

# **BAHRAIN**

## **TRADE SUMMARY**

The U.S. trade balance with Bahrain went from a trade surplus in 2003 of \$130 million to a trade deficit of \$105 million in 2004. U.S. exports in 2004 were \$301 million, down 40.9 percent from the previous year. Corresponding U.S. imports from Bahrain were \$405 million, up 7.1 percent. Bahrain is currently the 88<sup>th</sup> largest export market for U.S. goods. The stock of U.S. foreign direct investment (FDI) in Bahrain in 2003 was \$196 million, up from \$70 million in 2002.

## **IMPORT POLICIES**

As a member of the GCC, Bahrain applies the GCC common external tariff of five percent for most products, with a limited number of GCC-approved country-specific exceptions. Bahrain's exceptions to the common external tariff include alcohol (125 percent) and tobacco (100 percent). Four hundred seventeen food and medical items are exempted from customs duties entirely.

Upon entry into force of the U.S.-Bahrain FTA, 100 percent of bilateral trade in consumer and industrial products will become duty-free immediately. In addition, Bahrain will provide immediate duty-free access to virtually all products in its tariff schedule and will phase out tariffs on the remaining handful of products within ten years. On agricultural products, Bahrain will provide immediate duty-free access for U.S. agricultural exports in 98 percent of agricultural tariff lines. Bahrain will phase out tariffs on the remaining products within ten years.

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 pharmacy licensed by the Ministry of Commerce after approval by the Ministry of Health. Bahrain prohibits the importation of weapons (except under special license), wild animals, radio-controlled model airplanes, pornography, foodstuffs containing cyclamates, and children's toys containing methyl chloride (and other articles declared harmful by the Ministry of Health). Bahrain is also taking steps to ban the import of 127 chemicals.

## **STANDARDS, TESTING, LABELING AND CERTIFICATION**

As part of the GCC Customs Union, member countries are working toward unifying their standards and conformity assessment systems, and have progressed considerably toward the goal of a unified food standard – originally targeted for adoption by 2006. However, each country currently applies either its own standard or a GCC standard, which can cause confusion for U.S. exporters.

## **FOREIGN TRADE BARRIERS**

Bahrain usually incorporates international or GCC standards, and the development of standards in Bahrain is based on the following principles: (a) no unique Bahraini standard is to be developed if there is an identical draft GCC standard in existence; and (b) developing new Bahraini standards must not create trade barriers. The total number of GCC standards adopted as Bahraini standards currently stands at 1020, out of which 320 are mandatory and 700 are voluntary. There are also approximately 434 draft GCC standards under development.

Bahrain has replaced its product shelf-life requirements, a major impediment to U.S. processed food exports to the Gulf region, with international (Codex) standards.

## **GOVERNMENT PROCUREMENT**

In October 2002, Bahrain implemented a new government procurement law that establishes the basic framework for a transparent, rules-based government procurement system. It provides that certain procurements may be conducted as international public tenders open to foreign suppliers. To implement this law, a tender board, chaired by a Minister of State, was established in January 2003 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. However, as of January 2003, the Tenders Board processes all tender decisions valued at BD 10,000 (\$26,525) or higher. Individual ministries and departments may still process projects valued at less than \$26,525. U.S. firms report that the process is greatly improved over the previous system, though some challenges remain. A local representative with strong connections may still be important in the bidding process. When the U.S.-Bahrain FTA enters into effect, Bahrain will be required to conduct procurement covered by the FTA in a fair, transparent, and non-discriminatory manner.

## **EXPORT SUBSIDIES**

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.

## **FOREIGN TRADE BARRIERS**

## **INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION**

The U.S.-Bahrain FTA commits Bahrain to enforce world-class IPR protection. Bahrain is also in the process of joining the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. The government has made significant 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 encouraging results. However, software piracy, which has shifted from retail to end-user violations, remains problematic.

## **SERVICES BARRIERS**

### **Financial Sector**

In March 2004, as part of an effort to stimulate the insurance industry and reinforce Bahrain's position as a major insurance center in the Middle East, the Bahrain Monetary Authority (BMA) lifted the requirement that foreign insurance brokers and loss adjusters have a local partner to operate. These firms, which were previously required to have at least 51 percent Bahraini-ownership, are now permitted to operate with 100 percent foreign-ownership. The BMA is holding consultations on further reform in areas such as captive insurance, solvency, business conduct, risk management and financial crime, enforcement, BMA reporting and public disclosure, intermediaries, and Islamic insurance. As a result of the FTA, Bahrain will lift the moratorium on the issuance of new insurance licenses for life and medical insurance upon entry into force of the agreement and will lift the moratorium for non-life insurance licenses 6 months afterward.

In 2004, Bahrain's Central Bank issued seventeen new licenses – one investment bank, four offshore banking units, one full commercial bank, two investment advisory brokers, two financial services ancillary service providers, three representative offices, one money exchange unit, and three Islamic banking and financial institutions.

### **Telecommunications**

The telecommunications sector was the first key sector to be liberalized in Bahrain following the governments announced interest in opening traditionally government-controlled industries. The Telecommunications Regulatory Authority (TRA), established in late 2002, awarded a mobile telecommunications services license to MTC Vodafone, thus ending the monopoly of Bahrain's telecommunications services provider, BATELCO. The license was awarded under the Telecommunications Law, which took effect January 2003. The TRA Chair announced in April 2003 that all licenses, including those currently held by BATELCO, would be issued for fifteen years. A total of nine different licenses will be issued.

## **FOREIGN TRADE BARRIERS**

On July 1, 2004, the telecommunications sector was fully liberalized, including paging services, very small aperture terminals (VSAT), public access mobile radio services, international telecommunications facilities, international telecommunications services, national fixed services, internet service providers (ISP), and value-added services licenses. As of December 2004, the TRA announced the provision of three International Telecommunications Facility Licenses (IFLs), five International Telecommunications Services Licenses (ISLs), five VSAT licenses, fifteen value-added Services (VAS) “Class” licenses and eight Internet Service Provider (ISP) licenses.

### **Agent and Distributor Rules**

U.S. 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. Certain exceptions to this rule are provided under existing Bahraini commercial registration laws.

### **INVESTMENT BARRIERS**

The U.S.-Bahrain 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 provides national and most-favored-nation treatment for U.S. investments across all sectors, with exceptions for ownership or control of television, radio or other forms of media, fisheries, initial privatization, air transportation, the purchase or ownership of land, and, until January 1, 2005, the purchase or ownership of shares traded on the Bahrain Stock Exchange (BSE).

Bahrain permits 100 percent 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. However, local businesses licensed for retail and companies listed on the BSE are still required to have 51 percent Bahraini or GCC-ownership. Foreign companies established before 1975 may be exempt from this rule under special circumstances.

Since January 2001, foreign firms and GCC nationals may own land in Bahrain. Non-GCC nationals may now 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.

In an attempt to streamline licensing and approval procedures, the Ministry of Commerce opened the Bahrain Investors Center (BIC) in October 2004 for both local and foreign companies seeking to register in Bahrain. According to Ministry of Commerce officials, 80 percent of all licenses can be processed and verified within approximately twenty-four hours, an additional 10 percent within five working days and the remaining 10 percent, involved in environmental,

### **FOREIGN TRADE BARRIERS**

power, health and other important utilities and services, are processed separately and licenses are issued on a case-by-case basis.

## **ELECTRONIC COMMERCE**

In September 2002, Bahrain implemented an Electronic Transactions law, recognizing the validity of electronic transactions. In order to encourage use of this technological advancement, the Ministry of Commerce has implemented electronic government. Banks offer electronic banking and the parastatal telecommunications company now accepts electronic transactions for bill payments.