

Guideline for investments and economic projects in the Sultanate of Oman

The Sultanate of Oman is politically stable and dedicated to ensure open markets and free trading. Furthermore Oman is characterized by its proximity to the United Arab Emirates and in particular to Dubai as an extremely important business location. Due to that and not least due to the efforts of the state to encourage foreign entrepreneurs and investors, Oman is becoming more and more interesting and lucrative for foreign businessmen.

This guide is intended to give the most important information and to answer first questions on the way to deciding whether to start an economic activity in the Sultanate of Oman.

General and cultural customs and differences in business practices

Oman is a country, which is impressed by Islam and most Omani are strictly religious. This is affecting not only everyday and social life, but also economic transactions. For example the weekend is not as usual taking place on Saturdays and Sundays, but because of the great Friday prayers the weekend is shifted to Fridays and Saturdays, so the Sunday is a normal working day. Also during Ramadan the Sultanate follows its own rules. Ramadan takes a total of 30 days and its beginning and end shift approximately 11 days each year as these are based on the Islamic lunar calendar. During this time eating, drinking and smoking in public is strictly

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prohibited and even the daily working time is limited to 6 hours by law. The economic and social life mostly takes place after sunset, when the Muslims are allowed to break their fast. During the day, most of the shops are closed and public life almost comes to a standstill. When Ramadan is over, there are again following several days of public holidays, on which is also not worked.

On the other hand it should be emphasized, that the Omanis are a very friendly and outstandingly respectful and open-minded towards other cultures and strangers. This affects in particular on business contacts and transactions. Dealing with business partners takes place on a much friendlier and more informal level than in Europe or the US. Therefore, meetings are often held in restaurants, hotels or even in the house of the business partner. The handling and management of economic projects is so designed in a context other than the one known to us, but quite pleasant.

Through this friendship level with business partners it is particularly important to have broad contacts with the right people and maintain them for having access to it when necessary.

Local characteristics in legal relations

The Sharia and their interpretation, which should always be considered, play a significant role in the legal system. Not infrequently whole contracts or individual agreements or clauses are very differently interpreted by various places and courts in Oman.

Therefore an experienced consultant, who is familiar with the local legal system and specific intercourse in Oman, is needed to make sure a reliable assessment and evaluation of individual interests and points. This is especially important regarding liability and indemnity clauses.

In this context it is important, that the consultant also knows and understands the European view of things, because only when both requirements are fulfilled, the need of security and the aims of an European investor can be considered and realized in the specific negotiations and contracts in accordance with the Omani law.

Government approval of foreign economic projects

Basic requirement to be economically active in the Sultanate of Oman is a permission of the Ministry of Commerce and Industry. In order to obtain this approval, various conditions must be fulfilled.

For starting a business or establish a company in Oman categorically an Omani partner must be found. This partner has to hold at least 30% of the formed enterprise. Only in very exceptional cases a 100% holding of foreign entrepreneurs will be admitted. This is mainly conceivable in particularly important strategic areas for the Omani economy or in the free trade zones (see below).

In order to obtain a business license of the Ministry of Commerce and Industry for a foreign-invested company, an initial capital of at least 150,000.00 OR (equivalent to approximately € 300,000.00) is required. Exception is again the foreign participation to 100 %, where the initial capital has to be at least OR 500,000.00 (equivalent to approximately € 1,000,000.00). These exceptions are provided in the so called Foreign Investment Law. A society without foreign participation is already possible with an initial capital from OR 20,000.00 (equivalent to approximately € 40,000.00).

A license is issued for paying a fee and the amount of this fee depends mainly on the nature of each intended economic activity.

Due to the Free Trade Agreement between Oman and the USA the shares of company founded by either a natural person, who is a citizen of the USA, or a company, which is incorporated in the US, in Oman can categorically be held up to 100 % by citizens of the USA or a company, which is located in the US.

Depending on the case further approvals from other authorities or other documents such as bank guarantees or insurance policies may be required to obtain the business license issued by the Ministry of Commerce and Industry.

Possible legal structures of economic activity

For economic projects in Oman following types of companies are permitted by law:

(1) Sole Proprietorship:

A Sole Proprietorship is only possible for Omani nationals, under certain conditions, to GCC nationals, but not for other nationals.

(2) General Partnership:

For the General Partnership there is both, a common liability of the shareholders also as a sole liability with the personal asset. The shareholders of the General Partnership depend on the involvement of the other partners, so they can take all decisions only in the collective.

(3) Limited Partnership:

The limited partnership consists of several shareholders with different shares of the company and also different liability. On the one hand here is respectively are one or several shareholders, whose liability is individually with their whole private asset (general partners) and on the other hand there are one or more shareholders, who are only liable in the amount each of them incorporated in the company's capital and not beyond (limited partners), who are excluded from management. However, the importance of partnership in practice is very limited.

(4) Limited Liability Company:

On such a least two partners must be involved and also the participation of a legal entity is possible. The LLC can consist of up to 40 shareholders. The capital of the LLC is equally allocated to the respective shareholders and there is liability only in the amount of this

capital.

(5) Joint Venture:

The Joint Venture merely is a participation, which is formed by two shareholders, who may also be a legal entity. The Joint Venture itself is not a separate legal entity, so no government approval is required for this form of investment.

(6) Joint Stock Company:

The Joint Stock Company in Oman must consist of at least three partners - both natural persons and legal entity are capable for a participation -, which are sharing equal parts of the company. Here the liability of the shareholders can and should be limited to the amount of capital participation in the Joint Stock Company. For establishing this company a special government approval by the Director General of Commerce is required. In a closed Joint Stock Company shares are not accessible to the public and the minimum capital is RO 500.000,00 (equivalent to approximately € 1.000.000,00). In a public Joint Stock Company the minimum capital must be an amount OR 2.000.000,00 (equivalent to approximately € 4.000.000,00) and between 40% and 70% of the shares have to be provided for public subscription. Furthermore, 10 % of the annual earnings of the Joint Stock Company have to be kept in reserve, which is as long necessary until the reserve has grown to a total of 1/3 of the initial capital. This reserve shall remain in the company, so that a distribution is excluded in this amount. A company wishing to operate in the insurance industry or in the field of banking affairs has to be configured as a Joint Stock Company. Furthermore, also the establishment of a Branch or a Representative Office is possible. However, a Representative Office is not allowed to do economic activities on its own, but rather is limited to the acquisition, care and mediation of business contacts to the parent company. The establishment of a branch is advisable for example to participate locally in public announcements.

Other forms of companies cannot be established in the Sultanate of Oman, as the so called

“numerus clausus” of company law applies here as in Germany, so that exclusively the foundation of the expressly provided company forms by law is possible.

Due to limited and conceivable liability and the amount of identifiable risk the Limited Liability Company is highly recommendable in most cases and also the most frequently chosen company structure by foreign investors. The foundation of a company corresponding to the German model of the One-Man Limited Liability Company is not possible, because Omani law does not allow a single shareholder to hold the total amount of the shares of a company.

When founding any company in the Sultanate of Oman it is extremely important to be aware of the fact, that the state approval of a company foundation or the participation in such represents a major obstacle. This is because of the administrative machinery being complex and nontransparent, and for the final grant that permission in turn permits of different authorities may be required. Furthermore, deadlines are often extended several times and the timing of the business license grant procedure at the Ministry of Commerce and Industry is generally limited conceivable.

To handle all regulatory requirements and obtaining all consents, investors and other interested parties can benefit from our excellent network of local contacts and years of experience. Thus, our attorneys offer you a maximum of information and clarify any time through comprehensive processes, developments and the status of your project.

Taxation

Also from a tax point of view the Sultanate of Oman represents a very advantageous. Taxation of personal income and salary does not occur. Also dividends are not taxed. The income of companies, which resident in the Sultanate, is taxed for both private companies as well as corporations with a fixed rate of 12%. In addition an amount of OR 30.000,00. (equivalent to approximately € 60.000,00) is held tax free. The taxation behaves in another way concerning branches of foreign companies. They are taxed depending on the amount of earnings. Here the tax rate is for example for an annual profit of up to an amount of OR 35.000,00 between 5% and 10%. In steps of approximately OR 20.000,00 the tax rate increases by 5% to an amount of 35% of taxation.

Companies resident in the GCC States are excluded from the taxation of profits. Indeed a double taxation agreement with Germany was signed by both sides in 2002, but it has not yet entered into force.

Infrastructure

The Sultanate of Oman is well connected. Both in the South in Salalah and in the North in Muscat, there is one international airport, and Muscat International Airport is currently being expanded. Furthermore, the city streets as well as the highways in the Sultanate are well developed and in good condition.

Of course the Sultanate, which is adjacent to the sea in the north and in the east as well as in the south, has several ports available, of which four are economically significant: the Sultan Quaboos Port in Muscat, the industrial port of Sohar, the multifunctionally used Ad Duqm Port in the Al Wusta region and especially the nationally and internationally important port of Salalah. In addition there also is the tourist port Khasab in Musandam.

Free trade zones

In Salalah, the second largest city in Oman, the Salalah Free Trade Zone, which is adjacent to the Port, is located. This free trade zone offers some excellent benefits for companies. For example, there is no requirement to deposit the initial capital of the company. Furthermore, here it is possible to register a company whose shares are held up to 100% of foreign investors and for example domestic companies are exempt from customs duties on raw materials and finished products. Furthermore, there are no restrictions regarding the transfer and repatriation of corporate profits.

Close to the border to the United Arab Emirates in the southwest of the country there the Free Trade Zone Sohar is located, in Muscat there is the Knowledge Oasis Muscat Free Trade Zone, in which technology oriented foreign companies are able to own 100% of the shares of their company. There also is a free trade zone in Al Mazunah near the Yemeni border in Southern Oman.

Furthermore, currently another a free trade zone in Al Duqm, which is strategically favourable located in the center of the east coast, is being built.

Particularly interesting is also the 30-year tax exemption on corporate profits and dividends in the free trade zones.

Entry

Requirements

For entering the Sultanate a passport, which is valid at least six months after entry, is required. The visas are issued for a fee when entering the Sultanate. Firstly, there is the possibility of issuing of a single entry tourist visa for up to 10 days at a cost of OR 5,00 (equivalent to 10,00 €) as well as for up to a month at a cost of 20 OR (equivalent to 40,00 €), which can be extended for another 10 days respectively for another month.

Secondly, there is the option of obtaining a multiple-entry visa without extension possibility, which can be used for a period up to one year. In this case the passport must at least have a validity of one year form the date of entering Oman and a more than 3 weeks of permanent residence in Oman is excepted. For the obtaining of this visa, it has to be requested by a local sponsor and the applicant has to verify frequent bygone business trips to the Sultanate. The visa is issued under the responsibility of the sponsor.

Work visa and long-term stay in Oman

Also to get a work visa or a so called residence visa, some requirements have to be fulfilled. Only the local sponsor or a company that is located in the Sultanate itself, may apply for a work visa for the foreigner. This work visa is valid for a period of up to two years, while it

allows multiple entry and exit during the validity period. Also there is the possibility of multiple extensions.

For further information and questions as well as for a individually tailored consulting to your planned project our lawyers are happy to assist you.