

Oman a holiday destination with unique business opportunities

Izabella Szadkowska - Partner - Corporate Structuring / Corporate Services / Corporate / Mergers and Acquisitions / Capital Markets / Family Business

i.szadkowska@tamimi.com - Dubai International Financial Centre

November 2013

Oman's interest in establishing free zones dates back at least a decade. Oman initiated the creation and development of economic free zones with the enactment of Royal Decree 56 of 2002 (concerning establishment of free zones in Oman) ("Free Zones Decree").

Companies operating in such free zones are not subject to certain Omani law requirements.

Furthermore, under the Free Zones Decree, such companies are exempt from:

1. taxes applicable to on-shore entities in Oman (normally 12% of their profits);
2. local ownership restriction (normally of 30 % of the capital of an entity);
3. provisions of Commercial Agency Law that require a business to have a local agent or distributor to carry out distribution of goods;
4. restrictions on the repatriation of profits and investments;
5. foreign currency restrictions; and
6. commodities' import/export custom duties within the free zone in question (unless the goods are brought out of the free zone into Oman or any other GCC country when the standard 5% GCC customs duty will apply).

The Free Zones Decree resulted in the establishment of three free zones:

1. Sohar Free Zone ("Sohar Zone")
2. Salalah Free Zone ("Salalah Zone")
3. Al Mazyounah Free Zone ("Almaz Zone")

In this article we provide an overview of each of these free zones.

SOHAR ZONE

Legal Foundations:

The Sohar Zone was established under H.M. Sultan Qaboos Royal Decree 123 of 2010 ("Decree"). In accordance with the Decree, the Sohar Zone is managed by Sohar Industrial Port Company SAOC and operated by its subsidiary, Sohar Free Zone Company LLC ("SoharCo").

Sohar Free Zone Law, issued under the umbrella of the Free Zones Decree, governs business operations carried out in the Sohar Zone.

Location:

The Sohar Zone is located at Sohar in the Batinah Region of Oman, near Sohar Industrial Port and as such within an easy reach of Muscat (about 200 km away), Dubai (about 180 km away), Abu Dhabi and Al Ain

ports, KSA ports and those of the Indian subcontinent.

Permitted Activities:

The following business activities can be conducted in or from the Sohar Zone:

- Steel manufacturing and processing.
- Manufacturing, production, trade and logistics in:
 1. oil and gas;
 2. petrochemicals;
 3. minerals and aggregates;
 4. ceramics;
 5. food (with cold storage and warehouse facilities available).

Why It's Worth Considering

Apart from the general benefits set out under the Free Zones Decree, Sohar Zone businesses can benefit from:

- no minimum capital requirement;
- getting all the approvals required to start and proceed with their operations processed through and with the assistance of SoharCo;
- a ten-year corporate tax exemption (extendable) provided that at least 15% of the business's staff are Omani nationals;
- lower insurance premiums resulting from the use of the Strait of Hormuz;
- relaxation on Omanisation to 25% only.

Licensing Considerations:

A business that wishes to operate in the Sohar Zone needs to apply to SoharCo for a license to be registered as:

1. a working company (a Sohar Zone LLC), i.e. a limited liability company (with at least two shareholders) that leases land operating under: (i) industrial; (ii) light manufacturing and assembly; or (iii) logistics license; or
2. a third party service provider, providing ancillary services that support the operations of Sohar Zone LLCs.

SoharCo acts as a “one stop shop”, arranging all required administrative permits and approvals from other Omani administrative (public or governmental) authorities.

The license requires annual renewal. Should the license applicant be required to obtain a special permit (e.g. in order to execute civil works on their plot of the leased land, outside the plot within common areas e.g. laying a pipeline or transport some goods), it shall apply to SoharCo for the relevant permit and obtain the same before commencing any such works.

Licensing Process:

For service providers there is no formal licensing process, but for Sohar Zone LLCs the licensing process entails the following stages:

1. Submission, by the applicant, of a plot of land lease application form and license application form with SoharCo.
2. Review of the application by SoharCo.
3. Agreement, between the applicant and SoharCo, on land lease commercial terms (e.g. cost, term, etc.).

4. Application, by SoharCo, for and on behalf of the applicant, to the Ministry of Environmental and Climate Affairs for applicant license no objection.
5. SoharCo due diligence on the applicant.
6. Application approval by SoharCo.
7. Payment of fees (land lease, incorporation and license) by the applicant to SoharCo.
8. Applicant license issuance by SoharCo; and
9. Entry into a land lease agreement between SoharCo and the applicant.

SALALAH ZONE

Legal Foundations:

The Salalah Zone was established under Royal Decree 62 of 2006, issued under umbrella of the Free Zones Decree. It has been further governed by the Implementing Regulation No. 1 of 2006.

Location:

The Salalah Zone is situated on the south east of the Arabian Peninsula, on the import – export sea route between the MENA region and Asia.

Salalah is home to one of the largest deep water ports in the world.

Permitted Activities:

The following business activities can be undertaken from or in the Salalah Zone:

- Chemical and material processing.
- Manufacturing and assembling.
- Logistics and distribution.

Why It's Worth Considering:

Apart from the general benefits set out under the Free Zones Decree, Salalah Zone businesses can benefit from the no minimum capital requirement.

Licensing Considerations:

A business that wishes to operate in the Salalah Zone needs to apply to the Salalah Zone for one of the following licenses:

1. A general trading license, in order to import, export, distribute and store goods;
2. A specific trading license, in order to import, export, distribute and store specific goods named on the license;
3. An industrial license, in order to import raw materials, carry out the manufacturing of specified products and export finished products (subject to clearances from respective ministries); or
4. A services license, in order to carry out the services specifically named on the license, within the Salalah Zone, that correspond with the services provided by its parent company in on-shore Oman.

A Salalah Zone entity can be set up as an establishment, a company, a branch of a local or foreign business.

ALMAZ ZONE

Legal Foundations:

The Almaz Zone was established under Royal Decree 103 of 2005. It is further governed by Decision No.

22 of 2010 (Issuance of Regulation Organising Al Mazyounah Free Zone).

Location:

Almaz Zone is located in Oman's southern region of Dhofar, only 4 km away from the Yemeni border, 14 km away from Shahn City, Yemen.

Permitted Activities:

The following business activities can be carried out from Almaz Zone:

1. Commercial, i.e.: (i) commodities storage; (ii) vehicles display and storage; (iii) vehicle spare parts trading; (iv) heavy equipment storage and trading; and (v) fruits and vegetables storage and trading.
2. Light crafting and industry, i.e.: operating/manufacturing (i) packing, soaring, and filling factories; (ii) foods, juices, and agricultural minor trade production factories; (iii) maintenance workshops, for small, medium and heavy duty equipments and vehicles; (iv) maintenance and requalification of vehicles workshops; and (v) light plastic; (vi) readymade garments & textiles; (vii) wood/other light manufacturing.
3. Support services, i.e.: providing (i) transportation and distribution services across the Oman-Yemen border; from- to both Omani & Yemeni sides; (ii) customs expedition services; (iii) catering Services; and (iv) up and download services.

Why It's Worth Considering:

Apart from the general benefits set out under the Free Zones Decree, Almaz Zone businesses can benefit from:

- exemption of profits from the income tax for 30 years.
- decreased Omanisation requirement to 10% only.
- no work permit/visa requirement for Yemeni staff.
- obtaining Omani national certificates of origin on goods produced in Almaz Zone.
- Licensing Considerations:
 - A business that wishes to operate in the Almaz Zone needs to apply to Almaz Zone authority for a license.

Conclusion

There are many reasons to come to Oman. For many their first thought may be the alluring activities for visitors, including shopping at the Muscat Gold Souk, enjoying a walk by Mutrah Corniche or having a dinner at Shangri-La Barr Al-Jissah Resort & Spa. There are however equally alluring business opportunities, particularly with the free zones described above, whose purpose is to enable local and international businesses to flourish.

For those who want to see their business grow but also enjoy a little peace and quiet and the camaraderie of a tight-knit expat community, Oman it is.