investments expected to come to fruition within the next two years (not including the Indian Sponge Iron and Steel plant which remains on hold) include:

-- Videocon International, an Indian appliances firm, is building a USD 30 million manufacturing facility in Bahrain. The factory, which will assemble televisions, refrigerators, air conditioners, and washing machines, is scheduled to open at the end of 2000.

-- An Indian consortium will begin construction of the USD 68.9 million Oberoi Hotel in early 2000.

-- Several U.S. restaurant franchises--such as Ponderosa, T.G.I. Fridays, and Bennigan's--are set to open.

VIII. TRADE AND PROJECT FINANCING

DESCRIPTION OF BANKING SYSTEM

Bahrain is the principal financial services' center of the Middle East. Utilizing sophisticated global communications links, it serves both a regional and an international clientele and provides a complete range of financial and banking services, including well-developed offshore facilities. Legal, regulatory, and accounting systems in the financial sector are transparent and consistent with international norms.

At the end of 1998, the assets/liabilities of the 52 Offshore Banking Units (OBUs) in the country totaled USD 87.6 billion. As of December 1998 there were 180 financial institutions operating in Bahrain, including 19 full commercial banks, 2 specialized banks, 48 offshore banking units, 37 representative offices, 32 investment banks, 6 foreign exchange and money brokers, 12 investment advisory and other financial services and 24 money-changers registered in Bahrain. Major U.S. banks and

financial services firms here include Citibank, Chase Manhattan, American Express and Merrill Lynch.

FOREIGN EXCHANGE CONTROLS AFFECTING TRADING

There are no foreign exchange controls or other obstacles to the free movement of funds.

GENERAL FINANCING AVAILABILITY

Bahrain's banking policies, regulated by the Bahrain Monetary Agency (BMA), facilitate the free flow of financial resources into and out of the country, with credit generally being allocated on market terms. Foreign investors are able to borrow on the local market, and the private sector has access to a variety of credit instruments.

HOW TO FINANCE EXPORTS/METHODS OF PAYMENT

Letters of Credit are the preferred method of payment for exports. A Letter of Credit (L/C) is a promise by a bank that it will make clearly stated payments to a named party under certain conditions. The L/C should conform to international guidelines established by the International Chamber of Commerce (ICC), as published in the Uniform Customs and Practice for Documentary Credits, or UCP. L/Cs have been used for centuries for international trade. They offer certain advantages to the seller, who through the L/C depends on the creditworthiness of the opening (issuing) bank, rather than the buyer's; other risks are also minimized. For the buyer, the L/C ensures that all of the seller's documents must be correct before the seller will be paid.

Other possible methods of international commercial payments include cash, open credit, and documentary credit sales. Businesses unfamiliar with these procedures should seek expert advice.

AVAILABLE EXPORT FINANCING AND INSURANCE

Ex-Im Bank financing can be used for appropriate exports to Bahrain.

PROJECT FINANCING AVAILABLE

For project financing, Bahrain is the home to 32 investment banks. The Bahrain Development Bank will also lend funds in some cases to local projects that it considers appropriate; funding is not limited to projects of Bahraini-owned companies. Credit is allocated on market terms and is available to foreign investors. Generally, credit terms are variable, but usually are limited to 10 years. For major infrastructure investments, Bahrain's banks have shown extensive cooperation in syndicating loans for larger risks.

LIST OF BANKS WITH U.S. BANKING ARRANGEMENTS

Most banks in Bahrain have U.S. correspondent banking arrangements. Three U.S. banks have offices in Bahrain:

Citibank operates as a full Commercial banks, OBU, and representative offices

Citibank/Citicorp
P.O. Box 548
Manama, Bahrain
Tel: (973) 257124
Fax: (973) 250510

Chase Manhattan Bank
P.O. Box 368
Manama, Bahrain
Tel: (973) 535388
Fax: (973) 535135
Chase operates as an offshore bank.

Merrill Lynch International Bank
P.O. Box 10399
Manama, Bahrain
Tel: (973) 530260
Fax: (973) 530245
Merrill Lynch operates as an investment bank.

IX. BUSINESS TRAVEL

BUSINESS CUSTOMS

Personal contact, frequently renewed, is key to doing business successfully in Bahrain. Visiting business professionals should be prepared to spend a portion of any business call socializing and getting to know their counterparts. Nevertheless, the atmosphere here is generally more time-sensitive and "business-like" than in other countries of the region.

Most government offices operate Saturday through Wednesday, while most companies operate Saturday through Wednesday plus half-days on Thursday. Many banks work Sunday through Thursday. Employees of offshore financial institutions often follow a more Western workweek.

TRAVEL ADVISORIES AND VISAS

Entry visas for American citizens may be obtained upon arrival at the Bahrain International Airport. 72-hours visas cost USD 27 and seven-day visas USD 40. Entry visas can also be obtained from the Bahraini Embassy in Washington, D.C. Visas for Diplomatic and U.S. Official Passport holders are gratis.

An Israeli entry stamp in a passport is no longer a bar to obtaining a Bahraini visa or to entering Bahrain, but not all airline personnel are aware that the former prohibition no longer applies.

Crime is generally not a problem in Bahrain, but in the past there have been occasional civil disturbances in various parts of the country. The U.S. Embassy advises American citizens to avoid any disturbances or large gatherings in the streets, and to avoid travel into villages, if possible. Americans in Bahrain should maintain a high level of security awareness while following their daily business or social routines.

HOLIDAYS

The following are approximate dates for Bahraini holidays from July 1999 through December 2000:

December 8, 1999-January 6, 2000	Ramadan**
December 16, 1999	National Day***
January 1, 2000	New Year's Day
January 7-9, 2000	Eid Al Fitr*
Mar 15-18, 2000	Eid Al Adha*
April 5, 2000	Islamic New Year*
April 14, 2000	Ashoora*
June 14, 2000	Prophet's Birthday
November 27, 2000	Ramadan **
December 16, 2000	National Day

* Dates for religious holidays are determined by the Islamic lunar calendar and may vary by a day or so from the dates given above.

** While the lunar Muslim holy month of Ramadan is not an official government holiday period, it is better not to schedule business visits during this period as activity throughout the country is curtailed.

***National Day may be changed in light of the accession of a new Amir this year.

BUSINESS INFRASTRUCTURE

Nearly everyone with whom a business traveler is likely to come into contact speaks at least some English, and Bahraini government officials and businessmen are usually fluent in the language. Hotel accommodations are excellent, with a large selection of five-star hotels. All hotels are equipped with reliable phone and fax service, and many hotels also provide Internet and news agency and business wire services.

Rental cars are readily available, but an International Driving License is required and must be validated in Bahrain. Major car rental firms will help qualified clients to obtain a temporary Bahraini driving license. Cabs are easy to find in downtown Manama. There is also a reliable telephone taxi service (telephone 682-999) for return transportation from less central locations. Most major roads in the northern third of the island are four- or six-lane and are well maintained. In the older parts of Manama and Muharraq and in villages, many streets are narrow, twisting, and sometimes in relatively poor condition. Traffic is congested in some areas of Manama. Drivers should exercise caution at the roundabouts (traffic circles) found at many major intersections. Travel at night is more hazardous. Defensive driving is recommended.

There is a wide range of hygienically-safe restaurants available in all price ranges, from an array of international cuisine and ethnic restaurants to well-known U.S. chains such as McDonald's, Pizza Hut, Domino's, Dairy Queen, Kentucky Fried Chicken, Hardee's, Fuddruckers, Chili's and Hard Rock Cafe.

Health standards are good. Hospitals, clinics, and pharmacies including several 24-hour pharmacies are widely available and of high quality. Certain pharmaceutical products may be unavailable, or sold under a European name.

X. ECONOMIC AND TRADE STATISTICS

A. Country Data

Population (1999): 666,000 (61 percent Bahraini, 39 percent expatriates)
 Population Growth Rate: 3.6 percent
 Religions: Islam is the official state religion. 85 percent Muslim, plus Christians, Hindus, Jews, Bahais and Zoroastrians.
 Government System: Traditional emirate.
 Languages: Arabic (official). English is widely used in business.
 Work Week: Saturday - Wednesday (often half-days on Thursday; banks and some international firms Sunday-Thursday).

B. Domestic Economy

Key Economic Indicators

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
GDP (current USD millions)	6,086	6,333	6,167	
GDP (constant USD millions)	5,832	6,012	6,286	

Nominal GDP growth	4.3%	3.9%	-2.6%	
Real GDP growth	4.2%	3.1%	4.6%	
GDP per capita (USD)	10,160	10,215	9,776	
Population	599,000	620,000	643,000	666,000
Population growth rate	3.6%	3.6%	3.6%	3.6%
Government spending (% of GDP)	27%	30%	30%	
Inflation rate	-0.2%	1.7%	-0.4%	0%
Unemployment	15%	15%	16%	17%
Gold and foreign exchange reserves (USD million)	936	1,036	1,016	

(Sources: Embassy estimates and the Government of Bahrain)

C. Trade Statistics

Total Bahraini trade (USD billion)

	<u>1996</u>	<u>1997</u>	<u>1998</u>
Total Bahraini exports	1.7	1.9	1.5
Total Bahraini imports	2.8	2.9	3.1

U.S. trade with Bahrain (USD million)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999 (est)</u>
U.S. imports from Bahrain	124.2	126.3	169.8	145
U.S. exports to Bahrain	243.6	265.8	294.9	310
U.S. market share	8.7%	9.2%	9.5%	N/A

U.S.-Bahrain trade, by SITC Commodity (USD million)

U.S. exports to Bahrain

	<u>1996</u>	<u>1997</u>	<u>1998</u>
0-Food and live animals	8.5	7.5	6.8
1-Beverages and tobacco	7.5	11.8	7.1
2-Crude materials	1.5	0.9	0.8
3-Mineral fuels	29.0	21.9	17.5
4-Animal and veg. oils	8.7	0.0	12.3
5-Chemicals	7.3	8.5	10.4
6-Manufactured goods	15.4	21.0	19.9
7-Machinery	82.0	213.8	94.6
8-Misc. manufactured goods	34.3	71.4	46.0
9-Commodities and transactions	49.4	48.8	58.7

U.S. imports from Bahrain

	<u>1996</u>	<u>1997</u>	<u>1998</u>
0-Food and live animals	1.2	0.3	0.7
1-Beverages and tobacco	0.0	0.0	0.0
2-Crude materials	0.0	0.0	0.1
3-Mineral fuels	8.7	0.0	10.3
4-Animal and veg. oils	0.0	0.0	0.0
5-Chemicals	7.0	13.0	16.4
6-Manufactured goods	20.8	27.6	29.9

7-Machinery	0.6	1.9	2.2
8-Misc. manufactured goods	67.4	68.7	71.6
9-Commodities and transactions	9.4	5.8	10.3

(Source: U.S. Department of Commerce.)

XI. U.S. AND COUNTRY CONTACTS

Bahraini Government Agencies

Ministry of Finance and National Economy

Financial Markets Unit
 Michael Lee, Advisor
 P.O. Box 333
 Manama, Bahrain
 Tel: (973) 532-813
 Fax: (973) 533-630

Bahrain Monetary Agency

P.O. Box 27
 Manama, Bahrain
 Tel: (973) 535-535
 Fax: (973) 530-399
 website: www.bma.gov.bh
 E-mail: bmalbr@BATELCO.com.bh

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 Tel: 529-305
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Bankers Society of Bahrain

Mrs. Wendy Toorani
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 P.O. Box 3203
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Mr. Adnan Al Ansari, Head of Companies Affairs
 P.O. Box 3203
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 Industrial
 Mr. Abdul Nabi Ahmed Mansoor, Director of Industrial Area

Small and Medium Enterprise Unit
 Mr. Abdul Rahim A. Fakhro, Senior Chemical Engineer
 Tel: (973) 525-569
 Fax: (973) 290-302

Ministry of Labor and Social Affairs

H.E. Abdul Nabi Al Shoa'la, Minister
 Mr. Saeed Al Sayed Ahmed, Director of Manpower Development
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Fax: (973) 325-757

Sh. Hesham bin Abdul Aziz Al Khalifa
Airport Director
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Fax: (973) 324-096

Capt. Abdulrahman Mohammed AlGaoud
Asst. Undersecretary for Aviation Services
Tel: (973) 321-100
Fax: (973) 339-066

Bahrain Telecommunications Company (BATELCO)

Andrew B. Hearn, Chief Executive
P.O. Box 14
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Fax: (973) 611-441

Ministry of Works and Agriculture

H.E. Ali Ebrahim Al Mahroos, Minister
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Ministry of Education

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Ministry of Health

H.E. Dr. Faisal Al Mousawi, Minister
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Market Research Firms in Bahrain

Fortune PromoSeven
Mr. Tariq Al Saffar, Managing Director, Bahrain
P.O. Box 5989
Manama, Bahrain
Tel: (973) 225-148
Fax: (973) 224-375

Arthur Andersen & Co.

Mr. Jamal Al Hazeem, Partner
P.O. Box 20323
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Fax: (973) 530-321

Middle East Research and Consultancy (MERAC)
Mrs. Loren Irwin, Country Manager, Bahrain
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PriceWaterhouseCoopers
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Tel: (973) 530-077
Fax: (973)226966

Principal Commercial Banks

Citibank, N.A.
P.O. Box 548
Manama, Bahrain
Tel: (973) 223-344
Fax: (973) 210-000

National Bank of Bahrain B.S.C.
P.O. Box 106
Manama, Bahrain
Tel: (973) 228-800
Fax: (973) 228-998

Bank of Bahrain and Kuwait B.S.C.
P.O. Box 597
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Tel: (973) 223-388
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Ian Dunn, Economic Officer
Madeleine Khouri, Commercial Assistant
Lucy Fahim, Commercial Assistant

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PSC 451
FPO AE 09834-5100

Intl. Mail: U.S. Embassy
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Fax: (973) 273011
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Agricultural Trade Office
P.O. Box 9343
Dubai, U.A.E.
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E-mail: atodubai@emirates.net.ae
Home page: <http://www.usembabu.gov.ae/atodubai.htm>
Contact: Ron Verdonk, Regional Director
(Covers: Bahrain, Kuwait, Oman, Qatar and U.A.E)

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TPCC Trade Information Center, Washington 1-800-USA-TRADE

Trade Assistance and Promotion Office (TAPO)
Foreign Agricultural Service (FAS)
U.S. Department of Agriculture
Ag Box 1052
Washington, D.C. 20250-1052
Tel: (202) 720-7420
Fax: (202) 690-4374

The FAS Home Page address on the Internet is
<http://www.fas.usda.gov>

XII. MARKET RESEARCH AND TRADE EVENTS

Agricultural Reports (provided by ATO, Dubai):

- Annual Marketing Plan
- Agricultural Export Opportunities Update Reports
- American Food Directory in the GCC-5
- Guide for Doing Business in the Gulf
- Update of U.S. Agricultural Exports to the GCC-5
- GCC-5 Food Retail Sector Report
- Bahrain Food and Agricultural Import Regulations and Standards: Hotels and Restaurants Sector in the Gulf Region
- GCC-5 Dry Pulses Market Brief
- GCC-5 Ice Cream Production
- GCC-5 Food Industry Report

Note: Reports are available from the Reports Office, USDA/FAS, AG Box 1052, Washington, DC 20250 and from the FAS Home Page on the Internet at the following URL: <http://www.fas.usda.gov>.

TRADE EVENT SCHEDULE

The Bahrain International Exhibition Center (BIEC) is a modern, air-conditioned facility, featuring 8,000 square meters of covered exhibition space plus parking for 500 cars. The exhibition center has enhanced Bahrain's position as a venue for trade shows and conferences in the Gulf region. Bahrain is easily accessible by car via the King Fahed Causeway from Dhahran, Saudi Arabia. Frequent air service is also available from the other Gulf States, as well as from major European and South Asian commercial centers. Bahrain has five luxury-class and a number of other hotels, plus recreational facilities and excellent telecommunications to offer business visitors.

Bahrain International Exhibition Center
 P.O. Box 11644
 Manama, Bahrain
 Tel: (973) 550-111
 Fax: (973) 553-447
 E-mail: biec@BATELCO.com.bh
 Home Page: www.alnadeem.com.bh/biec

Several major hotels also offer first-class facilities for conference and exhibitions:

Gulf International Conference Center
 Gulf Hotel
 Tel: (973) 726-159
 Fax: (973) 726-129

Bahrain Conference Center

Holiday Inn

Tel: (973) 531-122

Fax: (973) 530-154

Le Royal Meridien Hotel

Tel: (973) 580-000

Fax: (973) 582-240

Although most international trade exhibitions in Bahrain are organized by Arabian Exhibition Management (AEM), an affiliate of the U.K.-based Montgomery Organization. Other trade exhibition companies also operate in Bahrain.

Arabian Exhibition Management WLL (AEM)

P.O. Box 20200

Manama, Bahrain

Tel: (973) 550-033

Fax: (973) 553-288

E-mail: aeminfor@batelco.com.bh

INTEX Exhibitions

P.O. Box 3300

Manama, Bahrain

Tel: (973) 536-000

Fax: (973) 5340-440

International Trade & Exhibition Middle East

P.O. Box 11088

Manama, Bahrain

Tel: (973) 293-339

Fax: (973) 292-999

Media Centre WLL

P.O. Box 5746

Manama, Bahrain

Tel: (973) 643-981

Fax: (973) 643-982

INTERNATIONAL TRADE FAIRS AND EXHIBITIONS

For 1999-2001, the events thus far announced for the Bahrain International Exhibition Center and at other venues include:

First International Medical Exhibition

November 9-12, 1999

-- This show, being organized by the German company Virex International, will be held every two years.

Jewelry Arabia 99

November 10-13, 1999

8th Middle East International Gold, Jewelry, Clock and Watch Exhibition

World Islamic Banking Information Technology Exhibition

December 4-6, 1999

-- This show will focus on IT solutions for Islamic banking and financial institutions; it will be held in conjunction with the World Islamic Banking Conference and organized by Middle East Global Advisors (MEGA).

MEFEX 2000

February 26-29, 2000

11th Middle East International Food, Hotel and Catering Exhibition and Salon Culinaire

-- This show is at the heart of the region's food, hotel and catering industry, estimated to be worth USD 13 billion annually.

Geo 2000

March 27-29, 2000

4th Middle East Geosciences Exhibition and Conference

-- Under the theme "New Millennium: New Horizons," this show will promote the oil and gas industry.

Middle East Petrotech 2000

September 26-28, 2000

3rd Middle East Refining and Petrochemicals Exhibition and Conference

-- Petrotech is billed as the leading regional forum for the downstream industry.

Human Resources Development Middle East 2000

October 9-12, 2000

2nd International Education, Training and Human Resources Development Exhibition and Conference for the Arab World

-- Human resource development, estimated to be a USD 5 billion industry in the region, is crucial as governments grapple with demographic and employment issues.

Jewelry Arabia 2000

November 14-18, 2000

9th Middle East International Gold, Jewelry, Clock and Watch Exhibition

Fashion Arabia 2000

November 14-18, 2000

Middle East International Designer Fashion Fair

MECOM 2001

March 3-6, 2001

11th Middle East International Information-Communications Show and Conference

-- MECOM brings together key players in the region's communications industry.

Middle East Broadcast 2001

March 3-6, 2001

5th Middle East International Exhibition and Conference for the
Radio, Television and Programming Industry

Middle East Power 2001

March 17-20, 2001

Middle East International Power Generation Exhibition and
Conference

MEOS 2001

March 31 - April 3, 2001

12th Society of Petroleum Engineers Middle East International
Oil and Gas Show Conference

-- MEOS remains the pre-eminent oil and gas show in the region.