



2014 Bahrain Investment Climate Statement

This document was updated on August 11, 2014 to reflect the most up to date and complete figures for unemployment.

Executive Summary

The investment climate in Bahrain is generally good, and has remained relatively stable in the last year. Bahrain has a liberal approach to foreign investment and actively seeks to attract foreign investors and businesses. In an economy largely dominated by parastatal companies, the Government of Bahrain aims to foster a greater role for the private sector in economic growth. Government efforts focus on encouraging private firm entry in the information and communications technology (ICT), education and training services, tourism, financial services, business services, healthcare services and energy and aluminum downstream industries.

The U.S.-Bahrain Bilateral Investment Treaty (BIT) entered into force in May 2001 and the U.S.-Bahrain Free Trade Agreement (FTA) entered into force in January 2006. The BIT provides benefits and protection to U.S. investors in Bahrain, such as most-favored nation treatment and national treatment, the right to make financial transfers freely and without delay, international law standards for expropriation and compensation cases, and access to international arbitration. The BIT guarantees national treatment for U.S. investments across all sectors, with very few exceptions. American firms interested in selling products exclusively in Bahrain are no longer required to appoint a commercial agent, though they may opt to do so. Bahrain permits 100% foreign-ownership of new industrial entities and the establishment of representative offices or branches of foreign companies without local sponsors. Under the U.S.-Bahrain FTA, Bahrain committed to enforce world-class Intellectual Property Rights (IPR) protection.

While Bahrain maintains a basic framework which provides for a transparent, rules-based government procurement system, U.S. companies sometimes reported operating at a disadvantage compared with other international firms in certain government procurements. Contracts were not always decided solely based on price and technical merit, and selected, pre-qualified firms were occasionally invited to bid on major government tenders. U.S. firms also reported high-level corruption is sometimes an obstacle to foreign direct investment, particularly in operating notably successful investments. Despite this, petty corruption is relatively rare in Bahrain. The bureaucracy is sometimes inefficient but it is generally honest. Giving or accepting a bribe is illegal, although the relevant laws are rarely enforced.

A period of political and civil unrest began in Bahrain on February 14, 2011. As of May 2014, demonstrations continue, occasionally developing into violent clashes by demonstrators against police. These violent clashes sometimes make travel in and around parts of Bahrain dangerous without advance warning. There are no indications that Westerners or U.S. citizens are being targeted directly, but isolated examples of anti-U.S. sentiment have been seen on the streets,

including the burning of U.S. flags. The unrest has had a limited impact on American businesses in Bahrain.

1. Openness To, and Restrictions Upon, Foreign Investment

Bahrain offers several advantages to U.S. and other foreign investors. The Government of Bahrain has a liberal approach to foreign investment and actively seeks to attract foreign investors and businesses. The growth of foreign direct investment (FDI) is one of the government's top priorities. A Bilateral Investment Treaty entered into force in May 2001 and a Free Trade Agreement in January 2006.

The World Bank's "Doing Business 2014" report ranks Bahrain at No. 46 out of 189 countries in the world for "ease of doing business" for foreign investors. The World Bank designated Bahrain as a high income country, with a total GNI per capita of USD 19,560. The 2014 Heritage Foundation Index of Economic Freedom ranked Bahrain 13 out of 183 countries, with a score of 75.1, or "mostly free." Bahrain ranked 57 on Transparency International's Corruption Perceptions Index in 2013, with a score of 78.

The government has focused its efforts on the entry of new private firms, particularly in the information and communications technology, education and training services, tourism, financial services, business services, healthcare services and downstream industries. Bahrain's Crown Prince is also an outspoken proponent of privatization in Bahrain, and became chairman of the Economic Development Board (EDB) in 2002 with a stated goal to provide a "one-stop-shop" for potential investors. The EDB works with Bahrain's ministries to implement the Kingdom's Economic Vision 2030 to reform education, labor, business practices, and training. The EDB coordinates closely with the Bahrain Development Bank (BDB) to support and assist small and medium business, and with Tamkeen, a capacity-building organization tasked with training the Bahraini workforce. Foreign-owned companies are eligible for partial financing from the state-owned BDB and Tamkeen if they meet certain criteria, such as providing training and employment to a significant number of Bahrainis.

In an economy largely dominated by parastatals (outside of the financial services sector), the Government of Bahrain seeks to foster a greater role for the private sector in economic growth. Following the creation of a Supreme Privatization Council in the spring of 2001, King Hamad bin Isa Al-Khalifa issued a decree on October 2002 laying out guidelines for privatizing tourism, telecommunications, transport, electricity and water, ports and airport services, oil and gas, stock exchange, and postal service sectors. In June 2006, the government formed the Bahrain Mumtalakat Holding Company to manage all of the government's investments. Mumtalakat has an official objective to reduce its shares in any company to less than 50%. Mumtalakat holds a 100% share in the following companies:

- Al-Awali Real Estate Company
- Bahrain Airport Company
- Bahrain Food Holding Co.
- Bahrain International Circuit
- Bahrain Real Estate Company (Edamah)

- Gulf Air
- Gulf Air Group Holding Company
- Hawar Island Development Company
- Tourism Projects Company
- @ Bahrain

Mumtalakat reduced its share of Aluminum Bahrain (ALBA) to 59%, following an IPO in November of 2010; all of its other holdings are below a 50% share.

The telecommunications sector is regulated by the Telecommunications Regulatory Authority (TRA). The sector was liberalized in July 2004 when licenses were granted for paging services, very small aperture terminal (VSAT), public access mobile radio services, international telecommunication facilities, international telecommunication services, national fixed services, internet service providers (ISP), and value added services. According to the December 2013 TRA Market Indicator Report, there are 21 telecommunication companies operating in Bahrain. The TRA monitors 64 operating licenses in the Kingdom. There are 10 active operators for national fixed lines, 14 international calls licenses, 13 internet service providers, and 17 leased lines. There are more than 2.08 million mobile lines operating in the Kingdom of Bahrain, with a market penetration of 159%, and there are 418,000 internet subscribers with a market penetration of 38%. Due to the small and highly saturated market, the TRA is cautious in granting licenses for new telecommunications providers. Under the 2002 Telecommunications Law, mobile provider Zain International relocated their headquarters from Kuwait to Bahrain. In January 2009, the TRA awarded a third mobile telecom license to Saudi Telecom Company (STC) under the local brand name Viva. The telecommunications sector generates annual revenue of USD 1.21 billion and contributes 4.5% to the total GDP.

The public transportation service was privatized in 2003. CARS, a Bahraini-UAE joint venture launched in May 2003, now operates 87 buses. In December 2012, the Minister of Transportation announced that the government will launch a tender for a new transportation company in mid-June 2014. CARS announced that it will not enter a new tender; however it will continue to operate until 2014. The government's total investment in the public transportation privatization project has reached approximately USD 21 million.

Since 2006 the Government of Bahrain privatized power production in the Kingdom by awarding tenders to construct new power stations, such as Al Ezzel in Al Hidd, and by selling the largest power station in the country, Al Hidd Power Station. In September 2009, the Higher Commission of Electricity awarded a USD 240 million contract to General Electric to purchase new gas turbines as part of a plan to expand the existing Al Dur Power Plant. Solar energy interests expanded, as well, and in May 2012 the Government of Bahrain and U.S.-based Petra Solar entered into an agreement for the installation of solar-powered modules into Bahrain's current power grid.

In April 2013, the Government of Bahrain announced it reached a deal with Petra Solar for USD 25 million. The company will be in charge of producing 5 MW. The energy production will take place in Awali area, and already 21 thousand solar plates were delivered to the Kingdom of

Bahrain. Moreover University of Bahrain also designated a location for solar production of 500 KW.

Construction and housing continue to play a key role in Bahrain's development. In 2011, the Ministry of Housing awarded a USD 57 million contract to American dredging company Great Lakes Dredge and Dock Co. for a land reclamation project. The land will be used for one of several housing projects approved throughout Bahrain. In response to the 2011 period of unrest in Bahrain and Oman, the remaining four GCC countries (Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates) launched a 10-year, USD 10 billion initiative known as the GCC Development Program. Funding will be directed towards infrastructure projects; housing; schools construction; social and youth programs; and healthcare. The initial announcement of the program indicated that both Bahrain and Oman would receive USD 1 billion each year over the next 10 years. In November 2013, Kuwait committed to provide USD 2.5 billion under the GCC Development Program. The Kingdom of Saudi Arabia committed to USD 1.8 billion mainly for infrastructure and housing projects in December 2013. In September 2013, UAE announced it will fund projects in the Kingdom of Bahrain worth USD 500 million mainly in electrical development, water distillation, housing, and construction of new schools and clinics.

In 2012, the General Organization of Ports, which was founded in 2008 to manage all port activities, was incorporated into the Ministry of Transportation, and is now known as Port and Maritime Affairs (PMA). In 2006, Denmark's APM Terminals was awarded a contract to manage Mina Salman and Khalifa bin Salman (KBSP) ports. KBSP officially started operating in November 2009 and is still managed by APM. Mina Salman is now managed by PMA.

The Central Bank of Bahrain (CBB) changed its licensing practices and loosened ownership restrictions in 2006 to give banks greater opportunities to invest domestically and regionally. Insurance firms, which were previously required to have at least 51% Bahraini-ownership, are now permitted to operate with 100% foreign-ownership. The CBB is holding consultations on further reform in areas such as captive insurance, solvency, business conduct, risk management and financial crime, enforcement, public disclosure, intermediaries, and Islamic insurance. Taxation and import laws apply equally to Bahraini and foreign-owned companies, and foreign investors must comply with the same requirements and legislation as local firms. The CBB has been active in developing regulations for the Islamic banking sector, and has been instrumental in making Bahrain a recognized center of Islamic banking. In January 2014, the CBB announced that the banking sector is sound and stable, and encouraged commercial banks to provide financing to stimulate the economy, particularly for small and medium enterprises. After urging by the CBB, Islamic banks have begun merging to create stronger entities, enhance competitiveness and allow the sector to overcome the financial crisis.

In January 2011, the Bahrain Stock Exchange (BSE) was transformed to a closed shareholding company. The newly-branded Bahrain Bourse is wholly owned by the GOB and regulated by the CBB. The Bahrain Bourse plans to increase its number of listed companies, boost share turnover, and attract new domestic and foreign investors. The Bahrain Bourse allows GCC firms and GCC citizens to own up to 100% of listed Bahraini companies. Non-GCC firms or citizens may own up to 49% of listed Bahraini companies and 100% of foreign companies.

Bahrain requires that pharmaceutical products be imported directly from a manufacturer with a research department and that the products be licensed in at least two other GCC countries, one of which must be Saudi Arabia. Drugs and medicines may be imported only by a drug store or a pharmacy licensed by the Ministry of Commerce after receiving approval from the Ministry of Health. Bahrain prohibits the importation of weapons (except under special license), pornography, wild animals, radio-controlled model airplanes, foodstuffs containing cyclamates, children's toys containing methyl chloride, and other articles declared harmful by the Ministry of Health.

Bahrain has phased out most subsidies for export industries, but permits duty-free importation of raw materials for export products and of equipment and machinery for newly-established export industries. All industries in Bahrain, including foreign-owned firms, benefit from government subsidized utilities.

A period of political and civil unrest began in Bahrain on February 14, 2011. As of May 2014, demonstrations continue, occasionally developing into violent clashes by demonstrators against security forces (see Political Violence, below). These violent clashes sometimes make travel in and around parts of Bahrain dangerous without advance warning. There are no indications that Westerners or U.S. citizens are being targeted directly, but isolated examples of anti-U.S. sentiment have been seen on the streets, including the burning of U.S. flags. The unrest has had a limited impact on American businesses in Bahrain. In early 2011, some foreign companies temporarily evacuated their employees and dependents to neighboring countries. Many of those employees and dependents returned to Bahrain by the end of 2011. In 2012, all travelers to Bahrain faced increased scrutiny from Bahraini authorities, and the Government of Bahrain refused to allow some U.S. citizens permission to enter Bahrain. In February 2012 the Government of Bahrain announced it would grant visas upon arrival. Alternatively, travelers can also submit an e-visa application before traveling to the Kingdom of Bahrain.

The use of official travel bans -- prohibiting an individual from leaving the country until a business or legal dispute is resolved -- is a cause for concern. In 2013, the Embassy received several reports of travel bans imposed on Americans and other foreign citizens over business disputes. Under current law, any party can request a travel ban on another by filing a request in court and paying a nominal fee. It can take months or years to get a ban lifted.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	(57 of 177)	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	(13 of 183)	http://www.heritage.org/index/ranking

World Bank's Doing Business Report "Ease of Doing Business"	2013	(46 of 189)	http://doingbusiness.org/rankings
Global Innovation Index	2013	(67 of 142)	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	USD 19,560	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Bahrain has no restrictions on the repatriation of profits or capital and no exchange controls. 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 2.659). 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.

The State Department's Bureau of International Narcotics and Law Enforcement categorizes Bahrain as a "country of concern" in its 2013 International Narcotics and Control Strategy Report (INSCR). <http://www.state.gov/j/inl/rls/nrcrpt/2013/database/index.htm>

3. Expropriation and Compensation

There have been no expropriations in recent years, and no cases in contention. The U.S.-Bahrain Bilateral Investment Treaty (BIT) protects U.S. investments by banning all expropriations (including "creeping" and "measures tantamount to") except those for a public purpose. Such transactions must be carried out in a non-discriminatory manner, with due process, and prompt, adequate, effective compensation.

4. 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. In April 2007, the government allowed the establishment of International Law Firms that provide services such as commercial and financial consultancy in legal matters.

The U.S.-Bahraini BIT provides for three dispute settlement options:

1. Submitting the dispute to a local court;
2. Invoking dispute-resolution procedures previously agreed upon by the national or company and the host country government;
3. Submitting the dispute for binding arbitration to the International Center for Settlement of Investment Disputes (ICSID) or any other arbitral institution agreed upon by both parties.

The GCC Commercial Arbitration Center, established in 1995, serves as a regional specialized body providing arbitration services. It assists in resolving disputes among GCC countries or between other parties and GCC countries. The Center implements rules and regulations in line with accepted international practice. Thus far, few cases have been brought to arbitration. The Center conducts seminars, symposia, and workshops to help educate and update its members of any new arbitration related matters. The Center's contact details are:

GCC Commercial Arbitration Center
P.O. Box 2338
Manama, Kingdom of Bahrain
Tel: + (973) 17-214-800
Fax: + (973) 17-214-500
Email: arbit395@batelco.com.bh

In November 2009, the Ministry of Justice established the Bahrain Chamber for Dispute Resolution (BCDR). In partnership with the American Arbitration Association, the BCDR specializes in alternative dispute resolution services. Since 2010, the (BCDR) has reviewed 86 commercial cases worth USD 1.582 billion. Most of the companies' cases involved family-owned companies in the GCC region. The BCDR's contact details are:

Bahrain Chamber for Dispute Resolution
Suite 401, Park Plaza
Bldg 247, Road 1704
P.O. Box 20006
Manama, Kingdom of Bahrain
Tel: + (973) 17-511-311
Website: www.bcdr-aaa.org

Arbitration procedures are largely a contractual matter in Bahrain. Disputes are historically referred to an arbitration body as specified in the contract, or to the local courts. In dealings with both local and foreign firms, Bahraini companies have increasingly included arbitration procedures in their contracts. 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, but is optional in those designating the BCDR. Occasional lawsuits against individuals or companies for nonpayment of debts have been adequately handled by Bahrain's court system.

The guidelines laid down by the International Chamber of Commerce (ICC) in Paris are generally respected, and disputes have been occasionally referred to arbitration at the ICC in

Paris. Bahrain is a signatory to the Washington Convention and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitration Awards.

5. Performance Requirements and Investment Incentives

There are no special performance requirements imposed on foreign investors. This is reinforced by the U.S.-Bahraini BIT, which forbids mandated performance requirements as a condition for the establishment, acquisition, expansion, management, conduct or operation of a covered investment. Foreign and Bahraini-owned companies must meet the same requirements and comply with the same environmental, safety, health, and labor requirements. Officials at the Ministry of Labor and the Ministry of Industry and Commerce supervise companies operating in Bahrain on a non-discriminatory basis.

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 GCC states on imported goods.

6. Right to Private Ownership and Establishment

In principle, private entities may freely establish, acquire, and dispose of interests in business enterprises, subject to the limitations noted in this chapter.

The U.S.-Bahrain FTA entered into force in January 2006. The agreement significantly expanded the scope of economic, commercial, and trade relations between the two countries. The FTA does not have a separate investment chapter and investment protections are covered in the U.S.-Bahrain BIT.

The BIT provides benefits and protection to U.S. investors in Bahrain, such as most-favored-nation treatment and national treatment, the right to make financial transfers freely and without delay, international law standards for expropriation and compensation cases, and access to international arbitration. The BIT guarantees national treatment for U.S. investments across all sectors, with exceptions for ownership of television, radio or other media, fisheries, and privatization of oil dredging or exploration. Bahrain also provides most-favored nation or national treatment status to U.S. investments in air transportation, the buying or ownership of land, and the buying or ownership of shares traded on the Bahrain Bourse.

Because of the national treatment offered American firms in the BIT, American firms interested in selling products exclusively in Bahrain are no longer required to appoint a commercial agent, though they may opt to do so anyway. A commercial agent is any Bahraini party appointed by a foreign party to represent the foreign party's product or service in Bahrain.

Bahrain permits 100% foreign-ownership of new industrial entities and the establishment of representative offices or branches of foreign companies without local sponsors. Wholly foreign-owned companies may be set up for regional distribution services and may operate within the domestic market as long as they do not exclusively pursue domestic commercial sales. Private

investment (foreign or Bahraini) in petroleum extraction is permitted only under a production-sharing agreement with BAPCO, the state-owned petroleum company.

Foreign firms and GCC nationals may own land in Bahrain. Non-GCC nationals may own high-rise commercial and residential properties, as well as property in tourism, banking, financial and health projects, and training centers, in specific geographic areas that are issued by an Edict from the Prime Minister's Cabinet.

7. 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. However, there is currently no mortgage law that guarantees lenders the right to repossess property in case of non-repayment. In 2011 the Ministry of Housing initiated a project for drafting a mortgage law to be in line with the recommendations from the National Dialogue of 2011. The Ministry established a Committee consisting of consultants, with representatives from the Ministry of Housing, Housing Bank, Ministry of Finance, and the Economic Development Board. The Ministry also contacted the Tender Board to conduct specialized studies. The Ministry of Housing acknowledges that having a modern mortgage law will assist in resolving the housing issues in the Kingdom.

Under the U.S.-Bahrain FTA, Bahrain committed to enforce world-class Intellectual Property Rights (IPR) protection. 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. Revised legislation to implement Bahrain's obligations under the TRIPS Agreement was ratified in May 2006. Bahrain joined the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. In May 2006, Bahrain passed laws related to intellectual property to bring Bahrain's local laws into compliance with its current Paris Convention commitment and to position it to join the Nice Agreement, Vienna Agreement, Patent Cooperation Treaty, Trademark Law Treaty, Madrid Agreement, Budapest Treaty, and the Rome Convention.

The government has made dramatic progress in reducing copyright piracy, and there are no reports of significant violations of U.S. patents and trademarks in Bahrain. The government's copyright enforcement campaign began in late 1997 and was based on inspections, closures, and improved public awareness. The campaign targeted the video, audio, and software industries with impressive results. Commercially-pirated video and audio markets have been virtually eliminated. However, audio, video, and software piracy by end-users remain a problem.

There are no technology transfer requirements that force firms to share or divulge technology through compulsory licensing to a domestic partner, nor are firms required to undertake research and development activities in Bahrain.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

The Embassy's webpage also offers a link to local lawyers, some of whom specialize in IPR and/or patent law. <http://bahrain.usembassy.gov/attorneys.html>

8. Transparency of the Regulatory System

In October 2002, Bahrain implemented a government procurement law to establish the basic framework for a transparent, rules-based government procurement system. The law requires certain procurements to be conducted as international public tenders open to foreign suppliers. The law established a tender board to oversee all government tenders and purchases. In the past, government-tendering procedures for large projects were not highly transparent. U.S. companies sometimes reported operating at a disadvantage compared with other international firms. Contracts were not always decided solely based on price and technical merit, and selected, pre-qualified firms were occasionally invited to bid on major government tenders.

Since January 2003, however, the Tender Board has processed all tender decisions valued at USD 26,525 (BD 10,000) or higher. Individual ministries and departments may still process projects valued at less than USD 26,525 (BD 10,000). U.S. firms report that the process greatly improved but challenges remain. A local representative with strong connections may still be important in the bidding process. Open tenders are listed on the Tender Board's website: <http://www.tenderboard.gov.bh/>. The Tender Board is only obligated to publicize widely tenders over USD 2.65 million (BD 1 million) or higher.

In the case of manufacturing enterprises, bureaucratic procedures and red tape created stumbling blocks mainly due to the lack of coordination between government ministries, which must sign off at one stage or another during the licensing process.

In an attempt to streamline licensing and approval procedures, the Ministry of Industry and Commerce opened the Bahrain Investors Center (BIC) in October 2004 for both local and foreign companies seeking to register in Bahrain. Moreover the government decreased the registration fees for most business and professional services companies to promote growth in this sector.

The BIC is designed as a "one-stop shop" providing all commercial licensing and registration services. This high-tech, customer-friendly and easy to find facility, located in one of Bahrain's largest malls, is part of a larger effort by the GOB to attract firms to use Bahrain as their "Gateway to the Gulf" by setting up regional operations here. It houses representatives from more than a dozen relevant ministries and private sector representatives from the telecommunication, legal, banking, and consulting industries under one roof.

Officials from the Ministry of Commerce note that the BIC can process and issue 80% of commercial registration applications within 24 hours, and another 10% of commercial registrations within five working days. The remaining 10%, mostly those having to do with health, environment, power, and other essential services, are processed separately according to sector specific regulations and licenses are issued on a case-by-case basis.

Legislation Process:

Draft legislation may be proposed by the Cabinet and by both the lower house (Council of Representatives) and upper house (Shura or Consultative Council) of the National Assembly. Once a draft law has been produced and submitted to the lower and upper houses of the National Assembly for approval, it is then passed to the Cabinet for the King's signature. After the King signs the law, the law is published in the Public Gazette and is promulgated.

Moreover, the King has the power to issue a Decree By Law, which carries the power of law. The Lower Legislative Chamber (COR), and Upper Chamber (Shura Council) of Parliament have the power to approve or reject a Decree By Law, but do not have the power to amend a Decree By Law.

In May 2012, the King ratified a set of constitutional reforms which enhanced the powers of the elected chamber in the legislative branch. This allows the COR spokesperson to chair the National Assembly whenever called upon. The new reforms laid the foundation for the elected chamber to monitor government programs, in addition to creating a mechanism for choosing appointed members in the Shura Council.

Entrenched local business interests with government influence can cause problems for potential competitors. Interpretation and application of the law sometimes varies by ministry, and may be dependent on the stature and connections of an investor's local partner. Departures such as these from the consistent, transparent application of regulations and the law remain rare, and investors are usually pleased with government cooperation and support.

9. Efficient Capital Markets 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 wholesale and retail banks have shown extensive cooperation in syndicating loans for larger risks.

There is an effective regulatory system that encourages portfolio investment, and the CBB has fully implemented Basel II standards. Bahrain has over 356 financial institutions with total assets exceeding USD 218 billion at the end of 2013. The 2008 global financial crisis, coupled with the political unrest of 2011, negatively impacted the growth in this sector. The CBB advised financial institutions to merge and review their business models to ensure greater profitability.

10. Competition from State-Owned Enterprises

Bahrain's major parastatals are the Bahrain Petroleum Company (BAPCO), Aluminum Bahrain (ALBA), the Gulf Industrial Petrochemicals Company (GPIC), Gulf Air, Bahrain Telecommunications Company (BATELCO), the National Bank of Bahrain (NBB) and the Arab Ship Repair Yard (ASRY). While the government controls oil production, refineries, and heavy

industries, it allows investment in BAPCO, BATELCO, and ASRY, and encourages private sector competition in the banking, telecommunication, shipyard repair, and real estate sectors.

The Government of Bahrain does not impose corporate taxes on any companies in the Kingdom. In 2002 the government instituted guidelines to ensure its State Owned Enterprises (SOEs) are in line with OECD policies on corporate governance. Parastatals produce quarterly reports and are divided into two categories. Oil production, refineries, and petrochemical companies fall under the National Oil & Gas Authority (NOGA Holding), while the banking, telecommunication, shipyard, and real estate companies fall under Mumtalakat. The National Audit Bureau monitors all SOEs and annually reports any irregularities, mismanagement, and instances of corruption. SOEs do not compete with private sector firms.

Like other GCC countries, Bahrain's Research & Development (R&D) in SOEs constitutes only 1 percent of the annual budget. BAPCO, GPIC, and ALBA export the majority of their production to GCC countries, India, and the United States. Mumtalakat's performance has been dragged down from having Gulf Air on its books, with the government routinely providing bailout money for the beleaguered airline.

11. Corporate Social Responsibility

Corporate Social Responsibility is a relatively new concept in the region. Bahrain does not have any laws or policies which regulate corporate social responsibility. Each parastatal has created its own strategy for addressing environmental and social issues. Some companies support a wide variety of initiatives, while other focus more on charity work.

12. Political Violence

Historically, Bahrain has been an open, politically moderate, economically liberal Gulf state that enjoys close ties to the United States. In recent years, Bahrain has seen periodic outbursts of street violence arising from issues such as housing, employment, and sectarian discrimination. In February and March 2011, Bahrain witnessed unprecedented political and civil unrest that resulted in at least 35 deaths. In March 2011, the government instituted a State of National Safety, during which military forces from Saudi Arabia and the United Arab Emirates were deployed to Bahrain to restore order. The government lifted the State of National Safety on June 1, 2011. All 18 opposition members of parliament resigned to protest the use of force against civilians. In July 2011, the Government of Bahrain launched a National Dialogue that resulted in several recommended reforms, though opposition groups generally rejected the process. Parliamentary by-elections were peacefully conducted in September 2011 to replace the vacated seats, though political opposition groups boycotted the elections. In November 2011, the royally-appointed Bahrain Independent Commission of Inquiry (BICI) released a detailed report on its findings and recommended reforms, particularly in the security services. The Government of Bahrain has implemented many of the recommendations made by the BICI and National Dialogue, but the political and civil unrest continues. Ongoing demonstrations have occasionally degenerated into violent clashes by demonstrators against police and violent protestors have employed improvised bombs and weapons against security officials. However, such violence is normally confined to specific neighborhoods, and demonstrators have not targeted Americans or

Western expatriates. American citizens visiting Bahrain are reminded to visit the Embassy's website to receive the most updated information about the security situation and register with the Embassy's consular section.

13. Corruption

According to U.S. firms, high-level corruption is sometimes an obstacle to foreign direct investment and contracting, particularly in the contract-bidding process and in operating notably successful investments. In the case of some high-value contracts, government-tendering procedures have not always been transparent and contracts have not always been decided on the basis of price and technical merit. Petty corruption is relatively rare in Bahrain. The bureaucracy is sometimes inefficient but it is generally 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. The King and Crown Prince have come out publicly in favor of reducing corruption and some Ministries have initiated clean-up efforts to reduce the problem. The expatriate business community is cautiously optimistic that there is growing transparency in the government procurement process. A new law to thoroughly revamp government procurement procedures went into effect in January 2003. Bahrain signed and ratified the UN Anticorruption Convention in February 2005 and October 2010, respectively. Bahrain is not a signatory to the OECD Convention on Combating Bribery.

In 2005 Bahrain established the National Audit Bureau. The Bureau publishes annual reports which highlight fiscal irregularities within government ministries and entities. The reports enable legislators to exercise oversight and call for investigation of fiscal discrepancies in government accounts. In December 2013, the Crown Prince established an Investigation Committee to oversee the cases highlighted in the National Audit Report. In February 2014, the Minister of State for Follow-Up in the Cabinet Affairs stated that seven cases were transferred to the Public Prosecution.

In September 2007 the Crown Prince publicly launched an official campaign against corruption. As a result, several executives in state-owned companies were removed from their positions. In April 2008, Bahraini government officials and executives of Aluminum Bahrain (ALBA) were accused of accepting bribes from the American firm Alcoa. In 2008, ALBA sued Alcoa, alleging that Alcoa conspired to overcharge ALBA by hundreds of millions of dollars. The lawsuit was closed in 2011 after the U.S. Justice Department and U.'s Serious Fraud Office announced they were investigating the matter. Alba's former CEO and a London-based middleman have been charged in the UK case. In December 2011, ALBA filed an amended racketeering lawsuit against Alcoa. In October 2012, Alcoa reached a settlement with ALBA. It did not admit liability, but agreed to pay the company USD 85 million. ALBA filed similar lawsuits against Japanese company Sojitz Group, accusing it of paying bribes to gain discounts on aluminum prices.

As a result of the 2011 National Dialogue process, the Ministry of Interior established an Anti-Corruption Directorate. In 2011 the Ministry of the Interior signed a Memorandum of Understanding with the United Nations Development Program to enhance the Anti-Corruption

Directorate's capabilities. In January 2014, the Crown Prince directed the Anti-Corruption Directorate in the Ministry of Interior to take a more active role in investigating allegations of corruption. Moreover the Crown Prince urged the public to play a more active role in combating corruption by utilizing the established hotline to report instances of corruption.

Anti-Corruption Directorate Contact Information:

Confidential Hotline Number: Dial 992 (in Bahrain)
E-mail: hotline.acu@moipolice.bh

14. Bilateral Investment Agreements

Bahrain and the U.S. signed a bilateral investment treaty (BIT) in September 1999, the first BIT between the United States and a GCC state. The agreement entered into force in May 2001. The U.S.-Bahrain FTA does not include a separate investment chapter.

As of December 2013, Bahrain had bilateral investment protection agreements in place with Algeria, Barbados, Belarus, Bulgaria, the Czech Republic, China, Egypt, Germany, Italy, Iran, Ireland, Jordan, Malaysia, Morocco, Netherlands Philippines, Russia, Syria, Thailand, the United Kingdom, and the United States.

Bahrain has economic and commercial cooperation agreements with Australia, Bangladesh, Belgium, Belarus, Brunei, China, the Czech Republic, Egypt, France, Germany, Greece, India, Iran, Iraq, Ireland, Italy, Jordan, Mexico, Malaysia, Morocco, the Netherlands, Russia, Ukraine, Singapore, South Korea, Syria, Tunisia, Turkey, and the United Kingdom.

Bahrain has air transportation tax agreements with Belgium, China, France, Luxembourg, Italy, Germany, Greece, Russia, Singapore, Syria, Thailand, Turkey, the Netherlands, Ukraine, the United Kingdom, the United States, and Yemen.

Bahrain has concluded double taxation agreements with Algeria, Belgium, Brunei, the Czech Republic, Egypt, Germany, France, Iran, Italy, India, Jordan, Lebanon, Luxembourg, Malaysia, Mexico, Morocco, Pakistan, Philippines, Russia, Slovakia, Spain, Thailand, Tunisia, Turkey, and the United Kingdom.

15. OPIC and Other Investment Insurance Programs

In April 1987, the Government of Bahrain and the U.S. Government signed an agreement which opened the way for the extension of Bahrain's Overseas Private Investment Corporation (OPIC) facilities to U.S. private investors interested in doing business in Bahrain. The agreement covers investment insurance, reinsurance, and investment guarantees.

16. Labor

The Bahrain labor force is estimated at 712,600, of which 58% are expatriates. According to the most recent government statistics, foreigners comprise 52% of the total population. The government has publicly stated that 4.8% of Bahrainis are unemployed, however the International Labor Organization estimates unemployment to be 7.5%.

The government's primary initiative for combating unemployment is "Bahrainization," or the replacement of expatriate workers by national citizens. In 2009, under the initiative of the Crown Prince, the Economic Development Board launched "Bahrain Economic Vision 2030," a long-term plan to raise Bahraini standards of living, reform the government, education, and health sectors, and increase privatization, training and education of the Bahraini workforce to establish Bahrain as a regional center for human capital. For more information please refer to: <http://www.mofa.gov.bh/img/partners/Vision2030Englishlowresolution.pdf>

Periodically, foreign firms experience difficulty obtaining required work permits and residence visas for expatriate employees due to Bahrainization efforts. 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 appeal to the highest levels of the concerned ministries, and to consult the U.S. Embassy.

In August 2006 the King ratified the Labor Reforms Law, establishing two entities: the Labor Market Regulatory Authority (LMRA), and the capacity-building organization known as Tamkeen. The law imposed a monthly fee of BD10 (USD 26.60) on each expatriate employed by a company. The revenues collected under this program are earmarked to provide job training for Bahrainis. The LMRA fee was suspended after the unrest of 2011 and reinstated in September 2013 with a change in fee structure. Now companies pay BD 5 (USD 13.35) for the first five foreign workers and BD10 (USD 26.67) for every employee over that limit.

In August 2007 the Labor Minister introduced an unemployment allowance to be paid from a general labor fund. The fund is financed by deducting one percent from the wages of all workers and is the first such program in the GCC.

In September 2002 the King approved the Workers Trade Union Law of 2002 that recognizes the right of workers to collectively organize and form trade unions, and provides limited rights to strike. The law prohibits workers from striking in certain vital sectors including security, aviation, ports, hospitals, and utilities. With the exception of domestic servants, foreign workers are allowed to join trade unions. The law prohibits employers from dismissing an employee for trade union activities. In October 2011, the King issued a Decree By Law that changed Bahrain's labor law as it pertained to trade unions and federations. Union leadership heavily criticized the new law for some of its other provisions that appear to inhibit freedom of association. The 2012 law prohibits multi-sectoral labor federations and prohibits individuals convicted of felonies from holding union leadership posts. While the amendment also allowed for the formation of multiple trade union federations, it gave the Minister of Labor the sole right to select the federation to represent the country's workers in international fora and in national-level bargaining.

In September 2010, the U.S. Department of Labor (DOL) and the Bahrain Ministry of Labor (MOL) convened the first meeting of the U.S.-Bahrain Sub-Committee on Labor Affairs, as established under the U.S.-Bahrain FTA, and reaffirmed their obligations under the FTA related to internationally recognized labor rights, including their obligations as members of the International Labor Organization (ILO) and commitments stated in the ILO Declaration on Fundamental Principles and Rights at Work (1998).

During the political and civil unrest of 2011, thousands of Bahraini employees were dismissed from their private and public sector jobs. In June 2011, the AFL-CIO filed a petition with the Department of Labor accusing Bahrain of violating the labor rights terms of the U.S.-Bahrain FTA. The November 2011 Bahrain Independent Commission of Inquiry report concluded that the majority of dismissals were motivated by retaliation against employees suspected of being involved in demonstrations. By the end of 2012, the vast majority of dismissed workers in the public and private sectors were reinstated, with the Government working to resolve the remaining cases. In March 2014, the Minister of Labor, the Bahrain Chamber of Commerce and Industry, and the General Federation of Bahrain Trade Unions signed a Tripartite agreement to resolve the remaining worker reinstatement cases. Subsequently, the International Labor Organization dropped the complaint it initiated in 2011. Bilateral consultations between the U.S. and Bahrain -- invoked under the Labor Chapter of the FTA in response to the 2011 AFL-CIO complaint -- are ongoing.

17. Foreign Trade Zones/Free Ports

Khalifa bin Salman Port, Bahrain's major sea port provides a free transit zone to facilitate the duty-free import of equipment and machinery. The Kingdom of Bahrain developed two main industrial zones, one to the north of Sitra and the other in Hidd. The Hidd location has a logistic zone. Foreign-owned firms have the same investment opportunities in these zones as Bahraini companies.

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

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in the Kingdom of Bahrain

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	

Host Country Gross Domestic Product (GDP) <i>(Millions U.S. Dollars)</i>	2013	USD 27.4 Billion	2013	USD 28.6 billion	Bahrain Economic Development Board http://www.worldbank.org/en/country
Foreign Direct Investment	In 2013 the EDB announced Bahrain attracted an FDI amount of USD 114 million, an increase of 12 percent.		The World Investment Report issued by UNCTAD showed that FDI in Bahrain reached USD 120 million, an increase of 14 percent.		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD; EDB
U.S. FDI in partner country <i>(Millions U.S. Dollars, stock positions)</i>	Year No data available	Amount No data available	2012	USD - 455 million	(BEA) click selections to reach. <ul style="list-style-type: none"> • Bureau of Economic Analysis • Balance of Payments and Direct Investment Position Data • U.S. Direct Investment Position Abroad on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Host country's FDI in the United States <i>(Millions U.S. Dollars, stock positions)</i>	Year No data available	Amount No data available	2012	USD 276 million	(BEA) click selections to reach <ul style="list-style-type: none"> • Balance of Payments and Direct Investment Position Data • Foreign Direct Investment Position in the United States on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Total inbound stock of FDI as % host GDP	Year No data	Amount No data	Insert (Year)	Amount	

<i>(calculate)</i>	available	available			
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* Provide sources of host country statistical data used.

TABLE 3: Sources and Destination of FDI: Kingdom of Bahrain (2012)*

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	16,826	100%			
Kuwait	5,519	33%			
Saudi Arabia	4,059	24%			
Libya	2,740	16%			
United Arab Emirates	1,250	7%			
India	956	6%			

"0" reflects amounts rounded to +/- USD 500,000.

* Source: <http://cds.imf.org>

Foreign investments in Bahrain range from partial foreign ownership of large parastatals in the oil and telecommunications sectors to small restaurant franchises. Although the government does not maintain detailed statistics on foreign direct investment flows, the 2013 U.N. World Investment Report indicates a 2010 FDI stock of USD 15.2 billion, or 71% of GDP, for inward investment, and USD 7.2 billion, or 38.1% of GDP, for outward investment.

According to the Inward Performance Index published by UNCTAD in 2013, which ranks countries by the FDI they receive in relation to their economic size, Bahrain's ranked 102 out of 143 countries.

TABLE 4: Sources of Portfolio Investment: Kingdom of Bahrain (2012)*

Portfolio Investment Assets								
Top Five Partners (Millions, US Dollars)								
Total			Equity Securities			Total Debt Securities		
World	36,518	100%	World	2,405	100%	World	34,114	100%
Turkey	8,519	23%	United States	516	21%	Turkey	8,499	25%
Philippines	6,923	19%	Cayman Islands	431	18%	Philippines	6,923	20%
United States	6,458	18%	Saudi Arabia	352	15%	United States	5,941	17%
United Arab Emirates	2,693	7%	Qatar	145	6%	United Arab Emirates	2,561	8%
Qatar	2,136	6%	United Arab Emirates	132	5%	Qatar	1,991	6%

* Source: <http://cpis.imf.org>

By value, the largest foreign holdings and projects in Bahrain include:

--In 2010, Occidental Petroleum and BAPCO formed Tatweer Petroleum, a joint venture to revitalize Bahrain's only active oil field through enhanced-recovery technologies. Tatweer is drilling 3,600 new oil wells over the next 20 years.

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

-Bahrain National Gas Company (BANAGAS) is owned by Bahrain, a Saudi investment firm, and Caltex Bahrain.

-Durrat Al Bahrain, a major real estate project valued at USD 3.4 billion, being developed by Bahrain Kuwait Finance House.

-Amwaj Islands, a tourism project is jointly owned by Bahraini, Kuwaiti and Saudi corporate and individual investors.

-The development of the USD 1.3 billion Bahrain Financial Harbor project, owned by Gulf Finance House, personal and corporate GC. investors.

U.S Investments in the Kingdom of Bahrain

According to U.S. Embassy records, approximately 180 U.S. companies have been operating, in one form or another, in Bahrain since January 2009. 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 the following:

-Great Lakes Dredge & Dock Co. has significant land-reclamation projects in Bahrain. In 2011, the company signed a USD 57 million deal to complete the East Hidd Project for the Ministry of Housing.

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

-National Hotels Company, owners of the Diplomat Radisson SAS Hotel and Executive Apartments has injected USD 18 million for the expansion project.

-Kraft Foods opened a USD 40 million production plant in 2008.

-Coca-Cola, West Point Homes, and Kimberly-Clark all have production operations in Bahrain.

American firms are also heavily involved in large-scale consulting and construction projects in Bahrain, including:

-Cisco Systems has an agreement with Bahrain's Central Informatics Organization (CIO) establishing a regional Cisco networking academy.

-Hill International signed an agreement to perform work for the Bahrain Airport expansion project.

19. Contact Point at Post for Public Inquiries

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