THE REPORT
Oman 2008

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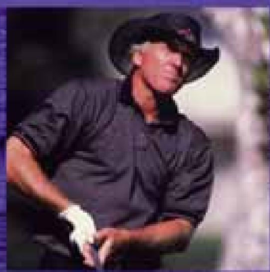

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Building on the past

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Due in large part to prescient leadership and an enviable location, Oman experienced substantial economic growth and domestic stability in 2007. On the home front, Sultan Qaboos bin Said Al Said instituted military upgrades and continued to focus on education. The government expanded its role as a voice of restraint in the region, playing moderator between Iran and the US, for example.

COUNTRY PROFILE

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Stocks and bonds: *Share analysis and data provided by Al Madina Investment*

Ample funds for diversification

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Despite a number of challenges over the past year, the Omani economy is strong and stable. Declining hydrocarbons reserves and a regional trend towards diversification have encouraged the government to transform the economy. Although Oman is still largely dependent on oil income, the manufacturing and services sectors have been expanded and could eventually account for a substantial percentage of GDP.

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Photography: Ousama Ayoub
Additional Photography: Petroleum Development Oman

Production Manager: Selin Bolu
Deputy Production Manager: Nükte Parlaoz
Editorial Coordinator: Mehtap Çizmecioğlu

Operations Manager: Yasemin Dirice
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Planes, ships and automobiles

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Due to Oman's strategic location on the Arabian Sea and its proximity to the UAE, its ports and road infrastructure are becoming increasingly important. As a result, the ports at Sohar and Salalah are set to undergo major expansion, as are airports, with capacity increasing to facilitate the growth of the tourism sector.

Set to explore

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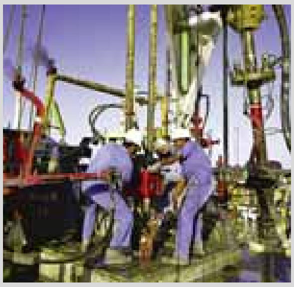
The government has identified privatisation as the way forward for the hydrocarbons sector, and it is hoped that enhanced oil recovery techniques will increase the amount of oil extracted by up to one-quarter. Rural areas are being targeted as needing improvement in the area of electricity provision, and the annual demand for electricity is expected to grow by 10% in the next five years.



Come one, come all

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Oman is now making tourism a priority. Billions of riyals have been invested in hotels and resorts by both public and private investors. While the industry remains small, the government has plans to increase tourism's contribution to GDP by investing in leisure and business tourism, with a particular focus on families from GCC states and adventure and luxury tourists.

Industrial shake-up

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Since its launch in 1999, Sohar's industrial port has slowly but surely staked its claim as one of the region's leaders. Its focus on key areas such as petrochemicals and metals has garnered the port a global reputation and attracted the attention of foreign investors. And with the recent introduction of a free zone, Sohar and its reputation look set to grow even further in the years ahead.

A clean bill

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Since its inception in 1970, health care in Oman has made remarkable progress. In the 30 years since Oman's first five-year health plan, the nation has seen its number of medical professionals increase ninefold. But as costs and demand increase, the private sector is being encouraged to play a greater role.

The country is known for its natural beauty, among other things

Gateway to the Arabian peninsula

The Sultanate holds a strategic position at the mouth of the Gulf

Although it does not attract as many headlines as its flashier Gulf Cooperation Council (GCC) neighbours, Oman is known for its natural beauty and commitment to preserving the environment. Its economy has grown rapidly since the discovery of oil in the 1960s and in more recent years is starting to see the benefits of a diversification strategy to make the economy less reliant on oil revenues. There has been a lot of investment in industrial mega-projects with the aim of encouraging further downstream investment and creating jobs.

GEOGRAPHY: Oman is located in the south-east corner of the Arabian peninsula, bordering Yemen to the south, Saudi Arabia and the UAE to the west, the Gulf of Oman to the north, and the Arabian Sea to the east. Oman also has two enclaves: Madha and the Musandam peninsula, both of which are surrounded by UAE territory, and the strategically important Strait of Hormuz, through which about 30% of the world's oil supply is shipped.

POPULATION: Oman has a population of about 2.6m which includes around 570,000 expatriates. In recent years the number of expatriates coming to work in Oman has increased with higher oil prices and new industrial and infrastructure projects. The country still, however, has a relatively small proportion of expatriates, who come mainly from the Indian subcontinent, compared to other GCC countries. This explains the impetus for the government to encourage diversification and create jobs. Oman's tourism industry is keen to take advantage of the low proportion of expatriates by showing tourists that they will interact with Omani nationals when holidaying and not just foreign workers, as is common in other Gulf states. Most of Oman's population lives by the coast and half live on the Batinah coastline between Muscat, the capital, and Sohar, traditionally a fishing village but now at the heart of Oman's industrial development. Oman's second-largest city, Salalah, in the southern Dhofar region, is home to around 200,000 people. Oman's population is growing fast and is very young. The median age is 19 years old and the population growth rate is around 3.2%.

RELIGION AND CULTURE: Islam came to Oman within the lifetime of the Prophet Muhammed. The dominant form of Islam in the country is Ibadi, followed by about 70% of the population, but there are also followers of Sunni and Shia Islam. Oman is the only country in the world where the Ibadi school is the dominant form of Islam. It is unique in that it is distinct from the Sunni or Shia forms of Islam. It is practiced in other countries such as Libya and Algeria but only by a minority. It is one of the oldest Islamic sects, said to date only 50 years after the death of the Prophet Muhammed and is thought, by its practitioners, to have been founded by Jabir ibn Zaid Al Azdi from Nizwa, Oman. Ibadism can be described as conservative but is also seen as a moderate form of Islam. Due to the expatriate population, the second biggest religion in Oman is Hinduism, which accounts for around 13% of the population.

Oman is known for its traditional Khanjar knives, which are worn on formal occasions by Omani men and are an important symbol of elegance. They are shaped in a distinctive curve and are ornately decorated. Omani cuisine is fairly simple and mutton, chicken and fish are served at most meals with many spices. Dates and dried fruits are a popular snack. Oman is known for its production and use of frankincense, an aromatic resin obtained from trees and used in incense and perfumes.

LANGUAGE: Arabic is the official language in Oman and the most widely spoken. Omani Arabic is similar to classical Arabic. Many Omanis also speak their own local and tribal dialects. While all official documents are in Arabic, many use English, especially those living in Muscat or who work with the expatriate community. Signposts are often in English.

EDUCATION: Since 1970, with the coming to power of Sultan Qaboos Bin Said Al Said, education has


The climate is hot and dry in the interior and is generally hot and humid by the coast during summer

been a key part of the drive to transform Oman into a knowledge economy. Literacy in Oman is around 81% and has improved greatly in the past 35 years. Children are required to attend school until the secondary level. More higher education institutions have been established in recent years, including many technical institutions. Due to Oman's young population, the demand for higher education is growing fast. Many universities have more female graduates than male, due in part to affluent parents sending only their sons to foreign universities.

HISTORY: Oman occupies an extremely strategic position in the Gulf. A decade after Portuguese explorer Vasco da Gama discovered the sea route to India in 1498 the Portuguese occupied Muscat, holding onto the city until 1648. From this vantage point they could protect their valuable shipping routes. The Portuguese built forts which are still visible, and their architectural style is reflected in present-day Muscat. The Ottomans pushed out the Portuguese and occupied Muscat for just under 100 years until they were forced out by a tribal leader from Yemen in 1741. The current line of Omani sultans is descended from this man. Beginning in the 1600s Oman emerged as an economic power by using its position on the Indian Ocean and seafaring experience.

The Omanis gained control of the coastal areas of Iran, India, Zanzibar and Kenya, building a trading empire. At this point, there was a distinction between the coastal secular area called the Sultanate of Muscat and the more conservative interior known as Oman. In the 1820s the Sultanate's territories and influence began to slip away from it and the country lost its trading advantages competing against more technologically-advanced European powers. With the discovery of oil, the British, under pressure from European oil companies, helped the Sultanate consolidate power over the interior. In 1970 Sultan Qaboos bin Said Al Said gained power from his father and Muscat and Oman became known as the Sultanate of Oman, starting a modernisation programme, introducing economic reforms and investing oil revenues in major infrastructure projects. Historically Oman has had good relations with Britain and this continues to the present day with close diplomatic, economic and military ties. Oman has an independent foreign policy and has good relations with its Arab neighbours, the US and Europe.

GEOGRAPHY AND CLIMATE: Oman's interior is covered by a vast desert with mountain ranges in the north and south. The biggest city is the capital, Muscat, and other large towns include Matrah and Sur in the north and Salalah in the south. The highest peak in Oman is Jabal Shams at 2980 metres. The climate is hot and dry in the interior and hot and humid by the coast. Oman's famous Musandam peninsula, which is surrounded by the UAE and is on the coast of the Strait of Hormuz, is a popular tourist destination, especially for people living in the UAE, and houses a US military base.

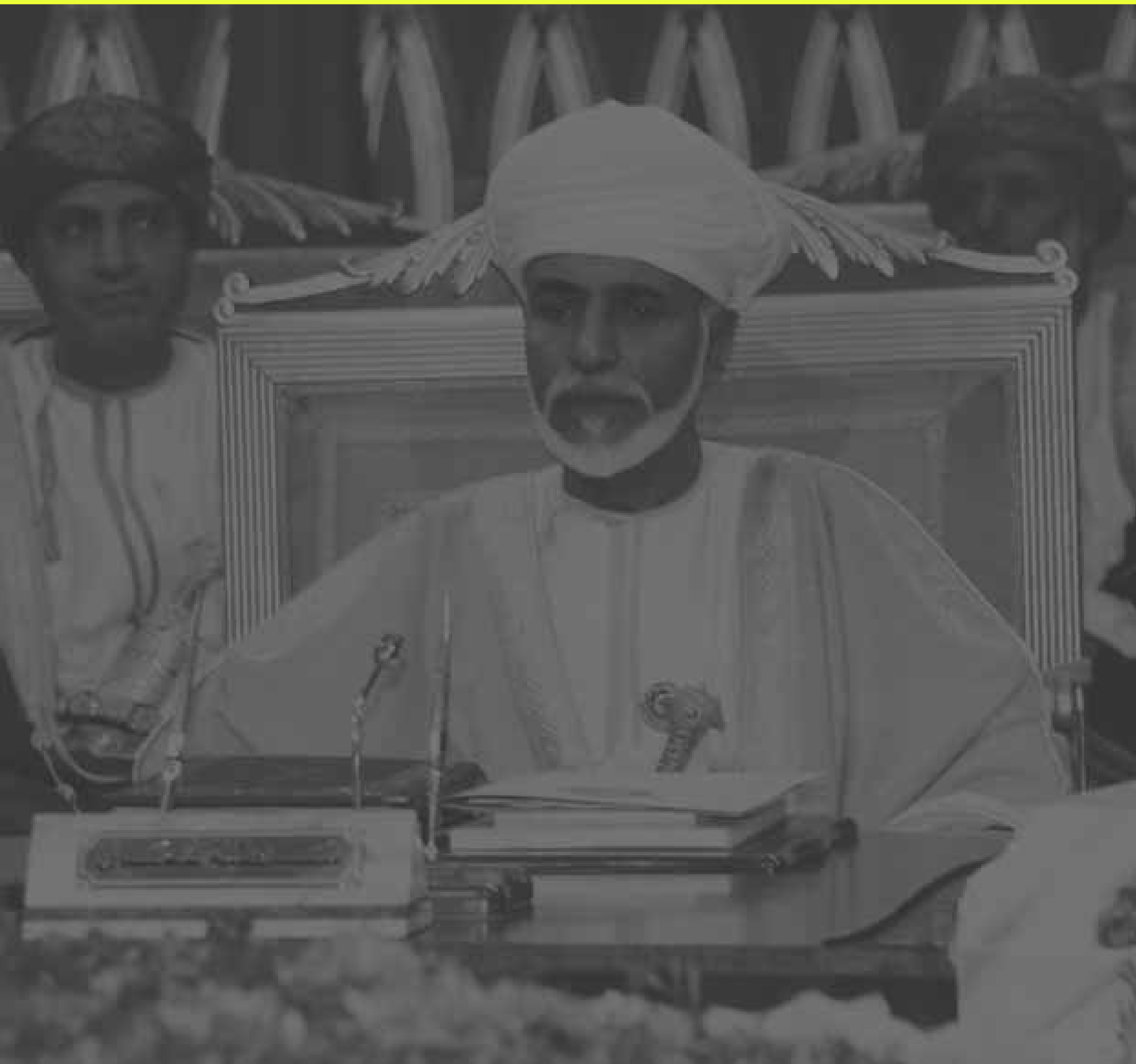
The southern Dohfar region has very different weather conditions between May and September when it is affected by the passing south-east monsoon. Temperatures can be 10-15 degrees lower than the rest of the country and there is a lot of rain and mist. The area is known for being very green and attracts many visitors from other GCC countries keen to experience weather conditions that do not occur in their own countries. On June 6, 2007, Oman was hit by Cyclone Gonu, which also affected areas of Iran. Parts of Muscat were hit and damage from the storm is estimated at around $4bn, mainly from flooding. About 50 people were reported dead. The storm was the worst in living memory and has encouraged the development of more efficient flood protection.

NATURAL RESOURCES: Oman has always had less oil than its neighbours and its geography makes it more difficult to extract. Oil was discovered in the 1960s, and production reached its peak a few years ago. Oman currently produces around 750,000 barrels of oil a day. Oman has always managed this resource more carefully than its Gulf neighbours. Citizens have encouraged the government to diversify the economy more urgently than other GCC nations. It costs about $7 a barrel to extract oil in Oman compared to $2 in neighbouring countries. This has encouraged the use of enhanced oil recovery technologies in recent years to try and extend the life of Oman's oilfields.

Oman also has a significant amount of natural gas estimated at around 795.2bn cu metres of proven reserves. To try and reduce its economic reliance on oil Oman has invested in liquefied natural gas (LNG) facilities and now exports LNG around the world. The availability of cheap natural gas has also encouraged big industrial investments, especially in Sohar in the north. This industrialisation programme has been successful but further expansion is being delayed until more gas supplies are secured. The government has been opening up the energy sector to foreign investment and it is hoped that welcoming private companies will lead to more gas discoveries and help to extend Oman's hydrocarbons resources.

Politics

The country expands its role as a regional mediator
Diversification efforts continue to bear fruit
Expanding women's rights a national priority
Oman ranked highly on international indices in 2007
The government builds relations with Iran and the US
Military upgrades make the country a formidable force



The government continues to extol the virtues of Omanisation

Building on the past

The Sultanate is a voice of moderation in the region

In spite of the damage wrought by cyclone Gonu, Oman experienced substantial economic growth in 2007, largely as a result of diversification away from oil exports.

Many Omanis will remember 2007 as the year of Gonu, a massive cyclone that lashed the Sultanate and some of its neighbours in June. Plenty of superlatives accompanied Gonu. Scientists declared it equal to the most powerful storm ever recorded in the northern Indian Ocean and emergency officials said it was the costliest natural disaster in Oman's history. All told, the cyclone killed at least 50 people, forced the evacuation of thousands of others, and caused about $4bn in damage.

The authorities declared a state of emergency the day before the cyclone struck, evacuating approximately 7000 islanders and at least 50,000 residents of low-lying coastal areas. A brief 24 hours later, the storm wrought havoc throughout eastern Oman. Entire communities were flooded by huge waves and heavy rainfall, roads were washed away, telephone lines were severed, and electrical power was cut in several towns and cities, including Muscat, the capital. Most worryingly, the storm caused desalination facilities to break down, imposing severe water shortages on the capital and other parts of the country. Within a few days, however, essential equipment damaged by flooding had been repaired or replaced.

ALL IN MODERATION: In spite of Gonu's destruction, 2007 was a year of domestic stability and impressive economic growth for Oman. The Sultanate's reputation as a safe haven from the major internal disturbances and stubborn external disputes that plague some of the Gulf countries remained sterling, which is a considerable benefit when it comes to courting international firms to participate in development projects and gas exploration. Rising prices for crude oil, which is the country's most important export commodity, more than offset the cost of the damage from Gonu, and the fruits of both diversification and privatisation helped other sectors to increase their own contributions to GDP. Official figures put 2007 growth at 11.6%, and while the country's oil output, which is currently about 790,000 barrels per day (bpd), continues to dwindle as existing fields age, plans are in place to reverse this trend. The government and some of its foreign partners have earmarked significant resources for both additional exploration and enhanced recovery techniques that are capable of prolonging the viability of a known deposit by a substantial number of years.

BREAKING NEW GROUND: Like many countries that rely on oil for a significant proportion of both GDP and government revenues, Oman has been keen to reduce its reliance on a commodity for which prices can be volatile and of which supplies are limited and non-renewable. The Sultanate has been quite successful in this pursuit, and has focused much of its energy on expanding various non-oil sectors, such as manufacturing. With this in mind, it is no surprise that non-oil exports rose sharply in 2007. Additionally, both the private and public sectors moved to take advantage of the country's considerable draw as a tourist destination, something made possible by the country's stability.

ON THE MOVE: Adequate transportation is another prerequisite for attracting tourists and so, with this in mind, Oman is engaged in a sweeping infrastructure upgrade. The construction of three new airports was announced in 2007, and that number was doubled in the first days of 2008. In addition, two existing facilities – including Muscat's Seeb International Airport, which is expected to receive a new runway – are being expanded and modernised, and Oman Air, the national carrier, began direct service to London in November 2007.

As the government looks to profit from the stunning scenery afforded by its 3500-km coastline, maritime transport is an increasingly important part of the Sultanate's development. In 2006 the government ordered two high-speed catamaran ferries from Austal, an Australian shipbuilder. The first of these, the Shinas, completed sea trials in late 2007 that confirmed a top speed of more than 103 km per hour, making it the world's fastest diesel-powered vessel of its class. The Shinas is scheduled for delivery in February 2008, to be followed by a sister ship in July. The plan is for both to carry more than 200 passengers and almost 60 cars on regular cruises to the Musandam peninsula, which is a rugged and beautiful enclave of Omani territory at the north-east tip of the UAE.

The two ferry routes, among other investments and innovations in a number of sectors, look set to start paying handsome dividends by the end of 2008. The tourism industry, especially, is set to grow quickly in the near future, as evidenced by the amount of attention the Sultanate has been getting in the international press as of late. *Vogue* magazine, for example, recently declared Oman its destination of the year for 2008. The London-based *Sunday Telegraph* also predicted a boom year for tourism in the country, describing it as a "gracious and accessible face of Islam".

HOME-GROWN LABOUR: The ambitious retooling of Oman's economy is designed to prepare the Sultanate for the inevitable post-oil era by ensuring that Omani citizens will retain well-paying jobs and be able to contribute to socio-political stability. A related component of the liberalisation strategy is "Omanisation", which aims to reduce the Sultanate's reliance on foreign labour, thereby increasing opportunities for the country's own citizens. Although not in the extreme position of some other countries in the Gulf, Oman does have a large number of expatriate workers. An official estimate in October 2007 put the figure at more than 600,000, compared to about 2.6m nationals.

Omanisation began in 1988, and while great strides have been made in terms of government jobs, the policy has coincided with a period of unprecedented growth and development. Consequently, the private sector has continued to soak up foreign workers. This was especially true in 2007, when the aforementioned investments in non-oil sectors, such as tourism and construction, played a big part in increasing the expatriate workforce by up to 100,000 people.

Many analysts believe that this problem will fix itself, especially since the jobs in question – fully one-third of which are in the construction industry – are temporary. In addition, while Sultan Qaboos bin Said Al Said, the ruler of Oman, has extolled the country's youth to consider "work, whatever its nature, [as] a virtue", he has also directed plenty of resources to educational opportunities that equip them for more lucrative positions. Critics of the country's foreign workforce complain that expatriates drain money from a host country's economy by sending the bulk of their earnings back home to their families in the form of remittances. A number of economists have pointed out that such critics tend to overlook the many benefits of cheap foreign labour, which include downward pressure on prices for everything, more affordable improvements to public infrastructure and lower costs for the construction of projects that might otherwise not be feasible and therefore not create long-term employment.

TECHNOLOGY REFORM: The sultan has made schooling at all levels a top priority since gaining power in 1970, and the expansion of the internet as a driver of economic growth has led the government to make substantial changes to its post-oil strategy. A recent government initiative, known as "eOman", aims to build a so-called knowledge society, in which information and communications technology is used to improve the delivery of government services and to make both businesses and private citizens more competitive with their counterparts abroad. In January 2007 the Information Technology Authority, which was formed in 2006 with the goal of implementing the eOman programme, launched a new project to increase digital literacy among government employees. Some 400 Omanis graduated from the course in December 2007 and officials expect the programme to expand in 2008.

Education at all levels is a priority in Oman, as evidenced by the state's allocation of resources in 2007

Progress was also made in the fight against human trafficking, which is a significant issue in Oman. Although the government has stepped up its efforts to protect migrants and monitor its borders, critics in the US regularly cite human trafficking as a reason to oppose the Oman-US free trade agreement (FTA) that was ratified by the US Congress in 2006 but is still awaiting implementation. Both the Arab League and the Gulf Cooperation Council (GCC) made strong commitments to address human trafficking in 2007, and Oman did the same. In December 2007 the head of the international affairs department at Oman's Diplomatic Institute, Nayef Obeid Al Salami, said new legislation was being drafted to deal with human trafficking and that a special committee would be created to oversee the effort and make any necessary changes. Both Salami and a number of other officials have said that the government is keen to cooperate with international campaigns to stop the flow of illegal migration and the various problems that are often associated with it.

GREEN AND CLEAN: When it comes to the environment, Oman has long been a leader in the Arab world. In 2007 the country moved forward with a number of programmes that are meant to keep it at the forefront of the regional movement and could push it onto the world stage. Abdullah Al Mahramy, the director general for environmental affairs at the Ministry of Regional Municipalities and Water Resources, announced in

The government is working to meet a number of goals in the next decade, including the nationalisation of the workforce and the institution of a programme to protect the environment.

The country has a history of moderation when it comes to foreign policy, and 2007 was no exception. Additionaly, a number of neighbouring countries benefitted from Oman's generous aid packages.

September 2007 that the ministry was in the process of drawing up a master plan to protect the country's extensive coasts. Heavy traffic – mostly oil tankers – into and out of the Gulf is the most obvious threat, but there are a number of smaller dangers as well. The day-to-day practices of some fishermen, for example, undermine the long-term viability of their own trade. The master plan will tackle these issues from various angles, including increasing public awareness, expanding research efforts, instituting environmental guidelines for various industries and planning for the possibility of environmental disasters.

A MEDIATING FORCE: Beyond its own borders, Oman stuck to its traditionally moderate path in 2007. The Sultanate's foreign policy is based on the assumption that consensus is nearly always preferable to confrontation, and for many years it has been a voice for reconciliation in the Arab-Israeli conflict. The government also sought to shore up relations with Iran in spite of mounting tensions between that country and Oman's closest Western allies, the US and the UK. Muscat and Tehran are now exploring expanded cooperation in several areas, including gas exploration, bilateral trade and law enforcement. The Omani government provided a substantial amount of financial assistance for less fortunate nations in 2007, extending almost \$200m in aid to other Arab countries and bringing Oman's total amount of donated aid since 1970 to almost \$1bn, which is substantial considering the size of the country's population.

At the beginning of 2008 US President George W Bush visited the Middle East for the first time since taking office in January 2001. His long-awaited tour began in Israel, passed through Bahrain, Kuwait, Saudi Arabia, and the UAE, and wrapped up in Egypt. Conspicuous by their absence on Bush's itinerary were both Oman and Qatar, the two GCC member nations that have worked hardest to maintain good relations with Iran despite their close ties to Washington. Indeed, one of the principal reasons for Bush's tour was to build support for an anti-Iranian coalition with regional leaders in general and the governments of the Gulf states in particular.

Among those in the know about such matters there were widely divergent views on whether Oman and Qatar had been deliberately snubbed as punishment for having refused to tow the line. One Arab diplomat who works in the Middle East told OBG, "Of course it's a message. Iran is one of [the Bush] administration's red lines, and every government that interferes

SLOW AND STEADY

Omanis went to the polls in October 2007 to elect a new *majlis ash shura*, or advisory council. The first council was created in 1991 by Sultan Qaboos bin Said, the ruler of Oman, as part of a bid to broaden interaction between the general population and the instruments of the state. While the 84-seat body does not have the same powers as its counterparts in Western countries, its input does have an impact on the legislative process, especially in terms of representing the views of subgroups within Omani society, including religious and ethnic minorities as well as tribal interests. Together with the appointed *majlis ad dawla*, or state council, the majlis ash shura forms a bicameral legislature known as the Council of Oman.

From the democratisation/liberalisation perspective, the elections and their outcome were something of a mixed bag. The popular response to the leadership's calls for greater participation, for instance, was very positive on the surface, with registered voters numbering just under 390,000 compared to only 262,000 in 2003. This caused some observers to predict an even stronger turnout than the last time around, when an impressive 75% of registered voters exercised their right. In absolute terms, this was true, with more Omanis going to the polls than ever before, but the Interior Ministry said that just 62% of registered voters cast ballots. And since only half of those eligible to register as voters have done so, it seems that more needs to be done to convince Omanis of the importance of their taking part in the political process.

The outcome was similarly mixed in terms of expanding the political role of women. The sultan and other leaders had strongly encouraged voters to keep an open mind during the election, and there were more female candidates in the running (21) than in 2003 (15). This led some analysts to expect a marked rise in the number of women holding seats, of which there are two currently. After the votes had been counted, however, not a single seat went to a female candidate.

Nonetheless, prospects for improvement through the next decade remain encouraging. Omani voters and candidates are still familiarising themselves with the rights and duties associated with political participation and representative democracy. This puts Oman several steps ahead of some other societies in the Gulf, where national elections are generally either a very recent and tightly restricted phenomenon or still mostly non-existent. Among those who did vote, media reports indicated considerable satisfaction with the manner in which the polls were conducted. While there were isolated allegations of vote buying (a stubborn problem in voting districts from Boston to Brisbane) in some areas, there were no credible reports of anything like the systematic abuses committed elsewhere in the Middle East.

Voter access and education were also improved upon from 2003. In addition to setting up 15 separate facilities abroad to receive and tabulate the ballots of there reduces the impact of US-imposed sanctions." By way of contrast, a US diplomat based in the region insisted that no slight was intended. "[Bush] can't go everywhere. People read too much into these things," she said. "If the US wanted to punish Oman, [US vice president Dick] Cheney wouldn't have been there three times in the past five years." Asked if Washington's disapproval of Muscat's policies in regard to Tehran had already been signalled by delays in implementing the FTA, the diplomat was less vocal but equally doubtful. "Trade is not my area," she acknowledged, "but this sounds like a classic case of mixing apples and oranges to me."

OUTLOOK: The US-Iranian tug-of-war could influence events in Oman and the rest of the region throughout 2008. Some analysts believe that Bush has already decided to mount an air campaign against Iran before his term ends in January 2009. Whatever happens, most industry insiders expect that the US will remember who followed their lead and who did not, as will the Iranian government. That said, many expect that US policy will become far less aggressive once Bush is out of office. Due to the fact that Oman has a variety of shared interests with Iran that show no sign of dissipating any time soon, the safest course may be to accept short-term pain in exchange for the promise of long-term gain.

The biggest challenge at home may be to contain growing inflation, especially if high oil prices continue to fuel fast-paced growth. Oman does not have a problem on the scale of Qatar or the UAE, but prudence demands that the threat be taken seriously and tackled early. Ahmed bin Abdulnabi Macki, the minister of national economy and supervisor of the Finance Ministry, which is technically headed by the sultan, released his new budget at the beginning of 2008. He revealed plans to help lower prices by slowing the rate of development projects.

One suggestion in regard to countering inflation has been to end the Omani riyal's long-time peg to the US dollar, which spent much of 2007 in a downward spiral. In November 2007, however, the governor of Oman's central bank insisted that currency fluctuations were temporary and that existing monetary policy, with the addition of some new fiscal measures, would be sufficient to bring down inflation. This policy came under renewed pressure after global fears of a US recession surfaced in early 2008, leading some analysts to predict that a mass Gulf decoupling from the US dollar was just a matter of time.

Oman faces a number of challenges in the coming decade, including managing its relations with the US and Iran, and countering inflation.

Omani expatriates, the government amended a number of campaign rules in order to allow better communication with the electorate. The latter change allowed political hopefuls and their supporters (there are no actual parties) to gain valuable experience for 2011, when the next scheduled elections are expected to further broaden the scope of promotion for candidates and policy recommendations.

Perhaps most importantly, even some of the defeated women refused to be discouraged by what looked to some like a major setback. The experience, said one female candidate, had enriched everyone who took part, and another expressed understanding for the sometimes slow pace of societal and generational change in Oman, especially since the more prominent role in business and the workforce give men a head start in terms of visibility and, therefore, voter recognition. Coincidentally, a further loosening of campaigning regulations in 2011 can be expected to erode the impact of this advantage.

Sultan Qaboos provided unmistakable evidence of his own intentions in regard to the subject of female candidates after the elections. For one thing, when he expanded the size of the state council from 61 seats to 70, five of the nine new spots went to women, bringing their representation in the upper chamber from nine to 14. This was widely viewed as evidence of the sultan's determination to address an existing imbalance that had been exacerbated by the election results. In addition, in a speech to both bodies to open the new session of the Council of Oman, he served notice that the legislature "and the advisory council in particular" should prepare to take on "more comprehensive responsibilities".

Both points were consistent with previous royal pronouncements, and their potential to shape voting habits is considerable. The sultan's relatively progressive politics may not yet have trickled down to a sufficient number of citizens, but many may now reason that if the number of women in office is going to keep increasing one way or another, they might as well make them more accountable and representative by voting some into the advisory council.

An even broader message was sent by the sultan's mention of a growing role for the legislature, targeting as it did one reason why so few eligible voters bother to register in the first place: a sense that one vote will not count for much because those elected have fewer powers than their counterparts in a number of other countries. Provided the sultan's message got through to the legislature and, more importantly, to the public, the results of the 2011 polls are liable to look very different by all measures. If, in fact, more women are elected in 2011, Sultan Qaboos will be able to demonstrate the effectiveness of a strategy he started implementing long before any meaningful pressure on Gulf rulers to democratise was brought to bear from outside the region.

Women play an active role in Omani society

Coming into their own

New programmes and support mean the role of women is expanding

A bevy of new initiatives, activist groups and legal changes have made Oman one of the most progressive countries in the Gulf when it comes to women's rights.

Oman is regarded as one of the more progressive nations in the Gulf in terms of women's rights, largely because Sultan Qaboos bin Said Al Said, the ruler of the country, made the enfranchisement of women a national priority early on in his career, ranking it on the same level as the country's economic development strategies. This trend continued in 2007 as women took part in national elections to the advisory council, an official body that lacks legislative powers but plays an influential role in policymaking. Omani women have been eligible to vote since 2003, when the sultan extended universal suffrage to all citizens over the age of 21, not including members of the military and security forces.

In the past decade, a number of women have run for office and many more have voted. Two females, Lujainah Mohsin Darwish and Rahila Al Riyami, were elected to the council in 2000 and re-elected in 2003. Both Darwish and Riyami were campaigning for re-election in 2007, alongside 19 other female candidates, competing against a total of 632 candidates for 84 seats in the advisory council.

In what some viewed as a setback for women in Oman, none of the 21 female candidates won a seat in the 2007 elections and both female incumbents lost their seats. Analysts noted that the women's defeat at the ballot box was part of a larger trend that saw candidates with strong tribal and family connections winning more influence in the new assembly. Although women failed to win any seats in the election, they did participate in greater numbers than in any previous polls, largely as a result of the special efforts that were made to encourage more of them to take part in voting. In the wake of the election a number of activists called for creating quotas to guarantee a minimum level of female participation in the council. However, others, including Al Riyami, have argued against any measures that would institutionalise any sort of discrimination in the national body.

Despite the electoral setback, women continued to play an important role in governance in 2007. Prominent women involved in Oman's government in 2007 include: Rawya bint Saud Al Busaidi, the higher education minister; Rajiha bint Abdul Amir ibn Ali, the tourism minister; Sherifa bint Khalfan ibn Nasser Al Yahiyaia, the social development minister; Hunaina Sultan Al Mughairy, the ambassador to the US; and Khadeija bint Hassan bin Salam Al Lawatiya, the ambassador to the Netherlands.

Women also continued to play an active role in promoting their own advancement through Oman's 42 women's associations. These associations frequently partner with the government and the private sector to launch initiatives to help women reach their full economic potential. In 2007 the Oman Women's Association in Muscat (OWAM) spearheaded the Women in Technology project, a particularly successful initiative that offered courses designed to increase computer literacy. The project saw the OWAM providing training based on the Microsoft-certified "Upward Potential" curriculum. The first phase of the initiative came to a successful end in February 2007, when 15 women completed the training programme, which prepared them to begin passing on their expertise to 750 other OWAM members in Salalah, Buraimi and Muscat. The second phase of the project was launched in August 2007 and now includes other women's associations across the country.

The royal family has also played an important role in promoting women's enfranchisement in Oman, in part by sponsoring a wide range of programmes and initiatives aimed at enabling women to overcome the social and economic constraints that they still face in traditional society. One of the most successful of these in 2007 was the Women in Business conference, held in Muscat under the patronage of Sayyida Aliya bint Thuwaini Al Said. The event, which featured several prominent businesswomen from around the world as guest speakers, provided a forum for women in Oman to exchange ideas and identify ways to encourage more females to take a leading role in commerce.

Sultan Qaboos bin Said Al Said

Joint action

Sultan Qaboos bin Said Al Said on the state's and citizens' shared responsibilities

As Oman enters it 38th year of renaissance, we hope to see its continued development. Oman's many years of experience in the practice of *shura*, or consultation, have succeeded in establishing the concepts of joint action and mutual cooperation between the citizens and the state's administrative institutions. Moreover, the great efforts made by the State Council and the Majlis Al Shura – preparing economic and social studies, reviewing laws and regulations, and putting forward recommendations and proposals on issues of concern to society, with the aim of improving it and providing it with the means to enable every section of it to achieve progress – have had a tangible effect on enriching this national enterprise.

We have followed with great attention these changes and carefully monitored their development. We look with satisfaction at the way this experiment is progressing on the path of rapid growth – a growth that constantly reinforces its foundations and which further consolidates the values and principles on which it was founded. Oman's shura experience is to be commended, and its success stems directly from the heritage of Omani society.

We have great faith in the steady progress achieved by the Sultanate in all fields and in its ability to keep abreast of the modern age in a well-planned and measured manner while keeping a constant eye on the future. Accordingly, we expect the Council of Oman, and the Majlis Al Shura in particular, to take on more comprehensive responsibilities in the fields of economic and social development.

We also expect to see that the Council of Ministers will continue to activate channels of contact and coordination with the Majlis's bodies – the Majlis Al Dawla and Majlis Ash-Shura. It is important that we intensify the meetings of joint committees of the Council of Ministers and Majlis to further strengthen consultation on matters that will help support their role in defining priorities for the country's sustainable development. In doing so, we hope that the experience gained will provide an impetus for further beneficial and constructive action in serving this nation, which is resolutely engaged in building its present while looking towards its future in the light of the ever-increasing demands and established realities of the modern age. Accordingly, we shall urge our government to raise and intensify its contacts with the Majlis in order to enable it to carry out its duties and tasks in the best possible manner.

This year it gave us pleasure to see the Shura Council's sixth term election conducted in a well-organised manner, thereby ensuring that it ran smoothly and easily in an atmosphere of calm and security. It was clear evidence of the citizens' awareness and their commitment to the values and principles of this decent, upright society. We highly appreciated the huge turnout of all citizens – both male and female – to practise their right to choose their representatives in the Shura Council.

We also hail the rebuilding efforts made by the government in the aftermath of the severe climate conditions that prevailed in the Sultanate in June 2007. The collective efforts of the government and the citizens played a positive role in containing the impact of such natural conditions.

We should continue to understand the importance of expanding scientific research with a view to enhancing the income and diversifying the sources of the national economy. Research in this area should be based on priorities to be set by the government with the help of the Scientific Research Council.

The features of our domestic and foreign policy are clear. We work for construction and development at home, and for friendship, peace, justice, harmony, coexistence, understanding and positive, constructive dialogue abroad. That is how we began, how we are today, and how we shall continue to be. In so doing, we wish the whole of mankind well-being, prosperity, security, stability and cooperation in establishing the scales of justice and equity.

The sultan's commitment to education has had positive results

Stacking up

The country fares well in international rankings

The government's progressive economic policies have served it well in a slew of major rankings, including those released by the World Trade Organisation, the World Economic Forum and the World Bank.

Oman's appetite for reform long predates that of the region in general. The Sultanate set such basic goals as better educational institutions and more interaction between the public and the state as far back as the early 1970s. This can be attributed, in part at least, to prescient leadership. Sultan Qaboos bin Said Al Said listed access to decent schools at the top of his agenda after assuming the throne in 1970, and the issue has retained its importance. Spending in this area has been rising in recent years, and the education minister, Yahya bin Saud Al Sulaimi, estimated it at more than 30% of the general budget in 2007.

Democratisation is another popular project throughout the Gulf, and here too Oman has long been at the vanguard. Even the rapid progress made by some neighbouring states in the past few years has put them nowhere near the Sultanate in terms of popular participation, the ability of elected bodies to have meaningful input into decision-making or women's rights.

Apart from progressive leadership, there is an argument to be made that Oman's forward-thinking society can be attributed in part to not having too much of a good thing. The so-called resource curse, in which countries with an abundance of natural resources (such as oil) tend to experience less long-term economic growth and more corrupt governance, has long been almost synonymous with many of Oman's neighbours.

That said, a new model is emerging throughout the region, especially in the UAE, where individual emirates like Dubai and Sharjah – which lack the staggering oil wealth of Abu Dhabi – are in the process of proving that the region can get over its reliance on resources and create the conditions for self-sustaining growth. Abu Dhabi is following suit and, given its generous oil revenues, has enormous potential. Qatar, which has the third-largest gas reserves in the world, has also embarked headlong on a process of reform and modernisation.

Oman's goal in this rapidly changing environment is to remain competitive by leveraging its own traditional strengths to develop some new ones. The government's primary initiatives in this respect have been focused on diversification and privatisation, and have positioned the Sultanate to take fuller advantage of the opportunities presented by globalisation. Oman entered the World Trade Organisation in 2000, and the government recently signed a free trade agreement with the US, although the pact has yet to be implemented.

So far the results have been encouraging. According to the World Economic Forum's global competitiveness index, Oman ranked 42nd out of 130 countries in 2007, which was the first year the Sultanate has been included since the study began in 1979. This high ranking – sixth among Arab states – was due to sound economic policies, among other things. As increased trade flows expose the country's private sector to more competitive pressures, the expectation is that the earlier emphases on diversification, education and privatisation will give the country's economy the versatility to make the necessary adaptations.

Of course, the government cannot relax just yet. The World Bank's 2007 Doing Business report ranked Oman 49th among 178 countries in terms of how easy it is for companies to operate. This ranking included some highly impressive achievements in individual categories, including employing workers (26th), registering property (15th) and paying taxes (5th). There were other areas, however, in which the Sultanate has plenty of room for improvement. These included starting a business (107th), enforcing contracts, (110th) and dealing with licences (130th).

Oman's ranking dropped from 43rd in the 2006 survey, but the World Bank emphasised that variations in methodology accounted for most of this change. Globalisation is leading many countries to streamline their economies to increase competitiveness, so standing still means falling behind. In most of the categories where Oman has obvious need for improvement, the remedy is as simple as reducing government involvement in terms of bureaucracy, formalities and regulation.

Benita Ferrero-Waldner

A shared vision

OBG talks to Benita Ferrero-Waldner, EU Commissioner, External Relations and European Neighbourhood Policy

How would a free trade agreement with the Gulf Cooperation Council (GCC) improve political relations with countries such as Oman?

FERRERO-WALDNER: First, let me reassure you that my colleague Peter Mandelson and I have been doing everything we can to bring these negotiations to a positive conclusion. This is not only because it is in our mutual economic interest; it is because we have a genuine interest in bringing our regions closer to each other.

As the history of the EU's own development testifies, the more countries and regions are economically intertwined, the closer their interests become in all kinds of other areas. It is our hope that the conclusion of the free trade agreement will provide a sound basis for cooperation in other domains, which will mean an enhancement of our political relationship.

Why is Oman important to EU energy security? How can the energy relationship be strengthened?

FERRERO-WALDNER: As a member of the GCC, Oman belongs to one of the world's most important energy-producing regions. As the EU is the world's largest energy-consuming region, it should be no surprise that we share with Oman a common interest in ensuring the stability and transparency of world energy markets.

Both sides have an interest in enhancing the security of both energy demand and supply. As I have pointed out, the EU and the GCC are already involved in cooperation on energy issues. But we plan to build up our energy ties, in particular through cooperation on clean energy technologies, where Oman has an important potential, especially in renewable energy.

In what ways can the EU make the best of Oman's excellent political relations in the Middle East, particularly in regards to the Middle East peace process?

FERRERO-WALDNER: For there to be progress on the most difficult and sensitive issues in the Middle East, there is a need for commitment from each and every country in the area, as well as other international players. This is why the EU is always eager to discuss regional issues when we meet with the Gulf states, as a group or individually. The Middle East peace process and the Iranian nuclear issue are uppermost among our common concerns, while we continue to still recognise that there are no quick, easy or magic solutions.

I last had such discussions in the margins of the UN General Assembly last September, and look forward to our next ministerial talks in May in Brussels. The EU's commitment to stabilising the region is unwavering. We believe Oman shares our interest in a peaceful neighbourhood, and that we should continue working tirelessly at what can sometimes seem like a Herculean task.

Oman has already said it will not be ready to enter a single GCC currency in 2010. What can Oman learn from the EU's experience of monetary union?

FERRERO-WALDNER: At the end of this year we shall celebrate the 10th anniversary of the euro. Since its introduction, we have witnessed closer integration in capital and product EU markets, in the market of services, and inflation and interest rates have remained low – to name just a few of the advantages our common currency has brought to us. On the other hand, you may also be aware of the fact that three of the "old" EU member states, for one reason or another, have decided not to join the Economic and Monetary Union (EMU). This has not necessarily been a problem.

Omani authorities have decided to withdraw from the GCC monetary union, based on considerations such as differences in economic structure, resource endowment, and non-hydrocarbon growth potential. The relevant experts are looking for alternative convergence criteria that could accommodate the differences.

To come back to the EU, you may recall that the path EU member states walked, towards the accomplishment of the EMU, has not always been even – one still remembers the "bumps" of the 1992 financial crises. Despite this, you may also share our opinion that the euro project has been a tremendous success story.

Oman occasionally plays mediator between Iran and the West

Three's a crowd

The government continues to expand relations with Iran

The current rift between the US and Iran can be traced back to US claims that the Islamic republic was attempting to develop nuclear weapons. Oman is working to remain on good terms with both nations.

Like many of its Arab allies in recent years, Oman has been faced with the unenviable challenge of mediating the continuing diplomatic struggle between the US and Iran. Resolving this conflict once and for all carries major implications for the region.

According to the mainstream media, the contest can be traced back to US claims that Iran was using its civilian nuclear programme to hide weapons development, but certain events in 2007 reminded all concerned parties that other factors are also at play. In December 2007 Washington revealed that the latest National Intelligence Estimate (NIE), a document prepared jointly by 16 US spy agencies, had determined that Iran most likely ended its alleged bid to develop an atom bomb in 2003. This contradicted the public position long endorsed by US officials, including President George W Bush, and led some observers to speculate that a historic rapprochement might be on the cards.

Reconciliation remains possible, but not, apparently, in the short term. The Bush administration acknowledged the new estimate in public but continued to voice concerns about Iran's ability to acquire some of the knowledge necessary to build nuclear weapons. In 2007 Washington continued to push for additional rounds of UN Security Council sanctions against Iran. The US faced stronger objections from China and Russia (both veto-wielding permanent members of the council) than had previously been the case, which closed the door on anything but the most lacklustre sanctions. This still leaves two obvious courses of action for the Bush administration. One is the EU, where the leading powers, Britain, France and Germany, all expressed support for a tightening of the screws on Tehran even after the NIE was released. The other is a military campaign, which, given the commitments the US already has on the ground in Iraq and Afghanistan, would almost certainly come in the form of air strikes.

Oman and a number of other GCC member countries, including Saudi Arabia, have played host to Mahmoud Ahmadinejad, the president of Iran, in a bid to retain good relations with the Islamic republic.

The possible consequences of a military clash continued to concern Oman's leadership throughout 2007. The Iranian government, which insists its programme is a peaceful one aimed solely at producing electricity, has vowed to use all the means at its disposal to defend the country against a US offensive. This includes strikes on US bases in Oman and other members of the Gulf Cooperation Council (GCC), which includes Bahrain, Kuwait, Qatar, Saudi Arabia and the UAE. Another concern is the possibility of radioactive fallout, which could spread quickly across the territory of its neighbours.

It is difficult to predict whether such hostilities will occur, but additional diplomatic and economic pressure from Washington and various European capitals is a safe bet. These are a welcome alternative to being drawn into someone else's war, but they do not come without their own drawbacks. Unlike the US, Oman and many other GCC member states are right next to Iran, and the country's large population, massive energy reserves and ample military capability give it the potential to be either a useful ally or a potent foe. Most Gulf governments have no desire to see Iran acquire nuclear weapons but they are also not keen on having to pick sides against a neighbour.

That said, the possibility of US punishment for doing business with Iran has convinced at least some financial institutions in GCC countries to suspend various operations. This trend is expected to accelerate, especially in the wake of President Bush's Middle East tour in early January 2008. It has yet to be determined how sustained Washington's pressure on GCC members will be, but a US government report compiled in 2007 found the results of existing sanctions on Iran inconclusive, making it seem more than likely that additional cooperation will be sought.

Oman and a few other GCC members have gone to considerable lengths to improve their respective bilateral relations with Iran, stepping up political contacts and working hard to increase trade. Oman's determination to maintain friendly ties with their controversial neighbour was a constant theme of its foreign policy in 2007 and will likely remain so through 2008.

Shri Kamal Nath

A win-win partnership

Shri Kamal Nath, Indian Minister of Commerce and Industry, on the India-Oman trade relationship

Trade relations between India and Oman are based on mutual trust, respect and understanding. This has been strengthened through regular high-level visits and different institutional mechanisms. Important joint ventures have been floated with the participation of the two governments and also by the private sectors in both countries. India's largest joint venture abroad, the Oman-India Fertiliser Company (OMIFCO), has already started operations. Bilateral trade grew by a record 61.3% to reach $1.1bn in 2006-07 from $674.02m in 2005-06, thus crossing the magical $1bn mark as expected. In the current year, the total trade has increased from $498.23m in 2006-07 (April-August) to $656.16m in 2007-08 (April-August), reflecting a net growth of 31.5%.

India and Oman, along with five other countries in the Gulf – Bahrain, Kuwait, Qatar, Saudi Arabia and the UAE – are in the process of redefining their close and traditional relationship in the context of the challenges posed by globalisation. Economic reforms have benefitted India and it is now on a high-growth path. The Gulf countries, of which Oman is a part, have constituted a Customs union and are rapidly modernising. Enormous opportunities for investment are available in both regions.

India-Oman relations have always been marked by exemplary warmth and bonhomie throughout their recorded histories, dating back to the dawn of civilisation on the banks of Indus and on the coastal tracts of the Arabian peninsula, a time when merchants braved the seas and set sail in both directions to trade in various goods. The relations between the two countries, across many broad spectrums, have grown from strength to strength ever since. To enhance our bilateral cooperation in trade, investment and a number of other areas, we have already signed a bilateral investment promotion and protection agreement, a double-taxation avoidance agreement and a memorandum of understanding in regard to agriculture and another on science and technology. Both sides need to implement these agreements and reap the benefits.

Completion and inauguration of OMIFCO – the joint venture between the Oman Oil Company, the Krishak Bharati Cooperative and the Indian Farmers Fertiliser Cooperative – was in 2006. A capacity of 1.65m tonnes of granulated urea and 330,000 tonnes of ammonia per annum has already been projected. This is an excellent example of a win-win partnership between two countries. Indian shareholders in this joint venture are keen to invest in further expansion of capacity of the plant through the addition of a third urea train. India hopes that the Sultanate of Oman's government will provide the additional natural gas to implement this proposed expansion.

During the fifth session of the India-Oman joint commission meeting held in New Delhi on September 5, 2006, were extensive technical deliberations. The range of issues discussed at this conference were proposed strategies and measures of enhanced cooperation on energy, small-scale industries, information technology, science and technology, tourism, health, communications, agriculture and fisheries, and higher education. Proposals from the Sultanate of Oman for memoranda of understanding in the areas of higher education, transport and communication and culture would be a welcome step that would take our cooperation to even newer heights.

Gulf trade, 2004-06 ($ m)

Country	Indian exports 2004-05	Indian exports 2005-06	Indian imports* 2004-05	Indian imports* 2005-06
Bahrain	156.46	192.25	121.87	189.56
Kuwait	421.44	513.73	305.94	461.85
Oman	267.67	408.43	20.61	265.59
Qatar	209.42	259.34	672.85	901.62
Saudi Arabia	1412.06	1809.77	1301.15	1632.34
UAE	7347.88	8591.79	4641.1	4354.08
Total	9814.93	11,775.31	7063.52	7805.04

SOURCE: Consulate General of India, Jeddah

* Note: Import figures for 2000-01 onwards do not include imports of petroleum products and crude oil

The military takes its mission of defending the nation seriously

Arms aplenty

The Sultanate's military is among the best in the region

As a member of the GCC, Oman is responsible for assisting in the defence of the region. Consequently, the government is investing heavily in new equipment for the air force, the navy and the army.

Oman's foreign policy is decidedly moderate and is based on maintaining close ties with as many nations as possible. That said, the country is a thinly populated land in an unpredictable part of the world at an uncertain point in history. Oman's membership in the GCC offers a welcome dose of collective security, as do its close ties to the US. Still, GCC members expect each other to contribute to the region's defence. Consequently, Oman dedicates a considerable proportion – typically almost one-third – of its public spending to its military and security apparatus, resulting in a relatively small but well-equipped force whose capabilities and professionalism rank with the best in the region.

In keeping with hundreds of years of martial tradition, Oman's defence establishment takes its mission of defending the country's sovereignty very seriously. Much of the sector's current structure stems from the vision and backing of Sultan Qaboos bin Said Al Said, the ruler of Oman and a graduate of the UK's Royal Military Academy at Sandhurst, who subsequently served with a British infantry regiment in Germany. This early exposure to modern military practice has guided the sultan's thinking on strategic issues, and his philosophy of dedicated and well-trained servicemen operating state-of-the-art equipment has been inculcated in a group of officers whose renown for competence sets them apart from the focus on ceremony that is common to so many other countries in the Middle East.

The most recent high-profile product of Oman's defence industry has been the acquisition of 12 Lockheed Martin F-16 multi-role fighter-bombers for the Royal Air Force of Oman (RAFO), substantially increasing the Sultanate's all-around air power. Delivery of the highly advanced planes began in 2005, but the fleet received an upgrade in 2007 when the RAFO became the first in the region to purchase and install airborne reconnaissance system (ARS) cameras, one of BAE Systems' latest technologies. ARS uses digital imaging and sophisticated optics to produce detailed photographs from altitudes of more than 10,000 metres and distances of more than 100 km. The system can also record images from dual fields of vision and the pilot or systems operator can view the product in real time during a flight. The ARS equipment was delivered in November 2007 and gives the RAFO the ability to gather tactical intelligence from distances that are virtually unmatched in the Gulf.

Another important milestone for the RAFO came in May 2007 with the maiden test flight of the first of 20 Eurocopter NH90 tactical transport helicopters on order. The new helicopters will be used for general transport, search and rescue, and a variety of other functions. The NH90's are scheduled to start entering service in 2008 and the purchase contract includes a comprehensive support and training package.

The Royal Navy of Oman (RNO) also took steps to increase its contribution to national defence in early 2007 when it placed an order for three Khareef-class off-shore patrol vessels with Britain's VT Shipbuilding, with which it has a long relationship. The bulk of the ships' communications, sensors and combat-management systems will come from Thales Nederland, which makes some of the industry's most reliable products. In December 2007 it emerged that the armaments set-up would include both an updated version of the famously effective Exocet anti-ship missile and the VL Mica missile-defence system from Europe's MBDA, a leading supplier of guided weapons.

On the ground, the Royal Army of Oman's armoured assets consist of some 36 UK-built Challenger 2 tanks and about twice as many US-made M60 tanks, backed by several hundred personnel carriers designed for a wide variety of roles. The army is also in the process of expanding and modernising its arsenal in various ways. Currently, the primary focus is the integration of Raytheon-Lockheed Martin's Javelin anti-tank missile, which is one of the most capable weapons in its class. These upgrades, along with the high quality of the Omani military in general, certainly ensures that the Sultanate will be well defended in the foreseeable future.

Economy

Oil revenues pay the way for diversification from gas
Riyal's peg to the US dollar causes inflation at home
Executives cite shortage of skilled labour as a problem
Oman moves east for trade and commerce

In nominal terms, GDP grew by 8.3% in 2007 to $38.6bn

Ample funds for diversification

Inflation and competitiveness concerns rule the sector

The windfall from high oil prices over the past few years has provided Oman with ample funds to prepare for a new post-oil economy that must compete with global players in manufacturing and services.

Oman's planned economic development programme has transformed the country over the last three decades. Although still dependent on oil revenues, Oman's economy is distinct from its Gulf neighbours. Its oil reserves are not particularly large – a mere fraction of Saudi Arabia's or Kuwait's – and over the next couple of decades these are likely to be depleted. Production has been dropping since 2001. Moreover, Oman's GDP per capita of $14,600 is the lowest in the Gulf Cooperation Council (GCC). Many Omanis still rely on agriculture and fishing for their livelihoods. Given the country's young population, the government is keen to lay the groundwork for a meaningful future for the tens of thousands of Omanis that are expected to enter the workforce in the next decade.

The windfall from high oil prices over the past few years has provided the government with ample funds to prepare Oman for a new post-oil economy that will have to compete with global players in the world of manufacturing and services. Despite falling production, the country should still be able to squeeze a lot of revenue out of its remaining oil reserves. The International Monetary Fund (IMF) has calculated Oman's future oil revenues to be 10 times the country's current GDP. The reinvestment of these profits should go a long way toward creating a sustainable, diversified economy. The country's other natural advantage, its geographic location, also gives Oman a competitive edge. Being just hours from the world's main shipping lines and relatively close to Asian markets makes Oman and its re-emergent ports, such as Sohar and Salalah, natural sites for East-West entrepôts today, much as they were 1000 years ago when they were among the pre-eminent ports of call between Arabia and the Far East.

GROWTH AND DIVERSIFICATION: The government's Vision 2020 economic blueprint, launched in 1996, has adhered to Oman's well-measured approach to economic policy. The plan is based on the principle that the Omani economy must diversify. The government's development programme recognises that sustainable diversification must include privatisation of state-owned enterprises and increased participation of the private sector in the economy.

In nominal terms Oman's GDP grew by about 8.3% to $38.6bn in 2007. Exceptionally high oil prices in the second half of 2007, upwards of $100 a barrel, more than made up for a 3.7% drop in crude production. Though production is expected to continue to decline through 2008, continued high oil prices should again help to offset this. In terms of real growth, the IMF has estimated that Oman's economy grew by about 6% in 2007. Strong private consumption fuelled by the sustained oil revenues and a sharp increase in non-oil exports and continued government spending have all helped drive real growth.

SHRINKING OIL REVENUES: Under the Vision 2020 plan oil revenues should account for about 9% of Oman's GDP by 2020. However, this target is still some way off. Between January and September 2007, oil revenues shrunk by about 10.5% compared to the year before, but they still accounted for 26.6% of GDP, according to the Ministry of National Economy.

Oman's Vision 2020 Plan, based on the principle that the economy must diversify, aims for oil revenues to account for about 9% of total GDP by 2020, down from 43% between January and September 2007.

The government's attempt to increase the importance of non-oil industries has largely been predicated on the surging gas and gas-based industries. Between January and September 2007, gas production accounted for nearly 4% of GDP, having grown about 12% compared to 2006. In that year, gas accounted for less than 1% of GDP. The government's most ambitious plan is to increase industrial manufacturing to 29% of GDP by 2020. Between January and September 2007, manufacturing still only accounted for 13% of GDP. But a series of new plants, particularly downstream gas projects in Sohar, are starting production and should boost this sector's contribution significantly over the next two years. Production at plants in Sohar and Salalah helped boost output by 12% year-on-year in the first nine months of 2007. Likewise, though oil continued to dominate exports in 2007 (crude and refined oil made up 60%), manufactured non-oil exports increased considerably (to 13% of exports). Between January and September, non-oil exports, such as chemicals, metals and mineral products, increased by 68% compared to the same period in 2006. Meanwhile, combined oil and gas exports only increased 1%.

Investments in tourism, ports and airports should ensure that the service sector continues to grow over the next few years. In 2007, services accounted for about 40% of GDP. In the first nine months of 2007, this sector grew nearly 20%.

Up to half of all Omanis depend on agriculture and fishing for their livelihoods, but this sector produces little in the way of income. It represents only about 1% of GDP. The government wants productivity in agriculture and fishing to increase, but making this happen has proved difficult. Irrigation is limited and water tables in the fertile Al Batinah region are already strained by overuse and excess salinisation.

PUBLIC FINANCE AND POLICY: In 1998 Oman's external debt was considerable, totalling about 48% of GDP. The country has done well to use its budget surpluses during the current oil boom to pay this down. By 2004 the debt stood at about 24% of GDP and dropped to about 10% in 2006.

Between January and November 2007 Oman recorded a budget surplus of about OR1.5bn ($3.9bn), up 26% from the same period the year before, according to figures released by the Ministry of National Economy. Revenue increased 15% to about OR5.8bn ($15.08bn), while income coming from oil increased 9% to OR3.8bn ($9.88bn). Oil revenues accounted for about 65% of the government's total revenues. Good revenue growth helped balance government spending, which grew by 20% to OR4.7bn ($12.22bn). The biggest increase was on capital expenditures needed for diversification projects. These increased 33% to OR1.3bn ($3.38bn). Investments in oil and gas projects also increased, by 36% and 42%, respectively. Subsidies increased by 37% to OR0.2bn ($5.2m).

The surplus will come in handy as capital expenditure growth continues through 2008 and the government carries forward development of diversification programmes and investment in further petroleum projects. To counteract the expected fall in oil production, the government plans to spend $10bn over the next five years to increase output from existing wells. Around $3bn is earmarked for enhanced oil recovery technology. This investment, along with projects to develop new wells, is aimed at lifting production from the approximately 700,000 barrels per day level to 1m by 2012. Moreover, the budget surplus will also come under pressure from salary increases for public employees and increased food subsidies announced in early 2008.

Oman's development projects are likely to slow now that major ones like the Sohar Industrial Port,

Oman's budget surplus has been wisely used to pay down outstanding debt, which totalled 48% of GDP in 1998, to 10% in 2006. The government is using the surplus now to diversify away from oil.

Oman is one of the most trade-friendly countries in the Gulf. Its weighted tariff on foreign goods is 3.2%, lower than the UAE, Kuwait and Saudi Arabia.

which alone involved about $12bn in investment, are largely finished. Before a new round of capital-intensive project development is initiated, Oman will have to find a way to get more gas to fuel new plants as it has already allocated all of its gas resources. Securing new supplies from gas-rich Qatar and possibly Iran will be important for moving forward with plans for more gas-based heavy industries. Energy intensive projects like the Sohar Aluminium Company's smelter facility will need access to more gas for expansion plans. There has been talk that Oman's next independent power plant could be coal fired, a first in the Gulf.

PRIVATISATION AND LIBERALISATION: The government, looking for both cash to plough into diversification efforts and to boost the role of the private sector in the Omani economy, is set to continue with its privatisation programme in 2008. Oman began its privatisation initiative in the 1990s with the power and water sector. In 2007 it seemed that the government might be deviating from its privatisation agenda when it renationalised Oman Air. However, the government has announced that it intends to finally privatise all remaining state-owned power and water companies by 2009.

The government has also announced that it is looking for a strategic partner to sell part of Omantel, the former state-owned telecoms monopoly. The government floated part of Omantel on the Muscat Securities Market (MSM) in 2005, but it still owns 70% of the company's shares.

The government's policy of liberalisation has also applied to its trade regime. Oman continues to be one of the most trade-friendly countries in the Gulf region. The country is a member of the World Trade Organisation and has entered into a free trade agreement with the US. According to the World Bank, Oman's weighted mean tariff on foreign goods and services is 3.2%, lower than the rates of 4.8% in the UAE, 4.5% in Kuwait or 4.1% in Saudi Arabia.

Oman has also made moves to liberalise foreign ownership policies. Several of the new real estate developments in Oman have been opened to foreign ownership. Foreign investment in not only real estate but other service sectors, particularly tourism and information technology, will not only help drive the diversification programme, but also improve the international competitiveness of these sectors.

INFLATION AND EXCHANGE RATES: Inflation in Oman, like most of the Gulf, increased rapidly in 2007. In December year-on-year consumer price inflation reached 8.3%, the highest in 16 years. Prices have been pushed up by a combination of external factors,

PEG TO REMAIN

In 2007 the depreciating dollar and record inflation fuelled considerable speculation that GCC countries would either revalue their currencies or drop their dollar pegs. In May Kuwait broke its link to the dollar, generating even more talk.

In a meeting of the heads of the GCC states in late 2007, all the remaining pegged GCC countries reaffirmed their commitments to the US dollar. Omani officials especially have shown little interest in removing the peg, despite record high domestic inflation.

As a consequence of the peg to the dollar, which depreciated against all major currencies in 2007, the riyal likewise depreciated. Against Oman's major trading partners, the riyal effectively depreciated by 5% in 2007.

"For an open economy like Oman, the fixed peg to the US dollar works as the strongest source of stability, which is very essential for promoting trade and investment," Sultan Qaboos Bin Said Al Said re-emphasised in an attempt to quiet the ongoing speculation about Oman's exchange rate regime.

Oman had already displayed its slow and steady approach to changes in its currency regime in 2006 when the country announced that it would not be ready to join a pan-GCC currency union in 2010, although it did leave open the possibility of joining in the future. The Sultan's statements were backed up by those of Hamoud Sangour Al Zadjali, the executive president of the Central Bank of Oman. "The central bank remains firmly committed to maintaining the parity and peg of the Omani riyal to the US dollar," he said.

The peg exchange-rate regime limits the use of policies that might offset inflation, which grew at record rates in 2007. The Omani central bank is limited to shadowing the policy of the US central bank, the Federal Reserve. With the Fed consistently easing its policy interest rates since the middle of 2007, Oman's central bank has been obliged to do likewise.

As the US economy has been slowing, Oman and other Gulf economies have been growing at pace. If Oman's central bank did not follow the Fed's lead, the value of the riyal would rise above the value of the dollar. The bank has not been able to stem the increasing pools of liquidity that are pushing up prices, rather the opposite.

"Decreasing interest rates while the economy is booming is a bit like adding fuel to the fire," said one local economist. The current problem facing Oman and all the Gulf countries is that their growing economies are completely out of synch with the US economy, which has slowed considerably and may dip toward recession in 2008.

The right monetary policy for the US is the opposite of what is right for the GCC. By the third quarter of 2007 Oman's broad money supply grew by 30% compared with the same period in 2006. Though it seems likely that in the next couple of years other

Oman began its privatisation initiatives in the 1990s with the power and water sectors, a process it intends to complete by 2009. The country has also liberalised foreign ownership policies.

like higher international food prices, and a flood of oil-derived domestic liquidity.

The central bank has few tools at its disposal to combat inflation. Though it has done a few things such as tighten lending restrictions, its steps have not been enough to combat the increased money supply. Wage hikes by the government have only helped push inflation higher. In early 2008 Sultan Qaboos bin Said Al Said also announced a subsidy of OR25 ($65) per tonne of flour and ordered price controls on certain items. Such measures may fuel further inflation.

Construction costs have risen and risk putting many of the country's new projects in jeopardy of overshooting their budgets. With an excess of building going on around the GCC, labour shortages have also been a major contributing factor to inflation. Previously, cheap labour from Asia had been able to keep down overall costs for firms. However, the dollar, and by extension the riyal, depreciated against the Indian rupee by about 13% in 2007, and with domestic demand rising in the subcontinent retaining Asian workers in Oman has meant higher wages. Even though the IMF in early 2008 encouraged GCC countries to reassess their pegs to the dollar and curb the growth of their money supplies, this looks unlikely in Oman. The government has repeatedly said that

GDP and external accounts ($ bn)

	2001	2002	2003	2004	2005	2006	2007*
GDP	19.9	20.3	21.8	24.7	30.8	35.6	38.6
Exports of goods and services	11.7	11.8	12.3	14.1	19.5	22.8	24.9
Of which: Hydrocarbons products	8.1	8.6	8.8	10.5	14.8	16.4	16.6
Imports of goods and services**	-7.2	-7.5	-8.3	-10.6	-13.1	-15.2	-17.9
Current account balance	1.9	1.4	0.9	0.3	2.7	4.1	3.9
Official net foreign assets	8.5	8.8	10.2	11.5	14.6	19.3	34.4
Central bank reserves	2.4	3.2	3.6	3.6	4.3	5	9.5

SOURCE: IMF; Ministry of National Economy, Monthly Statistical Bulletin

* estimates
** Free-on-board

it is not currently interested in joining the GCC currency union project. In place since 1986, the fixed exchange rate of OR0.38 to the US dollar has brought stability and certainty for foreign investors. The government is loath to risk change.

In 2007 Oman's foreign exchange reserves increased 90% to $9.5bn. As a result, it is very unlikely to suffer liquidity problems that would threaten the peg. Between January and September 2007 Oman's trade balance was in surplus, at about 20% of GDP. During this time import growth outpaced export growth as a result of the large amount of capital imports. However, through 2008, exports should grow faster than they did in 2007 as the new plants

members of the GCC will revalue their peg or re-peg to a more diverse basket of currencies, it is less likely that Oman will. "Just now we are not interested," said Tahir Al Amry, the head of the minister's office at the Ministry of National Economy. The ministry wants to continue to support the competitiveness of its non-oil exports, and one way of doing this is by making them relatively cheaper than its competitors as a result of the riyal's weakness.

"A depreciation [of the US dollar] will very much benefit non-oil exports," explained Sitikantha Pattanaik, an economist at the Central Bank of Oman. "What people are discussing is the cost of the peg. What they are not discussing is the cost of not having the peg and the cost of an alternative."

Pattanaik suggests that the terms of the debate on the peg need to be brought into sharper relief with Oman's broader policy of driving forward its diversification objectives and non-oil exports. "The dollar also depreciated in 1984 – the peg wasn't abandoned then. So far there is not reason enough to drop it now," said Pattanaik.

In many ways the depreciated dollar, and as a consequence of the peg, the riyal, fits firmly into Oman's export-oriented economic diversification strategy. Since 2003 non-oil exports have been growing between 30-40% every year and now account for nearly 15% of total exports. In the first half of 2007 alone they grew more than 70%. With production picking up at several new industrial plants in Sohar and Salalah, non-oil exports will continue their rapid expansion into next year.

Just as Chinese exports gain competitiveness from a weaker yuan, Omani exports likewise gain from a weaker riyal. And indeed, the rapid growth of non-oil exports is partially attributed to the declining value of the Omani riyal due to its peg with the dollar, giving Omani exports an advantage over competing exporters. However, it is not quite as cut and dry as this.

But there have also been costs associated with the dollar's depreciation. "The weak dollar may have helped to boost some exports, but it has certainly not helped all Omani manufacturers," Bader Saif Bader Al Oufi, the chief economist at the Muscat branch of the Oman Chamber of Commerce and Industry, told OBG.

"Many input prices are now higher which is hurting Omani producers. Go look on the shelves here – some Omani-made goods are more expensive than similar foreign-made goods. We need to shift away from the dollar to a weighted basket of currencies, like Kuwait. This is absolutely the right thing to do," Al Oufi said.

In 2008 inflation may start to cut into real growth and pose risks of decreasing the attractiveness of Oman and other Gulf countries as investment destinations. At some point officials will have to look seriously at hedging the risk inflation poses to eroding the domestic value of foreign assets.

Even though the IMF has encouraged Gulf countries to reassess their pegs to the US dollar, this looks unlikely in Oman. The government has repeatedly said it is not interested in joining the GCC currency union project.

Educating the labour force in order to ensure international competitiveness is a priority

Oman's economic policy will continue to focus on diversification away from petroleum exports. Increased investments in human capital and knowledge-intensive industries are key to the government's plan.

in Sohar come on-stream and oil prices remain considerably above those of early 2007. Another robust trade surplus will doubly ensure that Oman's dollar peg does not come under pressure.

COMPETITIVENESS: Oman's biggest challenge is to educate its labour force so that it can support a diversified economy. Education enrolment and attainment levels are not up to international standards, and tertiary education enrolment rates are the lowest in the Gulf region. Only 13% of students go on to university or some form of continued learning, according to the World Bank.

Oman's economy would benefit markedly from improvements in education and economic efficiency brought about by technological preparedness, according to the World Economic Forum (WEF). Out of 131 economies, Oman's economy ranks the 42nd-most competitive, according to the WEF's "Global Competitiveness Report 2007-08". Out of the GCC countries Oman was the second-least competitive in the GCC, Bahrain was named the least while Kuwait was the deemed most competitive. In the report, labour issues were repeatedly among the most problematic factors in doing business in Oman. But an inadequately educated workforce and poor work ethic also came near the top of the list. Most businesses find it difficult to recruit well-trained staff. Generally, Omanis are not well prepared for jobs that require technological skills, business sophistication or innovation.

This is a serious issue for private enterprise. All businesses have to ensure that a certain percentage of staff are Omani. These "Omanisation" quotas are different in each industry but are often a challenge and expensive for employers.

Both the government and businesses are working, often together, to provide training for Omanis on new technologies so they can make the new plants and projects that are coming up all over the country a success. Moreover, investing in human capital is one of the platforms of the Vision 2020 charter. In 2006 education accounted for 9% of total government expenditure. Current expenditure was just over OR400m ($1.04bn), while investment amounted to OR45m ($117m). Investment in education increased on average by about 23% each year between 2000 and 2006. During this time the number of students studying in private universities and colleges increased by 37% a year to around 20,000. As more of these newly trained students enter the job market, they will help to ease Oman's shortage of skilled labour.

OUTLOOK: In 2008 and beyond Oman's economic policy will continue to focus on diversification away from petroleum exports. Increased investment in human capital, infrastructure, and knowledge-intensive industries are all a part of the government's plans. Oman has reiterated its commitment to the dollar peg. Even if more of its neighbours join Kuwait and decide to adjust their exchange rate regimes, it is unlikely that Oman will do so for some time. As a result of many major industrial projects that are coming on-stream in 2008, GDP growth will be strong throughout 2008 and 2009. The IMF has projected that Oman's GDP will grow in real terms by 6.3% in 2008. However, it is likely that with slowdowns in the US and European economies, real growth will be more subdued than forecasted, but still well above 5%. One major challenge will be to reign in inflation, which has the real possibility of curtailing domestic demand and cutting into growth. Inflation was 6% in 2007 and, with continued high global food prices and strong domestic housing demand, will likely remain high throughout 2008. While Oman's oil production will continue to fall throughout 2008, high international oil prices will ensure stable revenues.

Exports & imports (% total)

Export destination	2005	2006
China (including Hong Kong)	22%	24%
South Korea	20%	18%
Japan	14%	11%
Thailand	13%	11%
UAE	7%	6%
Taiwan	4%	4%
US	3%	4%
Malaysia	3%	3%
Iran	4%	3%
Saudi Arabia	1%	1%
Import source	2005	2006
UAE	22%	22%
Japan	16%	16%
US	7%	8%
Germany	6%	5%
India	4%	4%
UK	8%	4%
Saudi Arabia	4%	4%
China (including Hong Kong)	2%	3%
Korea	3%	3%
Italy	2%	2%
Bahrain	2%	2%

SOURCE: IMF, Direction of Trade Statistics

The weakening US dollar has affected the Omani economy

Imported inflation

The riyal's peg to the US dollar causes problems at home

Like other Gulf states, Oman is unable to escape the effects of the weakening US dollar (to which the riyal is pegged), higher international commodity prices and a flood of liquidity from record oil prices. By December 2007 year-on-year inflation was 8.2%, according to the Ministry of National Economy's monthly survey of consumption goods. The average price increase in 2007 was 5.9%. It was less than 1% in 2004.

"Inflation is a major concern. This year Oman has witnessed the highest rates of inflation ever recorded," Sitikantha Pattanaik, an economist at the Central Bank of Oman, told OBG. Despite concerns at the central bank, it has few tools to reign in inflation. Monetary policy is largely determined by maintaining the riyal's peg to the dollar; when the US Federal Reserve cuts interest rates, Oman's central bank follows suit.

Real interest rates have, as a result, become negative; the average repo rate was 6.02% in December 2007. Oman's central bank did manage some back door monetary tightening in 2007, when it changed the rules on banks' reserve requirements. This, however, was hardly enough to curb growth in domestic liquidity. Credit growth has unsurprisingly grown quickly – although the rate of growth is a bit worrying. In 2007 credit grew by 38%, according to the central bank's December bulletin. Its growth was merely 20% in 2006 and just 11% in 2005. Before inflation took off it was a much lower 1% in 2003.

This flood of domestic liquidity puts in serious doubt the assertion that the region's inflation is largely imported. "It is a combination of imported inflation, largely as a result of higher food prices, and domestic inflation, which is very important and comes mostly through rent and housing prices," said Pattanaik.

"We need to balance the social costs, so to do this we have set some prices," said Tahir Al Amry, the head of the economy minister's office. "We will have to find a permanent solution. We will need to develop the levers to control monetary policy." Omanis have been hit the hardest by food and rent inflation. Some food prices have gone up more than 25%, despite subsidies to keep basic provisions cheap. On average, food prices increased almost 11% in 2007. Rent increases were capped at 15% for two years by the government to try to dampen the effect on low-income households. Rent and house prices increased 8.5% in 2007. Some worry that the property market, in which prices have been growing very fast, may be becoming a bubble. Large-scale investments into diversification projects have increased aggregate demand. The problem is that everything from raw materials to human resources is in scarce supply in the region and globally, pushing up prices.

Wage jumps could trigger further increases in prices. The government is likely to continue raising the salaries of government workers and could again increase the minimum salary of Omanis in the private sector, which were hiked in late 2007. Omani workers' salaries are typically two to three times higher than those of expatriate workers. The shortage of skilled Omani workers is also pushing up wages. Another reason for wage inflation is higher salaries in neighbouring countries. Many Omanis, especially skilled ones, emigrate to neighbouring countries for higher salaries, pushing up the cost of skilled labour in Oman.

The regional labour market was fully liberalised in January 2008. This may augment the emigration, and difficulty businesses have getting skilled Omanis, now that they are free to work anywhere in the GCC.

Inflation is likely to be higher on average in 2008 than it was in 2007, given that little has fundamentally changed to relieve upward pressure on prices. Oman is not likely, for instance, to remove its dollar peg. The government, given its healthy oil-derived finances, will maintain its subsidies on staple items. This will keep prices from rising too fast – and will help to minimise social and political tension.

If the US and European economies enter a recession, oil prices may begin to moderate and curb regional liquidity. But it would take a full slowdown in Asia, unlikely in 2008, to dampen oil and global commodity prices.

2007 recorded the highest level of inflation in Oman, at 8.2% according to the Ministry of National Economy. There is little the central bank can do to curb inflation because of the riyal's peg to the US dollar.

Inflation has hit ordinary Omanis the hardest because of increasing food and rent prices. The government is trying to control rising prices through food subsidies and rent caps.

OPAL

أوبال هي أعضائِها

IS ITS MEMBERS

OPAL

Ahmed Macki

Omanisation policy matures

OBG talks to Ahmed Macki, Minister of National Economy, Deputy Chairman, Financial Affairs and Energy Resources Council

Oman has a young and growing population. What opportunities and challenges does it face in its economic development ?

MACKI: The young growing population is not particular to our country. In Oman the percentage of youth is above 50% of the total population. We have taken this situation as a challenge for the government to create sustainable programmes that will meet the country's needs in the future. We put emphasis on providing the basic requirements through education, health and social activities.

The government is aware of its role to secure jobs for its nationals, through the "Omanisation" policy [in operation since 1988, to replace the expatriate workforce with trained Oman personnel in government offices], and programmes directed at the self employed have been established to boost the participation in different professional fields. The main step taken has been the number of new projects intended to assist economic diversification and to provide many more job opportunities for the young.

How has the Omanisation affected the national economy since its implementation?

MACKI: Any nationalisation policy affects a country's economy. The effects become positive with time and above all, the reaction of the population to this policy becomes positive. We can say that the Omanisation policy has, since it was implemented, been a successful one. In the sectors that do not require a skilled or semi-skilled work force, Omanis have all but replaced expatriates. In the long-term, this will happen by developing the Omani workforce through upgrading education, improving intensive technical and vocational training and providing access to higher education. These initiatives are meant to meet the needs of all economic sectors.

There is a wide range of educational facilities in Oman. We have six technical colleges, four vocational training centres, 22 private universities and colleges, in addition to eight government colleges, 16 health institutes and Sultan Qaboos University.

What are your expectations for the numbers of government employees in the coming years?

MACKI: It is the government policy to ensure the employment of more and more people in the private sector. The key objective of the privatisation policy is to create more employment. In the first quarter of 2007 the total number of Omanis employed in by private sector was 120,475, up from 114,311 in the fourth quarter of 2006. And it is expected the tourism sector will generate even more employment opportunities. It created around 3.1% of total employment in 2007 and this is expected to rise to around 4.4% of total employment by 2017.

Which area of the economy have you been particularly pleased with and which area needs the most attention in the next few years?

MACKI: Oil and gas will remain important areas of our economy. We have succeeded in developing several industries, such as the mega-projects in Sohar, Sur and Salalah, and we are currently adding the Duqm area to our plans for development. These will broaden the economic base and will support the diversification strategy. The seventh five-year plan (2006-2010) gives priority to the tourism, fisheries and the information technology sectors.

The government budget is always very conservative when estimating the price of oil each year. How is the high oil price boosting the economy?

MACKI: The continuing growth of the non-oil sectors and the increasing of oil prices gave us a very strong GDP. These factors have led the way to a stable macroeconomic framework, a positive financial balance, economic stability and sustainable development in all the major economic sectors, mainly the private sector and human resource development.

Kimberly Wiehl

Insuring success

Kimberly Wiehl, Secretary-General, Berne Union, on the rise in exports of credit insurance in the Middle East market

While export credit and investment insurers are niche players in the world of general insurance products, they play an important role in the facilitation of global trade. In 2007 the insurance companies that made up the membership of the Berne Union covered more than $1.1trn of new business, representing approximately 10% of world trade. While the markets are still feeling the effects of the credit crunch and the lack of liquidity in the banking sector, Berne Union member companies still report strong growth in demand for their insurance coverage. One of the hottest and most dynamic regions in the past three years has been the Middle East.

The Berne Union was established in 1934. Its primary function is to promote best practices in the industry and provide a platform for insurers from different countries to share experiences and information. Its affiliate association, the Prague Club, was created in 1993 to offer an information exchange network for the new export credit agencies in Asia, Africa, and Central and Eastern Europe. Together the Berne Union and the Prague Club have over 70 member companies, representing more than 60 countries.

The explosion of economic activity in the Middle East region has had a very strong impact on the new business booked by Berne Union members in the region. On the one hand, the sharp rise in commodity prices – oil and gas, in particular – coupled with large infrastructure projects in the areas of tourism, shipping, petrochemicals and ports have led to great demand for insurance to cover payments from Middle East-based importers and buyers. On the other hand, increased intra-regional trade and expanded exports of non-oil products has created new business for export credit agencies in the Middle East.

The Berne Union's Prague Club is well represented by the region, with four member companies – Export Credit Guarantee Agency (ECGA) of Oman, Jordan Loan Guarantee Corporation (JLGC), Inter Arab Guarantee Corporation (IAGC) and Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). ECGA and JLGC are government agencies responsible for covering national exporters, and IAGC and ICIEC are multi-country organisations operating primarily in the region. The representatives from these members offer unique insights into the region as well as concrete action in the area of risk sharing.

ECGA of Oman has been a member of the Prague Club for seven years and its experience demonstrates the advantages of being an active participant within this industry group. According to Nasir Al Ismaily, general manager of ECGA, the agency has benefitted from gaining a greater understanding of the sound principles of credit insurance. The Omani agency has been able to benchmark its operation against the best practices developed by other members in such key areas as risk mitigation, credit limits, premium systems, and the handling of claims and recoveries. ECGA has had a unique opportunity to play a leading role in the Prague Club by hosting the autumn 2006 general assembly in Muscat, as well as being an active participant in the selection of topical subjects to address at the biannual meetings.

The number of new Omani projects and importers, has been at a relatively high level over the past two years. In the area of short-term credit insurance, where the credit terms are typically 30 to 180 days but no more than a year, Berne Union's member exposures remain steady at $2.5bn. For medium and longer term credit insurance, the volume of new businesses for 2006 was $1.8bn and total commitments outstanding were $3.3bn. These levels rose to $4.5bn by the end of the third quarter in 2007.

Based on the success of the regional export credit agencies and the large volume of imports flowing into the Middle East from Berne Union members, it is clear that dynamic regional economies are driving forces in creating more intra-regional and global trade. These are very encouraging developments for the Berne Union and Prague Club members.

Some 92m barrels of Omani crude went to China in 2006

The eastward pull

Strengthening economic ties with Asia

Oman has historically been a seafaring nation and dependent on trade. It has a long tradition of commerce with the Far East. In the 20th century, however, Western economies like the US, UK and Germany became important trading partners. Since the 1990s growth in Asian markets has been very strong. Asia's fast growing economies with their appetite for energy have been perfect destinations for Omani exports. In 2006 more than 70% of Omani exports went to Asia, and China, South Korea, Japan, Thailand and Taiwan took the largest shipments. In 2006 China took more barrels of Omani crude oil than any other country – 92m of the 233m exported.

LOOKING EAST: Throughout 2007 Omani officials paid special visits to countries across Asia and reciprocally welcomed many Asian visitors. But Oman is also trying to expand its ties with regional players, such as Iran, to shore up its domestic gas supplies with excess from its neighbours. Extra gas would allow Oman to continue expanding its development of gas-based heavy industries and increase the capacity of its liquefied natural gas (LNG) industry. In May 2007 Oman signed a memorandum of understanding with Iran for natural gas that would be processed in Omani LNG facilities. If this becomes a reality it could further strengthen Oman's ties with Asian countries, which are increasingly hungry for LNG.

In October 2007 the Korea Gas Corporation (KOGAS) announced that it had signed a memorandum of understanding with Oman for 2m tonnes of LNG per year. The details remain to be worked out, but Korea would like to start imports in 2008. KOGAS already is one of Oman's biggest LNG clients, taking about 4m tonnes each year under a 25-year contract that started in 2000. Oman's three LNG trains have a total capacity of just over 10m tonnes a year. Japanese companies, such as ITOCHU, Mitsubishi and Osaka Gas, have also signed to take large proportions of the third train's production. It is not only Asian economies that want gas. Spain has also become an importer of Omani LNG, taking half the production of the third LNG train. India and Oman have been busy with several plans. The most significant from an export point of view has been the announcement that India would like to expand its fertiliser production joint venture in Oman. The current venture, a $1bn gas-fuelled Oman-Indian fertiliser plant, started production in 2005. India takes all of the plant's output. The expansion, whether on the current site or elsewhere, would be of similar scope, according to official statements, but is also dependent on Oman being able to secure additional gas supplies.

CAPITAL IMPORTS: These are the kinds of projects that plug into Oman's development strategy. They have helped to expand Oman's non-petroleum exports, which have grown rapidly to Asian countries in recent years. In 2007 India and Pakistan were among the top-five importers of Omani non-petroleum goods. The value of their imports increased 37% to OR119.1m ($309.7m) and 190% to OR27.5m ($71.5m), respectively. Both have expressed interest in signing free trade pacts with Oman. Re-exports to Hong Kong also grew fast – by 88% to OR24.6m ($64m).

As the country moves to develop a diversified export-oriented economy, it is relying heavily on capital imports, especially heavy machinery and transport equipment. In the first nine months of 2007, capital imports accounted for nearly 50% of all imports. Many of these types of imports originate in the US, UK, Germany and Japan. These countries' totals are under-represented in the official statistics because many enter the country as re-exports from the UAE.

Omani petroleum expertise has given it an advantage in Asian projects. Oman is now a partner in joint petroleum ventures in China, Korea and Japan and is considering working with the Pakistan state oil company. Such developments are important strategic moves to ensure the sustainability of Oman's petrochemical companies, considering that Oman's reserves are likely not to last much more than a couple of decades.

Oman has always had a long tradition of trade with the Far East, but recently exports to Asia have grown, with more than 70% of Omani exports going east in 2006.

Countries such as Korea, Japan, Iran and even Spain are lining up to import Oman's LNG. India is considering expanding a fertiliser production facility in the country.

Azzan Al Busaidy

A measure of freedom

Azzan Al Busaidy, CEO, International Research Foundation, on the importance of economic freedom in attracting investment

Economic freedom is measured by the extent to which one can pursue economic activity without government interference. Its foundations are personal choice, voluntary exchange, the right to keep what is earned and the security of property rights. Extensive research and empirical data show that prosperity is directly linked to economic freedom and development.

The International Research Foundation started working on the first "Economic Freedom of the Arab World" report and index in 2005. It measures how well countries in the region are adopting policies that are meant to encourage economic freedom.

The five categories taken into consideration are: size of government, which includes expenditures, taxes and enterprises; legal structure and security of property rights; access to sound money; freedom to trade internationally; and regulation of credit, labour and business.

The size of government metric considers government spending as a percentage of total consumption; transfers and subsidies as well as government enterprises and investment as percentages of GDP; and the top marginal tax rates. Countries' ratings improve when they speed up the privatisation process and relax regulations; enhance the decision-making process; improve corporate governance; clarify the role of government; and promote the creation of private enterprise.

The legal structure and security of property rights category measures the overall integrity of the legal system, including whether courts are impartial and if personal and intellectual properties are protected.

Access to sound money considers money growth, standard inflation variability, the recent inflation rate, and the freedom to own foreign currency bank accounts domestically and abroad. Countries at the top of the index have developed regulations to protect depositors' funds and created measures to stabilise inflation.

As for the freedom to trade internationally, the items considered are: taxes on international trade; the amount of regulatory trade barriers other than tariffs and quotas; the actual cost of importing; international capital market controls; and the freedom to engage in capital market exchange with foreigners. The scores improve when investment regimes are liberalised and government procedures are simplified.

In the last bracket, the index measures the ownership of banks and the percentage of deposits in privately owned banks; to what extent foreign banks are allowed to operate and compete with local ones; and the avoidance of interest rate controls. For labour regulations minimum wages; hiring and firing regulations; centralised collective bargaining; and the use of conscripts for the military are all measured.

Finally, business regulations measure components such as price controls, administrative conditions, time spent on government bureaucracy, ease of starting a business, and irregular and additional payments charged for starting a business. In these areas, scores improve when internationally accepted labour laws are adopted; transparency and databases are improved; support schemes for entrepreneurship development are introduced or improved; and government efficiency and productivity increases by concentrating on training.

Most Arab countries included in the report have shown positive changes in their scores in most areas, which is an indication of the increased awareness of economic freedom. Oman and Kuwait tied in the 2007 index as the most economically free Arab nations.

This is important to investors and businesses working or considering working in this region. Scoring high sends a positive message to investors. Development of investor-friendly climates in the Arab world could be planned and structured around the areas our report examines, as best practices in the world lead the global economic freedom index for years.

The way Hong Kong and Singapore, which rank at the top of the global index, opened up for international businesses set a benchmark to be used by many countries around the globe. The Arab world also has excellent examples, with Oman and the UAE among the top-20 countries in this year's global economic freedom index.

Upgrading infrastructure is an important aspect of diversification

Room for improvement

Business executives recommend solutions during diversification

In the face of declining oil production, Oman has begun to lay the groundwork for an extensive economic overhaul. Many analysts believe that the country may have only 20-25 years before its reserves dry up. The government depends on oil for nearly 65% of its revenues and knows that serious change is required. A range of economic diversification schemes including tourism, real estate, port facilities and industrial plants are at varying stages of maturity. Up to September 2007 a range of non-oil activities drove nominal GDP up 8.3% compared to the same period a year earlier, according to figures from the Directorate General of Economic Statistics. Petroleum income decreased 0.2%, and non-petroleum industrial activity increased 12.3%, while services increased 19.4%. These two sectors are slowly replacing petroleum as the driver of Omani economic growth. Services account for about 60% of GDP.

In the final quarter of 2007 petroleum income likely picked up given steep rises in international oil prices. This should have pushed nominal growth for 2007 closer to 11.6%. The growth has increased Oman's purchasing power and provided extra, and unplanned, revenue for the government. This income is certainly welcome because the country has performed relatively poorly compared to some of its neighbours in attracting foreign direct investment (FDI). Oman's stock of FDI fell from almost 15% of GDP in 1990 to 11% in 2006. Over the last few years, however, FDI has made its way into more greenfield projects in places like Sohar, Salalah and Duqm. As a result, FDI flows increased from about 5% of gross fixed capital formation to nearly 17% during that time. In recent years gross capital expenditure has hovered between 18% and 20% of GDP. The International Monetary Fund has predicted that Oman's real GDP growth will be about 6.3% in 2008.

During discussions with many executives in Oman several issues came up on their worry lists. Human resources were the biggest cause of concern. Many companies have developed specialised training programmes because filling their Omanisation quotas with skilled locals is not yet possible. The Ministry of Manpower has taken steps to rectify this. Over the next several years new graduates from vocational training centres and technology colleges will help alleviate shortages, said officials from the ministry. The number of students in such institutions has increased nearly 20% each year since 2001.

Next on worry lists were typically concerns over inadequate infrastructure. Everything from Muscat's increasingly congested roads to insufficient gas supply needs to be addressed. Some bosses complained that they were running billion-dollar plants by mobile phones because fixed-line and internet services are simply inadequate. Others pointed out that it is difficult to compete on a global scale when email attachments can bring down information systems due to the insufficient capacity of the country's one internet service provider. Service and IT industries executives questioned how a knowledge-based society could be expected to emerge in Oman given the high costs of broadband, and the monopoly on fixed-line and international gateway services. Many point out that opening up the rest of the telecoms industry could rapidly transform Oman's internet landscape the way that telecommunications was reshaped a couple of years ago. For many a small step forward has been taken with Nawras launching its new 3G services this December. Internet communications immediately opened up.

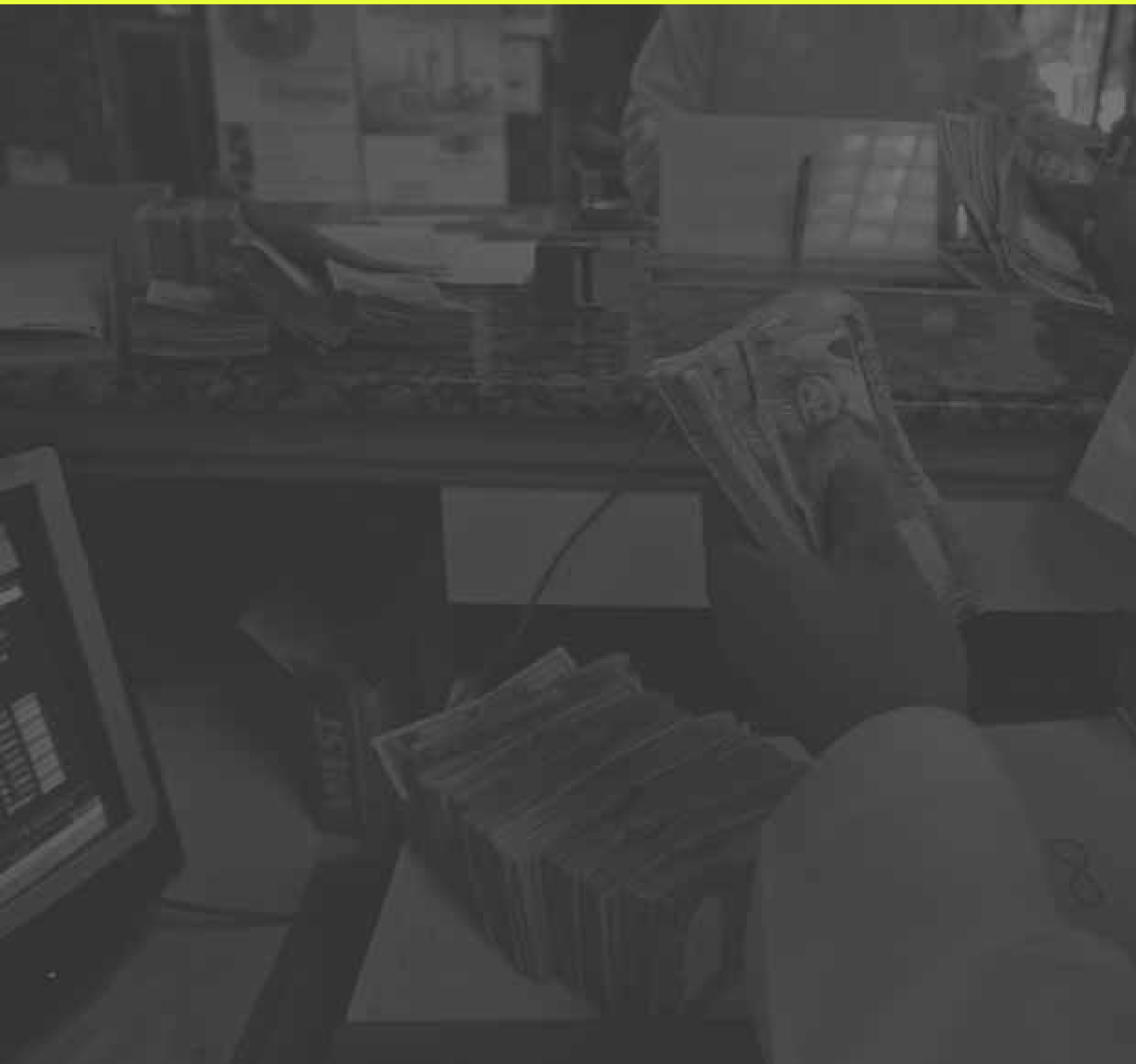
As long as inflation does not grow much faster than it did in 2007, the outlook for 2008 is bright. High oil prices will bring in revenue despite continued drops in production. Most importantly, the country's various diversification plans are beginning to move from construction phase to production. The announcement of a new free-trade zone near the Sohar port is likely to help reverse concern that Oman has underperformed in attracting FDI. There is good reason think that the government, which has shown excellent coordination with the private sector in its diversification agenda, will continue to relieve the economy's bottlenecks.

Oman has begun to lay the groundwork for an extensive economic overhaul. A range of economic diversification schemes including tourism, real estate, port facilities and industrial plants are at varying stages of maturity.

Human resources concerns topped the list of business difficulties among executives in Oman. The Ministry of Manpower is trying to curb shortages of skilled labour by increasing the number of technical and vocational students.

Banking

Country sees newest local bank in 16 years
Small market leads banks to look abroad for expansion
Lending cap threatens future mortgage growth
Growth areas in project finance and consumer lending



In 2007 banks' assets grew 35.3% and deposits increased 32.5%

Banking on growth

Project financing and consumer lending set to rise

Omani banks face an enviable task: how do you meet the financing needs of a thriving economy? The country's young, growing population, combined with rising per capita income and major investments, present a huge opportunity. The question on everyone's minds is if Omani banks, small by regional standards, can meet demand on an unprecedented scale.

Underlying the situation has been a flood of positive economic data: high oil prices, strong non-oil sector growth, foreign direct investment inflows and a current account surplus. This has culminated in greater consumer lending as well as corporate lending in the form of project finance of long-term infrastructure and industrial projects.

"Project finance opportunities knock at our door every day," said Ramy Zambarakji, the managing director of the Oman branch of the Bank of Beirut. "The first thing that booms is project finance."

That said, the large size and complex nature of many financing projects means that not every Omani bank can offer adequate support. "Many banks are too small to tap into the big infrastructure projects and instead tend to emphasise personal lending," explained Aditya Ravikrishnan, an analyst at the Financial Services Company.

In any case, the trend toward liberalisation and openness means that local Omani banks are striving to improve services and attract more customers to maintain a greater market share.

PROFITS: It was a turbulent year for Western banks as the US subprime meltdown and ensuing credit crunch dented bottom lines across the US and Europe. Banks in the Gulf, however, were mostly insulated from the crisis. The region's top-20 banks had less than 1% of their total assets exposed to subprime loans, a Standard & Poor's survey found.

In fact, Oman's banks recorded a year of strong growth, by any measure. By November 2007 assets grew 35.3% to OR9.8bn ($25.48bn). Foreign assets made up 20% of this total. Deposits increased by 32.5% to reach a total of OR6.2bn ($16.12bn). Deposits from the private sector represented 81.4% and were distributed among timed (44.7%), demand (28.5%) and savings (26.8%) accounts. Foreign deposits made up 18% of total deposits.

Banks' profits were also healthy, amounting to OR176.9m ($460m) from January through November 2007, a 26.4% year-on-year increase. Profits grew at a 39% compound annual growth rate from 2003 to 2006, and are expected to remain strong in 2008. In 2006, the last year for which data was available, the return on average equity was 21% and the return on average assets was 2.8%.

NEW PLAYERS: Profits have been high, but concerns persist over whether Oman's banking sector, which already consists of six local and nine foreign banks, is large enough to absorb more banks given the country's small population.

Four local banks – BankMuscat, Oman International Bank, National Bank of Oman and Bank Dhofar – dominate Oman's banking industry. Together, they account for 78% of total commercial banking assets and 75% of total branches.

In 2007 Bank Sohar became the first new local bank in Oman since 1990. Investors greeted the debut enthusiastically, as evidenced by a hugely successful initial public offering (IPO). The IPO, which lasted from December 2006 until January 2007, was six times oversubscribed and raised $54m for 40m shares, or 40% of the company.

The stock price has done very well since listing on the Muscat Securities Market (MSM), reflecting an impressive performance thus far. In the nine months from March through December 2007, Bank Sohar posted a profit of OR2.8m ($7.28m). It also built up customer deposits of OR334m ($868.2m) with about 12,500 customers and a market share of over 4% of private sector credit and deposits.

New foreign banks are also entering Oman. Qatar National Bank announced in late December 2007 that

Omani banks are working to meet the needs of a thriving economy by improving services and attracting customers so they can maintain greater market share.

Four local banks account for 78% of total commercial banks' assets and 75% of total branches in Oman. In 2007 the first new local bank since 1990 opened in Oman.

Oman Arab Bank was established in 1973 and had 39 branches as of the end of 2007

it had opened its first branch in Muscat, after receiving a banking licence earlier in the year.

The Central Bank of Oman (CBO) issues the national currency, acts as the government's banker, supervises commercial banks operating in the country, formulates and oversees monetary policy, and ensures the soundness of the financial system. The bank has also introduced new international accounting standards and corporate governance principles to reduce fraud and malpractice.

The CBO granted Gulf Merchant Group, a UK- and Dubai-based banking and asset management firm, initial approval to operate a retail and commercial bank in 2007. Abu Dhabi Commercial Bank bought a 41% stake in the new bank for $51m at end-2007.

The number of new entrants, however, might be curtailed by a March 2007CBO decision to double the capital requirement for new local branches of foreign banks to OR20m ($52m). The same decision also doubled the minimum requirement for new local commercial banks to OR100m ($260m).

GETTING BIGGER: Nonetheless, bankers agree that the sector has grown more competitive over the past several years and will continue to do so. "We're seeing new entrants from the Gulf, and local banks are expanding as well," said Taqi Ali Sultan, the general manager of the National Bank of Oman. "But I think there are real growth prospects, so there is sufficient room for every player."

Banks are working aggressively to gain clients through various means including building branches, creating new products and services, and even expanding operations abroad.

Omani bankers agree that the sector is becoming more competitive and will continue to do so. They are working aggressively to gain new clients through new branches, products and services.

BankMuscat, for instance, opened its Riyadh branch last year. The bank already operates branches in India and Kenya, and reportedly has ambitions to have a presence in all Gulf Cooperation Council (GCC) countries by 2010. The bank also increased its capital through a private placement to Dubai Financial, an investment arm of Dubai's government, for a 15% stake worth OR238.3m ($619.6m). The deal further enhances BankMuscat's capital adequacy, fuels asset growth and should enable domestic and international growth plans.

Domestic plans include increasing the bank's home loan segment. To that end, BankMuscat made an offer to acquire Oman's leading mortgage provider, Alliance Housing Bank (AHB). The deal, valued at 375 baisas per share, would have given BankMuscat as much as a quarter of the market share in Oman's mortgage business.

But AHB's board of directors ultimately declined BankMuscat's offer, accepting instead a joint proposal from Bahrain's Ahli United Bank (AUB) and the International Finance Corporation (IFC), a member of the World Bank Group.

AUB and IFC acquired a 35% stake and 9.9% stake, respectively. AUB paid a total of OR50.9m ($132.3m), or 450 baisas per share, which was a 20% premium on AHB's stock price. AHB was subsequently renamed Ahli Bank SOAG, effective early January 2008.

CREDIT GROWTH: Bankers are optimistic that ballooning household income levels and the rise in investments will translate into increased consumer lending. Many projects are ongoing or slated to begin soon in various fields, including power, aluminium, fertiliser, petrochemicals, water desalinisation, infrastructure and tourism. There have also been steps toward privatisation, most evident in the telecommunications, power and transport sectors.

A May 2007 report by Gulf Investment House, a Kuwaiti firm, reached a similar conclusion on credit growth: "We expect the banking industry to capitalise on this through actively participating in the financing of many of these projects," the study found.

Active banks, 2007

	Year established	Branches
Local		
National Bank of Oman	1973	49
Oman Arab Bank	1973	39
Oman International Bank	1975	82
Bank Muscat	1981	106
Bank Dhofar	1990	49
Bank Sohar	2007	5
Foreign		
HSBC Bank Middle East	1948	6
Standard Chartered Bank	1968	1
Habib Bank Ltd	1972	8
Bank Melli Iran	1974	1
National Bank of Abu Dhabi	1976	4
Bank Saderat Iran	1976	1
Bank of Baroda	1976	3
State Bank of India	2004	1
Bank of Beirut	2006	1
Qatar National Bank	2007	1
Specialised Banks		
Oman Housing Bank	1977	9
Oman Development Bank	1977	13
Alliance Housing Bank	1997	7

SOURCE: Central Bank of Oman, Quarterly Report, December 2007

"Going forward, we believe that there will be ample lending opportunities in Oman, and thus we expect credit to expand further."

Indeed, credit growth in Oman has been expanding rapidly. From the end of 2006 to November 2007 credit shot up by 29% to reach OR6.06bn ($15.76bn), of which over 93% went to the private sector. Personal lending represents the highest share of total credit extended by commercial banks, followed by import trade and manufacturing.

Personal lending leads the way despite the lending restrictions the CBO has placed on banks. The lending ratio is capped at 87.5% of the total funding base, comprising customer deposits, subordinated loans and net borrowings from banks abroad as well as capital reserves. The interest rate on personal loans cannot exceed 9%.

There is also a 45% cap imposed on total personal loans, including a 5% interest rate cap on housing loans. The housing cap has irritated some bankers, who feel the restriction makes it impossible to maximise their profits and meet demand.

"I think the authorities will have to re-examine the 5% cap," explained Ali Sultan of the NBO "The demographics say that demand for housing will continue to grow. There are lots of young graduates and they will need homes," he said.

The growing real estate market has encouraged banks to increase home financing. New loans such as NBO's Al Manzel and BankMuscat's Baituna products are offered to both locals and expatriates. While some bankers complain about this "paternalistic" relationship, the CBO insists the measures are necessary to prevent excessive credit growth and deterioration in the quality of loan portfolios. Neither of these issues seems to be a problem at present. Total non-performing loans are low, comprising only OR300m ($780m) in 2006, or 5.2% of the aggregate loan portfolio. The average coverage ratio was 107.3%.

In addition, Omani banks have been in compliance with Basel II regulations on capital adequacy minimum requirements since January 2007. In fact, the minimum capital adequacy is above the coverage mandated by Basel II, even after the CBO reduced the requirement from 12% to 10%.

HUMAN CAPITAL: Many Omani banks are facing a problem that all sectors across the country are dealing with: the struggle to retain qualified staff. Many

Credit by sector ('000 OR)

	Dec-06	Sep-07
Personal loans	1,824,587	2,238,113
Manufacturing	366,399	475,519
Construction	274,482	373,465
Services	313,062	319,849
Financial institutions	234,015	289,555

SOURCE: CBO, Quarterly Report, September 2007

Omani banks are facing a problem familiar to many sectors across the country: finding and retaining qualified staff. Some companies lure staff away from other banks.

Weighted average interest rates, 2004-06 (OR)

	Deposits			Lending		
	Private sector time deposits	Total deposits	Private sector total	Total time lending	Total lending	Lending
4-Jun 2004	2.26	1.11	1.17	8.25	8.01	6.71
4-Dec 2004	2.35	1.13	1.3	7.78	7.57	6.45
5-Jun 2005	2.68	1.18	1.49	7.43	7.27	6.32
5-Dec 2005	3.2	1.41	1.91	7.21	7.07	6.57
6-Jun 2006	3.57	1.53	2.07	7.41	7.35	7.07
6-Dec 2006	3.94	1.86	2.63	7.53	7.4	7.12

SOURCE: Central Bank of Oman

employees are lured away by higher salaries, both domestically and abroad. "Banking is similar everywhere, so staff quickly receive offers from competitors," said Ali Sultan of NBO.

"It's very difficult to find junior managers with five years' experience and a decent CV," said Zambarakji, the managing director of Bank of Beirut's Oman branch. "So you must fetch them from other banks."

Banks operating in Oman probably cannot match a salary offered by a bank in the Gulf, Ali Sultan concedes, but feels that Oman offers a higher standard of living. "The salary itself might be lower, but keep in mind that Oman remains relatively inexpensive compared to a lot of other places."

In an effort to retain employees, the NBO has implemented several training programmes to keep people interested in their jobs. The bank has also revamped and modified its appraisal system based on key performance indicators in order to make it more objective and efficient.

The NBO recently began a programme whereby it selects 22 new graduates, who are placed in a programme that allows them to gain first-hand experience in the different departments of the bank, and receive a job offer upon successful completion.

OUTLOOK: Omani bankers are confident that the country's strong economic forecast will translate into increased lending improvements and better asset quality. Rising household income levels and a young population support consumer lending, they say. High investment levels represent many opportunities for corporate lending. While not every bank has the capacity to tap into large project financing at present, it might just be a matter of time before they reach the appropriate size.

All the banks are aware that competition is fierce, particularly as new players enter the sector. The new breed of online banks from Europe and the US pose a potential challenge to Omani banks. As the local market is not big enough, local banks are trying to become stronger through mergers, acquisitions, overseas expansion and diversification. Each bank must improve customer service and acquire new skill sets to satisfy the increasingly complex nature of the transactions customers and businesses require.

With rising income levels, the outlook for growth in the sector is good

Fresh start

The country's newest local bank gets off to a brisk start

Starting from scratch is never easy, especially when trying to enter an already burgeoning financial market. But Bank Sohar's hugely successful initial public offering (IPO) and launch in 2007 proved that building a top-notch financial institution from day one is possible. You just need the right ingredients, according to CEO Nani Javeri.

"We took the best practices from around the world, and fine-tuned them to the local market," he said.

Bank Sohar has placed a strong emphasis on risk management, for instance. It created a separate unit for that purpose which is headed by seasoned banker HV Sheshadri, who also serves as the senior deputy general manager and is effectively the number two in command at the company.

Bank Sohar also has acquired leading computer and banking technology, including Infosys's Finacle core banking system, Oracle's management information and reporting system, and an anti-laundering system from 3i Infotech.

The bank's rise began in 2006, after it received a licence from the Central Bank of Oman (CBO), which was the first new licence granted for a local bank in 16 years. Bank Sohar began operations with OR100m ($260m), split evenly between paid-up capital and capital to be called up within three years.

Afterwards, a wave of positive and enthusiastic investor sentiment in the banking sector carried the IPO, which raised OR20m ($52m).

The issue opened in December 2006 and closed the next month six-times oversubscribed. It was the first IPO floated since Taageer Finance Company's listing in October of 2005.

Bank Sohar's shares were listed on the Muscat Securities Market beginning in early March 2007. The stock price has performed well in light of the bank's solid performance during the last nine months of 2007. Bank Sohar posted an operating profit of OR2.8m ($7.28m) for the period, easily exceeding the amount projected in the company's prospectus.

In addition, total customer credit exposure in this period reached OR303.3m ($788.6m), while customer deposits climbed to OR334m ($868.2m) spread among some 12,500 customers. The bank holds more than 4% of Oman's total private sector credit and total private sector deposits.

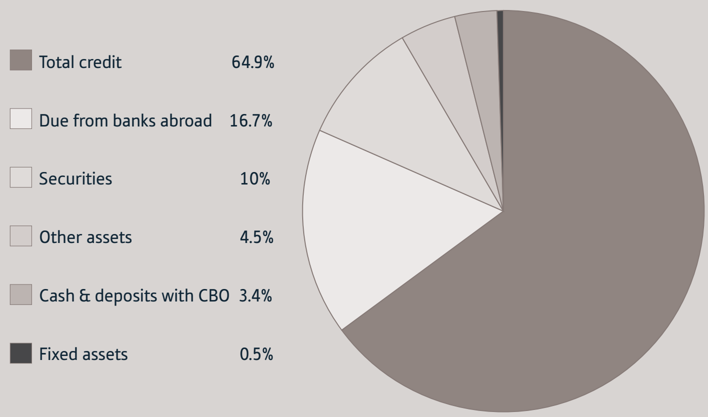
"Our products have excited the man on the street," Javeri said. "Because we are 30% owned by the government, people have confidence that we're not some fly-by-night operation. We have a strong shareholding base," he said.

The major shareholders comprise a team of founders who own 60% of the banking company. These include the Office of Palace Affairs, a sovereign government entity; government-run pensions; the Oman Investment Fund, which is promoted by the Ministry of Finance; Al Ghadeer Al Arabia, a private investment company; and several influential leading Omani business houses.

Bank Sohar's strong start can also be attributed to the bank's management team, most of who came with decades of experience. Javeri previously served

Bank Sohar was the first local bank to receive a licence from the Central Bank of Oman in 16 years. The bank has fine-tuned its products for the local market to compete against five other local banks.

Banks' assets, 2006 (% of total)



SOURCE: Global Investment House

The bank has nine branches and plans to open 10-15 more in 2008

as CEO for Birla Sun Life Insurance in India. Before that, he had spent 32 years with ANZ Grindlays Bank in India, London and Melbourne.

The bank has set out a clear strategy to focus on several core areas: treasury, small and medium-sized enterprises (SMEs), and retail banking. The corporate banking unit plans to focus on developing a niche market in SMEs.

A separate division within the bank works exclusively with these companies, which have an annual turnover of less than OR5m ($13m). SMEs might be riskier, Javeri acknowledged, but he said that they are also underserved by banks at the moment, despite playing a huge role in Oman's surging economy.

The bank is also set to provide advisory services and hopes to receive an investment banking licence from the central bank in 2008.

"We're looking to align the bank with companies in growth sectors, such as education, tourism, manufacturing, and oil and gas," Javeri said. This is particularly important because disintermediation has pushed funding costs down, thereby squeezing net interest margins on corporate lending.

Bank Sohar plans to focus on several core areas: treasury, SMEs and retail banking. In 2008 the bank is planning to get involved in providing advisory and investment banking services.

Bank Sohar has approached retail banking with an eye on customer segmentation. Many individuals in the local market require reliable basic services, such as a good branch network and ATMs.

The bank has nine ATMs and five branches, with two located in Sohar and one each in Nizwa, Qurum, and Seeb, with plans to open an additional 10 to 15 branches across Oman by the end of 2008. Customers can also utilise banking services via the internet, phone and text messaging.

Products include incentive linking, business, high-yield deposits, Al Mumayaz and children's savings accounts, credit cards and housing loans. "High net-worth individuals comprise a different segment," Javeri said, "which requires special attention. You need to develop a relationship with these clients."

Bank Sohar has managers dedicated to serving these clients among its staff of 217 employees, which consists mostly of experienced hires but also some recent graduates. The bank has plans to open a full training centre in 2008.

"We want to make the organisation as vibrant as possible," Javeri said. While Bank Sohar has captured significant business thus far, a lingering question within banking circles is whether there is enough room for a sixth local bank, in addition to the nine foreign banks already in Oman.

Javeri contends that stimulating local demand depends on creating world-class financial services that meet the needs of a growing population.

"The central bank had been reluctant to issue a new licence due to the size of the country, so we had to think about doing things differently. If you don't, then you die quickly."

Reflecting on the bank's short history, Javeri said, "We're off to a good start, but I realize we're talking about running a marathon here. We've built up good momentum, but we're only four miles into the race."

Omani brand building is poised to bring in profits

Lending spree

New enthusiasm and optimism for corporate and private finance

Consumer and corporate lending should steadily rise following strong economic growth, according to a recent study on Oman's banking sector. Gulf Investment House (GIH), the Kuwait-based Islamic investment bank that wrote the May 2007 report, cited many favourable factors supporting greater lending in Oman.

The GIH study found that growth prospects are high for both corporate and consumer lending. The outlook for consumer lending is very bright, with higher per capita income levels, strong population growth and favourable demographics. In addition, a strong economy and increased project spending should bode well for corporate lending. By any measure, credit has been on the upswing. Total credit grew by a compound annual growth rate (CAGR) of 12% from 2003 to 2006. In 2007 credit increased by 29% from January until the end of November to reach OR6.07bn ($15.8bn), and GIH forecasts credit to grow at a CAGR of 20% for the period 2006 to 2010. Personal loans represented the biggest chunk of credit extended, with 39% of total credit, followed by import trade (9%), manufacturing (8%), services (7%) and construction (6%).

Demographics suggest that personal lending should increase more. Oman has a young and growing population with rising per capita income. Greater lending should extend to the housing market, where the expansion of real estate developments has encouraged banks to increase their exposure to home financing. National Bank of Oman and BankMuscat each market their own loan plans, available to locals and expatriates. There is a personal lending cap of 45% of total loans, which has caused some frustration among bankers who say the restriction limits their potential. The Central Bank of Oman has exercised caution to prevent excessive credit growth that could undermine the quality of loan portfolios or fuel inflationary pressures.

However, bankers are very optimistic about the prospects for corporate lending due to the Sultanate's economic strength. Growth in corporate lending could also offset the personal lending cap. In the past, opportunities for project financing were few, but the country's diversification efforts have fuelled huge spending on capital-intense projects. Tourism real estate projects worth some $15bn are currently underway, and the state is also looking to spend $8.6bn on gas-related projects in 2006-10.

The Sultanate's large-scale projects include the Sohar refinery, Oman Polypropylene and Aromatic, and Sohar Aluminium. The banking industry is expected to capitalise by participating in the financing of many of these projects. Omani banks are relatively small compared to other Gulf neighbours. Therefore, a big portion of project financing comes from banks outside of Oman, according to Ramy Zambarakji, the country manager at Bank of Beirut. "That's why we need more banks coming into Oman if we want the economy to continue growing," he said.

Omani banks, however, have been overcoming their small size through loan syndications and partnerships with other banks. For instance, Oman Arab Bank splits the syndication with its parent bank. "Otherwise, these loans would be above our capability," said Abdul Kader Askalan, the bank's CEO. Oman Arab Bank has been active in project finance since 1996. Some of its recent projects include the Bar Al Jissah development, the *Sohar* liquefied natural gas ship and the Salalah port expansion. National Bank of Oman and Commercial Bank of Qatar have a strategic alliance for financing projects. "Our three-year strategy is to focus on Oman, building our brand, and tapping the large potential that exists here," said Taqi Ali Sultan, general manager of National Bank of Oman.

Zambarakji is enthusiastic about the prospects for corporate finance. The bank has only operated in Oman since February 2006 but has already built up a solid portfolio. He estimates that project finance represents 90% of the bank's corporate loan book. "We went for a clean, conservative strategy that focused on sectors with good growth, such as construction, contracting and building materials," he said.

A three-year strategy will be implemented by the Bank of Oman and the Commercial Bank of Qatar. It will focus on building brand recognition.

Banks show increasing optimism about corporate lending and are being encouraged to participate in Oman's large-scale engineering projects. As Omani banks are relatively small, much of the financing for major projects comes from abroad.

Hamoud Sangour Al Zadjali

The story behind the spike

Hamoud Sangour Al Zadjali, Executive President, Central Bank of Oman, on inflation

After a long period of low inflation, the Sultanate has been witnessing an upward trend since 2004, with annual inflation increasing by 0.7% in 2004, 1.9% in 2005, 3.2% in 2006 and 5.9% in 2007, according to the consumer price index (CPI). This trend has coincided with a phase of continued high economic growth, as evidenced by the increase in Oman's nominal GDP growth rate, which rose from 1.9% in 2002 to 13.6% in 2004, 24.6% in 2005 and 15.6% in 2006. Thus, greater aggregate demand, in the face of tightening domestic research and development capacity, along with the impact of rising costs of imports in an open economy, have combined and led to rising inflationary pressure in Oman.

An assessment of the key sources of inflation at the macroeconomic level would suggest that both domestic and external factors have contributed to this trend. Among the domestic factors, the important ones are: (a) high growth in aggregate demand due to the growth of nominal GDP and per-capita income in the country; (b) strong growth in money supply and bank credit, which is a natural response to higher demand; and (c) tightening supply constraints and the associated cost-push pressures.

Among the external sources of inflation, the more notable ones are: (a) high and rising inflation in some of the economies that trade with Oman; (b) rising prices of several commodities around the world, in particular food items and metals; and (c) the sustained depreciation of the US dollar, and the resulting higher costs of imports from trading partners who don't peg their currencies to the dollar, while the Omani riyal is. It is important to note that, in this context, rising inflation has very much been a regional phenomenon, with more or less similar sources of inflation being in operation elsewhere as well.

As per the IMF's "Regional Economic Outlook for the Middle East and Central Asia" (published in May 2007), the average rate of inflation for oil-exporting countries in the region was around 7.1% in 2006, with the corresponding average for the Middle East and North Africa (MENA) and Gulf Cooperation Council (GCC) regions being about 6.9% and 4.5%, respectively. Moreover, the prices of certain commodities have gone up significantly in recent years, and this has been more of a global phenomenon than a domestic one. According to the commodity price index of *The Economist*, world prices of commodities have gone up 20.4%, and the prices of food articles rose by 42.3% between 2006 and 2007. The rise in prices is, therefore, a result of global developments and not specific to Oman.

The environment surrounding inflation and the known factors that contribute to it indicate an apparent trade-off between growth and inflation. Compressing aggregate demand to lessen the pressure on absorptive capacity is only possible at the expense of high growth. In light of the impressive progress in the last several years on the economic diversification front, and given the critical importance of diversification for sustainable high growth in Oman over the medium to long run, it may be appropriate then to use the opportunities provided by the current favourable oil price scenario to sustain the phase of high growth. Similarly, despite the sustained depreciation of the dollar, and its implications for imported inflation in an open economy like Oman, a credible peg has been the key instrument for promoting trade and investment.

The depreciation of the dollar and enhancement of Omani exports' price competitiveness could also help encourage the economic diversification process with the growth of non-oil exports that would likely result. The high growth rate of non-oil exports, which has actually exceeded 30% every year since 2004, has been a notable achievement, and this process must gain even more momentum ahead. Thus, the domestic inflation environment of Oman must be reviewed in the context of overall developments in both the national and global economies.

BankMuscat is looking to expand its branch system

Capital overtures

Ambitious expansion at home and abroad

BankMuscat has embarked upon an aggressive expansion programme after establishing itself as Oman's major lender. The bank's new aim is to create a significant presence for itself in the Gulf and beyond.

BankMuscat's latest move into the sphere of international banking came on January 7, 2008 when a consortium, including the Omani bank, International Finance Corporation (IFC) and Japan's Nomura Holdings, agreed to a buyout of 68.01% of the shares of Pakistan-based Saudi Pak Commercial Bank from its parent firm, the Saudi Pak Industrial and Agricultural Investment Company. The agreement will give BankMuscat the largest stake, with 35% of the shares. IFC is to receive 20% and Nomura the remaining 13%. The stakes were raised further when the consortium concluded agreements with minority shareholders for an additional 17%. The deal is valued at around $200m.

The violence in Pakistan at the end of 2007, including the assassination of former Prime Minister Benazir Bhutto, has done nothing to undermine BankMuscat's interest in entering Pakistan's rapidly growing market, said the bank's CEO, Abdulrazak Ali Issa, on January 20, 2007. "We are not worried about our investment in Pakistan," he told journalists in Muscat. "We think [the unrest is] just a passing phase."

BankMuscat had been eyeing Saudi Pak Bank for some time, with the Oman lender being linked to a potential sale as far back as July 2007. Though now a done deal, the sale still has to be given final approval by Pakistan's banking regulatory authorities, a hurdle that is expected to be easily cleared.

At the moment, only Islamic banks are permitted to obtain new banking licences to trade in Pakistan, so making acquisitions is the only way for conventional lenders to enter the country's market.

Political unrest notwithstanding, the Pakistani financial sector has shown remarkable resilience and strong growth over the past few years. According to Pakistan's central bank, assets of the country's banking sector have more than doubled since 2003, totalling around $78bn. The Karachi Stock Exchange has grown and the economy has expanded by 7% annually.

Saudi Pak Bank is not BankMuscat's first foray onto the Indian subcontinent, having bought a 25% stake in India's Centurion Bank of Punjab in 2005. Though this holding was watered down when Centurion merged with the Lord Krishna Bank in late 2006, it has again been increased to above 20%.

There was a degree of slowing in Pakistan's economy in late 2007, but BankMuscat has bought into a still-vibrant market. Looking closer to home to diversify its operating base, Issa said the bank's main focus would remain the Gulf. BankMuscat has already submitted applications for licences to operate in the Gulf nations of UAE, Kuwait and Qatar.

The day before the Saudi Pak Bank deal was completed, Issa announced BankMuscat's plans to open two new branches in Saudi Arabia in 2008. This is in addition to the location it already operates in the kingdom. The bank has also been granted permission by the Central Bank of Oman to establish an investment banking branch in Saudi Arabia, a move that will broaden BankMuscat's range of activities in the neighbouring country even further.

BankMuscat is not only looking to internationalise its operations through acquisitions and expansion, but is itself becoming a multinational company. In late September 2007 shareholders approved the sale of a 15% stake in the bank to Dubai Financial Group, the financial arm of Dubai Holding, through a private placement valued at $619m. The deal was to be facilitated through the issuing of 161.57m new shares and would make the Emirati firm the second-largest stakeholder in the Omani bank.

The sale has not only improved BankMuscat's capital adequacy ratio but was also intended to add strength to its bid to expand operations outside the Sultanate, according to the bank's chairman, Sheikh AbdulMalik bin Abdullah Al Khalili. This acquisition continues the trend of cross-border consolidation.

Having gained a strong position in the Omani market, BankMuscat is now working to expand its operations abroad. In early 2008 it was part of a consortium that purchased Pakistan-based Saudi Pak Commercial Bank.

Paul-Henri Pruvost

S&P ratings reflect resilience

Paul-Henri Pruvost and Mohamed Damak, Credit Analysts, Standard & Poor's, on the country's banking sector

Beyond the hype that regularly captures the headlines elsewhere in the Gulf, the small and rather low-profile Omani banking system is often overlooked. It is no wonder then that its banking system represents less than 3% of all Gulf Cooperation Council (GCC) bank assets, and its national champion, BankMuscat (BBB+/Stable/A-2), is only as large as the mid-sized Kuwaiti banks. No mega-merger or grand scheme to deploy an armada of subsidiaries in overseas markets has been unveiled by Omani market players.

The Sultanate's sovereign fund – the State General Reserve Fund – operates on a lower profile than its Gulf counterparts and has not yet hinted at sustainable backing for local players, which have to resort to funds from neighbouring countries to compete on an equal footing. Even the regulator appears to be conservative, as no changes are being adopted in response to new additions to the Islamic banking scene nor to the trend of renewed interest in expanding to overseas markets. The independence of these authorities is further demonstrated by their reluctance to join a common currency any time soon, in effect sinking any quick agenda to make further headway on the path toward a more economically unified GCC.

On a macro-economic level, the outlook remains bright for Omani banks since they benefit from the very supportive environment prevailing in the Sultanate on the back of rising oil prices. Providing Omani banks with additional room to grow, the pace of economic diversification and privatisation is gradually picking up. As long as the oil-revenue cycle does not reverse dramatically, the government's ambitious plan to further diversify into the non-oil sector, notably into tourism and non-oil exports, should be an achievable target.

The business profile of Oman's banking industry demonstrates why it is not yet in the spotlight, both regionally and internationally. At $23.5bn on September 30, 2007, the country's banks' aggregate assets were the smallest in the Gulf. Additionally, the system is heavily concentrated, with the top-three financial institutions – namely BankMuscat, Oman International Bank and National Bank of Oman – securing about two-thirds of aggregated market share. Regardless of their respective sizes and the fact that they are fewer in number and larger than they were a decade ago due to a considerable consolidation phase, all banks in Oman fail to reach the necessary size to tap into the buoyant big-ticket deals in the region. On the contrary, banks are still gathering steam to involve themselves in local opportunities, and plan to enhance product offerings to include more sophisticated corporate finance and investment banking services.

Regional expansion is not out of reach, although it is constrained by the Central Bank of Oman's (CBO) restrictive regulatory environment, which is still cautious of banks' overseas exposure. Domestic banks, for example, are not allowed to own more than 49% of any banks abroad. The strongest institutions have a sizable and expanding overseas presence, however.

As with the other GCC banking systems, Omani banks are not immune to rising competition. Sohar Bank was the latest addition to locally-incorporated banks, and the system is increasingly opening its frontiers to foreign investors. If the presence and market shares of foreign banks remain marginal, some regional banks will have to choose indirect routes to access the Sultanate's market. Commercial Bank of Qatar (A-/Stable/A-2) and Bahrain-based Ahli United Bank (A-/Stable/A-2) took strategic stakes in the National Bank of Oman (not rated) and Alliance Housing Bank (not rated) in 2005 and 2007, respectively. The former was quickly and successfully turned around, and the latter soon converted into a commercial bank. Consequently, competition is stiffening and margins are narrowing, but volumes are in place to support the system's profitability.

This is equally supported by the low credit penetration in Oman, which suggests that there is room for further expansion, and the low cost of labour, despite some rapid increases in compensation. As for their GCC counterparts, Omani banks display a combination of

Mohamed Damak

high sector, single-name and geographic concentration – a negative factor for their credit, as resilience to potential credit problems in a single sector and loss of major customers is limited. Standard & Poor's regularly highlights two main concerns for banks in the Gulf, namely the fast-growing and large exposures to the personal and real estate segments.

The Omani banking sector stands somewhat apart from other regional banking systems, as personal lending has historically and consistently accounted for the lion's share of total banks' lending (39.2% as of September 30, 2007). However, CBO regulations cap personal loans (excluding mortgage loans) at 40% of a bank's credit exposure and the interest rate at 9%, limiting excessive growth in this segment. In addition, the Muscat Securities Market was the least affected GCC stock market by the material correction that took place throughout 2006. The Omani banking system proved to be very resilient. The quasi-systematic use of salary assignment also helped buffer this episode's adverse impact on Omani banks' asset quality.

Concerns over the profitable real estate sector are lower than elsewhere in the region. Having said that, a major dip in oil prices, though not our base case scenario, could trigger indirect risks, hitting the real estate and construction segments hard, as they are still largely driven by oil-sensitive government spending, and therefore pose a material threat to banks. We consider Omani banks' funding profiles to be a relative weakness. The number of loans processed has exceeded the number of deposits in the past five years. Deposits are predominantly short-term while loan maturity has lengthened, heightening asset and liability mismatches. Resorting to more stable wholesale funding or long-term debt issuance would help redress this weakness, but at the expense of additional interest charges.

The capitalisation of Omani banks is sound by regional and international standards. The system's equity-to-total assets ratio stood at 10% on September 30, 2007. Robust capitalisation ratios are gradually declining along with the increase in business, however. Omani banks were among the first banks to comply with Basel II requirements under the standardised approach. The system is set to gradually move to more advanced approaches in the medium term, which should further refine the risk management framework, and is currently adequate yet below global standards, therefore ensuring a better measurement of and control for risks.

Another unique feature of the banking system in Oman stems from its ownership structure, which is skewed toward large strategic holdings by prominent Omani merchant families. This situation theoretically leaves the system vulnerable to party-related lending as well as direct owner intervention in the banks' management. Effective CBO regulation and supervision mitigates these risks. Standard & Poor's considers the CBO to be a conservative and effective regulator. The setting up of the first credit bureau in the GCC in 2002 – following a major corporate default in 2001 – contributed to the strengthening of the banking system's tools for collective credit risk management. Of the Gulf authorities, we think the Sultanate's is more interventionist toward its banking system and is highly likely to rescue its systemically important Omani banks from distress, if needed. The ability to provide support is underpinned by the Sultanate's improved fiscal position, thanks to high oil prices and small bank sizes.

Standard & Poor's lifted the long-term rating on BankMuscat by one notch from its stand-alone creditworthiness. Oman is classified in the sixth category (on a scale from 1 to 10) under our global Banking Industry Country Risk Assessment, along with Bahrain (A/Stable/A-1). This classification reflects the banks' supportive macroeconomic environment, improving financial performances and non-performing loans ratios, albeit still high by regional standards, as well as its conservative supervisory environment. These factors are somewhat offset by above-average loan concentrations, limited operating diversification and the relative weakness of banks' funding profiles.

Demand for personal loans and mortgages will continue to grow

Housing crunch

Lending cap threatens future mortgage growth

The Central Bank of Oman has placed a 40% of total loans cap on personal loans. Once restrictions are lifted, banks will be inundated with housing mortgage products.

Several banks eagerly began offering housing loans in 2006 after a regulatory change allowed them to extend 5% of their loan portfolio to housing. Previously, mortgages had been the exclusive domain of two specialty banks, the government-owned Oman Housing Bank and the private-sector Alliance Housing Bank.

The upside was obvious given an expanding housing market, young population and rising incomes. "The demographics show that demand for housing will continue to grow," said Taqi Ali Sultan, the general manager of National Bank of Oman (NBO) "There are lots of young graduates and they will need homes."

The Central Bank of Oman (CBO) restricted banks' personal lending to 40% of total loans, a decrease from the past cap of 42.5%. A separate lending cap was set aside for housing loans pegged at an additional 5% to dampen speculative buying. However, many bankers said the 5% cap constrains their ability to meet the soaring demand and, therefore, should either be raised or dropped altogether. "There are several huge developments going on right now, but housing needs can't be met because of the cap," said Ramy Zambarakji, the country manager at Bank of Beirut. "We can only take a small bite of total demand."

NBO and BankMuscat were both early entrants into the housing market with their Al Manzel and Baituna products, respectively, which are offered to both local and expatriate customers.

Al Manzel was recognised at the Banker Middle East Product Awards ceremony, as NBO picked up the "Best Mortgage Product Award 2008". NBO and BankMuscat are still focussing on the housing segment. NBO is a partner in the Wave, a massive tourism and residential beachfront project near Muscat with 4000 luxury apartments and townhouses.

Oman has a young and growing population. The home loan market is expanding but competition is becoming fierce. Bank Sohar, Bank of Beirut and the newly formed Ahli United SOAG are all jumping on the bandwagon.

BankMuscat was the recipient of the single largest investment by the International Finance Corporation (IFC) in the MENA region – a $100m subordinated loan received in 2006 to help enhance its capital adequacy and support its long-term mortgage financing. The increased competition soon cut into Alliance Housing's loan growth. Its net profits for fiscal year 2006 dropped by 11%to reach OR3.9m ($10.2m). Alliance Housing began exploring the possibility of converting to a full-fledged commercial bank.

This process required raising its capital base so Alliance Housing looked around for a new partner. In June 2007 Bahrain's Ahli United Bank (AUB) and the International Finance Corporation, the private investment arm of the World Bank, acquired a 35% and 9.9% stake, respectively. AUB paid a total of OR50.9m ($132.7m), or 450 baisas ($1.17) per share, which was a 20% premium on AHB's stock price.

Alliance Housing's board of directors had earlier rejected a bid by BankMuscat for 375 baisas ($0.91) per share, which would have given the Sultanate's largest bank about a quarter of the housing loan market. In January 2008 Alliance Housing was renamed Ahli United SOAG. Ahli United will be the strategic shareholder, providing management and technical services to assist in the Omani bank's growth plans. Housing finance is expected to remain the primary focus during the early phases of transition, but the bank plans on converting itself to a commercial bank over a five-year period. Analysts said the CBO will grant Ahli United SOAG a grace period in order to comply with the housing cap regulation. Several bankers in Muscat speculated that this transition phase could even provide an opening for the CBO to relax the housing cap for all banks, though no definitive word from the central bank was forthcoming. Tight competition is likely to continue as an increasing number of banks offer housing loans to customers and as more banks enter the market, such as Bank Sohar in 2007 and Bank of Beirut in 2006.

"Banks will be flooded with housing loans if the restriction is lifted," said Zambarakji. "Everyone will be looking for a market considering that the population is young and family-oriented, the economy is growing, and there are many home projects in the works."

Privatisation deals will likely spur greater demand for project finance

On the selling block

Privatisation should help to boost growth in the sector

The government recently announced that all power generation and water desalination companies will be privatised by 2009. Two more state-owned power companies were listed as of February 2008.

No one expected privatisation to happen overnight. After all, Oman's industrial capacity rested entirely with the public sector until the government sold some of its shares in Oman Flour Mills in 1988. But other successful moves followed, and the government has shown no signs of wavering in its commitment to this approach.

If anything, there is fresh momentum behind the push to privatise. The government has announced that all power generation and water desalination companies will be privatised by 2009, starting with transmission and then distribution and supply operations.

That is welcome news for local bankers. They stand to bulk up their corporate finance portfolios through greater lending activity and advisory services. The government has asked the private sector to get involved by financing and operating these projects.

The latest round of privatisations dates back to 1995 when the government formulated its economic strategy for the next 15 years. The document that emerged, "Vision 2020", called for diversifying away from oil and gas, and expanding the manufacturing, services and tourism industries. Essentially, the goal was to move the economy into a second phase of development. Doing so also required transferring ownership of some establishments from the public sector to the private sector.

Many of the public companies created in the 1970s and 1980s to carry out basic infrastructure were ripe to be sold. The government focused on sectors such as electricity, water, sewage and communications.

Different methods have been used thus far in terms of selling assets. These include the direct sale of government shares and assets, increasing capital for production capacity expansion projects through direct public subscription, and granting concessions to set up projects on a build, own, operate and transfer basis.

In 1996, Oman had the first independent power plan in the region, the $214m Manah Power Plan. Oman Arab Bank played a leading role in that deal, as well as the second phase of the project in 2000 to produce 180 MW of additional power. Other privatisations of electricity companies include Dhofar Power, Al Kamil Power, Barka Power and Desalination project, and Sohar Power and Desalination Station project. These privatisations involved several new greenfield projects. That changed in 2006 with the privatisation of Al Rusail Power, a company that operates a 668-MW natural gas plant. It was the first site to be developed on an existing site (brownfield), instead of as a greenfield project.

Equally important was the awarding of construction for the second phase of the Barka Power and Desalination project. That deal was the first project completed under a new privatisation law passed in July 2004 that unbundled the electricity and water sectors. The legislation also formed a public interest watchdog – known as the Authority for Electricity Regulation – in May 2005, which also closely governs the industry.

The National Economy Ministry had previously handled independent water and power plant projects. Thus, the Barka II transaction was the first completed in the new regulatory environment requiring the authority to look into matters related to market share, licensing, and monitoring and enforcing compliance with the law. It is hoped that the new regulator will make Oman even more appealing for private sector participation, and could encourage other privatisations in the sector.

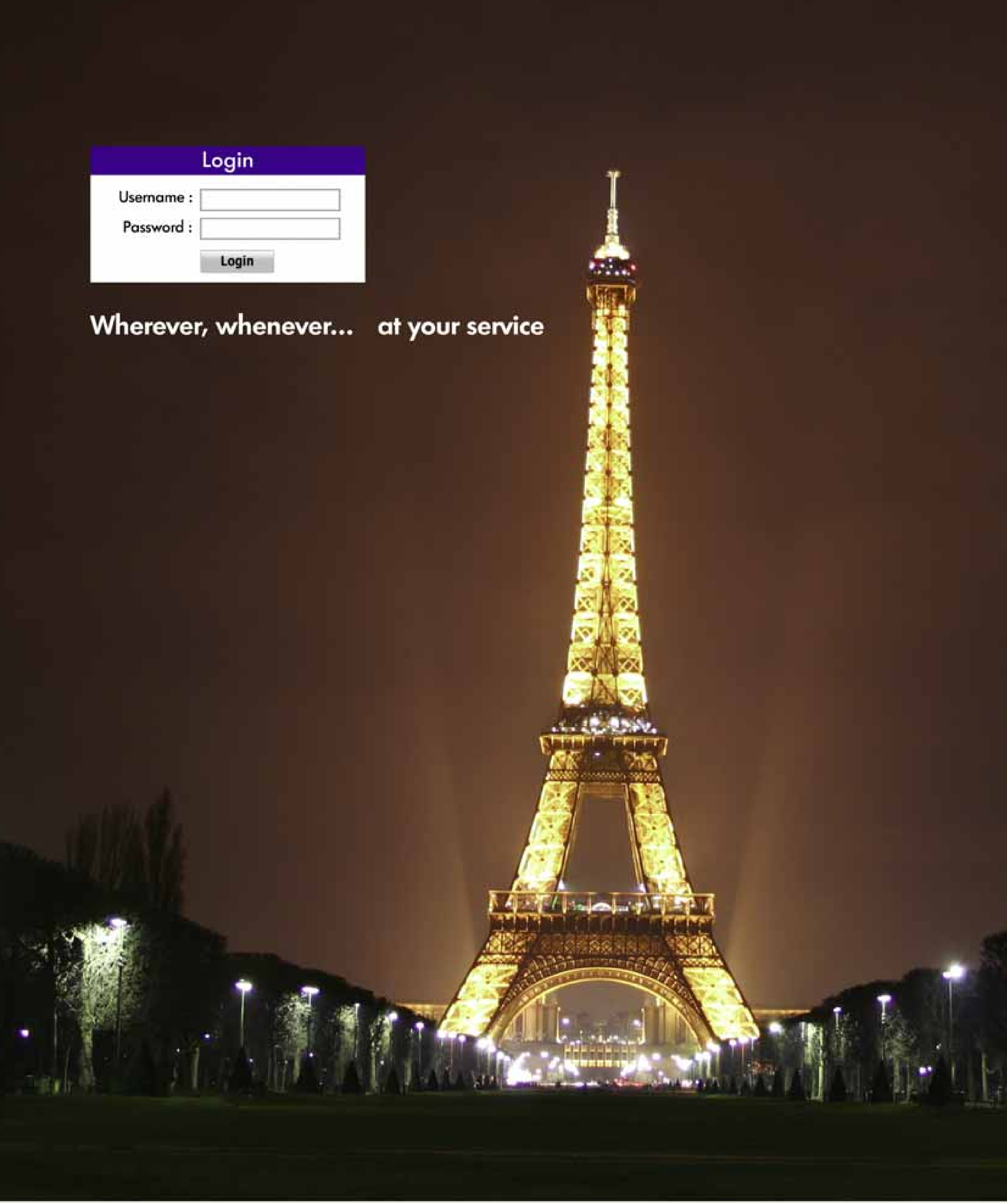
Other power companies will soon be on the selling block. In February 2008 it was reported by international media that the next two state-owned companies on the list were Oman Electricity Transmission Company and Al Ghubrah Power Desalination Company.

Telecommunications has also witnessed important privatisations. There was the partial privatisation of Omantel, the Sultanate's primary telecoms company.

Banks, meanwhile, are poised to get a piece of the action. For instance, HSBC Private Equity Middle East Limited is one such firm. It looks out for spin-offs from privatisations in the region to provide equity capital. And Bank Muscat has also been active in privatisations. It provided the performance bond and was one of the lead arrangers for the debt of Salalah Power Plant.

Capital Markets

Success of new IPOs piques interest in going public
The country's markets benefit from global credit crunch
Small bourse still outperforms regional markets
Corporate governance remains a priority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High oil prices have meant impressive returns for the region

Swinging for the boundary

The country shows that it can still play with the big boys

The global economic jitters sweeping across money markets in 2007 seemed to have bypassed the GCC, where local exchanges posted impressive returns on the back of high oil prices and spending on major infrastructure and construction projects.

"Fund managers began looking at the region more seriously once they realised that the GCC markets weren't correlated with Western markets. They act as a hedge," said Sankar Kailasam, the vice-president for asset management at Gulf Baader Capital Markets.

A rally began in the second half of the year as international investors started looking for safe returns when the global credit crunch swept across Western markets. A range of Oman's sectors attracted funds.

The relatively small size of Oman's stock market has prompted some firms to look abroad to grow their businesses. Pak Oman Investment, whose parent company is the Pak Oman Group, a joint venture between the Omani and Pakistani governments, is considering entering Pakistan with the help of Vision Investment Services (VIS), an Oman-based broker. Ali Muhammad Juma, the CEO of VIS and the director of the new company, said, "We are confident about the economic performance of Pakistan. That said, recent instability in the region has meant that we have not yet launched. Still, it is clear that Omani investment companies are looking to expand beyond their own domestic market."

MUSCAT SECURITIES MARKET: Oman's Muscat Securities Market (MSM) is the smallest GCC exchange by market capitalisation. However, it has earned a reputation among investors for its high standards of corporate governance and regulatory oversight, along with a history of strong returns.

The MSM has recorded positive returns for six consecutive years, of which the past two years have been particularly notable. In 2006 the MSM reported gains of 14.5%, the highest return in the GCC, and the only positive gain apart from Bahrain.

Oman's main index, the MSM-30, closed 2007 at 9035.48 points, a 61.9% year-on-year gain. It was the highest return achieved by the MSM since its creation in 1992 and was enough to place Oman in the top spot among GCC markets.

"The MSM's strong performance in 2007 reflected the performance of the national economy during this period," said Yahya Al Jabri, the executive president of the Capital Market Authority (CMA). "There are many investment opportunities emanating from infrastructure and other projects."

Analysts agree that the capital market is riding the coattails of economic growth. "High oil prices and liquidity are supporting the economy," noted Aftab Patel, the CEO of Al Omaniya Financial Services. "There has been a lot of investment within the region, and that is reflected in the capital markets, which have had good top-line and bottom-line growth."

Share prices also touched an all-time high of 9105.5 points in October, mostly thanks to strong demand for state-controlled Oman Telecommunications Company (Omantel) after the government announced that it would cut royalties, a move that lifted Omantel's profits above analyst forecasts.

The year actually got off to a rough start as the MSM-30 closed the first quarter in negative territory. The index steadily recovered over the next three quarters driven by fresh allocation of pension funds and foreign inflows. Strong corporate earnings, reasonable valuations and good corporate governance norms further lifted market sentiment in 2007.

Despite global economic concerns, GCC markets have fared well. Many international investors seeking safe returns have looked to Oman.

MSM market turnover

Year	No trading days	Market turnover ($ bn)
2003	249	1.54
2004	250	1.99
2005	254	3.66
2006	247	2.93
2007	248	5.22

SOURCE: Gulf Baader Capital Management

The main index, MSM-30, closed 2007 with a 61.9% return, reaching 9035.48 – its highest since 1992

The primary drivers of this growth, by sector, were banking and financial services (72%), industry (60%) and services and insurance (52%), according to CMA figures. "Banks had a particularly good year," said Ritesh Jesrani, the head of research at Al Madina Financial and Investment Services. "There will be lots of growth opportunities going forward due to project financing and corporate lending."

It was also an active year for banks in terms of corporate acquisitions, highlighted by three major deals involving foreign strategic partners. Dubai Financial, the investment arm of Dubai's government, acquired a 35% stake last April in Oman National Investment Corporation, an investment holding company with interests in leasing, banking, services and manufacturing. The deal was worth OR33m ($85.8m), or OR7.8 ($20.28) per share.

BANKING ON A MERGER: Oman's largest bank, BankMuscat, raised capital through a private placement to Dubai Financial equal to a 15% stake worth OR238.3m ($619.6m) in late November 2007. BankMuscat said that the deal was an attempt to further enhance its capital adequacy, fuel asset growth and lend further momentum to its plans for domestic and international growth.

Earlier in 2007 BankMuscat made an offer to acquire Alliance Housing Bank (AHB), Oman's leading mortgage lender. The offer for 375 baisas ($0.98) per share, a 36% premium on market price, pushed AHB's share price up to 382 baisas ($0.99). BankMuscat's offer was considered a long-term strategy for gaining a strong hold in mortgage finance.

Two companies, Bank Sohar and Galfar Engineering and Contracting, went public in 2007 and raised $210m between the two of them. Some experts believe that this success will lead to a number of new listings in 2008.

Had it gone ahead, the merger would have given BankMuscat a 20-25% market share of the mortgage business in Oman. However, AHB's board of directors declined the offer. Undeterred, BankMuscat then initiated a meeting of AHB shareholders to press their case for a merger. It was reportedly the first time that a Gulf-based financial institution held a meeting with another company's shareholders.

To justify meeting with the shareholders, J Sunder George, the deputy chief executive of BankMuscat, said, "Not having heard of any firm alternative offer being received by AHB, we decided to meet the shareholders of the bank directly, so as to share the rationale behind our offer directly, as we are firmly of the opinion that our bid is generous, fair, transparent and most importantly, unconditional except for shareholder and regulatory approvals."

In the end, however, AHB's board declined BankMuscat's offer. Instead, it accepted a counterproposal from Bahrain's Ahli United Bank (AUB) and the International Finance Corporation (IFC), a member of the World Bank Group.

Under the June 2007 deal, AUB holds a 35% stake and the IFC 9.9%. AUB acquired shares totalling some OR50.9m ($132.34m), valuing AUB's bid at approximately 450 baisas ($1.17) per share, a 20% markup on AHB's closing share price at the time. The bank was subsequently renamed Ahli Bank SOAG, effective early January 2008.

IPO SEASON: The initial public offerings (IPOs) in 2007 for Bank Sohar and Galfar Engineering and Contracting generated a lot of interest among investors. Between the two organisations, $210m was raised after listing. This was especially important, Jabri said, considering that the primary market had been slow in the past. "The family-owned businesses tend to be more conservative, and perhaps reluctant to embrace the move to become a public shareholding company," he told OBG.

Investor enthusiasm was due, in part, to the fact that the IPOs featured a highly respected stalwart, a promising upstart, and experienced management teams in both camps. Both firms piqued interest because they also represented sectors with considerable upside: construction and banking.

Bank Sohar became only the sixth locally incorporated bank, and the first one since 1990. The IPO lasted less than a month, from December 2007 until January the following year. The bank floated 40m shares, or 40% of the total, and raised $54m. The IPO was over-subscribed by six times.

Galfar Engineering and Contracting, a well-known international player in the construction business, held an IPO from August to September 2007. The issuance raised over $156m for 40% of the company, and was over 14 times oversubscribed.

The stocks for both companies continued to perform well through the rest of the year. Ultimately, the IPOs of Bank Sohar and Galfar could prove highly significant

MSM index performance (year end)

Year	Index	% gain (y-o-y)
2003	2725	42.4
2004	3373	23.8
2005	4874	44.5
2006	5581	14.5
2007	9035	61.9

SOURCE: Gulf Baader Capital Management

if other companies follow suit. The size of the market is growing with IPOs but at a slow pace. Juma, the CEO of VIS, told OBG, "There have not been many new initiatives to encourage family firms, so the IPO market is not very vibrant. While we expect to see more IPOs in Oman in the coming years, they always take longer than the market expects, so we have to be patient."

That said, a number of companies are considering listing in 2008. "Today, family-owned businesses are more willing to talk about going public," said Kailasam of Gulf Baader Capital Markets.

In early 2008 the tentative IPO list included Oman Merchant Bank, Takamul, Sohar Power and Voltamp Manufacturing, representing the banking, manufacturing, telecoms, petrochemicals and power sectors.

Analysts say that younger owners are looking to shift their businesses towards a more corporate-style structure. "The second generation of family-owned companies has a higher appetite for risk," argued Anas Ahmed, the country manager for Pak Oman Investment Company. "They realise they might lose some control over the company, but that going public creates a more professional management structure, and enables them to expand."

Nonetheless, going public can be something of a leap of faith. Private equity groups have helped to bridge this divide between private and public ownership. These firms can provide a "step between a family-owned company and going public", according to Krishna Kumar Gupta, the CEO of Al Anwar Holding, a local private equity group.

Al Anwar began in 1994 as an investment holding company with subsidiaries that included NAPCO, Al Anwar Ceramics and Majan Glass. After selling several of these ventures, the firm made the transition to private equity with investments in seven companies representing finance, insurance, consumer goods, petrochemicals, infrastructure and power.

FOREIGN INVESTORS: With real GDP growth of 5.9% in 2007, investors have already begun to notice Oman. The stocks are still fairly priced and represent good values, with price-to-earnings ratios at 16 and an average dividend yield of 2.4%, said Al Omaniya's Patel.

The MSM has recorded positive returns for six consecutive years

Recent measures have been taken to encourage foreign investment. The 49% cap on foreign ownership in mutual funds was lifted to 100%, and foreigners are allowed to own up to 70% of Oman-listed stocks, though companies can set their own ceilings.

Foreign investment reached 27.3 % of outstanding shares at the end of 2007. This is a marked increase over the 2006 figure of 23% and the 2005's 16%.

Foreign investment, mostly from other GCC countries, reached 27.3% of outstanding shares at year-end 2007, as compared to 23% for the same period in 2006 and 16% at year-end 2005. The highest foreign ownership participation was in banking (32%), followed by industry (28%) and services (21%).

Although investment is picking up, analysts say they would still prefer to see the market grow in terms of total size and daily turnover. Market capitalisation stood at $24.5bn in January 2008, which as a percentage of GDP (69%) ranks the lowest in the GCC.

With only 126 listed companies, many of which are not even actively traded, the market would benefit from


Average daily turnover increased 129% in 2007 to $20m

a larger and more diverse group of listed companies in order to make plays on every sector. The market, in other words, should mirror the economy.

"We need more depth," said Jesrani. "For example, the upstream hydrocarbons market is still under government control. The only players, in terms of oil and gas, are strictly downstream."

Sridhar Sivapraksaa, the assistant general manager for the Financial Services Company, makes a similar point concerning building materials. "We're seeing an expansion, particularly with respect to infrastructure. That growth will reflect positively on the earnings of cement and steel companies. Unfortunately, the market isn't large enough to be spread across many companies in a given sector."

The equities market, nonetheless, is large by comparison to the mutual fund and bond industry. Akshay Kothari, the assistant general manager for the National Investment Funds Company, said that the current number of mutual funds – four – is way too low. "The government should nurture the mutual fund industry. Mutual funds play a stabilising role in any market, and also provide liquidity."

Despite the criticism, market liquidity has actually improved significantly. Average daily turnover in 2007 increased by 129% to OR8.5m ($20m) compared to the year before. The yearly turnover was over OR2bn ($5.2bn) compared to just OR593m ($1.54bn) in 2003.

The greater trading activity is partially attributed to an improvement in the quality of listed companies, suggested Ravikrishnan. However, several other factors do come into play. "On the macro level, soaring oil prices pushed up the levels of liquidity, which spilled over into the MSM. High real estate prices also contributed, especially from small investors," said Jabri.

"On the micro level," he added, "apart from economic development, the continued development of the market infrastructure, such as laws and regulations, has created an outstanding environment characterised by transparency, soundness and fairness. This also had a positive effect on pushing up liquidity in the MSM."

Market liquidity has improved substantially over 2007. Average daily turnover increased by 129% compared to the year before. Yearly turnover increased to $5.2bn in 2007 as compared to $1.54bn in 2003.

DAVID DINES WITH GOLIATH

Oman's Muscat Securities Market (MSM) might be the small fry compared to bigger GCC neighbours, but it continues to impress investors with big returns. The main index, MSM-30, closed 2007 at 9035.48 points. The 61.9% return was the highest since the exchange opened in 1992, outperforming other GCC bourses.

In comparison to other exchanges throughout the region, 2007 marked the second consecutive year that the MSM claimed the top spot. The UAE and Saudi Arabia both recovered from early losses to finish in second and third place, respectively. Kuwait, the best performer in the first half of 2007, closed in fourth, followed by Qatar and Bahrain.

International fund managers flocked to the region due to fears of a global economic downturn spread. Many exchanges took a pummeling, but every GCC bourse finished in positive territory. That stands in stark contrast to 2006, when only Bahrain and Oman recorded a net gain, after a speculative run in other GCC markets resulted in a major correction.

The economic outlook for the GCC remains strong, underpinning the performance of respective capital markets. Hydrocarbons, of course, are the primary driver behind the economic surge, but non-oil sector growth in tourism, real estate, petrochemicals and banking, for instance, have propelled these economies.

Rising household incomes and corporate profits have translated into an influx of investment. Regulators are also loosening restrictions, allowing for a more liberalised financial market. The end result has been greater disintermediation.

It is a gradual process, but analysts expect this trend to continue. The primary markets can be slow, but 2007 certainly grabbed headlines with DP World's $4.96bn initial public offering (IPO), the biggest issuance ever in the Middle East. The UAE tallied $6.56bn worth of IPOs for the year. Saudi Arabia had the most issues, with 25, including Saudi Kayan Petrochemical Company's $1.8bn IPO.

Oman's primary market remains a relative lightweight in the region, though its two IPOs last year were highly successful. Bank Sohar and Galfar Engineering and Contracting were oversubscribed six and 14 times, respectively, and raised a total of $210.4m between them.

The MSM is small but is definitely growing. Market capitalisation at year-end 2007 stood at $24.5bn, as compared to $527.9bn in Saudi Arabia. That leaves plenty of room for growth when one considers that market capitalisation is only 68.9% of the country's GDP. The next lowest ratio within the GCC is Saudi Arabia at 149.2%.

Since 2006 the Muscat Securities Market has been the highest performing bourse in the region

OUTLOOK: This year, the CMA plans to roll out at least one new product: exchange traded funds, a security that tracks an index. Rumours persist about the introduction of derivatives and short-selling, but regulators and analysts say such expectations are unrealistic. They think the focus should remain on boosting liquidity and market capitalisation, the prerequisites for more complex trading activities.

Another goal for Omani capital markets is the implementation of online trading. The necessary regulations and infrastructure already exist. It is just a matter of brokerage houses getting the programs up and running on their websites.

Meanwhile, the market is expected to undergo further growth driven by strong earnings. Profits for MSM-30 companies grew by 39% in 2007, estimates Gulf Baader Capital Markets, and the firm forecasts an additional 13% profit growth in 2008. Underlying the strong forecasts are strong economic fundamentals. "You should see another year of substantial economic growth," said Patel. "The only concern might be with inflation. This could be fuelled by excess liquidity, a declining dollar – thereby driving up import costs – and strong local demand."

As Jabri told OBG, "Oman's economy should continue its growth due to high oil prices and improvements in the non-oil sector. The government has built up a surplus, and should use a significant portion of its revenue in infrastructure projects."

Although relatively small on a regional scale, Oman's capital markets are still doing well. The MSM-30 index reported a 61.9% return in 2007, outperforming every other bourse in the GCC.

Regional market index performance

	2006	2007	% Change
Oman	5581.57	9035.48	61.88
Saudi Arabia	7933.29	11,175.96	40.87
UAE	4127.33	5931.95	43.72
Kuwait	10067.4	12558.9	24.75
Qatar	7133.4	9580.45	34.31
Bahrain	2217.58	2755.27	24.25

SOURCE: Gulf Baader Capital Management

With the necessary regulations and infrastructure in place, one of Oman's goals for the near future is the implementation of online trading.

The CMA is charged with maintaining corporate governance standards

Full disclosure

The markets bear witness to the benefits of corporate governance

Oman has won high marks for its regulatory oversight and standards of corporate governance. The country's regulator, the Capital Market Authority (CMA), deserves credit for those accolades. It has endeavoured to develop an environment that ensures the level of transparency and financial disclosure standards expected by international investors, while, at the same time, not stifling growth.

THE FIRST: "Corporate governance has become increasingly important to the national economy," said Yahya Al Jabri, executive president of the CMA. "It is a basic requirement to meet the risks and future challenges faced by local companies. I think corporate governance is also necessary to expand and achieve sustainability in light of globalisation and international competition."

Oman was the first Arab state to develop a code for corporate governance, passed in 2002. The CMA has continued working on several fronts to improve corporate governance in the country. Most recently, in 2007 it formed a corporate governance committee chaired by the CMA's director of legal affairs.

The committee, comprising of nine members drawn from the public and private sectors, is meant to provide proposals and recommendations on the development of corporate governance legislation.

A new set of rules on company disclosure was issued in late June 2007, which became effective in October. They incorporate the general principles of the International Organisation of Securities Commissions and are in line with global best practices.

The rules set out mechanisms for dealing with confidential information while mitigating the risks of rumours, hearsay and fallacious news. They require the appointment of disclosure officers and set out their functions as part of a larger plan to eliminate insider trading, promote transparency and protect the interests of small-scale investors. Issuers must also disclose, as early as possible, recommendations on dividends, as well as prohibit directors from amending dividend resolutions without sufficient justification.

In 2002 Oman became the first Arab state to create a code of corporate governance. As such, the country has garnered international acclaim for its regulatory standards.

Companies listed on the Muscat Securities Market, with the exception of holding companies, are required to announce quarterly and annual financial results within 30 days after the end of quarter, while holding companies have 45 days. Companies face fines ranging from OR250 ($650) to OR1500 ($3900) for failing to disclose information before the stipulated period. A company that does not submit unaudited quarterly financial statements with the bourse before the deadline will be fined OR1000 ($2600).

LEAD THE WAY: Along the way, the CMA and Omani companies have gained recognition for their achievements with respect to corporate governance. A 2006 survey by the Hawkamah Institute for Corporate Governance, a subsidiary of the Dubai International Financial Centre Authority, and the Institute of International Finance, a US-based association of financial institutions, ranked Oman in first place among GCC countries in terms of corporate governance.

"The ranking confirms the high standards we have set in terms of legislation and requirements placed on public joint stock companies and respective senior managements in the Sultanate," Al Jabri told OBG. "This ensures the protection of all participants in the market, while remaining fair and transparent."

Many financial experts in Muscat also voiced their support for the corporate governance standards. In November 2007 the Hawkamah Institute and the Union of Arab Banks presented the first annual award for corporate governance in the Middle East and North Africa region. Oman's Dhofar Bank was one of three winners selected for their dedication and commitment to corporate governance.

The corporate scandals that toppled some Western giants revealed the risks that companies run if they fail to heed standards of transparency and disclosure. Financial experts in Muscat say these pitfalls are well known within business circles. Moreover, they believe the country's regulator has done a exemplary job at maintaining good corporate governance.

Ahmed Saleh Al Marhoon

Market maquette

OBG talks to Ahmad Saleh Al Marhoon, Director-General, Muscat Securities Market (MSM)

What can be done to improve the current market capitalisation and liquidity in Oman?

AL MARHOON: Our market has not grown as fast as neighbouring markets and this is a key issue we need to improve. A lot of things can be done from the government side. Here at the MSM we would like to see more initial public offers (IPO). The government should look to reduce their ownership of companies that are already listed and look to privatise more of their holding. This will create depth and incentives for investors to come into the market and see it as a viable opportunity for larger investments. In regard to the family-run businesses, it is very important that they should consider the long-term benefits of listing. Many are only looking at the short-term aspects of their business.

Going public can allow a company to grow quickly by encouraging new management, adopting longer-term strategies and diversifying the ways they raise capital. Family companies make up an important part of the Omani economy. The fear is that if they do not list, their long-term growth prospects will suffer as a result and will begin to impact the wider economy. The impact of these companies listing will greatly boost the economy, and the government should look at ways to encourage this process. The problem is that many of the family companies are concerned about losing control, but they can list 40% of their company and keep the rest. Some are also concerned about publishing their accounts, preferring to keep these private. This is a small price to pay for potential capital growth and efficiency. Greater corporate governance will protect the company, therefore it is necessary for us to make sure the family companies understand this. Following the best practices can help companies to thrive.

How do you think the current global trend of market integration will affect the MSM?

AL MARHOON: Some Gulf exchanges have been investing in exchanges abroad, but I do not think this will have an impact on Oman. In our opinion, there is room for us to cooperate with other exchanges and this could help the whole region. Due to sophisticated information technologies and internet trading, formal links with other exchanges are not as important as in the past. We recently launched internet trading and, as a result, many brokers in Oman are now offering this to their clients, including the ones who live abroad. We are open to cross listing and we have tried this before with Bahrain. It has not been particularly popular so far, but now that we have internet trading, accessibility to cross listing has become less important. Of course, there is always room for cooperation among exchanges different from what is mentioned above.

Will we see more financial instruments traded on the MSM over the course of the next few years?

AL MARHOON: We launched a study a few years ago to look at introducing new products and developing our market. The implication of internet trading was one of the results of the study. Certain new products need a certain amount of maturity. Margin trading is important and we have, on several occasions, asked the Capital Market Authority to reintroduce it. We had it before the crash in 1998. This will help to increase liquidity.

How many IPOs are you expecting to become available in the market in the next few years?

AL MARHOON: The government is privatising its utilities and we expect to see more of these listed in the future. We hope that more oil-related industries will come on the market. There is a lot of liquidity in the region and this will bring in foreign investors, which needs to be encouraged. There is certainly a demand for IPOs in Oman and the more there are and the bigger the market is, more institutions will be able to take part in Oman's growth. The awareness of the investing in the stock market is widespread and people are open to it. It is difficult to give a specific number of how many offers will be listed in the next two years, but I am quite confident that we will start to see more and more IPOs.

Hans Erlings

Built to last

OBG talks to Hans Erlings, CEO, Galfar Engineering and Contracting

Why did Galfar decide to go public?

ERLINGS: The decision to go public was down to our three shareholders, who felt that for the stability of the company it was best to go public. Traditionally it is very difficult for private companies to continue growing if they wish to stay private. The listing gives the company much more opportunity to grow and the public to share in this growth.

A cash injection into the company will also encourage our growth. I would like to grow the firm to a billion-dollar company, and the capital injection from the listing will allow us to achieve this. Timing is important and the construction industry is booming in Oman, so it is a good time to list.

How did the cyclone affect the industry?

ERLINGS: The cyclone demonstrated how vulnerable existing infrastructure is. Oman has very little vegetation and no rivers, so it is susceptible to severe flooding on occasion. We have not seen damage to this extent before, and the cyclone has shown that we need better-quality infrastructure to withstand severe weather conditions.

The government has put significant funds out to improve the water flow through the county. They plan to have dams and far more bridges. The allocation of land and regulations about where one can build is also expected to change. The cyclone did cause some delays to existing projects. Some of the projects that are underway have been updated, taking into account the kind of damage the cyclone had caused. For example, on the southern expressway, we have built more bridges than we initially planned. These changes have happened quickly. The cyclone will increase demand for the industry, and this will continue for years to come.

What are your expectations for construction costs over the next few years?

ERLINGS: Construction costs have increased across the region and throughout the world. But this must also be understood in the context of an overall increase in capital, especially in this region, considering the high price of oil. The governments and economies in the region have been seeing the benefits of rising oil prices, which have increased at a much greater rate than the cost of construction materials. It is inevitable that we will see rising construction costs because of the increase in demand.

The energy sector is the key driver to the economy here, and its success drives the demand for contracting. Some 30-40% of our business is directly derived from the energy sector. The enhanced oil recovery technologies require a lot of associated facilities, and this is a key growth area for our business. Due to high oil prices, investment in these technologies are expected to increase. The tourism sector is growing fast and this is increasing the demand for infrastructure projects, such as the airport upgrade, the new airports and the new hotels.

How would you describe the labour market of the construction industry in Oman?

ERLINGS: It is very difficult to find the right people at the moment, and in these market conditions we are competing with others in the region to attract them. It is a very dynamic business. The majority of potential employees have many opportunities. Consequently, we try to give our staff long-term opportunities, which is a way to retain key people. It comes down to demand and supply, and we have to keep agile and react to market conditions. We are on the forefront of Omanisation and are one of the biggest employers of Omanis. We are keen to recruit more locals and we are working with the Ministry of Manpower to do so. Currently, we have a particular focus on finding engineers. We have numerous links with universities and good relations with engineering companies. The construction industry is a tough place to work in any country, for a number of reasons, and it has a high turnover rate, which is common.

New IPOs are piquing the interest of tentative players

Public exposure

Two successful IPOs build momentum for future listings

The numbers might not dazzle investors: only two issues worth a combined value of $210.4m. In fact, Oman's primary market in 2007 might look sluggish in comparison to Dubai's record-setting initial public offering (IPO) of DP World worth $4.96bn, or the 25 IPOs issued by Saudi Arabia during the year.

But those figures do not tell the whole story. The IPOs for Bank Sohar and Galfar Engineering and Contracting, both of which attracted significant investor enthusiasm, could portend future IPOs. Family-owned companies might now feel emboldened to follow suit and list on the bourse.

FALTERING DOUBTS: "Family-owned businesses are more willing to talk about going public," said Sankar Kailasam, vice-president for asset management at Gulf Baader Capital Markets. Yahya Al Jabri, executive president of the Capital Market Authority (CMA), said that the structure of Omani companies has been an impediment to the primary market. "The family-owned businesses tend to be more reluctant to embrace the move to become a public shareholding company."

The stage was set for successful IPOs last year. Analysts held both management teams in high regard and had bullish outlooks for the banking and construction sectors. Also, investors came armed with plenty of cash. It was not a surprise, therefore, that the two IPOs were heavily oversubscribed.

Sohar Bank's IPO was six-times oversubscribed when it floated 40% of total shares for $54m. The novelty of being the first new local bank to list since 1990 might have generated additional excitement.

Galfar's IPO was the largest ever launched on the Muscat Securities Market (MSM) and tested the waters in October as concerns over the US subprime crisis spread across the world. The IPO generated a lot of buzz beforehand, and even some profit-taking on the MSM, as investors were anxious to buy a share of one of Oman's older and well-respected construction firms.

The IPO was 14-times oversubscribed, and raised $156m for 40% of the company. Galfar said it plans to use $62.6m of the funds to finance its ongoing capital expenditure. The public offering also helped to further raise the company's profile, said Anas Ahmed, country manager at Pak Oman Investment Company.

SHOWING THEM: Share prices for both firms have done well since. As a result, insiders suspect that more companies might be encouraged to go down the same path. At any rate, more firms have been starting to look towards the capital markets anyway.

"There hadn't been a lot of IPOs in the past because companies often didn't see the advantage of going public," said Aditya Ravikrishnan, an analyst at Financial Services Company. "They developed good relationships with banks, which provided funding. So unless you had ambition to expand regionally, you were totally self-sufficient without the capital markets."

Ravikrishnan noted that attitudes are changing, particularly among the younger generation, which is more open to listing on the stock exchange, despite the obligations that being a public company impose on management. Nonetheless, nearly every owner ponders this decision of whether or not to pass ownership on to another family member.

Faced with this dilemma, an increasingly popular option is private equity. A private equity firm takes an ownership stake for a period, usually five to seven years, before selling it to a strategic investor, back to the management or through an IPO. Thus, private equity can serve as a transition between being a private and public company, and also bolsters the primary market in the process.

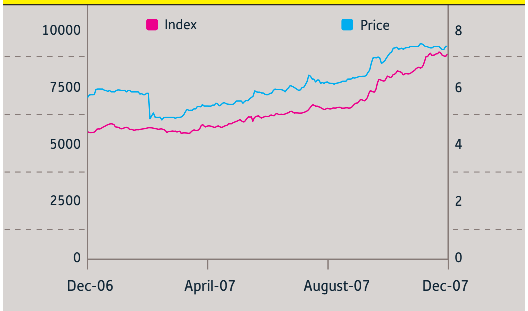
The number of companies interested in an IPO is long. A list in early 2008 consisted of companies from the banking, manufacturing, telecommunications, petrochemicals and power sectors, such as the proposed Oman Merchant Bank, government investment firm Takamul, Sohar Power and Voltamp Manufacturing. But the CMA is aware that it must choose wisely, because the local market does not have enough capacity to absorb too many issues if done simultaneously.

Many family-owned companies are reticent to go public. However, the success of recent IPOs may spur more firms to join the bourse.

Attitudes are changing, especially with the younger generation of business owners, who are more open to taking their companies public.

Share analysis & data provided by Al Madina Investment

National Bank price & index relative performance



National Bank market ratios

Reuters code: NBOB.OM

PERFORMANCE	Data as of December 2007
52-week high ($)	20.02
52-week low ($)	12.74
Market cap ($bn)	1.79
P/E	17.91
MARKET RATIOS	
3M avg. monthly volume (m)	0.77
Beta (5-yr monthly)	0.8

National Bank of Oman

Banking

THE COMPANY: The National Bank of Oman came into existence in 1977 as the first local commercial bank in the country. Over the years the bank has established itself as the second largest in the country with a paid-up capital of OR92m ($239.2m).

Today the bank operates in three identifiable business segments, namely: consumer banking; corporate banking; and treasury and investment banking. Operations are spread across Oman, the UAE and Egypt, with core concentration in the local market.

In 2005 the Commercial Bank of Qatar made a major equity acquisition in the bank and today holds a 34.9% stake. The move brought with it a change in the structure of the board, as well as a new vision.

In August 2007 the bank signed a 5-year, $325m syndicated loan facility with a group of international banks to fund its US dollar asset portfolio and to finance several important national projects.

DEVELOPMENT STRATEGY: As of September 30, 2007 the bank had earned a total operating income of approximately OR48m ($124.8m), a year-on-year (y-o-y) growth of around 23.5%. While interest income comes in at nearly 61% of this figure, it is worth noting that the non-interest income component also witnessed strong growth over the first nine months of 2007, indicating the increasing diversification of the revenue stream of the bank.

The loan book of the bank has seen an aggressive increase of nearly 27.2% (from year-end 2006) to total OR894.7m ($2.32bn). The bottom line of the bank has improved by a solid 41% y-o-y for the nine months ending September 30, 2007 to nearly OR28.9m ($75.1m). This growth far surpasses the GDP growth rate of the local economy over the same period. The coverage on non-performing loans has sustained healthy levels of approximately 92.4%.

The consumer division of the bank has noted unprecedented growth, as the institution continually releases new products to serve its consumers. Total gross loans stand at some OR387.5m ($1bn). The bank has been timely on the launch of its various products. In 2007 the bank launched its Al Manzel scheme that is aiming to provide housing loans to consumers at attractive rates of interest.

The launch of the Al Manzel scheme came at a time when the Central Bank decided to relax its rules by allowing the local commercial banks to engage in mortgage loans. The bank has also launched other attractive schemes, particularly to do with card services, such as the Al Amiyal Mastercard.

An impressive growth of 25.1% (year-end 2006) was seen in gross corporate lending at OR582.9m ($1.5bn) as of September 30, 2007. In part, the growth has come with the strategic partnership with Commercial Bank of Qatar, which has brought in more expertise and has opened up a business channel for new opportunities to consider.

The bank has also been building on its client base, as well as maintaining its focus on upcoming projects in the country, such as those in the industrial zones, citing Sohar as an example.

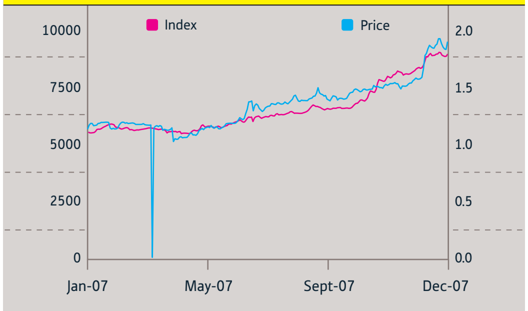
The bank has also been an active player in the profitable field of investment banking, as a host of services are provided, such as local market brokerage, mutual fund management, lead management of public issues and private placements.

In the face of growing competition in the local market, the bank has positioned itself quite positively by looking at diversifying its income stream, as well as aggressively – but prudently – building on its loan book. The increasing competition in the local market has generally had a dampening effect on earned interest margins and the buildup on the loan book would serve as a strong basis for future growth.

The increased government spending and expansion activities carried out in the economy hold strong promise for the larger banks in the country, such as the National Bank of Oman. The professional and efficient approach of the management should also contribute an important element for future growth.

Share analysis & data provided by Al Madina Investment

BankMuscat price & index relative performance



BankMuscat market ratios Reuters code: BMAO.OM

PERFORMANCE	Data as of December 2007
52-week high ($)	5.2
52-week low ($)	2.65
Market cap ($bn)	5.38
P/E	24.77
MARKET RATIOS	
3M avg. monthly volume (m)	13.28
Beta (5-yr monthly)	1.3

BankMuscat

Banking

THE COMPANY: BankMuscat is an Oman-based joint stock company engaged in activities of commercial and investment banking via a 107-branch network in Oman, and overseas operations in Bahrain, Dubai and Saudi Arabia. The bank was initially established as Oman Overseas Trust Bank in 1982 and has grown as a result of a series of acquisitions since.

Today the bank provides a wide range of products and services in the area of consumer banking, corporate banking, private banking, investment banking, asset management and treasury.

Over the years the bank has emerged as the country's largest in terms of both market capitalisation and assets. All this has been possible due to the prudent and professional approach of management, which has found growth opportunities in local and regional markets. Since 1982 the bank has focused on domestic growth through a series of acquisitions including Al Bank Al Ahli Al Omani (1993), Commercial Bank of Oman (1999) and Industrial Bank of Oman (1999). Subsequent to these, the merger efforts with National Bank of Oman and Alliance Housing Bank were called off. Over the last five years the bank bought an increased attention to the Gulf Cooperation Council (GCC) and other international markets as an avenue for growth. In 2002 there was the acquisition of the ABN Amro operations in Bahrain, which later was transferred to BankMuscat International, where BankMuscat today holds a 49% stake. In 2003 we saw the bank making an equity acquisition in Centurion Bank of Punjab, one of India's fastest-growing private banks. As of September 2007 BankMuscat's equity stake stands at approximately 14.4%.

DEVELOPMENT STRATEGY: For the most recent nine months, which ended September 30, 2007, the bank has notched up remarkable operating incomes of OR124.9m ($324.9m) an increase of 31.7% year-on-year (y-o-y). The non-interest income component, arising out of such activities as asset management and investment banking, stands strong at OR34.5m ($89.8m) for the same period. The bottom line recorded good growth of 40.7% y-o-y, to OR62.6m ($162.8m). The bank's loan book stands at an impressive level of OR2.36bn ($6.14bn) – the largest in the country.

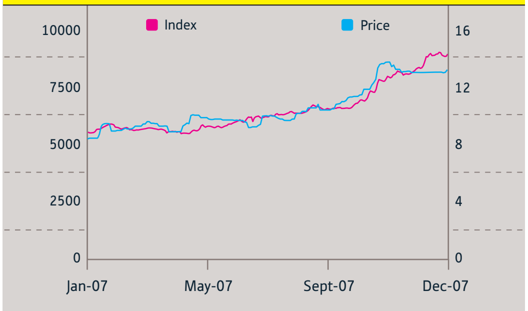
Over the past few years, the bank's retail division has been a market leader in the country. As of September 30, 2007 we have seen a robust 31.5% y-o-y growth in gross loans, to approximately OR966.6m ($2.51bn). The aggressive growth has resulted in the fact that the bank has the largest local network presence of 107 branches and over 266 ATMs.

The corporate division has been riding high on the growth and diversification efforts of the local economy over the past few years, and by building strong ties with corporate entities. With an estimated $48bn worth of projects currently underway in the country, the division is now looking at improving its stronghold by primarily focusing on areas such as contract and project financing. Other divisions, such as asset management and investment banking, have also been strong achievers recently, given the robust movement in the capital markets in the region.

The growing competition in the local market due to the entry of new banks has led to a constricting impact on spreads. Keeping this in mind, the bank's top management has indicated ambitious long-term plans to source nearly 25% of future net income from international operations. A move in that direction was seen with the opening of operations in Riyadh (Saudi Arabia) in 2007 and the recent receipt of the Qatar banking licence. Over the next five years, the bank is looking to build a 15-branch network in Saudi Arabia, which is the largest GCC economy. To lend momentum to its growth plans and improve on existing capital adequacy, the bank innovatively raised some OR238.3m ($619.58m) through a private placement with the Dubai Financial Group towards the end of 2007. Overall, BankMuscat has positioned itself as a well-managed bank, with healthy operational parameters and an impressive array of growth prospects.

Share analysis & data provided by Al Madina Investment

Al Maha price & index relative performance



Al Maha market ratios — Reuters code: MAHA.OM

PERFORMANCE	Data as of December 2007
52-week high ($)	36.4
52-week low ($)	22.204
Market cap ($m)	208.71
P/E	12.04
MARKET RATIOS	
3M avg. monthly volume (m)	0.08
Beta (5-yr monthly)	0.61

Al Maha Petroleum Products

Fuel and lubricants

THE COMPANY: Al Maha Petroleum Products was established by royal decree issued in 1993. Prior to this the company was the marketing and distribution arm of the Oman Refinery Company. In September 1999 this marketing arm was separated to form an independent limited liability company. In the same year Al Maha Petroleum signed a partnership with ABS Lubricants (ABS) of Abu Dhabi to manage the newly instituted company, with a 35% shareholding. A final transformation was made to a joint stock company in 2004, following the decision of the Ministry of Oil & Gas and the Central Bank of Oman to divest their 65% stake by offering 60% through an initial public offering, and 5% to Abu Dhabi's ABS, which now owns approximately 40% of the company's equity.

The primary activities of the company include the marketing and sale of fuels and lubricants to the retail, commercial and aviation segments of the country. The retail segment is primarily comprised of fuel stations supplying fuels and lubricants. The commercial category provides customised direct services to large-scale clients operating in growing segments of the economy, such as transportation and construction. The aviation segment, which had its modest beginnings in 2001, is aimed at providing the fuelling needs of various airlines, such as Oman Air and Gulf Air, which operate at the Muscat International Airport. The company receives its fuel products from Oman Refinery.

In January 2002 the company entered into an operational venture with Talal Zawawi Enterprises (TZE) to establish Souk, a brand of 24-hour convenience stores. Under the agreement, TZE would be responsible for operating the stores at all of the company's filling stations. Al Maha Petroleum is entitled to 50% of the net profit of Souk. The agreement was amended in August 2007, allowing Al Maha Petroleum to use the Souk name and operate the convenience stores by itself. The company's entitlement has been modified from the earlier 50% net profit contribution to annual fixed amounts for the years 2007 through 2009.

DEVELOPMENT STRATEGY: The company has reported a hefty 37% increase year-on-year (y-o-y) in its top line, to OR124.8m ($324.5m) for the nine months ending September 30, 2007. With that, the bottom line has seen a robust 59.8% increase y-o-y to approximately OR4.9m ($12.9m).

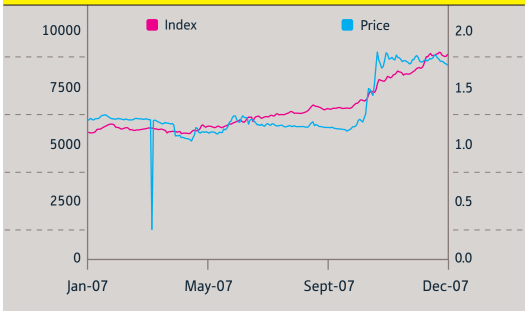
This achievement has been possible mainly due to the vigorous growth achieved by both the retail and commercial business segments of the company. The company's retail arm, the largest revenue contributor, embarked on a major buildup plan for new filling stations across the country (taking place over the past two years), with strong concentration in the regions of Muscat, Al Batinah and Dhofar. Since 2005 the company has expanded from 120 stations to 145 stations, the largest in the country.

Apart from this, growth can also be attributed to the improving economic conditions, which are responsible for increasing key drivers, such as vehicle imports. Improvements in the commercial segment also reflect the company's participation in the growing economy, where strong impetus has currently been laid on construction activities. The company has capitalised on these opportunities well. The aviation segment has made aggressive inroads to get its fair share of fuel supply to the major airlines operating in the country. Al Maha Petroleum has undertaken the management of the fuel depot at the Muscat International Airport. Benefits in the aviation business have come in the way of expanding the operations of Oman Air, the national carrier. Pressure has been felt, however, due to the fact that Gulf Air's operations have been reduced, with the Omani government's exit from the airline.

Al Maha Petroleum has established itself as a commanding player in the oil marketing business in the country over the past few years. The strong expected economic growth in the country in the coming years (increasing tourism, standard of living), as well as the company's professional approach and bright growth plans, give it a strong footing in the industry.

Share analysis & data provided by Al Madina Investment

Oman Telecom price & index relative performance



Oman Telecom market ratios — Reuters code: OTL.OM

PERFORMANCE	Data as of December 2007
52-week high ($)	4.83
52-week low ($)	2.7
Market cap ($bn)	3.34
P/E	11.66
MARKET RATIOS	
3M avg. monthly volume (m)	18.55
Beta (5-yr monthly)	-

Oman Telecommunications

Telecommunications

THE COMPANY: Oman Telecommunications is a leading telecoms company that came into existence in 1999, with the transformation of the former General Telecommunications. In February 2004 the company established a subsidiary, Oman Mobile Telecommunications, which engages in the provision of mobile telecommunication services. In 2005 the Ministry of Finance made a 30% divestment in the equity of the company via an initial public offering, thus transforming the company into a public joint stock company. The company has two licences for mobile and other services awarded by the Telecom Regulatory Authority (TRA). The main activities of the group include provision of fixed-line telephony, mobile services, internet and data services and wholesale services.

The company continues to maintain its monopoly status in the fixed-line and internet segments, whereas a duopoly exists in the mobile segment. The duopoly resulted from the government's initiatives to introduce competition, leading to the establishment of Omani Qatari Telecommunications in 2005, which bought Nawras, the second mobile operator in Oman.

DEVELOPMENT STRATEGY: The results for the nine months ending September 30, 2007 revealed a 12.46% increase year-on-year in total revenues, to OR269.5m ($700.7m). The profits of the group have soared by 36.2% over the same period to OR82.5m ($214.6m). The total subscriber base at the company improved to 1.81m at the end of the same nine-month period.

The bulk of revenue stems from the high-growth mobile segment, with total contribution at OR189.7m (70.4%). The company had a subscriber base of around 1.35m users among the prepaid and post-paid segments as of June 2007. Since the entry of Nawras, the cut-throat competition has resulted in the dilution of the company's market share. Nawras has aggressively marketed its products, thereby occupying a major share of recent industry additions. As a result, there has also been a declining trend in the average revenue per user (ARPU) in the sector. The group's subsidiary, Oman Mobile, now provides over 38 services to its users, such as SMS, MMS, multi-party conferencing and wireless internet. The launch of mobile number portability in 2006 has given the option for users to switch their service provider, while retaining their mobile number. Oman Mobile also introduced the Blackberry service in late-2007.

The fixed-line segment has generally contributed about a quarter of total revenues yearly. The segment sees steady growth, though with a declining ARPU. Growth in the segment may have been plagued by the strong growth seen in mobile usage in the country. Up to October 2007, some 260,000 users subscribed to the company under the billing and prepaid segments.

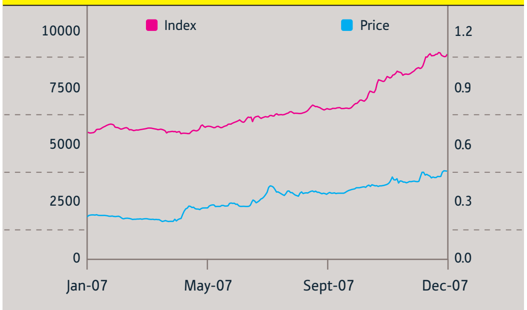
The internet segment is a small but rapidly growing one. In Oman, the internet penetration rate is just about 3%, the lowest among Gulf Cooperation Council countries. The company has made rapid strides, expanding its broadband ADSL service, as it signed an agreement with Huwaei Technologies to provide a further 100,000 lines to meet the strong demand.

The fixed-line and internet markets in the country are soon likely to witness the process of liberalisation with the entry of further competition. The country's membership in the World Trade Organisation requires that a second service provider to be introduced in both of these segments in the coming years.

A host of changes have recently taken place, both at the company level and the regulatory level. The company's annual royalty, payable to the TRA on its fixed-line and mobile revenues, has been reduced to 7%. The board has also recently been reshuffled at the company and includes the appointment of an expert in the field of telecommunications. Among the other significant developments of 2008 include the company's interest and offer to acquire a 65% stake in Worldcall Telecom, a privately owned telecoms operator in Pakistan, for approximately $204m. The motive for this move seems to be the desire to tap into the rapidly growing market in Pakistan, as well as adapting a broad, long-term strategy of diversification in the region.

Share analysis & data provided by Al Madina Investment

Oman Chlorine price & index relative performance



Oman Chlorine market ratios — Reuters code: OCLO.OM

PERFORMANCE	Data as of December 2007
52-week high ($)	1.248
52-week low ($)	0.494
Market cap ($m)	68.03
P/E	11.41
MARKET RATIOS	
3M avg. monthly volume (m)	7.35
Beta (5-yr monthly)	0.87

Oman Chlorine

Chemicals

THE COMPANY: Oman Chlorine was incorporated as a joint stock company in June 1997. The company is mainly involved in the manufacturing and distribution of various types of chemicals, such as hydrochloric acid, caustic soda and sodium hypochlorite.

The company's plant, located in the Sohar industrial estate, was designed and erected by Cellchem of Sweden, a part of the Akzo Nobel Group. The fully computerised plant now uses advanced, state-of-the-art membrane cell technology, supplied by OxyTech, for the production of high-quality products. The production facility also includes a fully equipped laboratory in order to ensure strict quality control.

Products are typically sold in the local and export markets, comprising mainly of Gulf Cooperation Council (GCC) countries. The company's products are targeted towards companies operating in industrial fields, such as oil and gas, power and desalination, as well as the manufacturing of consumer products, such as soaps and detergents. Hydrochloric acid has generally been the company's primary product, as it is in high demand by oil exploration companies for drilling and simulation jobs. The company has a long-term contract in place with international energy giant Halliburton for supply of the product in the local market until 2010. The company also has a supply contract for the same product with Halliburton in Qatar, which will be valid until 2009. After several successful trial runs in January 2005, the company began its production of caustic soda in the flakes format, after noting good demand for it in the region. In 2006 the company also decided to add a new product, namely calcium chloride, to its existing range, following positive feasibility studies conducted throughout the GCC region.

In May 2006 the company commissioned its independent captive power plant as a means to improve its profitability. This was carried out despite high electricity costs normally seen during the summer months.

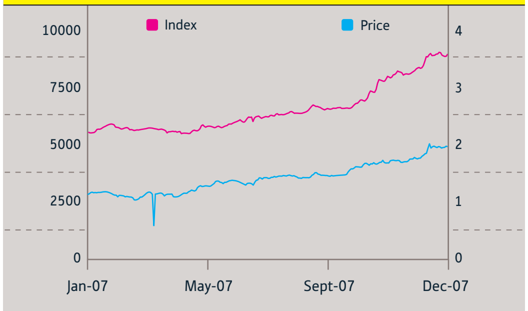
DEVELOPMENT STRATEGY: The company's results for the nine months ending September 30, 2007 have been outstanding, with a 46.5% increase year-on-year (y-o-y) in revenue, to OR4.02m ($10.47m). Over the same period, the bottom line was augmented by 90% y-o-y, to reach OR1.72m ($4.47m).

Management took a proactive approach in 2007 to significantly lower the firm's production costs on the respective products, thereby targeting better margins. This impact is clearly reflected in the higher net margin of 42.7% achieved during the first nine months of 2007. With strong industrial activity prevailing in GCC countries, the company's products were generally well-received during the previous year. The UAE has been the company's main market, netting sales of approximately OR2.25m ($5.87m) up to September 30, 2007. For the current year, the hydrochloric acid product will continue to dominate, with strong off-take levels by oil exploration companies. On the other hand, the caustic soda flakes product received much less attention due to the better realisations seen on the liquid (lye) format of the product.

In May 2007 the company's board announced and approved the setting up of a new limited liability company in Qatar, in which Oman Chlorine would hold a 49% equity stake, along with a long-term management contract. The company would be involved in the production of chemicals in Qatar. The company will also be looking at obtaining the necessary licences for the same. The move is, in part, an effort to increase the company's revenue stream and diversify further geographically. Oman Chlorine has generally viewed the markets that are found in the UAE, Qatar and Saudi Arabia as lucrative for business purposes, and the above development appears to be an attempt by the firm to de-risk the geographic revenue streams, in line with increasing competition.

The company's growth and strong track record of profits has given it a very strong positioning in the chemicals sector. With industrial growth set to maintain its pace in the GCC, the company has prepared itself to reap the benefits in the coming few years.

Raysut Cement price & index relative performance



Raysut Cement market ratios — Reuters code: RAYC.OM

PERFORMANCE	Data as of December 2007
52-week high ($)	5.564
52-week low ($)	2.678
Market cap ($bn)	1.03
P/E	15.2
MARKET RATIOS	
3M avg. monthly volume (m)	5.73
Beta (5-yr monthly)	1.48

Raysut Cement

Cement

THE COMPANY: Raysut Cement came into existence in 1981 and began commercial production in 1984 with a 0.21m metric tonne kiln installed by Babcock Krauss Maffei Industrieanlagen of Germany. From such modest beginnings, the company has undergone a series of expansions to cater to the high demand for its products. A second production line was added in 1998, taking the clinker capacity to 0.75m metric tonnes per annum. In 2005 the company embarked on a $50m expansion plan, which added the third line that took overall clinker capacity to 1.75m metric tonnes per annum. The most recent expansion was concluded in 2007, when the existing Line 1 was upgraded, making the company one of the largest cement manufacturers in the region, with an annual cement capacity of 3m metric tonnes.

The company's product line features four cement grades, namely ordinary portland cement, oil well cement, sulphate resistant cement and pozzolona well cement. With its strategic location at the south-west coast of Oman near Port Salalah, the company has maintained high exposure to the markets of countries in Africa, such as Somalia, Sudan and Zanzibar. The company has generally placed greater sales emphasis on export markets where the bulk of its cement is delivered. The bulk of demand in the local market is seen in the north. To cater to the local market, the company has branch offices and a cement terminal located at Port Mina Qaboos.

Since 2002 the company has witnessed a turnaround in performance, owing to the construction activities (infrastructure, housing, tourism) gathering pace in the Gulf Cooperation Council and the Middle East and North Africa region. In 2006 the Ministry of Commerce and Industry passed a decision cancelling the waiver of fees granted to the company for extraction of raw materials from its quarries. To meet with challenges, such as the sharp rise in freight costs over the past few years, the company introduced its own line of ships in 2006. The company also made a OR3.2m ($8.32m) investment in the equity of Al Khalij Commercial Bank in order to park its excess liquidity.

DEVELOPMENT STRATEGY: The most recent results for the nine months ending September 30, 2007 showed an impressive revenue achievement of OR43.3m ($112.7m), an 18.9% enhancement from the level last year. The bottom line for the same period was at record levels of approximately OR19.7m ($51.2m). In 2007 there was also a slight shift in strategy, with the company increasing its presence in the local market via higher deliveries, owing to the acute demand. Realisations continue to remain strong and particularly bright in the company's export markets. Margins have also improved as a result of the cost control exercise that the company adopted.

Of late, the company has been eyeing an increase in capacity of its land terminal at Port Mina Qaboos by a further 5000 tonnes. This comes at a time when the demand in the country has been spiraling. The growth at the company has normally been more organic in nature. The company seems to have played its cards right when the timing element of its various expansion plans is considered. Meanwhile, the company is currently conducting detailed studies of both the technical and financial natures to devise the best possible strategy for future growth.

Going forward, the continued positive macro-economic environment in Oman, coupled with sustained buoyancy in the construction and real estate sectors, is expected to provide the company with a vigorous operating environment. While as a whole, the sector does face increasing competition, with players increasing their respective capacities. Raysut Cement is now regarded as well-positioned to reap the benefits of the regional demand boom. There are a large number of construction projects either ongoing or planned in the country over the next few years, fuelling the demand for cement. In the long run, the expansion in capacity of several local and regional players could lead to some softening of current cement prices.

Ritesh Jesrani

Liquid growth

Ritesh Jesrani, Senior Financial Analyst, Al Madina Investment, on market liquidity issues

A combination of factors, such as strong company fundamentals, abundant levels of domestic liquidity and higher per-capita income, has painted a fairly pretty picture for the local equity market during 2008. The benchmark index has risen drastically by 61.9% year-on-year (y-o-y) as of December 31, 2007, to 9035.5. The rise has taken the market capitalisation to a record level of nearly $23.1bn as of the end of the same year. The overall market volume of listed stocks for 2007 stands considerably higher than the corresponding period of the year previous, up nearly 224.3%, at 2.98bn. Transaction activity has heated up as over 481,000 transactions had taken place by November 2007, compared with just 302,000 during the same period in 2006.

While these statistics speak volumes about the improving market conditions, the fact remains that the Muscat Securities Market (MSM) still falls behind its regional peers on the crucial aspect of liquidity.

By capitalisation, the Omani market remains the smallest among the Gulf Cooperation Council (GCC) states, despite the surging economy. The market capitalisation to GDP ratio, which has historically been below the 50% mark, has improved in 2007 but still trails behind the 100% figures achieved by neighbouring GCC markets. It is also noteworthy that, of the listed 121 companies, only about 45 stocks can be classified as actively traded. Poor liquidity is revealed by the fact that the trading volume of the companies comprising the MSM 30 Index amounted to nearly 62% of the total volume of traded stock.

In general, share turnover ratios appear more dismal on the MSM when compared to the larger regional bourses such as Dubai and Saudi Arabia. The average share turnover on the MSM, based on a select basket of liquid stocks, stood at around 42% as of December 30, 2007. On the Dubai Financial Market, the average for the same period stood at nearly 171%. Primary market activity has been slow with the current year witnessing only two new listings – Bank Sohar and construction giant Galfar Engineering and Contracting. As expected, both issues received a strong response from the investment community. Going beyond just stocks, the trading activity in other alternative asset classes such as bonds or listed funds is fairly inert. While a 144% increase to OR36m (93.6m) y-o-y in trade was noticed in the bond market, the scale of trading is minute.

I believe an active primary market would be ultimately attractive to local and foreign investors alike. Foreign participation has improved over the year and stood at approximately 25.8% of traded volume as of November 2007. The formation of the GCC common market will lay a strong foundation for increased investor participation and higher liquidity on the bourse in the near future.

Among the other issues, the market still seems to lack the presence of companies operating in some of the crucial sectors of the economy, such as real estate and logistics. The process of privatisation has generally been slow, as sometimes family-owned companies either stall on regulatory aspects or simply over emotional issues. The year 2008 does hold some degree of promise though, as the public may have a host of initial public offerings, such as those of Oman Merchant Bank, Voltamp Manufacturing, Nawras and possibly Sohar Power coming to market

One pressing issue has been the prohibition of margin trading and short selling. I believe that with the introduction of new regulations, a controlled format of the two would add more flavour to the market.

The market may need to address the requirement to broaden the traded asset class, possibly beginning by developing the already existing market for bonds and funds. The authorities have hinted at developments in this regard in the past and a clear action plan would give further depth and options to investors in the future. Derivatives should not be ruled out either, as part of a long-term plan to make the MSM a more compelling investment destination.

Insurance

Insurance coverage helps Oman to weather the storm
Omanis cautious about insurance changes
Foreign insurance companies can now obtain licences
Making the sector more appealing to employees





Thousands were evacuated from Muscat during the cyclone in 2007

Passing the test

Insurance industry weathers huge challenge

The cyclone that hit Muscat on June 6, 2007 caused damage to homes, cars, businesses and personal belongings. One of the positive effects of the cyclone is that Omanis are now beginning to see the necessity of insurance.

It was a year defined by a single event. On June 6, 2007 a fierce cyclone made landfall on the eastern tip of Oman. Residents of Muscat braced as a hurricane slammed into the seaside capital.

High winds, torrential rainfall and flooding combined to inflict approximately $1bn in damage. It was the strongest storm in the Arabian Sea since record keeping of such storms began in 1945. Fortunately, the catastrophe was mostly limited to physical property and infrastructure. When the storm hit, thousands had already evacuated under a contingency plan, no doubt saving the lives of many.

But the cleanup was a massive undertaking. The storm wrecked many homes, businesses, automobiles and personal possessions. Before the debris was even cleared, people began phoning insurance agents, desperate to be made whole from the destruction wrought by Cyclone Gonu.

It was a difficult time, recalls Sanjeev Jha, managing director of Royal & Sunalliance, a local insurance company. "The cyclone was a real test. We were managing a huge load of claims with a small team. In one day we processed as many claims as we would ordinarily do in six to eight months," said Jha.

The community appreciated the expediency and flexibility with which insurance companies responded, boosting the stature of insurance companies in the process, recalls Atul Duggal, the marketing manager at Al Madina Gulf Insurance. The response time of insurers in the wake of the cyclone was of particular importance in a country where insurance has often been viewed with scepticism.

Duggal says his company put an advertisement in the newspaper – as many other insurers did – notifying their customers that their insurance claims would be paid within 31 days, even if a copy of their policies had been lost in the storm.

"Gonu was a tragedy, but it also allowed insurance companies in the region to show that they are there to help the community and its people. We were seen as friends from then onwards. It helped to create a human touch," explained Duggal.

The experience also upgraded insurance from a luxury to a necessity in the minds of many people, Duggal added. "After Gonu, people became aware of insurance requirements. Once you have had an event of this magnitude, people begin to realise just how vital good insurance coverage is. Pretty soon, you see the levels increase."

ECONOMIC BOOM: The cyclone was not solely responsible for a shift in thinking, insiders have said. The trend was underway, mirroring the country's economic growth over the last few years.

"It is important to remember that the ongoing economic boom is only a few years old," noted Jan Wright, the general manager at Falcon Insurance. "The average family had been struggling, and did not have money to spend on luxury goods. Every buck counted, and insurance is something you can only afford with a certain level of disposable income."

AR Srinivasan, the acting general manager at Al Ahlia Insurance, also drew a connection between the economy and insurance growth. "As people's assets become larger, they see the need to insure what they have worked hard to earn."

In addition to rising household income, economic growth is also spilling over into huge industrial projects. These projects have been projected to attract approximately $13bn over the next few years and will include a new oil refinery, a petrochemicals complex and an aluminium smelter.

Mega-projects present many insurance opportunities. They require insurance for everything from vehicles and transport infrastructure to power plants and residential developments.

"Oman has recently witnessed an explosion of mega-projects," Srinivasan said. "A lot of these projects were announced at the end of 2005, and construction began in 2006. During the earlier oil boom in the 1970s, there was an emphasis on building infrastructure projects. This time, money is directed towards non-oil investments."

CROWDED FIELD: The huge potential has not gone unnoticed. In 2007 there were 10 local and seven foreign players operating in Oman. The latest entrant was Al Madina Gulf Insurance in 2006, which had already captured a 2% market share of income premium by the third quarter of 2007. The Capital Market Authority (CMA), which has regulated the industry since 2004, issued a licence to Vision Insurance in late 2007 so that they could provide general and life insurance, raising the number of national companies to 11.

Dhofar Insurance was the largest company in terms of premium income, according to 2007 preliminary figures and was trailed by Oman United Insurance, Axa Insurance and New India Assurance. National Life Insurance began offering general insurance, and so changed its name to National Life and General Insurance.

Meanwhile, business has steadily picked up, with premium income growing 24.5% year-on-year in 2006 to OR144.2m ($374.92m). Claims edged up to OR58m ($150.8m), equalling 40% of premium income.

The life segment posted particularly strong returns, increasing by about 57.7% to some OR26m ($67.6m). Premiums for general insurance shot up by 19% to reach approximately OR118.2m ($307.32m). Motor insurance, which is compulsory in the country, remains by far the largest segment. The growth was also reflected in terms of the number of premiums. Total insurance policies increased by 5.8% to 648,602 in 2006, of which 568,000 were for motor insurance. Despite the growth potential, some market participants feel the industry is already overcrowded for a population of only 2.6m. Part of the reason might lie with the low barriers to entry. The current minimum capital requirement is only OR5m ($13m).

The number of foreign players is also set to rise. The CMA lifted a 28-year old moratorium in 2007 on issuing new licences to foreign insurance companies, according to Mohamed Taki Al Jamlani, the directorate general of insurance regulation at CMA.

The storm did severe damage to homes, automobiles and businesses

By early 2008, the CMA had begun receiving applications from several interested parties. "There is definitely a need to open up the whole sector," Al Jamlani said. "We will carefully consider each application individually." A wave of consolidation could ensue, Al Jamlani concedes, but he insists that any mergers will be the result of market forces rather than mandates set out by the government.

NEW REGULATIONS: An emphasis on market forces has been a guiding principle since Oman joined the World Trade Organisation in late 2000. Last year marked an important turning point in terms of translating that principle into reality.

The CMA finally eliminated two clauses, articles 32 and 34B, which had previously given smaller companies an unfair advantage over their bigger rivals. Article 32 required companies to seek reinsurance in the domestic market before going abroad. Article 34b required companies to share up to 45% of the risk on government contracts with their competitors.

In 2007 a 28-year-old moratorium that had previously prevented foreign insurance companies from obtaining licences was lifted.

In total, the cyclone caused around $1bn in damages

Many in the insurance sector are sceptical about the introduction of a local reinsurer, as it will be very difficult for the company to compete with the foreign reinsurers already there.

The regulations intended to keep risk within the country, but ultimately failed, said Ewen J McRobbie, the CEO of Oman United Insurance, voicing a sentiment shared by a substantial number of his colleagues. McRobbie estimates that under the old reinsurance clause less than 1% of risk premiums stayed within Oman.

The defunct co-insurance regulation also did not work, Ahlia's Srinivasan said. "We made a tremendous effort procuring a customer and developing a unique product that suited their needs. But the policy had a shelf life of about 12 hours. The next morning, you had to share the policy with competitors."

"Besides, the circulation of the new policy contained so little information that no one would agree to it. Now, I can work with my trusted partners. The removal of the old regulation will foster sharing in the sector," he added. Srinivasan claims the results are already apparent. More policies are being shared among local insurance companies than before. "Now, we can begin helping each other." Although the reinsurance regulation has been phased out, the government's goal of establishing a local reinsurance company remains. In fact, the CMA has given permission for the formation of a local reinsurer.

The local reinsurer will have capital of OR40m ($104m). Shareholders will include general and life assurance companies such as Dhofar Insurance, Muscat Life Assurance, Oman International Bank, Oman Chamber of Commerce and Industry and so on . "I think a local reinsurer will help prevent the leakage of premiums outside the country, and will likely understand the market better," Al Jamlani noted.

While the CMA is enthusiastic about the prospect of a local reinsurer, other market insiders have their doubts that such an entity would be able to compete with global behemoths such as Swiss Re and Munich Re. "Who would use Oman Re?" asked Royal & Sunalliance's Jha. "What benefits would this company bring to the insurance market?"

STORM CONTROL

On June 6, 2007 Cyclone Gonu pounded eastern parts of Oman causing extensive damage. It was the strongest storm on record in the Arabian Sea. Oil and gas exports were halted, and thousands of people evacuated their homes as the streets of Muscat were turned into rivers.

Over six months later, insurers in Muscat were still talking about this seminal event. By all reckonings the response was quick and professional. Claims totalling OR210m ($546m) were paid out.

Approximately 90% of the risk was outsourced to reinsurers. "The effect on the balance sheet was manageable," said AR Srinivasan, the acting general manager at Al Ahlia Insurance. "That is how it should work." It is felt, however, that the industry dodged a bullet. Had reinsurers been unable to cover losses, problems would have arisen. "The industry caught a cold, but not the flu," said Ewen McRobbie, the CEO of Oman United Insurance.

Reinsurers told insurance companies to do a better job analysing risk. "They fired the warning shot over the bow," recalled Jan Wright, the general manager at Falcon Insurance, "saying they would withdraw if there was not a proper risk analysis."

Insurers hope the storm will now serve as a catalyst to do things properly this time around. For one, homeowners and developers need to heed proper care to Muscat's topography, they say. "Muscat has the sea on one side and hills on the other," noted Sanjeev Jha, the managing director of Royal & Sunalliance, a local insurance company. "Flash floods always happen, but over the last few years, buildings have been built near the valleys."

Property in an area prone to flooding should pay a higher premium. The Oman Insurance Association (OIA) is developing a new flood survey to be used by underwriters to price premiums accordingly. "The flood survey will help organise the market properly," said Murtadha Al Jamalani, the secretary of the OIA. "Companies and individuals will have a better understanding of their exposure."

Another lesson, from the government's perspective, was the need to change the regulations concerning compulsory auto insurance. Storm, tempest and flood coverage was not automatically included, so many customers did not add it.

Much of the damage caused by the storm was to cars. Subsequently, the CMA, with the assistance of the OIA, came up with a revised unified motor insurance policy that will take care of all necessary legal and insurance underwriting aspects.

Insurers say the lasting impact could change attitudes towards insurance. "Gonu has forced people to get proper valuations," noted Wright. He says that people were using old valuations, which is a problem when they look to process a claim.

The life insurance segment increased approximately 57.7% to OR26m ($76.6m) in 2006

"The feasibility studies show that the government would have to mandate insurance companies to cede a share of business in order for a local reinsurance company to survive," Oman United's McRobbie explained. Al Jamlani insists, however, that the local reinsurer will not get preferential treatment.

A BETTER FUTURE: Insurance does not have a huge workforce; there are currently around 1100 employees. Finding quality employees can be difficult because banking and finance offer positions with better salaries. And those who are hired can be lured away by insurance companies elsewhere in the Gulf.

Insurance executives say that they must double their efforts to recruit and train employees. They must also devise ways of rewarding workers by creating a more stimulating work environment. "We try to be as dynamic as possible," said Khalil Ahmed Al Harthy, the assistant general manager at Al Ahlia Insurance. "We also try to focus on the qualitative factors. There is a lot of mobility – both horizontal and vertical – so that our employees do not feel stuck."

The insurance industry is aware that it must become stronger as liberalisation creates a more

One of the difficulties the sector currently faces is a lack of employees, as a result of the banking and finance sectors offering better positions and salaries. Many insurance companies are finding it difficult to retain their employees, so incentives such as promotions are currently being offered.

National insurance premiums

Company	Net premium (2007, Q1-Q3)	%
Al Ahlia Insurance	6,237,969	16%
Dhofar	10,663,432	27.4%
Falcon	1,037,393	2.7%
Muscat	157,201	0.4%
Muscat Life	477,947	1.2%
National Life	5,187,346	13.3%
Oman Qatar	1,907,555	4.9%
Oman United	10,148,935	26%
Royal & Sun Alliance	1,907,555	4.9%
Al Madina Gulf	1,251,719	3.2%
Total	38,977,052	

SOURCE: Capital Market Authority, Insurance Market Review, 2005-06


In 2008 insurance companies will be able to access police records to check a client's driving history

Bancassurance is just one of many ways insurance companies are trying to attract the business of prospective customers. What makes bancassurance appealing is how easy it is to understand and obtain.

competitive landscape. A long overdue measure was the creation of the Oman Insurance Association (OIA), of which formal approval is expected in 2008.

CMA has also adopted a programme for training Omani nationals in the various aspects of the insurance industry. So far 33 people have completed the chartered insurance professional certification and seven others obtained their certificate in January from the Chartered Insurance Institute in London (ACII). The CMA concluded a contract with the College of Financial and Banking Studies to enrol 60 persons in two groups to obtain ACII certification

Insurance companies are also exploring new ways to reach customers. One such way is bancassurance, which has been successful since BankMuscat began using it in 2004. Only a few other banks also offer the service, whereby a bank markets and sells insurance policies, but many insiders say the trend will continue because it is a way of reaching new customers through an untraditional channel.

"Bancassurance gives you many more outlets that allow you to further expand your customer base," said Al Madina's Duggal. "It is very convenient and easy for customers. There is an obvious appeal, since the entire process of explaining the policies and collecting the premium only takes about 15 minutes. The terms and conditions of the policy are fixed."

Insurance take-up

	2005	2006
General insurance of which:	595,525	629,277
Motor vehicles	568,464	505,224
Property	9876	7777
Transport	15,059	13,041
Others	35,878	69,490
Life insurance	17,472	19,325
Total	612,997	648,602

SOURCE: Capital Market Authority, Insurance Market Review, 2005-06

Finally, the CMA ordered the formation of the Omani Unified Bureau to issue insurance policies (orange card) for vehicles that are travelling to other Gulf Cooperation Council countries. Seven local insurance companies are shareholders in the firm, which will issue insurance policies, settle claims and indemnities for vehicles in road accidents outside Oman, and process transactions for non-Omani vehicles in automobile accidents in the Sultanate.

INFO SYMMETRY: Efforts to adequately analyse risk have been hampered by the lack of data. Companies currently share information with each other and adjust their prices based on age, occupation and other relevant demographic factors.

"A big challenge faced by insurance companies has been conducting risk analysis without the proper data," said Iqbal Siddiqi, the general manager of AIG Oman. "The market information here is not great."

To remedy the situation, the CMA and the OIA, with the help of the Royal Oman Police's directorate of traffic, have developed a system that will allow insurance companies to access police records for information on a client's driving history.

"Without the database, good drivers end up paying for bad drivers," said Al Jamlani. "The new system will serve as a deterrent for bad driving, as well as an incentive for good driving.

OUTLOOK: It was a dramatic year for Oman. As residents coped with the aftermath of a serious storm, insurance companies were thrust front and centre. Insiders agree that the majority of Oman's insurance companies handled the situation professionally and settled claims in a timely fashion.

In the process of dealing with the storm, many people became more aware of the role insurance plays in society. Additionally, rising per capita income and major industrial projects represented opportunities to boost the country's historically low insurance penetration rate. The job of selling insurance will likely be easier in the near future because Omanis have a better understanding of its importance.

Cyclone Gonu was a wakeup call for individuals to get adequate insurance coverage, but also served as a catalyst for insurance companies to improve risk-underwriting standards. Companies ignored the inherent risks posed by Muscat's geography for a long time. Reinsurance companies, which were forced to bear the brunt of the losses, let it be known that Omani insurers must do a better job.

There are already signs that the industry is beginning to take major steps forward. The nascent OIA, which is currently in the middle of preparing a new Muscat flood survey, should help to better organise Oman's insurance industry.

Regulatory changes enacted in 2007 removed the market advantages given to local insurance companies and might lead to an industry shake-up soon. The result could be a round of consolidation. Everyone acknowledges that staying viable, particularly in the face of liberalisation, will require a highly trained staff that is familiar with an increasingly complex field.

Yahya bin Said Abdullah Al Jabri

After the storm

OBG talks to Yahya bin Said Abdullah Al Jabri, Executive President, Capital Markets Authority (CMA)

In your opinion, how well have insurance companies dealt with the aftermath of the cyclone?

AL JABRI: The insurance losses from the cyclone have been estimated at OR114.3m ($297.18m) of which OR21.67m ($8.33m) pertain to the motor segment and the remainder to non-motor segments. A total of 4717 cyclone-related motor claims have been reported so far. The government, through the ministries of commerce, economy and finance and a committee specifically for monitoring the situation arising from the cyclone, has been extremely vigilant in ensuring that insurance-related settlements are expeditious.

In the immediate aftermath of the cyclone, the Ministry of Commerce and CMA held a meeting with the insurance companies to ensure that insurance claims were handled by the insurance companies on priority, and with due regard to the extreme hardships faced by citizens and residents. He also advised the insurance agents to ensure that claims were fairly assessed and unscrupulous elements did not take undue benefit of the situation through fraudulent means. The insurance companies were required to submit periodic reports on receipt and settlement of all personal line claims to the said ministers and the CMA, and they were regularly monitored by the CMA.

I believe the insurance companies met most of their policyholders' expectations by guiding them through newspaper advertisements and meeting their insurance liabilities promptly.

Has the cyclone affected how the insurance industry will be regulated in the future?

AL JABRI: Insurance protection against storms, tempests and floods (STFs) has been available in the Omani insurance market as an add-on cover. STF cover is included within wider insurance cover almost without exception. However, when it comes to the insurance of personal risks, such as auto or household goods, where the risk awareness of the insured may not be adequate, there are instances of an insured person deciding not to include the STF option within the relevant cover. Considering the financial impact natural catastrophes can cause, it has now been decided to make STF a compulsory part of comprehensive motor policies. The insured will be required to take out third-party and STF covers as a minimum insurance requirement for their motor vehicles.

The CMA, as always, continues to pursue its goal of creating better insurance risk awareness among people through workshops, seminars and so on.

Do you expect health insurance to grow, and how would you regulate its widespread use?

AL JABRI: In addition to individuals taking health insurance policies on their own, most private sector companies take out group health insurance policies for their employees. Most insurance companies in Oman offer health insurance cover. With the role of the private sector increasing and with greater awareness of health risks among people, we should see a sustained growth in the health insurance business.

As a regulator, we like to ensure adequate disclosures of terms and conditions in the policy contract so as to ensure that policyholders receive proper services. We encourage insurers to offer health insurance products in the market and facilitate quick approvals. We are also encouraging more companies to enter the market to make better and cheaper covers available.

What effect would a pan-Gulf Cooperation Council (GCC) insurance law have in Oman?

AL JABRI: A unified law on the supervision and regulation of insurance in the GCC is likely to be implemented. A draft has been circulated and is being finalised. It will be implemented when it is ratified by all member states. The law will not have any substantial effect on companies in Oman. Our existing insurance law covers all aspects of supervision. We have also been updating our regulations according to the guidelines of the International Association of Insurance Supervisors.

Murtadha Al Jamalani

In good hands

OBG talks to Murtadha Al Jamalani, Board Member and Secretary, Oman Insurance Association; Deputy Chairman, Insurance Committee, Oman Chamber of Commerce & Industry

What are the reasons behind the establishment of the Oman Insurance Association?

AL JAMALANI: There has been no coordination of the insurance market, due to tough competition between providers. Insurance companies rely on their peers to have a unified pure risk rate. There are many ways in which insurance companies can work more closely together for the good of the sector. The insurance association will safeguard policyholders, insurance companies and investors. This will give a more structured environment in which the key stakeholders can work together without forming a cartel. One objective is to make sure the industry is aware of the risks, develops unified standards and coordinates between insurance companies in order to support them. It is our role to mediate between the government and the industry. I have wanted to form an insurance association for years but it has taken time to persuade companies to agree.

What will be the Association's first task?

AL JAMALANI: We are currently updating the flood zoning report. In 1987 Oman National Insurance was the leading insurance company in the Sultanate. We had nasty flood losses in the 1980s and they were not getting enough reinsurance support. With the help of the reinsurers we conducted a flood zoning survey to determine which areas would be most affected. We need to update this survey and come up with guidelines on flood risk management. The reinsurance companies are very involved with this. We have to go back to our reinsurers with the results and then the risks need to be underwritten professionally. This will have a major impact on the economy, as it will affect insurance rates in different areas, as well as property prices. Of course, not everyone will agree and these will only be guidelines. The need for the survey has been highlighted by cyclone Gonu. We are working with the government and it is taking measures to improve flood defences. After the cyclone, we created a new motor insurance policy to meet insurance companies' and policy holders' interests. We are also working to minimise traffic and identify drivers' driving histories.

Is there any interest in expanding outside of Oman?

AL JAMALANI: Yes, and that is why we are establishing the first Omani reinsurance company, OmanRe. Although the market in Oman is quite small, we are not restricting business activities to Oman. Phase one will cover other Gulf Cooperation Council (GCC) countries and Yemen. In phase two we will cover other Middle East-North Africa countries and then Indian Ocean rim countries. Eventually we can write business anywhere where Oman or the GCC have interests. We are in dialogue with local and foreign investors as strategic partners. OmanRe will contribute to Oman's GDP growth by underwriting businesses outside the country.

Do we need to see more Omani insurance companies rated by international credit rating firms?

AL JAMALANI: There are two companies that are currently looking to get ratings and, if successful, would join Oman United Insurance in being rated by international credit rating firms. To attract foreign investment we need to see more companies rated. This is particularly true for reinsurers, for which ratings will be mandatory. At the association, we want all insurance companies to be members. This should be mandatory as well. This model has been successful in other markets.

Will we see mergers and acquisitions in the insurance sector in the coming years?

AL JAMALANI: It is logical to assume that there will be mergers and acquisitions, as the market is very competitive and there are new players currently entering. Although many management teams are not keen to merge and lose control, for economic interests this has to happen. Companies that resist will not be able to grow or meet their commitments. I don't think it would be a good idea to limit the amount of new entrants into the market, so mergers and acquisitions are inevitable.

Transport & Logistics

Oman's ports continue to thrive and expand
Airports focus on local business and leisure tourism
Roadworks set to clear the capital's congestion
Oman Air leads the charge in bolstering tourism

The country's principle transport asset is the ports system

Planes, ships and automobiles

No trains yet, but the rest is developing fast

Since the establishment of the Port of Sohar in April 2004 and the opening of its general cargo and dry bulk terminal, it has experienced healthy growth. The number of vessels using the port was expected to double in 2007 and continue to grow through 2008.

In a region where many of the smaller emirates along the southern shores of the Gulf appear to be pursuing very similar economic development models, Oman stands out as having a different plan fuelled by a different set of comparative advantages. As a result, the major organs and arteries of the country's transport and logistics network will serve a subtly different purpose than those in neighbouring states, particularly when it comes to air infrastructure. Where there is greater similitude, such as in its ports, Oman could find it has the competitive edge over its neighbours.

With less money to splash around and a generally more cautious approach to development, the Sultanate has arrived to the party fashionably late when it comes to the expansion of its logistics infrastructure. Nonetheless, the immediate successes of current developments demonstrate how Oman's various unique selling points prove very marketable when it comes to pulling major shipping lines to its ports and attracting visitors through its airports.

The next five years will see a radical transformation of all these major transport facilities, along with the continued expansion and upgrade of the excellent road network that connects them to each other and the rest of the region. These developments are planned to coincide neatly with a general upgrade of the country's industrial and touristic infrastructure, enabling the government to achieve and sustain its ambitious targets for Oman's economic growth.

PORTS: With its long coastline and proud maritime history, it is not surprising that Oman's principal transport and logistics assets should be ports. The vast majority of the country's import-export activity occurs by sea, mostly through its three main commercial port facilities at Muscat, Sohar and Salalah, the oil terminal at Mina Al Fahal, and the liquefied natural gas terminal at Sur. A massive expansion of these facilities is underway, and is intended to take advantage of Oman's position as a gateway to the Middle East along the busy shipping lanes between Europe and the East.

If some of this sounds familiar from the development plans of nearby states like Dubai, Abu Dhabi and Bahrain, Oman's fortuitous location outside the straits of Hormuz gives the country a cost advantage that should enable it to attract a significant amount of business from its neighbours. Using the recently established Port of Sohar not only shaves a two-day round trip from Oman to Dubai's Jebel Ali or the planned new port in Abu Dhabi, but also avoids the prohibitive insurance costs associated with passing through the straits of Hormuz and into the Gulf.

The port, which includes a large adjacent industrial zone, is strategically placed within 270 km of Abu Dhabi, Dubai, Muscat and Al Ain, all of which are connected by a fast and efficient road network. This has started to attract major international logistics companies to the logistics cluster being developed around the port, and officials expect cargo business to transfer to Sohar as the roads around the UAE's major ports become increasingly congested.

EXPANDING SOHAR: The Sohar Industrial Port Company (SIPC), a 50/50 joint venture between the Omani government and the Port of Rotterdam, has already been able to press home these advantages. The port has enjoyed healthy activity since its first terminal – for general cargo and dry bulk – began operations in April 2004. A liquid bulk terminal and the port's first container terminal opened in 2006, and the number of vessels using the port was expected to double to 600 by the end of 2007 and rise to 1000 in 2008.

The industrial zone around the port (SIPZ) has also been an unprecedented success. More than $14bn of investment had been confirmed by the end of 2007 within the SIPZ, including the port terminals themselves and industrial projects within the metals, petrochemicals and logistics clusters being developed in 2000 ha of space around the main port facility. Anchor tenants include: the Sohar Refinery, which is already operational; a sugar refinery; and Sohar Aluminium, which will actually be located outside the zone, but will provide the necessary raw materials for a downstream manufacturing cluster.

So rapid has Sohar's success been, in fact, that the government has decided not only to extend SIPC's concession period, but also to vastly increase the size of the SIPZ. The original 25-year concession for management of the SIPZ that was signed in 1998 has been extended to 2043, allowing lessees in the industrial zone to sign longer contracts with the company and feel more secure about the long-term future of investments that are made at Sohar.

The government has also agreed to triple the area of the SIPZ to 6000 ha, demonstrating a further long-term advantage of Sohar, with its spacious vicinity over the increasingly cramped port zones in the UAE. The enlarged SIPZ will include a free zone, the Sohar Special Economic Zone, to encourage re-export industries, replicating a model that has proved highly successful elsewhere and positioning Sohar as a direct and welcome regional competitor for the Jebel Ali port and free zone in Dubai.

Meeting demand for the increase in industrial activity at Sohar, capacity at the container terminal is set to increase to 1.5m 20-foot equivalent units (TEUs) by 2008 and the depth will be increased to accommodate ships with a draft of up to 18 metres, allowing some of the world's largest container vessels and liquid bulk tankers to berth. A new container terminal is also being planned, although without a timetable.

A MORE ESTABLISHED GIANT: While the new Sohar port races to catch up with the larger ports in the region, Oman's largest and busiest port lies far to the south at Salalah. The Salalah Container Terminal, which has been operating since November 1998 and is currently run under a 30-year concession by a joint venture between the government and APM Terminals, has quickly grown into one of the world's largest, with a capacity to handle more than 3.6m TEUs per year. A fifth berth was added in May 2007 and a sixth will begin operating in 2008, adding a further 450 metres of quay wall and bringing capacity to 4.5m TEUs per annum. Further expansion plans will bring capacity to 10m TEUs, rivalling Dubai's Jebel Ali container port.

The port at Sohar competes with the Jebel Ali port in Dubai

Meanwhile, Oman's largest and busiest port at Salalah continues to experience rapid growth, with the addition of berths increasing the port's TEU capacity to 4.5m per year.

Like Sohar, Salalah markets itself on the significant cost and time savings that it represents over ports in the Gulf itself. The port is a major trans-shipment point, operating as a hub port for a feeder network that covers the intra-Indian Ocean rim, including East Africa, the Gulf, south Asia and the Indian subcontinent, a market that comprises 1.6bn people.

As a result, the port has to keep pace with the development of the largest container ships on the water, such as the 18,000-TEU vessel on the drawing board at the Dutch firm, Malaccamax. Salalah also has berths to cope with most other types of cargo, including general cargo and liquid bulk. The general cargo terminal currently has 11 berths ranging in length from 115 metres to 600 metres. The port can accommodate ships with a draft of up to 16 metres.

Muscat's older and more-established Port Sultan Qaboos has been eclipsed by its younger and larger

Rather than try and compete with other, more established passenger transport centres in the region, such as Dubai and Abu Dhabi, Oman is instead concentrating on the local leisure and business tourism sectors.

rivals to the north and south, but it has not been entirely extinguished and it remains a busy local port handling more than 240,000 TEUs and 3.2m tonnes of general cargo each year, as well as providing berths for cruise liners and military vessels. Although the previous concession came to an end in 2006, a new concession agreement is imminent and is expected to ensure the life of the port for another 30 years, much to the disappointment of property developers who would like to get their hands on such prime real estate. In fact, there may even be plans to expand the port's capacity beyond the current 300,000-TEU limit, and a four-year old feasibility study is being updated to decide how best to take this idea forward.

AIRPORTS: The hub airport strategy pioneered in the Gulf Cooperation Council by Dubai has been so successful that almost every one of its neighbours has tried to copy it. By creating a large, world-class airline and a massive airport, Dubai has leveraged its position as a midpoint between East and West. Millions of passengers each year transfer through the airport on their way across the globe, and many stop for a few days to enjoy the world-class hotel, leisure and retail facilities on offer in the city. Dubai has even, increasingly, become a destination in itself.

Not to be upstaged, Qatar and Abu Dhabi both followed suit, creating national airlines designed to force their host cities onto the tourist map. When Oman's government bought heavily into locally-owned Oman Air and earlier this year decided to withdraw from Gulf Air – the regional carrier in which it was one of two remaining partners, with Bahrain – it was easy to conclude that a national flag carrier and hub airport strategy was about to be launched by the Sultanate as well.

In fact, Oman represents a different kind of destination to the city states of the southern Gulf, so its airline and airport development will follow a slightly different model. With other passenger centres already well established in the region, trying to compete for this market would be costly and risky, so Oman's airport and aviation development are intended to meet only local origin and destination requirements. As a result, the country has little need for the massive airport developments under construction elsewhere, focusing instead on building smart and efficient facilities to service the local leisure and business tourism sectors, rather than the transfer and transit market. That said, Oman offers great tourism potential, and the sector is due for a significant boost, so both the national airline and the two international airports are also looking forward to major expansions.

Oman's withdrawal from Gulf Air dramatically affected traffic at Muscat International Airport during 2007. The previous restructuring of Gulf Air's operations around a two-hub strategy had only been in place for a year and much transfer traffic had been redirected through Oman after Abu Dhabi withdrew from the airline in 2005. In 2006, as the tourism market also reached its peak and the growing economy created more incentive for business travel, passenger numbers reached a record 4.8m.

However, with the reduction of Gulf Air flights passing through Muscat from over 200 a week in 2006 to just 28 in late 2007, the number of transfer passengers has fallen away completely, resulting in a significant loss of revenue for the operating company, Oman Airports Management Company (OAMC). Passenger numbers were also affected in 2007 by the temporary closure of two of Muscat's major hotels for refurbishment, which has reduced tourist arrivals.

Nonetheless, officials at OAMC remain bright about the future and steadfast in their assessment of the airport's expansion requirements. The loss of Gulf Air aside, other business has grown steadily, in terms of the number of airlines and frequency of flights using Muscat. In the last months of 2007, three more airlines began servicing Muscat, including a UK charter flight, a private Indian airline, and KLM, which has begun flying to Muscat via Kuwait five times a week.

The major driver of growth in passenger numbers will come from leisure tourism as the Sultanate seeks to double the sector's contribution to the economy. Business travel from the Far East and Europe, and labour travel – mainly from the subcontinent – are also expected to increase as the economy picks up in the next phase of Oman's economic renaissance.

Oman Air's expansion plans will also start to fill the gap left in the schedule by the reduction in Gulf Air flights. The national carrier is already Muscat's largest customer, and it plans to add several important new destinations in the future, served by a fleet that will increase in size dramatically when orders are fulfilled in 2009 and 2010. In fact, OAMC thinks that within two years, flights and passenger numbers at Muscat will have surpassed the levels seen in 2006.

As a result, expansion plans for the existing facilities are forging ahead. Muscat International Airport currently comprises a small, efficient terminal with the capacity to serve 5m passengers a year. Contracts have been awarded to design and build a new terminal to be completed in 2011, with a capacity of 12m passengers and 200,000 tonnes of cargo. Further expansions, to serve a potential 48m passengers a year, are in the development plan, to be added as required.

OAMC calculates that passenger growth will surpass current capacity before the new terminal is ready, however, and the company is currently spending $33.8m on an interim expansion of its existing facilities, including new aircraft stands, eight new boarding gates, a lounge and a baggage processing area.

Although Muscat is intended to remain the main international passenger gateway, the international airport at Salalah is also undergoing a major overhaul to increase capacity, with numbers reaching 2m by 2011 and a further 8m passengers a year in subsequent expansions. An important part of this development will also be a sea cargo terminal equipped to handle 100,000 tonnes per year in the first development phase, rising to 400,000 tonnes in the future.

The majority of the country's new road and highway developments will take place near the capital

Several domestic airports are also to be developed, providing a more efficient network to cater to the increased commercial activities at Sohar, Duqm and Ras Al Hadd.

ROADS: The major highways linking Oman's main population, business and industrial centres are fast and efficient, enabling the easy transportation of goods and people around the country. Oman is well connected to other important regional centres, such as Abu Dhabi and Dubai. However, increasing congestion, in Muscat in particular, is causing some agitation and concern, and adding delays to journey times.

As a result, it is unsurprising that the vast majority of new road projects are located around the capital. The most prestigious of these is the $1.4bn Southern Expressway, a 50-km, four-lane highway that will bypass the city's busy residential districts and is designed to take much of the through traffic out of the system and away from the main coastal highway. The project will take four years to complete in full, although some phases will be opened before the final completion date. A central corridor will also be added to connect Madinat Qaboos to the Southern Expressway. Other major works are underway to add a flyover and intersections at Muscat International Airport, as well as other smaller projects connecting Muscat's districts in a more efficient web of highways.

OUTLOOK: Salalah and Sohar are already on their way to becoming two of the region's most important container and cargo ports. As tension in the Gulf heightens over Iran's nuclear programme, the importance of these facilities is becoming increasingly manifest. The integrated port and industrial zone model adopted at both locations is a central component in Oman's long-term economic development strategy. Meanwhile, steps are being taken to ensure that air and road infrastructure keeps pace with ongoing construction plans. In all three aspects of transport development policy, the private sector should find plenty of valuable contractual and investment opportunities.

While Oman's road infrastructure is fast, efficient and services other important regional centres, increasing congestion in Muscat is the cause of much concern. To combat this problem, several projects are now underway, particularly the $1.4bn Southern Expressway, which will reroute much of the congestion to the borders of the capital.

Despite fleet constraints, Oman Air is adding destinations

Pole position

Oman Air has an important role to play

One by one the original owners of Gulf Air, the regional carrier established in 1974 as a joint venture between four governments, pulled out of the airline in order to develop their own national airlines. First Qatar, then Abu Dhabi decided the best way to ensure air linkages with the most important business and tourism destinations in the world was to have a high-quality national flag carrier funnelling passengers through their airports. In 2007 Oman followed suit. The government increased its shareholding in Oman Air from 34% to 82%, and shed its interest in Gulf Air, which has become the national airline of Bahrain.

UP AND AT THEM: The government's aim is clear: to use Oman Air as a tool both to promote the Sultanate as a business and leisure destination, and to create the transport link to bring visitors to the country. Therefore, the development of Oman Air is integral to the economic development of the country. As a result, the airline's new board comprises senior officials from relevant ministries, including the Minister of Finance and the ministers for transport and tourism.

Now the airline's executives have the difficult task of implementing the strategy. Of primary importance to them is the expansion of the airline's network, including the addition of important new routes to Europe and the Far East, as well as increasing connectivity with important regional destinations.

Tourism is expected to account for much of the growth in visitor numbers to Oman in the coming five years. Oman Air inaugurated its first direct flights to London and Bangkok in November 2007, creating an important link with the leisure market. The airline hopes to add Paris, Frankfurt and at least one more Far Eastern destination, possibly Kuala Lumpur or Jakarta, to its network sometime in 2008.

On the business front, Oman Air has already increased the number of daily flights between Muscat and Dubai to seven, creating an air bridge with the Middle East's most important business and tourism centre. Seven other destinations in the Middle East are also served from Muscat, and there are frequent daily domestic flights to Salalah.

The year 2008 should see the addition of two more Middle Eastern destinations. Middle Eastern tourists currently account for a large number of visitors to Oman, especially during the *Khareef* festival in July, when rain lashes the southern Dhofar region around Salalah, so the expansion of the regional network should facilitate tourism from these countries as well.

The airline's expansion plans are constrained, however, by the size of its fleet. Orders for five new Airbus A330s and six of Boeing's celebrated new 787 Dreamliners have been placed, doubling the size of the current fleet. However, with the massive growth of the global aviation industry, neither company can begin deliveries until at least 2009. As a short-term fix, the airline hopes to lease aircraft for some routes, as it has done to service both London and Bangkok.

NECK AND NECK: That said, the airline's expansion must also keep in step with the development of other tourism and transport infrastructure in the Sultanate. The airport is undergoing interim expansion to handle an increased number of passengers while its new terminal, due for completion in 2011, is under construction. Hotels and resorts, however, take longer to develop, giving the airline some breathing space before the tourism sector has the capacity to accommodate a vastly increased number of visitors.

Passenger numbers have already begun to soar, principally due to the reduction in Gulf Air flights to Muscat, which has left Oman Air to pick up the slack. In 2006 Oman Air's passenger numbers reached approximately 1.2m, the first time the airline had catered to more than 1m passengers. In 2007 passenger numbers grew a further 25% to 1.5m.

Airline officials are expecting much the same kind of performance this year as additions and improvements to the network are made, and also as a result of a comprehensive re-branding and aggressive marketing campaign of the airline and the destination.

With the recent reduction of Gulf Air flights into Muscat, Oman Air has had to step in and fill the void. Its passenger numbers went over the 1m mark in 2006 and grew a further 25% to reach 1.5m in 2007.

Marc Gijsbrechts

On the horizon

OBG talks to Marc Gijsbrechts, Middle East Area CEO, Maersk

How would Oman and the region be affected if the Strait of Hormuz became inaccessible? Does Maersk have contingency plans for this event?

GIJSBRECHTS: The Strait of Hormuz is the main gateway for the region. Any hindrance to easy accessibility would have a negative impact on the entire shipping community in the region. This would force carriers to search for alternative routes and ports. Oman, with its strategic position outside the Strait of Hormuz, would certainly have an advantage over the other ports. We have our contingency plan in place in case of any unexpected events.

What are the types of opportunities that currently exist in the logistics sector in Oman as well as in the region as a whole?

GIJSBRECHTS: The Middle East economies including Oman are booming. This will lead to growing imports. Also, the fact that the Gulf Cooperation Council (GCC) is predominantly an import market is also quickly changing given petrochemicals exports, economic diversification and other manufacturing industries emerging in various countries in the region, including in Oman. As a direct result of the above, the logistics needs will grow proportionally.

How are the gradual increases in trans-shipments and exports from countries in the Gulf, such as Oman, affecting the shipping industry?

GIJSBRECHTS: As explained above, each of the GCC countries is witnessing increased exports and most of them have projects running well into 2015. This is over and above the increasing trans-shipment volume in all the major shipping hubs in the Gulf. The Port of Salalah has ambitious plans to cater to this additional volume. So are the other major ports like Jebel Ali and other upcoming ports like Bahrain and developments planned in Qatar to name a few. This is an indication of the increased shipping activity that can be expected in the region in the near future.

How does the shipping and logistics market in Oman fit into the development of Maersk's regional and global strategy?

GIJSBRECHTS: Oman is an important country in the Maersk world. Our very presence in the ports that are located at Salalah, Muscat, Sohar and our group's investments in the port of Salalah are clear indicators of our overall commitment to the Sultanate of Oman. Our company's global vision is to create opportunities in global commerce.

With this in mind, we would like to offer our customers in Oman easy accessibility to the worldwide network of Maersk Line at an affordable cost, thereby promoting the business both to and from Oman. The strong relationship built over the years between Maersk and the Sultanate will continue to benefit the interests of both parties.

How do the port facilities and Customs regulations in Oman compare to those at other ports that serve the region?

GIJSBRECHTS: Port facilities in Muscat need to be expanded to accommodate the growing needs of the country as it serves as the major gateway port for imports into Oman. Also considering the fact that Sultan Qaboos Port is situated inside the city leads to traffic congestion and delays in cargo delivery. We understand that the government is considering a separate highway for the container trucks.

The space constraints that the port currently faces also lead to low productivity compared to the best ports in the region like Jebel Ali and Salalah. This is also an area for improvement. Extended working hours for Customs can make a whole lot of difference as it will cut short the clearance time for importers and exporters in Oman.

These changes, as well as others, can certainly improve the overall competitiveness of Muscat's port and therefore get it ready to face the challenges of increasing traffic during the years to come.

Energy

Privatisation set to maximise natural gas efficiency
Enhanced oil recovery techniques pushing Oman ahead
Considering coal as an alternative to gas
Annual electricity demand to increase for next five years

Oman is investing in alternative methods to maximise oil production

Set to explore

The Gulf state is making the most of its oil reserves

On July 27, 1967 the oil tanker Mosprince pulled into what is now known as Mina Al Fahal to load up the first ever shipment of Omani crude to be exported to the international market. Oman came to the hydrocarbons party far later than some of its neighbours, despite 30 years of fruitless attempts to find viable oil reservoirs in its territory. Since that historic day in 1967, however, Oman has exported more than 7.5bn barrels of oil, a number that has enabled Sultan Qaboos bin Said Al Said's government to stimulate the country's economic renaissance.

The importance of crude oil and, increasingly, natural gas to the Omani economy is more than just historic. Although efforts to diversify the economy away from dependence on hydrocarbons are bearing fruit, the oil and gas sector continues to account for almost 50% of GDP, 80% of government revenues and nearly 80% of the country's exports.

To ensure that the strategically vital hydrocarbons sector is managed to maximum efficiency, the government has worked to bring international expertise and investment into the sector. Privatisation has been widely embraced as the best way to ensure that the hydrocarbons industry continues to play a vital role in sustaining Oman's development.

REVENUES AND RESERVES: Hydrocarbons revenues have been maintained, despite falling production, due to the exceptionally high prices crude oil currently fetches on the international market. Oil production was down from a peak of 950,000 barrels per day (bpd) in 2001 to around 740,000 bpd in 2006. It was expected to fall further to 710,000 bpd in 2007, although figures were not available at the time of press. However, with Omani crude fetching almost $80 per barrel at its peak in 2007, there has been little drop in revenues. Nonetheless, with just 5.5bn barrels of proven reserves in the ground, the consensus is that oil production and revenues could run dry in the next 20 years. Industry insiders are far more optimistic. As elsewhere in the world, the high oil prices that have been sustained over the past four years have had a positive impact on Oman's production outlook. Reservoirs that have previously been too complicated to exploit have become economically viable using expensive new technologies. In Oman's case, this is particularly poignant: its reservoirs are notoriously complex, often holding very heavy oil with high water content in small pockets deep below the ground. The combination of these factors has previously been off-putting for investors, but in the current market exploration concessions and production-sharing agreements have been successful when they have been put to tender.

A new 40-year concession signed with Petroleum Development Oman (PDO), the country's largest oil company, in 2006 is a clear indication of optimism in the long-term future of the Omani oil industry. Additionally, this optimism comes with the endorsement of two of the world's leading international oil companies (IOCs), Shell and Total, both of which have stakes in PDO.

EXPLORATION: While most in the industry have taken an optimistic view about the rising price of oil and gas, Oman has been busy working to maximise production. The Sultanate would like to see production reach 800,000 bpd by 2010 and 1m bpd by 2012. In order to achieve this, the government is investing heavily in upstream infrastructure and production technology through the 60% government-owned PDO, and international companies have been offered generous production-sharing agreements to encourage them to take part in other exploration concessions.

PDO, which began exploration in 1937 with a concession covering the entire country, was the first oil company in Oman. The firm remains the largest in the Sultanate, operating around 80% of Oman's oilfields in the vast Block Six zone, which covers most of Oman's interior. PDO also operates almost all of Oman's gas production industry, mostly from fields in the northern areas of Block Six, on behalf of the

The Omani government has widely embraced privatisation as the best way to ensure that the hydrocarbons sector is managed well.

With just 5.5bn barrels of oil reserves in the country, the consensus in Oman is that oil production and revenues could dry up in 20 years. Companies are now pursuing alternative methods to get at the oil still in the ground.

Local oil can cost four times more to produce than oil in neighbouring countries, such as the UAE

Oman's oil is difficult to extract because it lies deep underground in complex geological structures. It also has a very high water content, sometimes 90%.

government. In 2006 PDO produced 589,000 bpd of oil and 428,000 barrels of oil equivalent gas and condensates. PDO also had some success in 2006 in terms of new finds. Of 10 exploration wells sunk that year, three hit oil. Two of these promised extensions to fields discovered in 2005, and the third hit an entirely new field in the Birba area of southern Oman, which has the potential to deliver almost 10,000 bpd.

Under the terms of its concession agreement, however, PDO is obliged to relinquish acreage where it is inactive. In recent years it has divested itself of a large amount of unproductive onshore land, which the government has put to tender. In 2005 the US-based company Occidental Petroleum (OP) was awarded the Mukhaizna cluster, located in central Oman, which is estimated to hold some 2.1bn barrels of oil, but had been producing just 9000 bpd on account of the complexity of the fields.

OP is also involved in two other blocks close to the UAE border, which were awarded as part of a massive round of bidding in 2006 that resulted in a total of seven onshore exploration blocks awarded to smaller IOCs. These included Oilex of Australia, Al Zakwani of Oman and Everson of the US, which all won blocks in the Al Wusta region; Thailand's PTT Middle East and the Abu Dhabi National Energy Company, Taqa, which were awarded blocks in Dhofar; and the Hungarian Oil & Gas company and Dubai-based Indago Petroleum, which were also awarded blocks in the north-west, near Buraimi.

Offshore blocks in the Gulf of Oman have also been packaged for IOCs. Reliance, an India-based firm, bagged the first of these in 2005. The company hopes to find significant reserves of both crude and condensate, although it is still too early to tell how much of either will be produced. Two more offshore blocks are still to be put to tender. The absence of the larger IOCs indicates the unlikelihood that major finds will be made in any of these new blocks. While the blocks offer attractive potential to smaller companies, the oil majors appear to have concluded that they are unlikely to discover significant reserves where PDO had failed so regularly in the past 70 years.

SQUEEZING IT OUT: A far better prospect for increasing production in the Sultanate lies in enhanced oil recovery (EOR) techniques. Oman's oil is notoriously difficult to produce on account of the complex geological structures in which it is found. It often lies deep under the ground in small pockets. Furthermore, the Sultanate's reservoirs have a high water content, sometimes as much as 90%, whereas 30% is considered high elsewhere. The oil found in the south of the country is also, for the most part, very dense, and this black oil is not only harder to extract, but also more costly to refine and less valuable on the international market. For all these reasons, Oman's oil can cost four times more to produce than oil in neighbouring countries such as Saudi Arabia and the UAE, the latter of which can produce oil for around $2 a barrel.

In the past this fact made many of Oman's fields uneconomical. Working fields were abandoned when they ran too dry, and others were never developed on account of the complexity of extraction. The Mukhaizna field is a good example of the latter. The field was first discovered in 1975, but the heaviness of the oil made production uneconomical and it was not until 2000 that PDO, the operator before OP took over in 2005, was able to produce around 15,000 bpd, which then declined to 9000 by 2004. OP, which has a great deal of expertise in EOR, intends to invest $3bn in the field and use steam injection to increase production from 10,000 bpd to 150,000 bpd by 2012.

PDO has also begun an expensive miscible gas EOR programme at the Harweel fields in southern Oman. In fact, PDO is concurrently using all three tertiary recovery techniques – thermal, miscible gas and chemical – at once in its concession area, and is perhaps the only company in the world to do so.

NATURAL GAS: Although associated gas from Oman's fields is the preserve of the companies that operate them and provides feedstock for power or re-injection, Oman's natural non-associated gas reserves have always been the sole property of the government. Until recently they were exclusively serviced by PDO but, as with the whole oil sector, international companies have recently been invited to service some fields to maximise production of what is becoming an increasingly vital asset.

Major discoveries between 1989 and 1991 showed that the Sultanate's gas reserves were so plentiful that it was able to construct a massive liquefied natural gas (LNG) plant at Qalhat near Sur in order to export its surplus. The LNG plant, which was commissioned in 1999, used gas supplied by PDO on behalf of the government, and immediately began exporting LNG to eastern markets. Since then, demand for gas in the Sultanate has grown drastically, due to power and water projects and to major industrial consumers such as the steel, aluminium and petrochemicals industries. Despite strong local demand for gas reserves, the price of LNG on the international market

Major discoveries between 1989 and 1991 built up gas reserves to such an extent that the country constructed a LNG plant in order to export the surplus.

See contact details on page...

is extremely high, which has led to a number of conflicting views on what should be done with Oman's gas.

At the same time, international companies have been invited to take part in gas exploration and production-sharing agreements. Two fields have been awarded recently, one to BG Group and one to BP. Harib Al Kitani, the CEO of Qalhat LNG, which recently won the "best in project finance" award at the prestigious 2008 Excellence in Energy Awards held in Dubai, told OBG that there should be new gas supplies coming to the market in the very near future. Companies like BP, BG Group and PDO seem to be positive about extracting more reserves, but it is too early to tell what the government will do with extra supplies.

Oman is set to become an importer of natural gas in June 2008, when it starts bringing supplies in from Qatar. The Oman Gas Company (OGC), the country's major gas transportation firm, plans to import some 5.6m cu metres of gas per day via an undersea pipeline from Qatar to the UAE, where it will be shipped to Oman. "Sohar will become the largest gas volume operation for OGC from 2009 onwards," said Yousuf Al Ojaili, the company's CEO. Oman's own natural gas reserves are not exhausted, but supply is not able to meet the demand generated by the booming economy. OGC also plans to expand. "In addition to being a pipeline operation company, we are also working to become a facilities operating company," said Al Ojaili. "We are in the process of installing two compression plants."

RESTRUCTURING POWER: Reform of the power sector has also continued, as Oman seeks to employ the resources of the private sector in meeting its growing need for electricity and water. In 1996 Oman became the first state in the Gulf Cooperation Council (GCC) to employ the private sector in power generation, and several independent power producers (IPPs) have been providing power to the Ministry of Housing, Electricity and Water (MHEW) since then.

A new sector law signed in August 2004, however, brought wholesale reform to this vital area of the Sultanate's economy. The law required all future generation projects to be carried out by IPPs in order to

Oman became the first country in the GCC to employ the private sector in meeting its growing electricity and water needs. A new law signed in 2004 requires all future projects to be run by IPPs.

THE NORTH-SOUTH DIVIDE

With more than 1000 km of sparsely populated desert separating the northern towns and cities from the Dhofar region in the south, creating a single national grid has never made much economic sense in Oman. As a result the two regions exist on entirely different power systems, a separation that has become more than merely physical since the main integrated system (MIS) in the north was reformed and restructured in 2004.

The concession agreement with the privately owned Dhofar Power Company (DPC) to run the Salalah grid was signed long before the new sector law demanded the separation of entities involved in generation, transmission and distribution. So the DPC exists out of kilter with the regulatory structure in the rest of the country. As a vertically integrated entity, it owns and operates the assets in all three aspects of the power business.

In order to respect the property rights of the investors and stakeholders in the DPC, the government has allowed this discrepancy between the structure of the Salalah system and the preferred new legal regime that governs the sector. However, as Oman's power sector grows and develops, perhaps faster than originally envisioned, arrangements in Salalah have come under increasing scrutiny. With bidding about to start for a brand-new 400-MW power plant in Salalah, larger than that currently run by the DPC, there is increasing unease over the company's vertical integration. The government would now like to see the company unbundled.

In fact, the original concession agreement with the DPC included a clause allowing for the provision of power by other independent producers at some future date, meaning that in theory the new independent water and power project planned for Salalah should not be affected by the current arrangements. Nonetheless, some in the sector worry at the potential for a conflict of interest, and investors would be far more at ease if the southern system were harmonised with the country's regulatory structures.

Furthermore, the development of Duqm, which sits on the south-eastern coast of Oman exactly halfway between the two systems, has made it possible that the MIS may be connected with the Salalah system within the next five years. A new power plant at Duqm, planned to come onstream in 2014, would provide a useful interconnect, reducing the need for over 1000 km of transmission cables between the two systems to a few hundred in either direction.

The government insists that it is seeking a negotiated settlement and there will be no dispute or breaking of contracts. It will continue to respect the property rights of the DPC's investors. However, negotiations are underway to unbundle the DPC's assets and bring the Salalah system in line with the rest of the country before the new independent power project in Salalah comes onstream and the two transmission systems are connected. The most likely solution will be a divestment of either the generation or transmission aspects of its business. However, the negotiations will be complex, taking into account the interests of all the DPC's stakeholders, including investors, creditors and customers, as well as the government's desire to harmonise the country's regulatory structure and maintain its image among investors as a fair and consistent partner.

Negotiations are underway to unbundle the Dhofar Power Company, which runs the Salalah grid in southern Oman. The company is vertically integrated and now controls the generation, transmission and distribution of power.

Despite diversification, oil and gas still account for some 50% of GDP

The Omani government has embraced privatisation as a way to improve efficiency. Though not all its assets have been sold, the government is moving forward to privatise the transmission system.

maximise the involvement of the private sector. It also broke apart the state-run system into distinct generation, transmission and distribution companies, currently held by the government-owned Electricity Holding Company (EHC), with a view to sell off the bulk of these assets later. A regulator, the Authority for Electricity Regulation (AER), was established to oversee the sector, essentially removing responsibility for power and related water almost completely from the ministry.

PRIVATISATION: Oman's privatisation drive has been a success by almost any measure. Going further than many of its neighbours to allow 100% private and foreign ownership of companies and assets in the sector, it has attracted a substantial number of investors for each project put under the hammer so far. On the other hand, the government has been pleased with the improved efficiency of the sector, which supplied 10% more power in 2006 than in 2007. Many long-time critics of the privatisation drive have also been won over by the fact that the sector law allows the regulator to seize control of private assets that it deems are no longer being run in the public interest.

The first of three existing state-run power plants was successfully sold in December 2006 to Suez Energy and Mubadala Development in a deal worth a reported $500m. The contract included the sale of the 688-MW plant at Al Rusail and a licence to build a new power and water plant at Barka, known as Barka II. The remaining two power plants held by the EHC have proved more problematic. Wadi Al Jizzi contains two older units already owned by private investors, so it may be more expedient to wait to sell this asset when these units come to the end of their life cycle around 2012.

Al Ghubrah power and water station, on the other hand, contains several vintages of equipment, the most modern being the water production units, some of which should be decommissioned in 2010. As a result, while privatisation remains the objective, there is no timetable as yet for the sale of the two plants. While studies are underway to determine the best way to package these assets attractively for the private sector, the fact that the first stage in the privatisation process has not been completed should not impede the next phase, which is to sell off the transmission system. The announcement of the tender for this business is imminent. The distribution and supply companies would then be sold off three or four years later.

The electricity and water departments of MHEW were finally disbanded in September 2007 and their residual responsibilities given to a new Public Electricity and Water Authority, which will essentially have a role in setting consumer prices and issuing policy direction. It will also manage water distribution and the production of non-related water sources such as groundwater. It is the government's stated desire and policy, however, that related water production, from combined power and water desalination plants, should be maximised.

MEETING DEMAND: The Oman Power and Water Procurement Company (PWP), a commercial entity owned by the EHC, buys power in bulk from the generating companies at prices set according to long-term supply contracts. Then PWP sells the power to distribution and supply companies at a tariff regulated by AER. As a result, the company acts as the interface between IPPs and the distribution companies and has responsibility for establishing demand and ensuring there is capacity to meet it.

Oman's power grid is divided into several systems. The main integrated system (MIS) in the north of the country is by far the largest, supplying the main population and industrial centres around Muscat and Sohar. A second system, run by the Dhofar Power Company (DPC), supplies the region around Salalah, while several smaller regional systems supply rural areas from diesel generators. PDO has its own system providing power to its oil and gas installations.

Demand in both the principal systems has been growing quickly as a result of economic development and modernisation. The increase in the national population, rising incomes and the connection of larger swathes of the population to the system have led to a steady increase in demand for power and water from residential customers, which accounted for 55% of demand in 2005 in the MIS and 41.8% of demand in the Salalah system.

It is the government's policy to extend electrification to as much of the population as is feasible. To an extent, this has to do with social development planning as much as with government munificence. The government is keen to avoid the mass migration to the cities that has hindered other developing countries and extending services and development to communities in the regions is a good way to encourage residents to remain where they are.

As a result, electricity provision in the regions has grown faster than in the more built-up areas. For example, the extension into the area around Duqm, which is being developed into a centre for commerce and tourism and has a number of large real estate projects, a port and a dry dock, will account for a major increase in demand in the coming five years.

The power grid faces increasing demand from industrial projects

INDUSTRIAL DEMAND: However, there has also been a major increase in demand from industrial projects, in particular around Sohar and Salalah. PWP calculates that continued population growth combined with further industrial development and the plethora of new tourism and real estate projects that are currently underway throughout the country will result in a 10% increase in annual demand over the coming five years from 13 TW hours (TWh) in 2006 to 25 TWh in 2013. Such an increase in demand is more than three times the global average, which is currently 3% per annum. Demand for power in the MIS will increase 9% a year, while demand in Salalah will increase 14%.

To meet such needs, major capacity increases are required, resulting in some possibly lucrative opportunities for private investors. Installed capacity must be high enough to meet peak summer demand that can sometimes be more than twice as high as winter demand owing to the almost universal use of power-hungry air conditioning systems.

Existing capacity in the MIS at the end of 2006 was 2443 MW. This has been augmented by a new IWPP at Sohar that was commissioned during 2007, bringing an extra 585 MW and 150,000 cu metres per day of water to the system. The 677-MW Barka II plant will begin supplying power early in 2008 and will be fully commissioned in 2009, bringing total contracted capacity to 3705 MW.

This increase will be partly offset, however, by the decommissioning of older units at Ghubrah and Wadi Al Jizzi between 2010 and 2012, which will take a total of around 265 MW out of the system. Based on the projected increases in demand, PWP has identified a potential capacity shortfall in the MIS of around 1200 MW and a further 370 MW in the Salalah system by 2013. New projects are required to meet this gap, and the private sector is again being approached to fund, build and operate plants in both systems.

Eight pre-qualified bidders have already been listed for the new 400-MW power plant planned for Salalah. When the plant is commissioned in 2010, it will more than double the installed capacity in the Dhofar region. Meanwhile, advisory teams have been put together to draw up a plan for another 700-1000 MW of capacity in the MIS, which could be offered as a single IWPP or split into two and combined with the sale of Ghubrah as a purchase, upgrade and expand contract.

LOST IN TRANSMISSION: To close the gap between future demand and existing capacity further, AER is also targeting losses in transmission and the unregistered use of electricity. Although the situation has improved, 22% of the electricity generated in the MIS was lost in 2006. Another 18% of power was lost in the Dhofar region, an increase of 3% from 2005.

The government hopes that the sale of the transmission business to the private sector will encourage greater efficiency and reduce losses through the grid. This, in turn, will reduce some of the need for investment in expensive new generating capacity. In the meantime, AER has set the objective of reducing loss-

To prevent mass migration of people to the cities, the government is extending services and development to communities in rural regions. As a result, electricity provision in these areas has grown faster than in cities.

Annual demand for electricity is expected to increase 10% during the next five years, from 13 TWh in 2006 to 25 TWh in 2013. Private investors are being asked to provide major capacity increases.

es by half within five years and will include loss reduction targets in its new distribution and supply price controls programme from the beginning of 2008.

While AER concedes that some degree of technical losses is unavoidable, it has suggested remedies to stem non-technical losses, particularly in the distribution and supply sector. Increases in these sectors raise costs to the government, both in supply and electricity subsidy. Modernising electricity meters, enacting a system of fines for clients found tampering with meters or illegally draining power from the grid and employing skilled meter readers would all reduce losses in this arena.

SUBSIDY AND PRICING: Electricity prices in Oman are heavily subsidised by the government, serving both to insulate the population from price shocks and to nurture industrial development in a low-cost environment. The structure of the tariff and subsidy is also designed to ensure that investors in the sector are operating in a fully commercial environment and are properly compensated for their activities.

IPPs sell power to PWP at commercial rates according to the terms of long-term supply contracts. Normally this is done on the basis of power availability rather than a metering system, protecting IPPs from the drop in demand over winter. PWP sells the power in bulk to distribution and supply companies at a tariff regulated by AER, which takes into account the cost at which power is bought, the running costs of PWP, and an agreed margin.

Distribution and supply companies charge a tariff that is similarly structured, with AER deciding the maximum allowed revenue that it deems reasonable for the licensees to recover. The government guarantees the shortfall between this economic cost and the allowed consumer price of electricity.

In this way, the power market in Oman remains internally competitive, and the subsidy does not distort the sector at any point along the supply chain. However, the cost of the subsidy to the government has been increasing in real terms over the years, since the tariff has not been raised for more than a decade, not even to keep in line with inflation. In fact, until 2004, there was no record of how much the subsidy was costing the government, so AER began tracking the subsidy, which it has calculated as roughly 40% of the economic cost of power production.

As the sector grows, this has become an increasing drain on government resources, rising from around OR56m ($145.6m) in 2005 to OR86.5m ($224.9) in 2006 in the MIS alone. For 2007 it was expected that the underlying subsidy will rise a further 12% to OR97m ($252.2m). Of course, since gas is undoubtedly sold at a cheaper rate than it would fetch on international markets, the direct and indirect subsidy to the power sector is even higher than these figures suggest, and the current consumer electricity tariff will have to rise in the future. AER has urged caution on the government and said it would like to hold off any recommendations until it has a more accurate picture both of the overall cost

The power market remains internally competitive as more companies are beginning exploration projects

of the subsidy and the direction in which the subsidy flows, among other related statistics.

A blanket hike in prices could damage the emerging economy, particularly in the industrial and manufacturing sectors. On the other hand, there is some credence given to the idea that a commercial tariff based on the economic cost of power could actually prove cheaper for larger customers than the current permitted tariff, meaning that a restructuring of the subsidy and the tariff could actually make the economy more competitive.

HUMAN RESOURCES: The greatest challenge to the revived energy sector could be in securing equipment and personnel in competition with larger companies in the region and across the world. "Human resources are certainly a challenge in this sector but large investments in training and development would give Oman a strong advantage in the future," said Usama Barwani, the president of MB Petroleum. Hiring Omani nationals is also increasingly important to a number of companies. "Our staff is 93% Omani, which we are very pleased with," said Al Kitani, the CEO of Qalhat LNG. "My biggest aim for the company is to develop our staff. We aim to achieve 100% Omanisation in the near future."

OUTLOOK: Those who took the recent steep decline in oil production to be the beginning of the end for Oman's hydrocarbons era have been proved wrong. It now appears that the sector was merely waiting for the correct economic conditions to spur a revival. With oil prices for Omani blend reaching $80 a barrel, those conditions have arrived, making previously unviable oilfields profitable again. The sheer volume of exploration and drilling projects being undertaken by PDO and by the myriad IOCs that have entered the market in the past three years is staggering. New finds will be excellent news for the economy, as they will increase export revenues and relieve pressure on the domestic supply. The Sultanate is on course not only to reverse the decline in production, but also to surpass the 2001 peak, hitting 1m bpd by 2012.

Electricity prices in Oman are heavily subsidised by the government to insulate citizens from price shocks and to nurture industrial development in a low-cost environment. The subsidy, however, is becoming increasingly expensive for the state to maintain.

The hydrocarbons industry is full steam ahead and is expected to produce 1m bpd by 2012, reversing a decline in production and possibly surpassing the 2001 peak.

New tertiary recovery techniques should extract 10-25% more oil

The last resort

Valuable techniques are helping maintain and maximise oil production

Oman has begun using enhanced oil recovery techniques, or tertiary recovery, to coax dense, heavy oil from complex geological formations underground.

Oman's oil is particularly reluctant to emerge from the ground. Dense, heavy oil lies stuck in complex geological structures deep below the surface, making recovery expensive, inefficient and sometimes completely unviable. It is frustrating for a country that knows it sits atop vast reserves of oil and is keen to earn revenues to enhance its economic development. As the oil price has risen, however, Oman has been able to invest in more complicated and expensive techniques for recovering oil, and the Sultanate is well on its way to becoming a regional leader in enhanced oil recovery (EOR) techniques, or tertiary recovery.

TERTIARY TECHNIQUES: Tertiary recovery is used when primary and secondary recovery is no longer adequate for pumping oil from the ground. Oil is normally produced using the natural pressure of the reservoir to force it to the surface. Sometimes the wells are stimulated by injecting fluids, and gas lift and pumping are also used to encourage the oil out of the rock formations. As production from these primary techniques begins to fail, secondary recovery techniques, such as gas re-injection and water flooding are used to capture residual oil or gas in the reservoir.

Primary and secondary techniques will ordinarily be adequate for the recovery of up to around 25% of oil held in a reservoir, so as oilfields mature and these techniques fail to produce adequate amounts of crude, companies are forced to consider more elaborate techniques for recovering the remaining oil. These tertiary recovery techniques include thermal injection, gas injection and chemical injection.

Oman is one of the few countries in the world where all three techniques are currently underway. The Sultanate plans to utilise EOR at many of its larger oilfields in its bid to increase production to 1m bpd in the next five years. Such considerations were clearly behind the decision to open up the country's prospecting to international companies. Many of those that have been awarded substantial acreage in exploration and production-sharing agreements have considerable expertise in EOR, including Oxy, which is a world leader in tertiary recovery; Shell, which as a partner in Petroleum Development Oman (PDO), brings considerable EOR expertise to Oman's largest oil company; and Reliance, which has considerable experience in deep sea exploration and production. PDO is using thermal injection at the vast Qarn Alam field, a giant with 1bn barrels of stubborn heavy oil in a complex matrix formation 500 metres below the surface. By injecting steam, PDO has been able to heat the oil and make it thinner, encouraging it to flow more freely into the well head. The project is expected to increase recovery from Qarn Alam from just 3% to 25%. Oxy will also be using steam injection at its Mukhaizna field to improve production from 9000 bpd to 150,000 bpd.

HEAD START: Injection of miscible gases is another relatively new technique being used by PDO at the Harweel field in southern Oman, which was discovered in 1997. A nearby gas field is being developed to provide natural gas for injection into the reservoir. Once there, the gases dissolve in the oil, reducing the oil's viscosity and improving its flow.

PDO has also introduced chemical injection, which involves the injection of polymers, at Marmul field. The chemicals, dissolved in water, act as a thickening agent, and push the oil out of the rock toward the producing wells. Although recovery is only expected to be improved by a few percentage points, the project has been deemed more than viable.

Using tertiary recovery to extract oil is expected to give Petroleum Development Oman a head start among its Gulf neighbours in using new techniques that they will almost undoubtably have to adopt in the future.

Despite the increased costs associated with EOR techniques, the benefits to Oman will be huge, not only improving recovery from most fields between 10% and 25%, but also giving the Sultanate's oil sector a head start in techniques that will become increasingly necessary throughout the region. Oman has become the regional pioneer in tertiary recovery techniques, and as reservoirs in Saudi Arabia and Abu Dhabi start to mature, PDO will be in a good position to export technology and expertise to its neighbours.


A 1000-MW coal-fired power station will be built at Duqm

Coal: the other energy source

The Gulf state seeks to diversify away from gas-fired power

It seems strange to think of coal as an alternative fuel; perhaps it seems stranger still to think that any country in a region that sits atop around 60% of the world's hydrocarbons reserves should even be thinking of seeking alternative energy sources. Oman is not alone among its neighbours in considering diversifying power generation away from gas-fired plants, but it may be the only one seriously planning a switch to coal.

COAL ENERGY: Oman is planning to build a massive 1000-MW coal-fired power station at Duqm, intended to generate electricity for a newly interlinked national grid by about 2014. The plant would import coal from South Africa or Australia, for example, relieving pressure on dwindling domestic gas reserves. A trio of geographic, economic and moral pressures seems to be enveloping energy planning departments in many of the Gulf Cooperation Council (GCC) countries. Hydrocarbons are a finite resource. Their export value has far exceeded their worth as a convenient local bulk energy source, and their use is potentially damaging the planet irreparably.

For countries such as Oman and Bahrain, there is the possibility that domestic gas reserves will dry up within a generation, leaving economies that are over-reliant on gas-fired power at the mercy of international markets. Despite the optimistic viewpoint of companies currently exploring for further gas reserves in both countries, diversifying energy sources is a question of long-term energy security. For the UAE, Qatar, Saudi Arabia and Kuwait, the finite nature of their gas reserves sounds a different note. Although they will be producing gas for decades to come, the successful management of those reserves, converting them into maximum economic value, is this generation's legacy to the future.

The economic case for exporting gas as liquefied natural gas (LNG) or after adding value downstream has become far stronger now that international prices of LNG and petrochemicals products are reaching skyward. With demand for LNG almost certain to increase in Europe and other environmentally conscious developed markets, it is fairly safe to take an optimistic attitude to the forward price of LNG, and it is likely that the cost of importing coal to Oman will be more than offset by the increased revenues from exporting gas.

Of course, there is an irony in sending gas to Europe to reduce carbon emissions while building coal plants in the country of origin. The net gain for the atmosphere seems slim, especially considering the environmental cost of transporting the requisite gas and coal around the planet. On the other hand, technology has moved on a great deal in the coal industry, and new coal-fired power stations tend to be far less polluting than their reputations suggest.

GREENER POWER: The GCC's quest for alternative energy sources has also been triggered by these moral and environmental questions. As international consensus converges ever more firmly around the idea that carbon dioxide emissions are responsible for catastrophic climate change, the oil-producing states of the GCC are keen not to be left behind. Across the region, alternative energy projects have suddenly become fashionable. Abu Dhabi's Mubadala Development Company is studying nuclear energy as a clean and effective future power source. The GCC Secretariat has stated its desire to build a $10bn nuclear power plant in a country yet to be designated. There is also a considerable amount of activity regarding renewable energy: Abu Dhabi intends to build a 500-MW solar plant, Dubai is studying the feasibility of a massive $1bn wind farm consisting of 70 turbines, and Saudi Arabia wants to turn waste into potable water and power.

Oman's planned coal plant may not be quite the environmental ticket, but the government has asked the Authority for Electricity Regulation to undertake studies on the future viability of renewable energy sources. Such projects will be hard to justify economically, but if a government directive pushes funds or subsidy in that direction, it may not be long before wind, solar and thermal plants enter the energy mix as well.

Oman plans to build a 1000-MW coal-fired power station that should generate electricity for a national grid by about 2014. The plant would use coal imported from South Africa or Australia.

As the world comes to terms with the effects of carbon emissions on the planet, the Gulf countries are keen not to be left behind in the race for alternative energy.

John Malcolm

Digging deep

OBG talks to John Malcolm, Managing Director, Petroleum Development Oman (PDO)

Have PDO's production targets been affected by the recent surge in oil prices?

MALCOLM: In 2007 PDO celebrated the 40th anniversary of its first shipment of crude oil. The fields that yielded that first cargo load – Fahud, Natih and Yibal – are still producing. In fact, several of our fields have been producing oil for more than 30 years. As a mature oil company, approximately half of PDO's current production comes from the application of what are known as secondary recovery techniques. And PDO has recently started to apply tertiary methods in a big way.

Primary recovery is the first stage of oil production, in which the natural energy in the underground reservoir – say, from an overlying gas accumulation or underlying aquifer – drives the existing hydrocarbons from the reservoir into wells and up to the surface. In secondary recovery, an extraneous fluid such as water is injected into the reservoir to maintain reservoir pressure and to displace hydrocarbons toward the producing wells. And tertiary recovery – also known as enhanced oil recovery (EOR) – refers to the production by thermal means (for example, by heating the reservoir with steam to reduce the oil's viscosity), by chemical means (by injecting chemical agents into the reservoir to alter the oil's flow properties) and by means of miscible displacement (by injecting a gas into the reservoir into which the oil can dissolve). PDO is one of the few companies in the world carrying out field-development projects in all three EOR categories.

Secondary and tertiary recovery techniques require a lot more time, effort and money to implement well. They require a thorough understanding of the oil reservoir and careful, long-term planning. We cannot let current oil prices drive our business decisions.

PDO's shareholders have wisely resisted the temptation to increase the company's oil production in the short term to take advantage of current oil prices at the expense of our secondary and tertiary recovery plans. Instead, they have opted to assure themselves of a stable plateau production level for the future. They agreed in 2005 to set the company's average annual black-oil production target between 550,000 and 600,000 barrels a day, and that is the range where we intend to stay for the medium- to long-term.

That is not to say that our operations have been impervious to the high oil prices. They probably affect us most in the same way that they affect others – as one of the primary drivers of economic inflation.

What is meant by the term "smart fields"?

MALCOLM: The term "smart fields" refers to oil and gas fields that have been equipped with computerised monitoring and control systems, not only in their individual wells but also in their production facilities. Smart fields are run by operations staff who are trained in the necessary skills and follow the appropriate procedures to make the best use of the technology. Thus equipped and manned, a smart field can be operated in a safer, cleaner and more reliable way, with reduced operating costs and increased productivity. PDO is well on its way to making its fields smarter. The majority of our wells can now be remotely monitored and operated to some degree, reducing the number of times our staff have to travel to remote corners of the field and enabling them to optimise our oil and gas production systems from the comfort of their offices.

What are you doing to cope with rising production, procurement and contracting costs, and the shortages of equipment, such as platforms and rigs?

MALCOLM: Cost control has been a high priority for us in the last several years, and – as you rightly point out – it has become an even higher priority for us in today's overheated market. We have been implementing various initiatives to keep costs under control. One initiative is to divide the workload in such a way that local firms can undertake more of it. Our EOR project at Qarn Alam is a good example of this. When we originally tendered an all-inclusive engineering, procurement and construction contract for that project, the bids that came in were sky high. We managed to bring the cost of the project back down, however, by splitting the contract into two – an "on-plot" and an "off-plot" contract. The off-plot contract could be awarded to an Omani company, whereas the on-plot work required the experience of an international engineering firm. We recently also structured a tender for a field development project for the Amal and Al Burj fields according to the contractors we knew had the spare capacity to undertake the work.

Another cost-saving opportunity is available if one is willing to be innovative in one's contractual strategies. The front-end engineering and design (FEED) of the compression facilities at the Saih Rawl gas field, for example, were incorporated into the tendering process for the contract to construct those very facilities. By sharing the ownership of the design with the contractor, we hope to reduce any costly design modifications that may be required during construction.

We have also realised that outsourcing certain crucial bits of analytical, design or engineering work does not always save you money in the longer term. I mentioned earlier the importance of understanding our reservoirs better in the context of secondary and tertiary recovery techniques. I am convinced that if we had not set up our in-house study centre in 2002, we would not be as advanced in our secondary and tertiary recovery plans. For that same reason we intend to execute a substantial part of the FEED work of major projects in-house rather than contracting it out.

Cost savings can also be found if one is willing to work more with contractors. We have established an innovative partnership with Medco Energi, an Indonesian company, for the development of a cluster of small oilfields near Nimr. We have also been looking for partnerships outside our circle of traditional suppliers and contractors. One of our drilling campaign contracts, for example, was awarded to a Chinese company.

Finally, one should not forget that PDO represents a large customer to oilfield service contractors. Our activity levels – particularly in drilling wells – are very high. We can leverage that to our advantage too.

PDO expects to deliver as much gas in the next five years as it had in the previous 30. How will this be achieved and why is this so significant for Oman?

MALCOLM: Let me put PDO's gas business over the last 30 years into perspective. Since 1979 PDO has been producing gas and transporting it by pipeline on behalf of the government of Oman. Since 1984 we have been conducting targeted exploration for gas in our concession area, also on behalf of the government. PDO has constructed and is running three major gas processing plants and an extensive network of gas pipelines in Oman. During all that time the supply of gas from PDO to the government has been virtually uninterrupted. PDO also discovered the gas reserves that enabled an entirely new industry to be established for the nation: the export of liquefied natural gas (LNG).

The reason that PDO's gas deliveries are so significant to Oman is that gas-based industries constitute a cornerstone of the government's economic diversification plans, and not only the export of LNG but also the smelting of aluminium and the production of fertilisers and petrochemicals. It is PDO that has been supplying – and will continue to supply – the great majority of the feedstock gas for these industries.

PDO's future gas deliveries are made possible by a combination of major field development and the construction of facilities. Not only are we drilling more wells in our gas fields, but we are also running our newly constructed gas plants at Saih Nihayda and Kauther. I mentioned the Saih Rawl compression project earlier. That project – and others – will maintain our gas output at our older fields. Incidentally, with the Kauther gas plant now operating, our output of condensate – a light, liquid hydrocarbon that is blended into Omani crude – will double. With all of these projects up and running, 40% of the energy contained in PDO's hydrocarbons production will originate from gas fields.

Frank Chapman

Block future

OBG talks to Frank Chapman, Chief Executive, BG Group

In light of the growing need forgas supplies, particularly from industry, what are your expectations for the delivery of known reserves?

CHAPMAN: We are currently appraising Abu Butabul to identify the extent of recoverable reserves. Based on the current, but limited, information available, there is still a substantial range of outcomes for the gross reserves. The appraisal programme consists of an extensive 3D seismic campaign, which is currently 70% complete, and two rigs drilling throughout 2008. BG's first well has spudded and the second rig has a target spud date during the first quarter of 2008. Contingent on a successful appraisal programme, first commercial gas production could start as early as the end of 2010.

We are currently evaluating options for the processing and transportation of gas and condensates from Block 60. Gas from Abu Butabul could enter the Oman gas transmission system at Saih Rawl or at other points. Condensate is likely to be transported to the coast through the Petroleum Development Oman system.

How optimistic are you for further exploration opportunities in Block 60?

CHAPMAN: Although our attention is focused on completing the appraisal of Abu Butabul and expediting the gas, we are very keen to grow our business in Oman. In addition to the Abu Butabul discovery, there are other potentially significant exploration leads within Block 60. We are encouraged by the potential but it is too early for us to provide further details at this stage.

How will BG cope with the geologic challenges of extracting hydrocarbon resources in Oman?

CHAPMAN: It is challenging both on and below the surface. The surface terrain in Block 60, where we have invested and are operating, is a combination of large sand dunes, gravel plains and sabkha (an area where the water table is very close to the surface). This combination poses challenges to the acquisition of geophysical or seismic data and to choosing drilling sites.

Certain aspects of the subsurface are equally difficult. Data from wells drilled in and around Block 60 indicate that the reservoir rocks, which contain the gas and condensates, have a very low permeability. This means that it is difficult for gas and fluids to flow through the rock to the well bore and subsequently to the surface. We will be employing the most advanced production technologies in the wells we drill so that we can be sure to fully appraise the reservoir.

Health, safety, security and the environment are of paramount importance. The challenging terrain in Block 60 coupled with extreme ambient temperatures means that we are taking special precautions to ensure that all those associated with our activities remain safe and in good health. We are paying equal attention to minimising the impact of our operations in this delicate environment. We are also maintaining contact with the Ministry of Oil and Gas in Muscat, ensuring that they are kept fully informed and approve of our plans.

Are you actively considering making further investments in Oman in the future?

CHAPMAN: Block 60 is potentially a significant opportunity for us and marks the beginning of a long-term relationship for BG with Oman. We are well-placed to grow our business over and above this and are looking for further gas-based opportunities both in Oman and in the wider region. Critical to evaluating such opportunities will be whether they fit with BG Group's objectives as an integrated gas chain player in the region and our desire to develop long-term partnerships with host governments.

How does BG's investment in Oman fit into the company's overall regional strategy?

CHAPMAN: Oman fits with our strategy of focusing on specific, selected, high-value markets and also securing low-cost gas to connect to those markets. Oman is the first building block in our aspirations to develop an integrated gas business in the wider Gulf region.

Tourism

The sector prepares to compete for regional visitors
Monsoon season becomes increasingly popular
The luxury market gets a comprehensive makeover
The state enacts a plan to maintain water supplies
Airports are set to undergo major expansion





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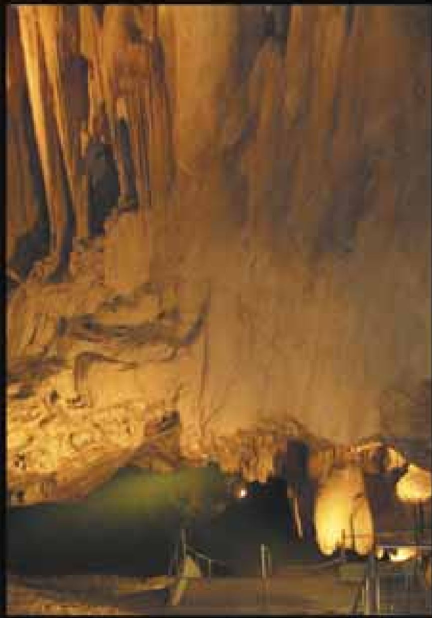


Mobile: **+968 92404444**
Tel/fax: **+968 24490060**
reserve@alhootacave.com
www.alhootacave.com

Sultanate of Oman

promo Oman L.L.C

Foreign visitor numbers have exceeded 1m for the last three years

Come one, come all

The tourism sector aims to compete with regional juggernauts

Oman's tourism sector has attracted astonishing levels of investment, but it is the speed with which tourism has burst onto the scene that is so astonishing. Just five years ago, convoluted visa regulations and a dearth of facilities kept most people at bay, bar a few adventurous outdoor types who would arrive from the UAE in convoys of 4x4s to wadi-bash or camp in the Jebel Akhdar.

Today, Oman's attitude towards foreign visitors is not as closed as it had been under the government of Sultan Qaboos bin Said, who sought for 30 years to protect his people from corrupting external influences, but it could be described as lackadaisical: come if you want, the Sultanate seemed to say, but we also do not mind if you just stay away.

What a difference a day makes. Tourism is now *de rigeur*, and its promotion has leapt up the government's list of priorities and is central to its vision for the country's economic development. Within just a few years, an independent ministry has been created at cabinet level to oversee the sector's development, billions of dollars of public and private sector investment have been pledged for new hotels and resorts, visa restrictions have been lifted for more than 60 countries and a promotion board has begun marketing the Sultanate's many charms in some of the most lucrative travel markets in the world. Travel writers the world over have caught the Oman bug, and visitor numbers are increasing yearly.

ECONOMIC DIVERSITY: Tourism is a clear example of the decisiveness with which Oman is able to enact economic policy, but what brought about this change that favours the sector? High oil prices over the past four years have flooded the region's treasuries with unprecedented sums, enabling governments to invest heavily in a new wave of development.

Unlike during previous oil surges, however, most governments in the region have recognised the need to invest prudently in projects that will bring about lasting, sustainable economic benefits. Diversification has become the region's mantra: countries are working to reduce dependence on volatile oil and gas prices that may not last forever.

In the case of Oman, diversification is perhaps even more urgent. Its oil and gas reserves are not only less plentiful than in neighbouring states, but they are also difficult and expensive to extract. The Omani government is clearly keen to build an economy that will remain resilient should the price of oil fall away again as it did in the 1990s.

Tourism, for which Oman has ample potential, brings in foreign currency, does not rely on the price of oil, and is traditionally labour intensive, helping to solve another of the region's growing problems – a rising rate of unemployment.

CURRENT POSITION, FUTURE PLANS: One should not get carried away. While there are some extremely exciting developments taking place within the sector, and a great deal of money has been pledged for investment, the industry as it stands today is relatively small, contributing just 2% to GDP in 2006, according to the World Tourism Council. "The industry is still in its early days and there are plenty of opportunities," said Julian Ayers, the general manager of Al Nahda Resort and Spa.

Things are picking up, however, and foreign visitor numbers have topped 1m consistently for the past three years, reaching 1.3m in 2006, according to government figures. Capacity is extremely con-

In an effort to promote tourism, the Omani government has lifted visa restrictions on 60 countries. Additionally, billions of riyals have been invested in hotels by both public and private investors.

Travel & tourism figures ($ m)

	2005	2006	2007E	2008F	2009F	2010F	2017F
Industry aggregates GDP	1151.29	1314.67	1457.37	1541.94	1611.35	1698.83	2560.14
Employment ('000)	49.9	51.21	56.88	58.92	62.84	67.94	92.35
Direct GDP	673.34	768.89	852.27	901.79	942.43	993.49	1497.18
Employment ('000)	29.18	29.95	33.26	34.46	36.75	39.73	54.01
Indirect GDP	477.95	545.78	605.1	640.15	668.92	705.35	1062.96
Employment ('000)	20.72	21.26	23.62	24.46	26.09	28.21	38.34
Imports	1076.56	1253.21	1316.52	1370.12	1386.59	1419.22	1916.41

SOURCE: World Travel & Tourism Council

The government is hoping that 80% of employees in the tourism sector will eventually be Omanis

Oman's need for more room availability is becoming increasingly apparent. Many of the higher-quality hotels are reporting occupancy rates of 90% and above, while the lesser-quality hotels are charging exorbitant rates, which could leave a bad taste in the mouths of tourists visiting Oman.

strained in a country that has just 100 hotels and guesthouses, of which only seven are listed as five-star accommodation. The closure of two of these, the Al Bustan Palace and the Sheraton, during most of 2007 and the temporary closure of a third, the Chedi, for a couple of months following Cyclone Gonu, has put pressure on room availability.

The result has been a boon to existing operators, who have been able to increase both occupancy and room rates, thus increasing revenues per available room by an average 61% across the sector in the first half of 2007 alone.

Nonetheless, the Sultanate is clearly in need of some new room inventory. Availability became extremely tight as the winter peak season began in late 2007. Most of the better hotels around Muscat report occupancy figures in the high 90s, and lesser-quality hotels are starting to charge prices far beyond their worth, which could leave a negative impression among visitors. Moreover, the Sultanate intends to increase the annual number of visitors dramatically, which will require a massive expansion of existing infrastructure, from hotels, resorts and tourist attractions to airports, roads and communications.

Although official targets for visitor numbers are hard to come by and the oft-touted figure of 1bn tourists is clearly either hyperbole or a serious overestimation, the government has set some economic goals for the sector that seek to double its contribution to GDP to $1.5bn in the next decade, constituting 3% of the projected total. The result of this growth should be a significant increase in employment from 3% of the total today to almost 5% in 2017. Already, approximately 37% of employees in the sector are Omani, a figure that the government would like to see increase to 80%.

STRATEGY: While the government has set ambitious economic goals, some in the industry remark that it may not have entirely reconciled itself to the reality of the tourist trade and its targets may only

RAINDROPS KEEP FALLING

As summer temperatures across the Arabian peninsula soar into the high 40s Celsius, millions of Gulf residents flee the oppressive heat and humidity for cooler northern climes. An increasing number, however, are now discovering relief from the unforgiving summer weather far closer to home. Each year, between July and August, the southern Omani region of Dhofar catches the tail end of the Indian monsoon, which brings heavy mists and fogs, a near permanent drizzle and occasionally heavy rains to the hills around Salalah known as Jebel Atteen.

This phenomenon, known locally as *khareef*, ensures that Dhofar boasts a lush verdant landscape in the summer, with temperatures that are significantly cooler than the rest of the region. Capitalising on the annual influx of visitors, the Khareef Festival lasts for 48 days from late July to the end of August. Musicians, poets and theatre troupes from all over the Arab and Muslim world take part in almost two months of entertainment around Salalah and Jebel Atteen in celebration of the clement weather. The festival has become a major regional event, attracting a record 306,000 visitors in 2007, according to the local tourist board – a huge increase from 209,000 the year before. Although approximately 60% of visitors to the region are Omani, more than 30% travel from other Gulf states, particularly the UAE, and a small but steadily growing proportion come from further afield.

The khareef has helped to put Dhofar on the tourist map, but local authorities are keen to encourage a steadier year-round tourist industry. A concerted effort to woo Scandinavian tourists, including direct weekly charter flights from Sweden to Salalah throughout the winter, is already paying off. Around 2400 Scandinavian holidaymakers arrived in November and December 2007 alone. Cruise liner traffic to Salalah has also increased dramatically over the past few years after a hiatus following 9/11 and the start of the conflict in Iraq. Some 25 cruises, accounting for 16,000 tourists, docked in the last two months of 2007.

The increase in tourism to Dhofar has encouraged new hotel and resort projects, which add to the currently limited room inventory. The most prestigious of these is the Salalah Beach resort being developed by Muriya, a joint venture between the government's development vehicle, Omran, and Egyptian real estate company, Orascom. Salalah Beach will comprise a golf course, marina and four quality hotels, as well as luxury holiday villas and residences. Nearby, Al Soda island is also being developed by Muriya.

be reachable if it starts to relax its view of what it constitutes as acceptable tourism. Sultan Qaboos has inherited from his father's policies a natural caution when it comes to rampant development and the disorienting, not to say corrupting, influence it can have on the culture and people.

Oman is starting with a clean slate, and is keen to avoid turning its pristine beaches into a new version of southern Europe, where half-naked, lager-swilling hedonists flip-flop from one nightclub to the next with no care for the indigenous culture.

Oman would like instead to attract only luxury tourists from Europe, the US and the Far East, because they tend to spend more money with more benefit to the economy and behave more discreetly. At the same time, some 500,000 Gulf Cooperation Council (GCC) nationals visit Oman each year, until now by far the largest market segment, and especially during the *khareef* season in Dhofar. Oman does not want to alienate or ignore this group, which tends to be made up of high-spending families.

Whether ambitious economic targets can be met by catering solely to these markets remains to be seen. Meanwhile, others are pressing for more notice to be taken of the adventure tourist market, such as rock climbers, cavers, kite surfers and divers, who may not have the money to spend on five-star accommodation, but often share the government's concern for the environment and are not looking for nightclubs and stripjoints. Oman's potential for adventure tourism is enormous given its diverse landscape.

NEW PROJECTS: In the meantime, development is taking place at a frenetic pace. At last count there were 22 projects under development and construction, ranging from the massive $15bn Blue City, to the refurbishment of forts and castles, to smaller and more modest development of attractions such as the Hoota Caves, where the government has spent $5m introducing walkways and flood lighting so that visitors can enjoy the extraordinary rock formations, stalagmites and stalactites. Projects are scattered throughout the country, reflecting the government's policy to stimulate economic growth and development in the regions as well as the main cities.

The country's pristine beaches should prove a major draw

Previously remote areas of the country, from the Musandam Peninsular on the Strait of Hormuz, to Ras al Hadd, located south of Muscat and Jebel Akhdar in the interior, are all now playing host to expensive new facilities, and are consequently being connected to the country's transport, communications and power networks for the first time, with huge benefits to the local communities.

While some notable projects are being undertaken solely by the private sector, including Blue City and the Wave, as well as several hotels, the government is also involved in financing and developing many of the major projects throughout the Sultanate. The 100% government-owned Oman Tourism Development Company (Omran) was established in 2005 to invest in touristic projects and to initiate development in areas that the private sector might see as too risky or as offering unattractive returns. Omran already has projects worth approximately $5.5bn under plan or construction, including infrastructure, exhibition space and hotels.

Although several of the large projects are currently being undertaken as joint ventures with the

Oman has over 500,000 visitors from Gulf Cooperation Council countries each year. Most come for the monsoon season to enjoy the cool, refreshing rain.

Tourism is expected to account for 3% of GDP by 2020

The government is providing the tourism promotion board with a budget of $30m a year in order to market Oman in other countries.

private sector, others are designed to stimulate development, rather than to make attractive returns for the shareholder. The development of Duqm, a remote coastal village halfway between Muscat and Salalah, is a good example. The idea is to build hotels and artificially generate a market, creating opportunities for private sector involvement once a critical mass in visitor numbers has been achieved.

The new convention centre that is being built by Omran in Muscat will similarly add depth to the tourism market and encourage large numbers of visitors, but will not necessarily provide financial returns for Omran itself. Interestingly, all Omran's joint ventures are with Middle Eastern investors. In fact, almost all the major projects in Oman are being financed with Middle Eastern, and especially Gulf, money, including the Wave and Blue City.

As all these projects near completion in 2011-12, there is likely to be a supply spike, particularly at the higher end. The government has given a budget of $30m a year to the tourism promotion board to market the destination abroad, but hotel development, destination marketing and infrastructure development will have to be very carefully coordinated to ensure that none outpaces the others.

In particular, the growth of Oman Air and the expansion of capacity at the existing airports at Muscat and Salalah, as well as the development of three new domestic airports, are intended to coincide with the growth in the number of hotel rooms. To a certain extent, luxury hotel brands tend to market themselves among their own networks – people will book their rooms at a Four Seasons because it is a Four Seasons, not because it is in Oman – so operators will not be entirely relying on government-sponsored marketing to fill their rooms.

FREEHOLD PROPERTY: In fact, while mega-projects such as Blue City, the Wave and Muriya's Jebel Sifah and Salalah Beach developments will contain several hotels, their success will hinge not so much on short-stay tourists, but on the longer-term investment brought in by the holiday residence market. New real estate laws allow foreign (non-GCC) ownership of property in Oman for the first time, within specific tourism zones and developments. The appetite for plots and units within these projects has been staggering, replicating the frenzy of investment in real estate projects throughout the region.

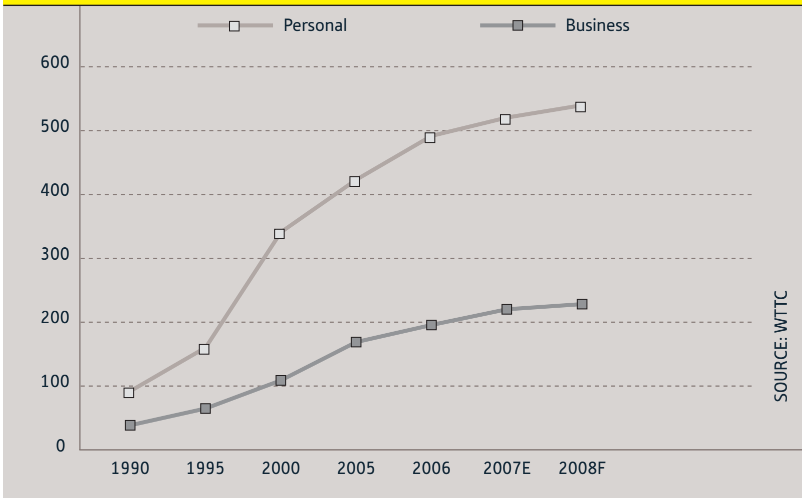
However, for the most part, those that have bought units in the myriad golf and marina resorts planned throughout the Gulf region have done so for investment purposes. Property deeds change hands several times long before units are built, and since not a single holiday resort has been delivered as yet anywhere in the Gulf region, it is hard to tell whether they will develop into successful communities, or whether the entire market will have been an investment-driven bubble.

OUTLOOK: With tens of billions of dollars pumped into the sector over the next decade, tourism is sure to become a major force in Oman's economy. Interestingly, although tourism is expected to account for 3% of GDP by 2020, the sector's impact on the economy, including indirect impact, is expected to be far greater, contributing some $5.5bn (11%) to GDP.

Major tourism developments will be a huge draw to high-spending tourists, which will serve to create numerous opportunities for entrepreneurs and smaller private sector enterprises. There is a great need for secondary support structures to grow around the industry, including attractions, restaurants and cafes, souvenir shops, travel agents and tour operators. There is much more to a successful tourism industry than mere hotel rooms.

Creating a sector from scratch is certainly a challenge, but it also enables the government to shape the industry in a way it sees as appropriate. Oman offers fantastic potential as a classy and exotic destination for a more discerning traveller; whether this market will prove to be large enough to fulfil the country's economic goals remains to be seen. So far, it has not been hard to find investors that are willing to take a punt that Oman will rise to the challenge.

Travel & tourism spending, 1990-2008 (OR m)



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Developers are concentrating on the upscale market in Oman

Be astounded

A comprehensive makeover for the country's luxury market

At last count, some 22 projects were planned in Oman, promising to transform the Sultanate's tourism sector over the next decade. Listed below are a few of the most prestigious developments.

BLUE CITY: One of the largest projects in the Middle East, the $15bn Blue City project will create an entirely new city for 250,000 people. The project will cover a 32-sq-km site with 16 km of coastline on the Gulf of Oman and will be located 45 minutes from Muscat and 30 minutes from Muscat International Airport. The city will include 16 hotels, a convention centre, a large university and a sports village intended to host European pre-season games.

Due for completion in 2020, Blue City will transform Oman's tourism sector. The project is being carried out by the Al Sawadi Investment and Tourism Company, a private sector venture owned by Bahraini and Omani shareholders, but it has the full support of the government, which has allowed freehold ownership to be sold within the project, subject to the inheritance laws of an owner's country of origin. The project will create employment opportunities for Omani nationals, with forecasts that some 7000 direct jobs and 25,000 indirect jobs will be created during the first phase alone.

THE WAVE: Located along 6 km of waterfront and not far from the capital, Muscat, the Wave was one of the first projects to offer freehold properties to foreign investors. The $2.4bn project comprises high-quality residential and hospitality options, including 4000 villas and low-rise condominiums, three hotels, including Fairmont and Kempinski, an 18-hole golf course and a 300-berth marina, and will be built on a site covering approximately 2.5m sq metres.

The project is a joint venture between the Omani government – represented by Waterfront Investments – the Omani Pension Fund and UAE-based Majid Al Futtaim Group. The first auctions for properties have seen enormous demand: one beachfront villa sold for approximately OMR2.5m ($6.5m).

YITI PROJECT: One of two projects that are being undertaken as a joint venture between Omran and Sama-Dubai, a major new development at Yiti, which is situated just south of Muscat, will be comprised of high-quality hotels and residences. A 300-room beach resort hotel is planned for the site, as well as a 150-room, five-star spa hotel. There will also be a marina, a golf course, a 10,000-sq-metre *souk*, (or highly-fashioned retail area) complex, over 1000 villas and townhouses and 1000 residential apartments. The other project, at Shinas in northern Oman, will be built around an equestrian centre and tennis academy, and will include four hotels, a number of villas and 500 apartments.

MURIYA: Omran has teamed up with the Egyptian developer Orascom to create the $600m Muriya Development Company, which will bring four important projects to Oman. Two of these are located near Muscat, while the others are found in the south around Salalah. The Wadi Al Qurum project will upgrade a Muscat suburb into a classy township, complete with a six-star hotel, a souk, a shopping mall, and high-end office and residential space.

Meanwhile projects found at both Sifah, near Muscat, and Salalah, will develop larger resorts that will be made up of golf courses, marinas and four to six hotels each. A final development at Al Soda island, in the south of the country, will create a seven-star, luxury holiday island resort.

CONVENTION CENTRE: Located on approximately 16.9 ha of currently disused land just 4 km from Muscat International Airport, the city's new convention centre will facilitate events for up to 7000 delegates, putting Oman on the map for the lucrative business tourism sector. The project, which is being undertaken by the government-owned development company Omran, will include state-of-the-art convention and conference facilities, several hotels from three to five stars, 150 serviced apartments, a mall with 25,000 sq metres of retail space and an office park.

Of the 22 projects that are currently under development, a few truly stand out. Most are being completed through joint ventures with private investors.

An increase in tourism will put a strain on Oman's water resources

Water works

The government is enacting detailed plans to ensure sustainability

In an effort to increase efficiency, the Omani government is developing a $1bn wastewater processing system that, when completed in 2017, will serve nearly 90% of Muscat's population.

The scarcity of water and the deterioration in its quality may severely impact tourism growth, unless an integrated water management resources strategy aimed at rationalising water consumption is implemented. Oman's government has set out an ambitious programme to attract 2m foreign visitors or more by 2010 – double the figure of 2001. The flip side of Oman's booming tourism industry, combined with the projected rise in the Sultanate's population – which could increase from the current level of 2.45m to 2.65m in the next three years – has been the increasing strain on the country's water resources.

Oman is not alone. The thriving tourism and airline industries are straining water resources throughout the entire Gulf and concentrating many minds on how to achieve better conservation practices.

"As part of their economical strategies, many countries in the region are promoting tourism," Zahir bin Khalil Al Sulaiman, the director-general of water resources affairs at Oman's Ministry of Regional Municipality, Environment and Water Resources, told the local press on August 23, 2007. "The remarkable increase in demand has put pressure on the limited water resources in the region. The growing tourism sector is one such factor." It is not just a matter of quantity that Oman must face, but also of quality. In order to achieve sustainable development and improve living standards, rapid steps need to be taken to maintain a balance between supply and demand and to address the nation's water shortages.

"Water demand management has become inevitable, particularly in view of the rapidly growing population, the widening gap between water supply and demand, the increasing levels of pollution and salinity, the climatic changes, the frequent drought periods and the high competition that exists for available water resources," Al Sulaiman continued.

BULL BY THE HORNS: Oman is not standing still in its efforts to tackle these water challenges. In the wake of Cyclone Gonu, which struck the Sultanate on June 6, 2007, the government announced a new programme of dam construction to limit the effects of flooding in the event of future disasters and to maximise water retention from similar deluges.

Desalination is the route Oman is following to ensure its future water needs are met. The Sultanate is one of the regional leaders in opening up its energy and water industry to the private sector, having announced at the end of 2006 that all of the country's desalination operations would be privatised by 2009.

As part of the programme, new power stations will also have desalination plants linked to them. According to Mohammed bin Abdullah Al Mahrouqi, the CEO of Oman's Electricity Holding Company, output of desalinated water from plants linked to power stations will increase from the 2006 figure of approximately 86m cu metres (mcm) to 221 mcm by 2013. "A new tender for the construction of a power station and desalination plant at Salalah will be launched shortly," Al Mahrouqi said on August 8, 2007. "When completed in 2009, the facility will be able to produce 68,000 cu metres of water daily."

WATER WORKS: Oman has invested heavily in treatment plants to process wastewater, with plans for all used water to be processed and much of it to be reused for agricultural and industrial purposes. Among these projects is a $1bn wastewater processing system for Muscat which, when completed in 2017, will serve 90% of the capital's population and the growing number of tourist facilities in and around the city.

The government has also enacted regulations requiring environmental impact studies for new tourism developments and projects in order to ensure the most efficient use of water resources.

The state has also launched public awareness campaigns that promote the careful use of water resources by the public. Through wide scale investments, careful planning and increased environmental protection measures, Oman hopes that it will be able to conserve one of the Sultanate's most precious commodities.

Ziyad M Al Zubair

Only the beginning

OBG talks to Ziyad M Al Zubair, Director, The Zubair Corporation

How successful has the Barr Al Jissah Resort been and what are your expectations for the future?

AL ZUBAIR: The execution and successful completion of Shangri-La Barr Al Jissah Resort & Spa by an Omani establishment is a clear demonstration of the positive response by the private sector to the invitation of the government to participate in the development in the tourism sector, and the importance it accorded to the promotion of tourism. The possibility to go ahead with this project is clear evidence of the confidence placed by the Zubair Corporation in this venture and its deep conviction and faith in the feasibility of investing in Oman.

The resort has been quite successful financially. Room occupancies have experienced growth of over 30%, despite the phased opening of Al Waha, Al Bandar and Al Husn. The average room rates have also registered similar increases over the past two years, with food and beverage operations also contributing significantly. The project has seen a significant amount of bottom line growth as well. Needless to say, our expectations for the coming years are very high, especially with the substantial growth in the Omani economy. We should be able to take a larger share of the tourism inflows into the country.

What can be done to attract workers to the various roles offered by the hospitality industry?

AL ZUBAIR: The great thing about the hospitality industry is that everyone starts at the bottom. The vast majority of general managers started as cooks or waiters and worked their way up. People looking for a career need to understand that they may start at the bottom but can eventually end up at the top. At Barr Al Jissah the staff are offered the opportunity of online diplomas and MBA programs with Cornell University in New York to better themselves and get promoted. Staff are also sent from Oman to the Shangri-La Hotel Academy in Beijing and may have the opportunity of working all over the world. So there are tremendous opportunities and benefits for people with drive and determination to succeed.

What are your expectations for the number of tourists in the next few years?

AL ZUBAIR: Figures from Oman's Ministry of Tourism and the Ministry of National Economy indicate that leisure tourism arrivals to the Sultanate almost doubled during the years between 2000 and 2005. Based on research, leisure guest arrivals to Oman are estimated to increase by more that 20% between 2006 and 2010. Certainly, we have witnessed a progressive growth in tourist numbers visiting Bait Al Zubair Museum since it was opened in 1998.

Do you foresee over-supply problems when the planned tourism projects open in the future?

AL ZUBAIR: With regard to our resort and other tourism activities, demand currently is very seasonal for Oman. During the summer months we are faced with a considerable surplus of rooms and during the winter months we must operate with a short supply of rooms. The sector will need support from the airlines to help us fill both the low and the high seasons. We need more flights at better prices, since the summer months are currently our lowest period. In contrast, the summer is very busy for airlines due to Omani residents travelling frequently at this time. This means it is difficult for tourists to find seats to fly into Oman in the summer months.

We also require government support to promote the summer months as a time to vacation in Oman. There currently exists a perception that the summer is not a good time to visit Oman. It is important that the government and industry acknowledge the opportunities available during the summer months. It is, of course, very hot but we should look to specific markets. This time might not be suitable for families but it could be a good time of year to promote adventure tourism or even water sports, for example.

How does Oman's tourism strategy compare to the strategies used in the other Gulf Cooperation Council (GCC) tourism markets?

AL ZUBAIR: Oman focuses more on culture, tradition and natural beauty compared to other GCC countries, where the focus is either on shopping or modern man-made activities. We pride ourselves on our culture, heritage and welcoming people. In Oman we have one of the oldest ruling dynasties in the region, a diverse landscape and unique climate. We played a key role transforming global history in the third millennium BC, when we were known as the copper-rich civilisation of Magan. We are recognised as a seafaring nation and a land of frankincense. Oman features ancient oasis settlements with traditional architecture and a friendly people with strong traditional values.

As the country takes considerable steps towards opening its doors to tourism, its ancient cultural heritage must be recognised in its impressive portfolio of assets. Due to the country's strategic location, its history has been linked and fused with numerous cultures. This has enabled Oman's people to develop a welcoming and tolerant nature that is a powerful resource.

Many traditional crafts today appeal to tourists, who buy them as souvenirs. Oman's ancient cultural heritage is a valuable and irreplaceable asset. Its ancient archaeological sites, maritime history, resourceful adaptation to the landscape and traditional industries reflect its unique identity as a tourism market.

Areas for future attention include sustainable tourism and the protection of sensitive areas. This includes some of our natural heritage and culture, beautiful landscaping, sensitive ecosystems, nature and wildlife. Developments should enhance this instead to harming it. For example, at Shangri-La Barr Al Jissah Resort & Spa we have a turtle protection programme whereby we have appointed a specialist turtle ranger to ensure that eggs and hatchlings are protected during the breeding season. We take our traditions, culture and environment very seriously. Our museum ensures that ethnographic material from Oman is retained at Bait Al Zubair for the benefit of future generations. The Omani Heritage Village at the resort supports local artisans and exhibits their handicrafts. This provides an opportunity for the tourist to interact with local people, and at the same time the artisan can make a good living from tourism by selling his or her goods.

Tourism is a key sector for the diversification of the Omani economy. What opportunities and challenges are there for investors in this sector?

AL ZUBAIR: There is still a lot of potential for growth as Oman has only started to promote itself in the past five years. Now that Oman Air is becoming a long-haul, international carrier, it will open up potential markets. When hotel capacity eventually increases, it is essential that industry, the government and Oman Air work together to identify new markets from which to attract visitors. The growth of tourism can also help to increase employment for local Omanis. I see a lot of potential in the interior region as there is a definite need for five-star facilities, and this area could be an attractive investment. I also think there are investment opportunities to be had in the real estate projects like Barr Al Jissah, The Wave, Blue City and Yenkit.

The seasonality of tourism is a challenge and puts off some investors, but I think we can attract more tourists in the summer so long as we target new markets. Finding the right staff is also a challenge, but investing in their training and development is key to retention. To make the most of the opportunities in the interior, infrastructure needs to be improved.

What tourism projects are Zubair Corporation planning at the moment?

AL ZUBAIR: We are in the process of conceptualising a couple of new ideas that we hope will soon become major projects. We are interested in diversifying our real estate development and integrating tourism within it as a contributing factor in our holistic vision.

A second phase of expansion will increase Muscat's capacity to 48m

Terminal velocity

The country's airports are set for capacity expansion

In a bid to increase its appeal as a tourism destination and to expand its economy away from the traditional centre of Muscat, Oman is undertaking a massive upgrade of the country's airport network.

Mohammed bin Sakhar Al Aamri, the undersecretary of the Ministry of Transport and Communications for Civil Aviation Affairs, announced on September 25, 2007 that the Sultanate's two main airports, Muscat International outside the capital and Salalah airport in the southern province of Dhofar, will be expanded. He added that three new international airports will be constructed at other points throughout the country.

Though not exactly news, initial plans to extend Muscat and Salalah having been made public earlier in 2007, Al Aamri added some details to the scheme during his address to a meeting of the general assembly of the International Civil Aviation Organisation in Canada. More than $3bn is to be spent on upgrading the existing airports and constructing new ones. The expansion of the two main airports will be one of the largest infrastructure programmes carried out by Oman.

BEEFING UP: Under the new plan, passenger capacity at Muscat will be stretched from the current 3m to 12m by 2010 due to the construction of a new terminal and another runway. A second proposed extension will lift capacity to 48m passengers by 2050.

Salalah Airport's development is also extensive, more than doubling its present passenger capacity to 2m by 2011, with plans to increase this to 10m in the years to follow. In addition, the airport will benefit from a major upgrade of its cargo processing facilities to support the development of a growing industrial base around the port and the Salalah free trade zone.

One of three new airports has been slated for Sohar, on the Gulf of Oman, which has been designated as a major industrial centre. The airport will be part of an integrated transport network, comprising an industrial port and upgraded road and rail links to serve the industries being established there, such as an oil refinery, petrochemicals plants and an aluminium smelter.

Another airport is planned for Duqm, located 500 km along the coast to the north-west of Salalah, which is being developed as a major port and trade zone and will be the centre of Oman's ship repair and construction industry. According to Al Aamri, the third airport will be built in a region with high tourism potential.

The expanded cargo handling facilities at Salalah, along with the new airport at Sohar, are part of a wider scheme launched by the Omani government to promote the Sultanate as a cargo transit centre for the region, as well as to meet the economy's growing need for fast turnaround shipping of goods.

NEIGHBOURLY COMPETITION: However, while Oman hopes to cash in both on increased tourism flows and as an air and logistics hub for the region, it faces stiff competition from its neighbours, many of whom are investing to expand and construct their own airports.

Abu Dhabi has begun a $7bn project to boost the capacity of its main airport, adding two new passenger terminals, a second runway and a cargo terminal. The first stage, due for completion in 2010, will see the Abu Dhabi International Airport processing 20m passengers and 1m tonnes of cargo a year, to be increased to 40m and 2.5m, respectively, in a second stage.

The projects in Oman and Abu Dhabi are dwarfed by those of Dubai, which is investing up to $8.1bn in the new Dubai World Centre International Airport, the centrepiece of a massive aviation and logistics city. When completed in 2017, the airport is expected to cater to 120m passengers and 12m tonnes of cargo annually.

Oman's hopes of becoming a logistics hub rest on its position on the Gulf of Oman and the Arabian Sea. While this bodes well for shipping trade, with good rail links to its ports allowing cargo to be transhipped overland, there is little advantage to be had in terms of airfreight, given the rapid expansion of other airports throughout the region. The same applies for tourism. With bigger and better facilities planned across the region, Oman may find itself struggling to become a main entry port for visitors flying into the Middle East.

Muscat International Airport will expand its passenger capacity from the current 3m to 12m by 2010, while Salalah Airport is set to increase to approximately 2m by 2011.

Samih Sawiris

Destination of the year

OBG talks to Samih Sawiris, Chairman, Orascom Hotels and Development

Why has Egypt-based Orascom decided to make such a significant tourism investment in Oman?

SAWIRIS: Oman caught our attention because of its natural beauty, its hospitable and friendly citizens, and its unique and diversified cultural mix so close to the Indian and African sub-continents.

Oman has recently been voted by *Condé Nast Traveller* magazine as the destination of the year.

Muriya, established in 2006 as a joint venture between Orascom Hotels and Development (OHD) and the Omani government [Omran] with a total investment of $900m, is working towards developing greenfield sites into fully fledged communities and tourism developments covering 21m sq metres.

With four projects in various locations across Oman, including a city complex in Muscat, Salalah Beach, Jebel Sifah and Al Sodah Island, Muriya is the single largest tourism development in Oman.

What kinds of residents are you targeting with these projects and how do they fit in with the government's tourism strategy?

SAWIRIS: The Omani economy has traditionally relied heavily on gas and oil. The government, having realised that diversification is essential, has directed its goal towards conserving its natural reserves. Tourism has been pinpointed as one of the most important aspects for the country's future growth.

A significant increase in tourism has resulted in a major shortage of hotel rooms in the four- and five-star bracket, reinforcing Muriya's commitment to developing multifaceted communities.

We are targeting a variety of nationalities by offering a project with a significant range of hotels and properties catering to various requirements. The recent laws allowing foreigners to own freehold properties in Oman has created a high demand for quality residential units from within the Gulf Cooperation Council (GCC) and abroad as well as the awareness of Oman internationally.

We are targeting regional buyers within the GCC, domestic buyers in Oman – locals and expatriates – as well as overseas buyers. Within this there is a spread of styles. The Jebel Sifah project is aimed at the high-end market project whereas Salalah Beach is geared toward family holidaymakers.

As a developer making a major investment in the country and its tourism sector, what improvements would you like to see in the infrastructure?

SAWIRIS: I would like to see an improvement in the existing roads linking the capital to various *wilayat* (regions), as road connections are still lacking in various areas. Air transport has plenty of room for growth, with direct flights to Muscat covering relatively few destinations. Charter flights to Europe could also offer better pricing for customers. I would also like to see an increase in the number of cement factories and electricity, water and power suppliers, all of which play a key role in any form of development.

What impact will the increased economic activity associated with the projects have on Oman's economy and employment?

SAWIRIS: I believe that the economic activity associated with the projects can only be beneficial to the country. It will increase the creation of job opportunities, with better remunerations in order with the Omani Ministry of Manpower's Omanisation Law.

The first Omanisation law was passed in 1994 and stated that the percentage of Omanis to be employed in the private sector should be 60% in the transport and communication sectors; 45% in finance, insurance and real estate; 35% in industry; 30% in hotels and restaurants; and 20% in wholesale and retail.

Following the success of Omanisation, the economy in Oman has become increasingly diversified. It has opened many opportunities for Omanis. Our projects are dedicated to this economic strategy and to offering key posts to Omani nationals in our projects.

Construction & Real Estate

The number of mega-projects is continually on the rise
Infrastructure is set to undergo a massive overhaul
Developments to address the residential unit shortage
Diversifying the economy for the sake of sustainability

As of end-June 2007, the sector contributed $4.7bn to the economy

A whirlwind of activity

Expansion continues with an ever-increasing number of mega-projects

In June 2007 cyclone Gonu slammed into the Omani coast with winds in excess of 200 km per hour and 12-metre-high waves, leaving buildings submerged, roads washed away and thousands homeless. The damage done by Gonu is now being repaired with foreign direct investment, rising wages and a population explosion, fuelling a surge in construction that is erecting structures all over the country.

Due to the continued expansion of the construction sector, the value of projects in development in early 2007 was an estimated $25bn-30bn. Much of this has been fuelled by the unprecedented growth of mixed-use mega-projects across the country, many of which will require financing in excess of $1bn. Significant government investments in infrastructure, low interest rates, high liquidity, an increasing population and new investment-friendly legislation also serve to enhance projected values. Through the end of June 2007 Oman's construction industry contributed OR1.81bn ($4.7bn) to Oman's economy, up 21.6% on the 2006 figure of OR1.49bn ($3.9bn) and accounted for nearly one-third of the Sultanate's GDP.

With the government's focus on diversifying the economy, the industry, tourism and infrastructure sectors are leading the way in construction projects.

SECTOR PLAYERS: With so much work to be done there are simply not enough builders to go around, and construction companies are seeing massive revenue growth and increased profit margins despite a backlog of projects. Although cyclone Gonu wreaked havoc with contractors' timetables, the storm will ultimately be beneficial, as both the government and private sector repair damages, reinforce current buildings and infrastructure in preparation for the possibility of another catastrophe, and alter plans of future projects to make them stronger.

According to Carillion Alawi managing director David Skinner, even if each company in the sector grew by 50% they would still not be able to meet the demands of all the big projects. Partly owned by UK-based Carillion, Carillion Alawi has used the new business to make it one of the largest construction companies operating in Oman today.

Other major construction companies that have operations in the Sultanate are Al Turki Enterprises, Al Hassan Engineering, Al Mashrikia-Travo, Galfar Engineering and Contracting Company, Strabag, Larsen & Toubro and Bauer Spezialtiefbau.

Investors are so enamoured with the construction industry that the Galfar Engineering and Contracting initial public offering (IPO) was oversubscribed 14.5 times in August 2007. Rivalling even the Omantel IPO by setting a new record for IPO collections in Oman, the offering brought in OR872.97m ($2.27bn), 40% of which went to institutional investors, and returned more than 82% on the first day of listing. The company posted a before tax profit of OR17.7m ($46m) through the first nine months of 2007, a 99% increase over the OR8.9m ($23.1m) recorded during the same period in 2006.

BUILDING BLOCKS: With $25bn in ongoing construction projects, there are simply not enough building materials to go around. As a result, the cost of building material has risen at a rate of 13.4% through the first-quarter of 2007, with the price of iron and steel increasing 19.4% and wood 31.5%.

Even with these dramatic, double-digit increases, costs still remain lower than in neighbouring Dubai, partly because of the feverish pace of development in the UAE and also partly due to government efforts to control spiralling costs in Oman.

Oman's cement market is fairly simple, with only two producers on the market: Oman Cement Company (OCC) and Raysut Cement Company (RCC). Both companies are listed on the bourse and run integrated plants, which produced a total of 2.86m tonnes of clinker and 3.61m tonnes of cement in 2006. Now nearing the upper limits of annual capacity for cement (4.4m tonnes) and especially clinker (2.9m tonnes), 2006 production totals represented a 32.4%

The total value of projects underway at the beginning of 2007 was estimated at $25bn-30bn. At the end of June 2007 the construction industry accounted for one-third of Oman's GDP.

The Blue City project is worth approximately $20bn

Oman Cement Company and Raysut Cement Company are the only two cement producers in the country. RCC is the market leader in cement and clinker production with 1.8m and 1.6m tonnes, respectively.

annual increase in clinker production and a 34.4% rise in cement output.

The vast majority of domestic demand was met by the two Omani producers, with only nominal amounts being imported by OCC (0.11m tonnes) and RCC (0.38m tonnes). Market leader RCC led in both clinker and cement production in 2006, with 1.6m tonnes and 1.81m tonnes produced, respectively. Through the first nine months of 2007, RCC reported net profits of OR19.7m ($51.2m), up 25.6% over the OR15.7m ($40.8m) registered in 2006.

OCC produced 1.26m tonnes of clinker and 1.8m tonnes of cement. Annual profits for the company in 2006 amounted to OR20.6m ($53.6m), which is a 13.3% increase over the OR18.1m ($47m) recorded the previous year. In order to meet rising demand, both competitors have been aggressively expanding their capacity by a combined 60% over 2006. OCC added 1.24m tonnes per year to its cement capacity as of mid-2007 and it is also investing $162m in a new 4000 tonnes-per-day clinker line scheduled to begin operations in 2009.

Not to be outdone, RCC also commissioned a new 2200 tonnes-per-day clinker plant in 2007, as well as a new floating cement terminal at Port Sultan Qaboos. The new terminal is capable of producing 720,000 tonnes of cement annually. As capacity increases and because both suppliers are reluctant to engage in a price war, many in the industry see prices stabilising for the time being, with the exception of price-sensitive materials such as copper.

Planned plots by use, 2002-06

	2002	2003	2004	2005	2006	Total
Residential	17,592	15,557	46,490	126,599	67,972	274,210
Commerical	1102	1223	3289	7685	2367	15,666
Res/com	0	0	0	3612	3645	7257
Industrial	179	96	1359	1648	1336	4618

SOURCE: Ministry of Housing, Electricity and Water

INDUSTRIAL PROJECTS: As one of the two primary areas of focus by the government for economic development, the Omani industrial sector is in the midst of a massive investment period, with more than $30bn in ongoing construction projects in the oil, gas and industrial sectors.

A significant portion of this investment is taking place in Sohar to further establish its place as a new manufacturing, industrial and logistics centre for the country. Some $12bn is being dedicated to numerous heavy industrial projects, including an aromatics complex, steel plants, a polypropylene plant, methanol and fertiliser projects, and a $1.7bn aluminium smelter. International industrial heavyweights including Shadeed Iron & Steel, Air Liquide, LG Alcan, Hutchinison Port Holdings, Steinweg, MAN Ferostaal, Methanol Holding International and Suez are all involved in the port.

Salalah port is also being converted from a fishing port to an industrial centre with a number of new construction projects. Octal Holding Company is building a new $300m polyethylene terephthalate and amorphous polyethylene terephthalate (a packaging material) plant, scheduled to be online in May 2008, as well as a new methanol plant.

Another $910m methanol plant with a capacity of 1m tonnes per year will be built by the Salalah Methanol Company in the Salalah Free Zone. South Korean company GS E&C will build the plant, which is scheduled for completion in 2010.

AIDING TOURISM: A number of multi-year, multi-billion dollar tourism projects are also currently under development. With financial backing from regional heavyweights, construction companies in Oman are now being treated to the super-sized developments first pioneered in its Gulf Cooperation Council (GCC) neighbours such as Dubai.

The dozens of mega-projects, such as the $20bn Blue City project, $2bn Yenkit, $1.6bn Omagine, $2.4bn the Wave and numerous others are enough to keep construction crews busy for years. With high occupancy rates and a total of 2144 five-star and 1500 four-star hotel rooms, hotel space in Oman can be hard to come by. Desperate to meet the growing demand, contractors are currently building more than 30 new hotels in the Sultanate.

UTILITIES UPGRADE: Population growth, along with the rapid development of resource-intensive industries, including tourism and heavy manufacturing, have put pressure on the government to deliver basic necessities, including power and water.

There are numerous projects underway to meet this increasing demand, the largest of which is the $800m Barka II/Rusayl power plant. The co-generation power plant is to have an installed capacity of 678 MW, and it will produce 26.4m gallons of water per day. Another build, own and operate tender is expected for the Salalah independent water and power plant, which will have an installed capacity of 400 MW and 15m gallons of water per day. Omani company Larsen & Toubro has also been active ➔

Nasser H Al Ansari

Private potential

OBG talks to Nasser H Al Ansari, Chairman's Advisor, Qatari Diar Real Estate Investment Company

Is there enough capacity in the construction sector to accommodate all the region's projects?

AL ANSARI: The construction sector is becoming saturated. Many developers are experiencing difficulties when it comes to employing high-quality contractors. Growth has been tremendous over the past five years and the region does not have a strategic plan to guard against changes of this magnitude in the market. In Oman's case, there is actually still room for continued growth, particularly in the tourism sector. The country is unique in the region for a number of reasons, including natural beauty, friendly people and rich culture. The government has been investing heavily in tourism infrastructure as well, so the airline, roads and airports are getting much-needed upgrades, which will help with the nation's overall capacity for development.

To what extent does volatility in the cost of materials and labour affect your planning?

AL ANSARI: It is important to build in contingency factors for this very reason. Feasibility studies take care of the biggest concerns. Time and money are not spent on projects that are projected to fail, of course. If a project is deemed feasible, then proper forecasting helps to further minimise risks associated with such factors as rising materials costs. This enables management to change operations at the right time and, consequently, to produce the highest profits. The elements of doing business are constantly changing, especially when it comes to materials and labour costs. Interest rates change frequently, customer preferences change on a regular basis, suppliers become constrained and the list goes on. As the factors that affect business change, company forecasts must also change. In this age of rapid development, accurate and timely forecasts have become incredibly important. Recognising the importance of good forecasting and utilising the best expertise available at the perfect time is the only way to run a successful business in this region.

Qatari Diar has invested regionally and internationally. Why did you put $163m into Oman?

AL ANSARI: We see Oman as an emerging market, particularly in terms of eco tourism. The country's natural environment is particularly striking and so there is great potential for resort, leisure and vacation destination growth. We will very likely go much further than our current investments in the country because we believe it has tremendous potential.

Government incentives for investors are increasing the potential that the country will allow more foreign participation. Low land costs, economic growth potential, availability of beachfront plots and good infrastructure are helping to create a great investment climate.

Foreigners can now buy freehold property in the Sultanate. Has this changed your strategy?

AL ANSARI: There is already increasing demand for leisure properties and second homes from the citizens of Oman and from elsewhere in the GCC. Nonetheless, there is definitely rising demand from abroad as well, which should continue to show strong growth for at least the next five to seven years. We see this as an important market to capture because it could allow us to form international partnerships. For example, we already hold Omani licences for Sotheby's and an agreement with North Course. These types of partnerships and agreements help us maintain a strong presence in many areas that we would not reach otherwise.

What other countries in the region or elsewhere do you see as investment opportunities?

AL ANSARI: The US is actually high on the list of new markets to enter, primarily in cities such as New York, Miami and Dallas. The US has good potential for future growth and now is a good time to enter, considering the current market climate. It is very important that we continually gauge changing market conditions elsewhere, as well, in order to discover new potential markets and opportunities as they arise.


Some 52 projects have been approved by the government, worth a total of $935m

As part of its economic diversification strategy, the government is making large investments in infrastructure, including the construction of new airports, roads and ports.

➔ in the power sector, winning two contracts totalling almost $80m. The first, worth $47.16m, is a joint venture with the Zubair Corporation to bolster the transmission and distribution network for the Dhofar Power Company, and the second, worth $32.55m, is to build five primary substations for the Muscat Electricity Distribution Company.

Work is also continuing on the Wadi Dhaiqa dam, which will issue four new tenders for recharging the dams and flood protection barriers, completing 516 km of paving, installing 4500 electricity posts and preparing technical studies on 14 sewage projects. The establishment of new 82,000 cu-metres-per-day sewage treatment plant at Seeb is also planned by the Oman Wastewater Services Company as part of its nationwide development.

As part of its Vision 2020 economic diversification strategy, the government is increasingly investing in the infrastructure of the country. Main areas targeted for development include ports, roads and civil aviation. A total of 52 projects have been approved by the government with a total spend of OR359.65m ($935m).

OUTLOOK: The feverish pitch of development in Oman looks to continue in the future, leading to sustained growth in the construction industry. Margins should continue to improve across the sector due to the abundance of projects and a scarcity of builders with an industry forecast of 13% average annual growth until at least 2010.

The long-term nature of several of the new mega-projects and, in addition, undersupply of stock across all sectors should also ensure continued expansion, along with substantial government outlays for supporting infrastructure. With demand for construction contractors and materials vastly outstripping supply, sustained high construction materials prices will remain a reality in Oman for the foreseeable future. Industry data also predicts a 10% expansion in cement usage through 2010, with a moderate drop off in growth thereafter to about 4-6%.

MORE AND BETTER

Tapping into the budget surplus accumulated largely on the back of a quadrupling of oil prices, the government is investing heavily in the Sultanate's infrastructure. At the 37th National Day festivities in November 2007, government officials announced the approval of a massive overhaul of the nation's infrastructure. The plan encompasses 52 projects with a price tag of OR359.65m ($935m). Priority areas targeted for development include ports and other marine services, roads and civil aviation.

A new ship repair yard at Al Duqm port will be the largest recipient of all marine projects, receiving RO186m ($483.6m). An integral part of the future Duqm maritime gateway, the shipyard is expected to by a keystone in the development of a new commercial and industrial centre. Port operations are expected to begin in 2009. Netherlands-based Royal Haskoning is consulting on the project and Daewoo Shipbuilding and Engineering, a South Korean company, has been contracted to operate the facility for 10 years. Sohar is the other major benefactor, with investments in many different areas, including the OR4.17m ($10.8m) phase two of the construction of docks in a new Sohar port as well as a new fishing port.

A total of 44 different road projects across the Sultanate, including a number of strategic highways and transportation routes linking major urban centres and the interior regions, are also targeted for development.

Some of the more significant projects include the southern expressway, which is scheduled for completion in early 2010, and the OR68m ($176.8m) 94-km Hask-Shuwaymiyah highway, which is being constructed over the next four years. The new highway will provide an alternate route between Muscat and Salalah.

Numerous other projects have been designed to improve access to the interior, such as the OR56m ($145.6m) Wadi Adai Al Amerat road being built by the Nagarjuna Construction Company, the OR48m ($124.8m), 37-km Salalah-Thumrait road project and the OR4.81m ($12.5m) Misbit road being built in Bidbid.

Six new airports are planned for the aviation sector, to be located in Sohar, Al Duqm, Ras Al Had, Adam, Haima and Shaleem, as well as the expansion of the Muscat International and Salalah Airports. The expansions come with a price tag in excess of $3bn, paid for by the government. Other agreements include a OR2.6m ($6.8m) contract for consultation services relating to the design and supervision of construction of the Ras Al Hadd Airport with contracts for similar services at the Sohar ($6m) and Al Duqm ($3.4m) airports.

Sales increased from 21,113 to 53,230 between 2005 and 2006

Resorts aplenty

New residential, commercial and retail developments are underway

In addition to the economic factors boosting the construction and real estate market, the government has introduced a number of investor-friendly laws, one of the most significant being the relaxation of foreign ownership restrictions.

Long known as a friendly, calm regional oasis, Oman's residents and visiting tourists are now as likely to hear the concussion of a jackhammer, the whir of portable drills and circular saw or the measured blow of a hammer than they are to hear a call to prayer or waves lapping on the beach.

Strong economic growth and population growth have driven the real estate market to heights previously unimaginable, as land prices have doubled, tripled and even quadrupled in the past few years.

RAPIDLY INCREASING INTEREST: "Appetite is growing because of the demand for stock, however the difficulty lies in land prices, which are currently very high compared to the returns in other markets," said Cluttons Property Consultants' general manager and partner Ian Gladwin.

With coffers flush with petrol dollars and inexpensive, easy credit leading to high liquidity, many speculative Gulf Cooperation Council (GCC) investors are snapping up real estate and driving up land prices in the entire region. Despite the massive amounts of cash being dumped into the real estate market, most developers are also becoming more sophisticated in their ventures and are now realising demand before building supply.

Legal transactions involving land in 2006 jumped 74% to 292,298 over the 2005 total of 167,942. Muscat led all governates and regions with 73,199 transactions followed closely by Al Batinah (66,852), Ad Dakhliyah (50,778), Ash Sharqiyah (50,496), Adh Dhahirah (25,072), Dhofar (19,210), Al Wustah (3482) and Musandam (3209).

On a longer timeline, mortgage and dismortgage transactions increased from 7123 in 2002 to 12,342 in 2006, deed transactions jumped from 48,074 in 2002 to 215,783 in 2006 and sales increased from a total of 21,113 to 53,230 over the same period.

In addition to the economic factors that are fuelling the current property boom, Oman's government has recently introduced more business-friendly measures targeting the real estate sector. One of the most notable of these is the relaxation of foreign ownership restrictions.

Soaring demand has led developers to abandon smaller projects and think big, with more than a dozen large-scale multi-use developments currently under construction across the Sultanate. Bigger projects also require bigger investments, although finding interested investors to foot the bill for grandiose mega-projects costing hundreds of millions of dollars has not been a problem as the region's surging economies continues to grow.

Following the lead of proven business models elsewhere in the Gulf, Oman's new developments are essentially small integrated cities in themselves, complete with hotels, residential villas, apartments, retail and commercial space, entertainment and even marinas and golf courses.

Some of the largest projects include the Blue City (Al Madina Al Zarqa), The Wave, Omagine, Yenkit, Muriya and more than a dozen others.

RETAIL SPACE EXPANSION: Until recently the majority of Oman's underdeveloped retail stock was limited to smaller sized souks and only a few large retail centres. However, increased international traffic, rising incomes and a taste for a greater variety of goods has spurred on the growth of larger shopping malls in the country.

In response to the increasing demand for large-scale shopping centres, about 68,000 sq metres of gross leasable area was under various stages of development at the end of 2007.

Approximately 68,000 sq metres of new gross leasable area (GLA) has been planned for retail space and was in various stages of development at the end of 2007. Another 75,000 sq metres is in the pipeline to be completed by 2011, according to figures from Retail International.

When completed, these developments will bring the total amount of retail GLA up to 343,000 sq metres, a 143,000-sq-metre increase over the 200,000 sq metres available at the end of 2006. Retail rates vary according to locale, with an average sq metre of retail space renting for RO10-12

($26-31) and space in higher-end shopping malls going for around RO16-19 ($41.60-49.40).

One of the most notable of a number of new shopping malls under development is the Muscat Grand Mall being built in the Al Khuwair district of Muscat. The mall will be built on 61,000 sq metres of prime real estate and is part of the Tilal Al Khuwair development project. The project includes commercial, residential and retail space and is due to be completed in 2009. Oasis by the Bay, the Mall of Oman and the Al Harthy complex are also in the process of being renovated.

Already the largest shopping centre in the country with 33,036 sq metres, Muscat City Centre completed an expansion in 2007, which increased its stock by 17% and added 63 new retail spaces, bringing total GLA to 60,484 sq metres.

Other large retail centres include the Markaz Al Bahja, Al Araimi, Zakher Shopping Mall, Al Sarooj, Capital Commercial Centre, Sultan Centre, Capital Stores, Khimji Megastore, Al Khamis Plaza, City Plaza, Sabco Centre and Jawharat A'Shati.

There are two malls being developed in Sohar: one 36,000-sq-metre project by the Safeer Group and another, the Al Masa Mall, by the Sharaf Group, which opened in late-2006. Capitalising on the success of its free zone and increased tourism activity, the first large-scale shopping centre in Salalah is also being developed by United Real Estate Company, a Kuwaiti shareholding company.

Although no major plans have been announced yet, a number of other areas hold significant potential for future retail development. Some of these include the area around the soon-to-be-opened southern expressway as well as waterfront and boardwalk property that is unutilised.

RESIDENTIAL: After residential building stagnated from 2002-04, the market has seen demand driven with a shortage of about 10-20% (or some 2500 units in Muscat annually) in the housing market. As a result, preferred residential unit prices in Muscat

Six of the new mega-projects will provide an additional 17,660 residential units when completed

have effectively doubled in the past three to four years, growing from approximately RO75-100 ($195-260) in 2004 to RO150-200 ($390-520) per sq metre in 2007. Driven by the continual flow of highly paid expatriate workers into the country – as well as their large employers, which often foot housing expenses – medium-priced and luxury residential units are sprouting up all across Muscat.

These new mega-projects will provide a steady stream of supply for the market over the next decade. Some of the larger projects include Blue City, with finished capacity of 250,000 residents in 6000 residential units, the Wave (4000 residential units), Omagine (3900 residential units), Yenkit (3300 units), Tilal Al Khuwair (300 units) and Muscat Golf and Country Club (160 units). When completed, these six projects alone will provide an additional 17,660 residential units for the market.

While much of this new capacity is being built into large-scale mixed-use developments, there are also

There has been a shortage of about 2500 residential units in Muscat annually, and as a result unit prices in Muscat have doubled over the past three to four years, increasing from around $195-260 per sq metre in 2004 to $390-520 in 2007.

Individual home ownership is a fast-growing segment. Personal loans, which include housing loans, increased 26% from 2005 to 2006.

a number of stand-alone projects in the city. Spreading out to address other market segments, numerous affordable units are also being built. In 2006 the AlArgan Towell Investment Company completed the 72-home Al Hail residential development near Muscat City Centre shopping mall.

Originally these units were priced at a relatively reasonable RO35,000 ($91,000) in 2006, but the units are now worth roughly double that amount.

A similar project targeting the middle-income market segment in Al Hail, which consists of 100 town houses, experienced comparable appreciation as units that originally sold for RO38,000 ($98,800) are now worth approximately RO65,000 ($169,000). Construction for this project is underway and all units have already been sold.

HOME LOAN GROWTH: Individual home ownership is also a rapidly growing market segment, and home loans are a major contributor to growing credit activity in the country's healthy banking sector.

Personal loans, which include housing loans, increased by 26% from 2005 to 2006, an amount equal to 14% of Oman's GDP. These kinds of loans accounted for the majority of all bank- issued lending, with approximately 41%.

Until recently, the Oman Housing Bank and the Alliance Housing Bank were the only two institutions in Oman that specialised in home building loans, and they dominated this market segment. At the moment, with home ownership on the rise, numerous other players are also coming into the market, and new regulations have increased the amount of personal loans allowed as a portion of the banks' total loan portfolios from 40% to 45%.

The government of Oman, which is by far the country's largest landowner, also has a great deal of influence in determining the amount of supply released onto the market. Residential plots distributed by the government stood at 65,590 in 2006. These were released at a rate of $2.60 per sq metre with plots averaging 600 sq metres. The Omani government allocated a total of 3590 residential units for the social housing programme and granted financial assistance for home building or renovation to 1025 families for a total of RO7.02bn ($18.25bn).

In the rental market, prices increased by 25% in Muscat in 2006, pushing monthly rental prices for a two-bedroom apartment to $350-700, with even higher growth seen in other areas, such as Sohar.

COMMERCIAL: The increased presence of international companies, combined with a 12% increase in the Omani private sector in 2006, has begun to put upward demand pressure on the commercial market and has pushed Muscat into the top 35 most-expensive commercial markets in the world.

Since 2004 the price of commercial office space has increased significantly from RO150-200 ($390-520) per sq metre to RO300-400 ($780-1040) in

RULES AND REGULATIONS

Although high oil prices have so far been enough to fuel Oman's growing economy and create a comfortable budget surplus, declining oil production has spurred the Sultanate into diversifying its economy for the future.

The leaders have recognised the potential of the real estate market as a major economic contributor, and the government has been relaxing restrictions in an effort to promote growth and investment in the sector.

One of most significant recent changes was the altering of the laws regulating foreign property ownership in Oman in order to stimulate greater investment in the tourism sector. According to Decree No 12/2006, non-Omanis are now able to purchase freehold property in designated integrated tourism resorts for the purposes of residence or investment.

Aimed at the dozens of new resorts being constructed in Oman, a number of the mega-projects have already been granted integrated tourism resort status. The resorts that have been awarded the status include: The Wave, a resort on an area of 2.5m sq metres; Muscat Golf and Country Club, with a residential development, golf club and spa; Blue City, a new city for more than 250,000 residents and visitors; Salam Yiti Lifestyle Resort and Spa; and a resort village called Barr Al Jissah Resort and Spa.

Omanis will also find it easier to obtain funds with which to buy a home after the cap imposed on banks for personal loans – which include home loans – as a percentage of total loan portfolio was increased from 40% to 45%.

Strict building restrictions, which give the capital Muscat much of its distinctive character, such as height restrictions and the use of traditional architectural styles, are also coming under strain as larger projects, as well as a rising population density, give rise to the argument for taller, higher-capacity buildings.

In response to this growing pressure, the traditional six-story limit on buildings will be extended in some areas to a new eight-story limit. These laws build upon previous legislation such as the 2002 directive requiring public institutions to hold 10% of their reserves in real estate.

Not all laws were made to stimulate growth in the market across the board, however, and government concerns over the ballooning residential rent prices induced a decree capping rental increases at 15%. The full effects of the regulation have yet to be felt. So far, the decree has resulted in some initial confusion, as the decree has yet to be codified, and implementation could prove to be somewhat challenging in the future.

Breakdown of plots by use and region, 2006

	Land use				
Region	Residential	Commercial	Residential/ commercial	Industrial	Agricultural
Muscat	16,920	4	998	0	0
Al Batninah	19,885	86	1216	0	0
Musandam	696	6	19	0	0
Adh Dhahirah	3224	412	0	204	0
Ad Dakhliyah	13,616	63	788	214	0
Ash Sharqiyah	9675	44	348	436	1
Al Wusta	1690	284	276	160	0
Dhofar	2266	1468	0	322	12
Total	67,972	2367	3645	1336	13

SOURCE: Ministry of Housing, Electricity and Water

2007. Commercial rental prices lead all market segments at approximately RO15-16 ($39-41.60) per sq metre, which is an increase from RO10 ($26) in 2006 and RO6 ($15.60) in 2005.

According to Decree No 12/2006, foreigners are now able to purchase freehold property in designated tourism resorts in Oman.

ATTRACTION OF BUSINESS PARKS: Much of the commercial space has been historically located in eastern Muscat in the central business district. However, with growing congestion and an increasing appetite for state-of-the-art workspace, companies are exploring new locations.

"The central business district is becoming obsolete. The Bank of Muscat is moving out, and there are only small plots there. Demand is changing and the traffic is making the commute difficult," Gladwin told OBG. "Projects are now moving west and will be developed in a business-park, low-rise style, with more support services for the longer business days that people tend to work now."

Construction of a new business park in the Azaiba district of Muscat is scheduled to break ground in 2009, and is due to be completed by 2011. According to Mohammed Al Barwani, the chairman of the project's developer, MB Holding Company. The $300m park will include modern corporate offices, upmarket retail facilities, a five-star hotel and serviced apartments.

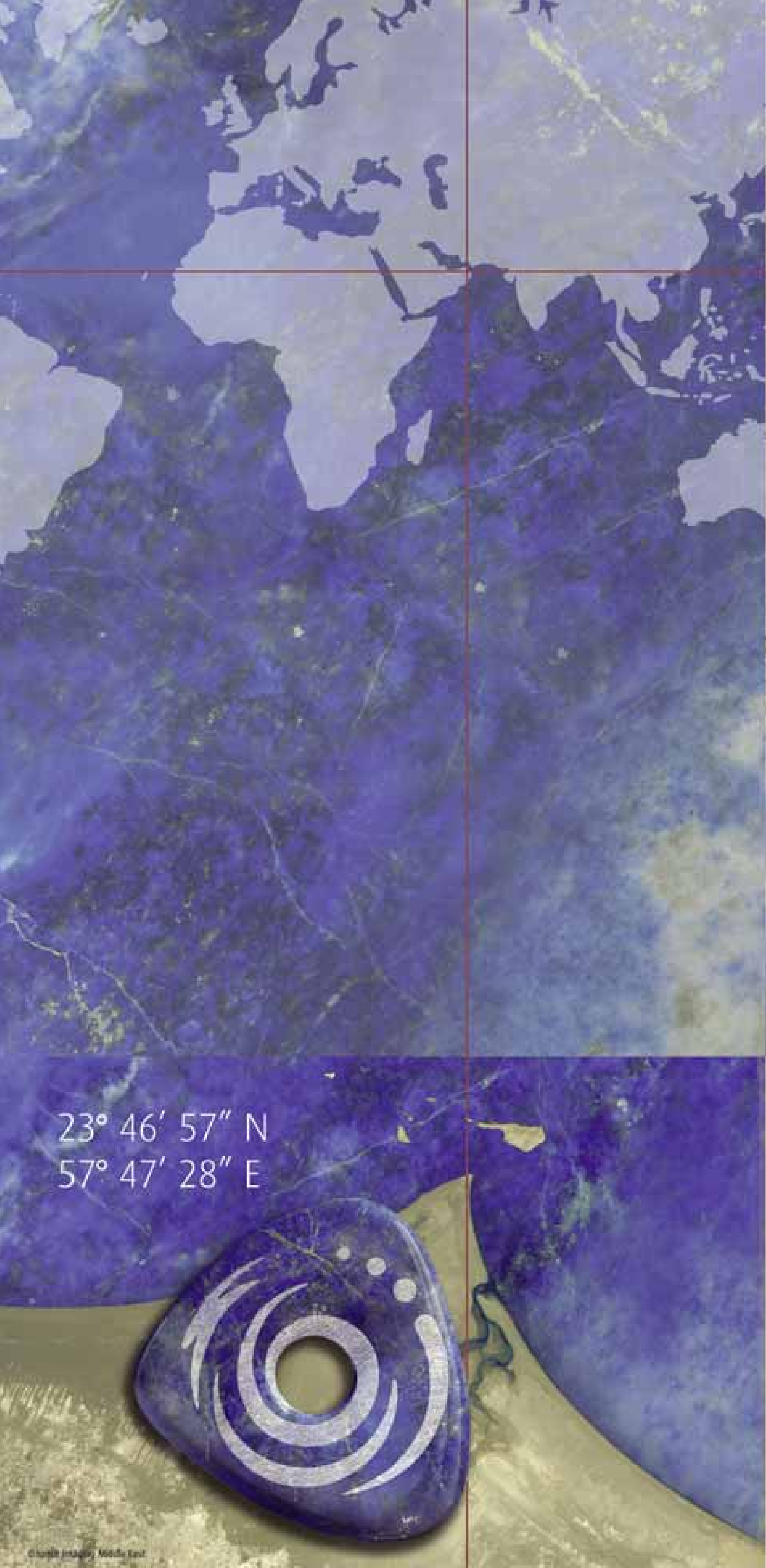
Qurum will also see a significant influx of business-related development in the coming years, with both Muriya's Qurum City complex and AlArgan Towell Investment Company developing 35,000 sq metres and 13,000 sq metres of office space, respectively. In total, up to 200,000 sq metres of office space will be developed over the next five years, much of it in large new business parks.

OUTLOOK: The current economic growth and influx of foreign workers and companies into Oman has spurred a real estate upsurge that looks to be sustainable for at least the medium term.

Favourable government action, which includes substantial investment in infrastructure, increased land distribution and more investment-friendly ownership regulations also bodes well for the sector.

The very strong speculative market, as well as undersupply across the residential, commercial and retail market segments should all continue to produce high valuation of properties until a substantial amount of stock is delivered over the next five years.

Due to the congestion in the central business district, commercial projects are moving to new business parks with more support services.



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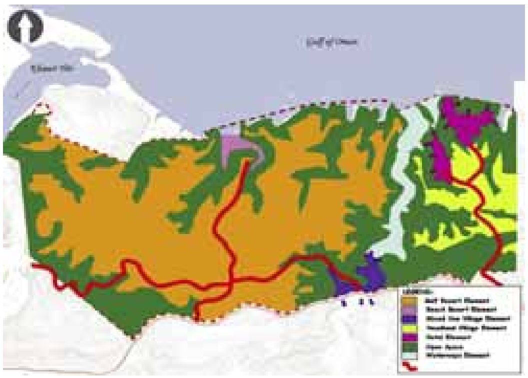
The top 15

Projects that will change the face of the country

Despite the fact that Oman is just beginning to cash in on the region-wide building craze, the Sultanate has not wasted any time when it comes to attracting major investors to fund mega-projects. The sheer volume of projects in development and under construction in the country right now is stunning, especially when considered in the context of Oman's recent history. A decade ago the country's construction and real estate industries might easily have been described as sleepy and provincial, but not anymore. Today developers are erecting enormous towers and drawing up entire cityscapes from what used to be barren deserts and empty coastlines. While there is no doubt that Oman's recent development has been motivated in part by the awe-inspiring projects going up in Dubai and the other emirates, the Sultanate is taking a slightly different approach, focusing on environmentally friendly projects that are aimed not so much at the average tourist, but at the refined luxury traveler, adventure seeker or family-oriented holidaymaker.

Blue City

Developer: Al Sawadi Investment and Tourism
Cost: $15-20bn
Expected completion: 2020
Blue City will be located approximately 100 km outside of Muscat and house over 250,000 residents. It will contain commercial and leisure facilities including resorts, five-star hotels and golf courses.



Yenkit

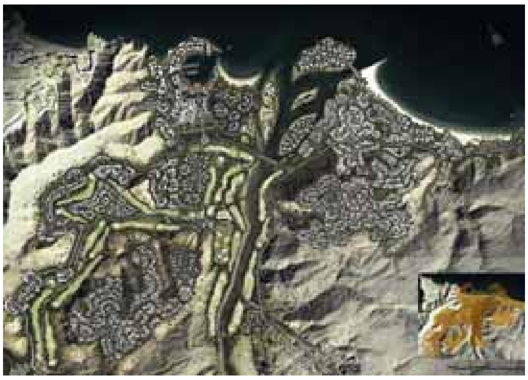
Developer: Yenkit Tourism Development
Cost: $2bn
Expected completion: TBA
The development will be located south-east of Muscat. In addition to four five-star hotels, 1400 residential villas and 1900 residential apartments, it will have an 18-hole golf course and sports facilities.

Omagine

Developer: Journey of Light
Cost: $1.6bn
Expected completion: 2011-12
Omagine will feature a unique cultural theme park named the Landmark, which will include seven pearl-shaped buildings and exhibition halls. It will also have hotels, restaurants, parks and residential space.

Salam Sports and Leisure Resort – Shinas

Developer: Sama
Cost: $1bn
Expected completion: 2012
Salam Sports and Leisure Resort will house four hotels – including two five-star – as well as serviced apartments. Additional facilities include a shopping center, a 150-berth marina and an 18-hole golf course.



Salam Yiti

Developer: Sama Dubai and Omran
Cost: $1.6bn
Expected completion: 2011
The Yiti resort will have three five-star hotels, 400 villas, 1000 apartments and 720 townhouses. Other facilities included a souk retail centre, an 18-hole golf course, a marina, a beach and community facilities.

The Wave

Developer: Waterfront Investments (Omani government) and Majid Al Futtaim Investments
Cost: $2.4bn
Expected completion: 2013
The only project to be developed in Muscat, it will feature over 4000 residential units, an 18-hole Greg Norman golf course and a 300-berth marina.

Tilal Al Khuwair

Developer: Al Madina Real Estate
Cost: $1bn
Expected completion: Grand Mall-2009; Project-2011
Located in Muscat, this commercial and residential development will be for shopping, entertainment and work. The 350,000-sq-metre facility will include the Muscat Grand Mall and a five-star hotel.

Al Khyran Resort

Developer: AlArgan Towell Investment
Cost: $30m
Expected completion: 2010
Located 17 km east of Muscat, this project will be developed as an exclusive hotel on 13.74 ha of wilderness landscape on an enclosed bay. The project will include an 82-room hotel, central facilities and a spa.

Green Acres

Developer: Radiance International (Al Ishraq International) and Transmit Nanvang Engineering
Cost: $500m
Expected completion: 2013
The largest recreational development of its kind in the region, the complex will include residential areas, hotels, a golf academy and other activities.

Salalah Beach

Developer: Muriya (Oman Tourism Development Company and Orascom)
Cost: $200m
Expected completion: TBA
Salalah Beach will be in the southern Dhofar region and will include five hotels, 538 villas, 1000 apartments and features restaurants, retail stores and a marina.

Jebel Sifah

Developer: Muriya (Oman Tourism Development Company and Orascom)
Cost: $200m
Expected completion: TBA
Jebel Sifah will be located 45 km from Muscat and will include four hotels, 450 villas and 500 apartments, restaurants, retail stores and an 18-hole golf course.

Ras Al Hadd Resort

Developer: Qatari Diar
Cost: $164m
Expected completion: TBA
This eco-friendly resort will be built on the coast close to Sur and is inspired by the natural environment with an emphasis on sustainability. It will include hotels and villas and will cover an area of 2m sq metres.

Muscat Hills Golf and Country Club

Developer: Sayyid Kais bin Tarik Al Said
Cost: $400m
Expected completion: 2009
The luxury resort located in Muscat will feature a five-star hotel, an 18-hole championship golf course, 140 luxury villas, 29 luxury three-storey apartment blocks, a retail area and other recreational facilities.

Al Duqum

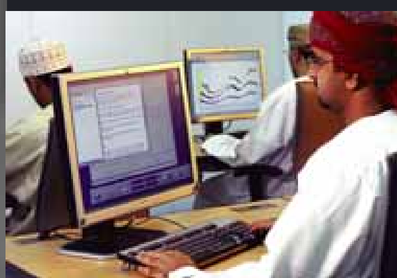
Developer: The Omani government
Cost: TBA
Expected completion: from 2010
Al Duqum is strategically located close to international shipping lanes and will include a dry dock, a crude oil export terminal, downstream industries, an airport, a free zone and commercial developments.

Port of Sohar Expansion

Developer: Port of Sohar
Cost: TBA
Expected completion: TBA
The Port of Sohar is located in the north-east and is close to the UAE. It serves as an industrial centre. Expansion will increase the port's size from 2000 ha to 6000 ha. It is managed as a partnership.

Telecoms & IT

New competition spurs greater services
Industry leader sets its eyes on expansion abroad
Government initiatives and programmes grow industry
Wireless technology helps develop internet segment



Competition for industry leader is expected to grow the market

Growth prompts shake-up

Stable prices, greater variety of services and more competition likely

Oman's telecoms market has been transformed in the past decade, and as in many other emerging markets, the mobile phone has led the transformation. In 2001 there were about 15 mobile phones for every 100 people in Oman. By the end of 2007, there were closer to 95 for every 100. A combination of factors have contributed to the industry's sustained and massive growth, but the most significant has been the removal of the outright monopoly of Omantel, the fixed-line server, and Oman Mobile, its mobile subsidiary.

COMPETITION DRIVES GROWTH: Since entering the Oman telecoms market in 2005 after winning the second mobile licence in the country, Nawras has driven further penetration growth. Penetration grew by nearly 38% to 2.5m mobile subscribers in 2007. Nawras adopted an aggressive strategy for winning over customers through a combination of good services and pricing strategies. "We changed what customers buy, where they buy it, how they pay for it and how they can get help," Per Sjostrand, Nawras' head of corporate strategy and planning, told OBG. "When Nawras started there were probably 40 outlets where you could buy a SIM card. Now they are widely available. Overall, we have captured clients by providing better services." This seems to have worked. In January 2008 Nawras celebrated taking on its millionth customer.

In less than three years, it has managed to capture nearly 40% of the mobile market. It has outpaced Oman Mobile in gaining new subscribers. In the first half of 2007, Nawras took more than two-and-a-half times as many new subscribers as did Oman Mobile, according to the market research company Business Monitor International (BMI). Between June 2006 and June 2007, Nawras almost doubled its subscriber base while Oman Mobile grew by less than a fifth.

Nawras' market share has also benefitted from number portability. In 2006 the Telecommunications Regulatory Authority (TRA), Oman's telecoms regulator, made the country the first in the Middle East and North Africa regions to allow users to transfer their phone numbers from one service provider to another for a nominal fee. Nawras claims that nine out of 10 customers who change providers move from Oman Mobile to Nawras. Another major trend in this market is that prepaid customers make up most of the new subscribers. In 2007 post-paid subscribers grew by 19% to 293,600, and pre-paid subscribers grew by 40% to 2.2m, according to TRA figures.

The fast-growing subscriber base is likely to cut into the average spending level of each customer – especially when the largest component of the customer base is prepaid subscribers. Prepaid clients tend to spend less than post-paid customers who normally use higher value-added services. It is often difficult to determine how much of the new subscriptions reflect new users. "Many people will have two or three SIM cards depending on whom they should call and who should call them," said Peter Andersson, general manager of Ericsson Oman and vice-president of the GCC account unit. Penetration numbers may overstate the real number of users by as much as 25% according to some reports. In 2007 average revenue per user (ARPU) per month was just over $35 in Oman, considerably below the average for the Gulf region according to Informa, a market research company. The monthly ARPU has dropped substantially over the last few years. In early 2005, it was about $55 per month according to Pyramid Research, a telecoms market research company.

BETTER SERVICE: Prices have been broadly stable and remain low compared to other countries in the region. "It is a mixture of better prices and much better services that have driven the uptake," Mohsin Al Hafeedh from the TRA, told OBG. "We see improved services being offered by all providers."

Prior to Nawras, there was little dynamism in the market, not only in terms of improved services but also marketing services to customers. "The whole scene has been changed by the introduction of Nawras," said Mohsin. "Just look outside, you can see the billboards for the [telecoms] companies everywhere. This is new."

The majority of new subscribers are prepaid customers. A combination of low prices and improved services has contributed to the increase in the subscriber base.

Regional mobile markets			
Country	ARPU ($ per month)	Mobile penetration (%)	Operators
Oman	36	70	2
UAE	44	152	2
Bahrain	38	153	2
Kuwait	60	104	2*
Qatar	68	121	1*
Saudi Arabia	39	87	2*
Jordan	17	75	4
Egypt	13	28	3
Yemen	14	16	3
Iraq	16	38	3
EU	38	113	

SOURCE: International Telecommunications Union

*In the process of establishing another operator

Nawras invested over OR110m ($286m) in infrastructure and plans to invest another OR65m ($169m) over the next few years.

"At the beginning we had perceptual problems. People didn't know if they could trust our network, they didn't know whether they would always have connectivity," Sjostrand told OBG. "But we worked hard on developing the resilience of our network."

Though its network of base stations cover slightly less of the Omani population (85%) than those of Oman Mobile (95%), its investments have already paid off in terms of network resilience.

The country's two mobile companies are providing a wider range of services and options as penetration of the market is currently reaching saturation.

GROWTH OPPORTUNITIES: With the market now approaching saturation in terms of penetration, providers will have to look elsewhere for growth opportunities, and since average revenues will fall with greater price competition it looks as though competition will also lead to the availability of an even wider range of services. "What we see happening now is operators bundling together more and more services before they simply provide the subscriber with a mobile phone service," Andersson said.

"This is especially the case for businesses and corporations. Providers are giving them options for special pricing schemes or for closed user groups [in which subscribers can only talk to other members in their respective groups]. Companies, for example, want mobile data services, such as the ability to check email on the phone."

The mobile companies in Oman, as in other countries, have been able to deploy these sorts of solutions faster than the fixed-line operator could. "As services evolve, there will be a technology evolution as well," Andersson told OBG. "The third generation (3G) is the normal evolution of the GSM."

Nawras was awarded Oman's first 3G licence. It started to roll out 3G enhanced data rates for GSM evolution (EDGE) services in 2006. In December 2007 it introduced a higher capacity version – the so-called 3.5G service which allows wireless broadband access with speeds of up to 7MB. But as they roll out new services and as their customer base has grown, network capacity has been stretched.

INFRASTRUCTURE BOTTLENECKS: "The infrastructure today is not fully capable of handling the increase of traffic," Andersson told OBG. "The bottleneck I would say is in the backbone." Omantel owns the network backbone over which all voice and data must travel. "So Nawras has to buy capacity from Omantel and so does Oman mobile," Andersson said. Many think a second backbone should be built to rival Omantel's. This could work to improve service and lower prices in much the same way Nawras did for the mobile market. Most agree that there are only two options: either Omantel must do a massive upgrade of the current backbone infrastructure, putting much more bandwidth into it, or a second fixed operator is needed.

Omantel's fixed-line business has been severely challenged by the fast rise of the mobile market. In 2007 the number of fixed lines in use actually decreased by nearly 2000 to 261,000 according to the TRA. Nonetheless, it is very profitable. It owns Oman Mobile and benefits from being the country's sole internet service provider. Its net profit increased 39% to OR112.6m ($292.8m) in 2007. These margins were helped by the reduction in government royalties that telecoms companies are required to pay on their gross revenues. They were dropped from 10% to 7% for Omantel and from 12% to 7% for the mobile firms. The news on royalties came with two other big announcements: the government wants to sell off another chunk of the 70% of Omantel it still owns to a strategic investor, and the boards of Omantel and Oman Mobile will be merged.

Before the announcement of the cut in royalties Nawras announced in September 2007 that October would be the first month it would break even. Analysts point out that the mobile phone companies' profitability depends on Omantel. "Omantel has a monopoly on the backbone and the international telecoms traffic (international gateway). They can dictate quite a lot of the terms and conditions of the others' profitability," an Omani telecoms analyst said. "Even though Omantel dropped its international gateway prices by 50% in early 2007, they are still 50% too high."

FURTHER LIBERALISATION, SOONER OR LATER: However, a more level playing field is on the way according to the TRA. "The groundwork is being laid out for further liberalisation of the market," Al Hafeedh told OBG. "Over the next year or so a new fixed-line provider is expected, as well as another submarine cable to add to the two that already come into the country." A spate of underwater cable breaks around the region disrupted voice and internet services in Oman and surrounding countries in early 2008. These disruptions have made new cables a priority around the Gulf.

According to Oman's free trade agreement with the US, American companies can provide full telecoms services in the Oman market. This may increase the likelihood that a decision regarding the second fixed-line operator and international gateway will come sooner rather than later. "We expect whoever gets the fixed licence will also have the international gateway," Mohsin said. "This will enable the sector to provide more services and increase international competitiveness."

Nawras was recently awarded the country's first 3G licence

Regulations are often in Omantel's favour. For example, those who violate the TRA's warning on voice over internet protocol (VoIP) services could face prison and fines. Many South Asia workers used the service in internet cafes to avoid high international call charges.

"The regulatory framework is very much based on what favours Omantel," one Muscat-based telecoms analyst told OBG. "Nothing in terms of new regulations, new operators or liberalising the international gateway will happen before a block sale of Omantel to a strategic partner." But most see it coming eventually.

"A second fixed-line operator and international gateway will eventually surface because there are so many projects starting up in Oman that are going to require better communications services," Andersson told OBG. "Imagine all the new tenants coming to the Port of Sohar. Whether from the US, Asia or Europe, the first thing they want is a secure system that will enable them to communicate with the head office."

Indeed, that kind of service, or lack thereof, could be a deal breaker. Many may opt for other regional centres like Dubai, Bahrain or Qatar. "Establishing business in Oman is still relatively cheap, compared to the wider region, but communications are an issue," one analyst said. Although the problems of under-capacity are pre-

The government's cut in royalties that telecoms companies are required to pay has helped boost their profits. The reduction for Omantel was from 10% to 7% and for mobile firms, 12% to 7%.

Growth of Oman's landline and mobile markets, 2003-07

	2003	2004	2005	2006	2007e
Landlines in service ('000)	236	239	258	263	261
Landlines per 100 people	10.08	9.89	10.28	10.21	9.83
Mobile subscribers ('000)	593	806	1333	1818	2500
Mobile per 100 people	25	33	53	71	94
Population ('000)	2341	2416	2509	2577	2654
GDP per capita (OR)	3578	3939	4725	5320	5578
GDP (OR m)	8376	9516	11,856	13,710	14,806.8

SOURCE: Telecommunications Regulatory Authority, Ministry of National Economy and OBG

The Sultanate's mobile market is growing at such a rate that it is affecting fixed-line penetration

dominantly from rapid growth, some think the TRA should have acted with more foresight.

But Al Hafeedh is quick to defend the TRA's record. "We have facilitated the [telecoms] uptake. There are now 2.2m mobile users, and when we started there were only about 500,000," he said. "There are now about 260,000 to 270,000 fixed-line users, and when we started there were just 200,000. It used to take months to get a landline." With the mobile user compound annual growth rate currently at about 40%, it is easy to see how the TRA could have fallen behind.

Like others in the telecoms industry, the TRA is hamstrung by talent bottlenecks as well as infrastructure ones. "The biggest challenge is in finding the human resources to fill the different departments of the TRA," Al Hafeedh said. "We have a wide range of departments, from the economics department which focuses on competition and pricing, to the spectrum management department, the legal department and so on. We have had to rely on a few well-versed people."

Several executives told OBG that acquiring a good Omani staff was difficult. "Not many Omanis are keen on telecoms," one Omani executive admitted. "Hiring Omanis can be a big burden for the small start-ups – salaries are typically two to five times higher than they are for expat workers from South Asia."

OUTLOOK: Omani telecoms, though not as mature as some of its neighbours, has in the past few years gained a lot of ground in terms of penetration, which moved so quickly that capacity bottlenecks have developed. As a result, the mobile market will likely be saturated soon. Most of the growth will continue to come from prepaid customers. This will likely cut into the profits of the mobile operators, because they tend to spend less on services. If a second fixed-line operator is licensed, the network's capacity will begin to improve. Although this will cut into Omantel's profits, mobile operators and customers should ultimately benefit from having wider choices as well as reduced prices.

The rapid growth in the number of mobile users has actually outpaced development in the sector. Increased competition, however, is expected to further improve capacity, prices and services.

MARKET LIKELY TO OPEN UP SOON

Despite the rapid expansion of Oman's mobile market the fixed-line footprint remains small. Its penetration rate is just under 10% of households; this is about half the Gulf Cooperation Council (GCC) average. The low penetration got even smaller in 2007, as the number of fixed-line users fell by almost 1%, according to the TRA's year-end figures.

In the past three years, Omantel, the owner of Oman's fixed-line network and of the mobile operator Oman Mobile, has lost considerable business to Nawras, the second mobile operator. Despite this string of seeming negatives, Omantel posted a near 40% jump in profits in 2007. Omantel's return on assets has also been three to four times higher than its GCC operators over the last several years, according to HSBC analysts.

Omantel benefits from holding a monopoly on the international telecoms traffic via its international gateway. The company profits from being the country's only internet service provider (ISP), but the TRA has opened up licensing for new ISPs and they are keen to have a second fixed line as soon as possible. Omantel's 2007 profits were given a major boost by a reduction in the government royalties that telecoms companies are required to pay.

The royalty cut explains much of Omantel's most recent profit growth. According to its year-end financial report, it saved just under OR13m ($33.8m) in 2007 as a result of the reductions. It may possibly have been a way to entice a new strategic investor, to whom the government would like to sell part of Omantel and to help bid up the price Omantel can command.

Omantel's share price had fallen considerably since its listing on the Muscat Securities Market in 2005. In its initial public offering, the government sold 225m shares at OR1.28 ($3.30) raising OR288m ($749m) for the government. The company started trading over OR2 ($5.20) per share, but prices had dropped to OR1 ($2.60) by mid-2007. In the weeks following the government's announcements, Omantel's share price jumped about 50%. According to Omantel's rules, the government cannot sell more than 19% of the firm's shares without agreement among the shareholders, which would leave the government the majority shareholder.

In preparation for a possible second fixed-line player, an opening up of the international gateway and other ISPs, Omantel expanded abroad in 2007 with the purchase of a majority share in Pakistan-based Worldcall. The factors that have long ensured Omantel's great profitability will likely give way to new regulations and greater competition.

This is welcome news to many Omantel users eager for choice, and competitors who have long seen it as having had an undue advantage.

Spreading ICT literacy is one of the government's foremost goals

Baby steps, big strides

The sector may be nascent, but it is heading in the right direction

Like many oil-dependent economies in the region, Oman is looking to build a sustainable post-petroleum future. A lot of importance has been given to the development of information and communication technology (ICT) given its central role in the global economy. Sultan Qaboos bin Said Al Said has repeatedly emphasised the importance of strengthening Oman's ICT capacity. Oman has lagged behind most of the region in the adoption of ICT. But the government has developed a number of initiatives to drive forward the creation of a knowledge economy in Oman.

BUYING INTO IT: The state-owned Public Establishment for Industrial Estates' Knowledge Oasis Muscat (KOM) technology campus has served as a rallying point for Oman's emergent IT industry since it opened in 2003. There are over 60 firms now at KOM, including major international IT players side by side with local firms. There are also two colleges and about 3000 undergraduates studying IT on the campus. KOM also supports a dozen innovative start-ups in its business incubator.

The government has also sought to redefine the way it interacts with it citizens. In 2006 it launched an e-governance programme, eOman, spearheaded by the Information Technology Authority (ITA) based at KOM. The eOman initiative aims to improve how citizens access public services and public information. The ITA realises that this can only happen with massive improvements in infrastructure and IT literacy.

"The ITA has an integrated three pronged strategy," Salim Sultan Al Ruzaiqi, the chief executive of the ITA, told OBG. Firstly, it serves in an advisory capacity to the government. "We advise on the correct infrastructure the government should use and help encourage technology uptake by small and medium-sized businesses." Secondly, it is working to provide infrastructure. "That includes a network portal, an e-payment gateway and a national data centre." Thirdly, it works to build capacity both with the government and society. For instance, all government departments are now going through ICT training programmes. "This project alone is targeting over 100,000 employees. But, the ITA is also working to get IT knowledge centres into communities. To do this we partner with sports clubs or women's associations. And we are also trying to work with the private sector to provide special training," said Al Ruzaiqi.

Already the eOman project seems to have paid dividends. In the UN's 2008 report on e-government preparedness, Oman's ranking jumped 28 places, from 112th to 84th, out of 192 countries in 2005. This reflects the ability of eOman to offer on-line services, build capacity and roll out new technologies. When measured by how well the government disseminates information using the web or through wireless technologies, it ranks even higher at 60th place.

INTERNET: Despite the success Oman has had in rolling out new services, it remains limited by infrastructure and poor internet penetration. Only 12% of Oman's residents use the internet, and less than 3% subscribe to it. These penetration rates are among the lowest in the region. Between 2000 and 2006 the number of people using the internet in Oman has grown annually by an average of 24%. During the same period the number of people with subscriptions to the internet has grown 18%. However, the overall internet subscriber base is still very small. Since the introduction of broadband in late 2004, demand has ensured a fast rate of growth, but only for a small percentage of Omanis.

There are several barriers to increasing internet penetration rates. "According to surveys, almost 50% of Omanis who don't use the internet don't want to," said one Omani IT executive. "There are two reasons. Firstly, many don't want to use it simply because they do not see its value." This is an awareness issue that the ITA is working hard to resolve. "And secondly, it is just too expensive for many." For instance, a business that wants a 1024 Kbps downlink will have to pay about OR120 ($312) per month, and residential users will have to pay between OR12-39 ($31-101) for 384 Kbps connection.

Much of the problem has been that costs have been limited by the provider's pricing. "The backbone is the

The purpose of the Information Technology Authority is to advise businesses, develop infrastructure and educate the people about the uses of ICT.

Between 2000 and 2006, internet penetration increased annually at an average rate of 24%, and the number of new subscriptions also increased annually by an average of 18%.

Knowledge Oasis Muscat is host to a bevy of multinational companies

The Telecommunications Regulatory Authority has opened up a series of internet service provider licences in order to diversify the online segment.

bottleneck, which is owned by Omantel, the DSL service provider," Peter Andersson, general manager of Ericsson Oman and vice-president of the GCC account unit, told OBG. Omantel has had, and still has, a monopoly as Oman's only internet service provider (ISP).

NEW BLOOD: In 2007 the telecommunications regulatory authority (TRA) announced the opening up of a series of licences for ISPs. However, there has been limited interest since there is no provision for companies to develop their own networks. They would have to piggyback off of Omantel's infrastructure.

Furthermore, the wholesale prices for capacity from Omantel are still not competitive. "It is not ideal," Mohsin Al Hafeedh, a member of the TRA, told OBG. "We are working to get another network provider. But remember there are now about 160,000 internet subscribers, when the TRA started there were just 45,000." Over the next couple of years interesting developments are likely to take place, as a second fixed-line operator may be licensed and given rights to another international gateway. This new competition should work, such as the introduction of Nawras as a competitor in the wireless telecoms market, to bring down costs, improve services and drive penetration in the internet market. As one IT executive told OBG, "I think we might be seeing a new wave coming here, where mobile companies will be able to operate and offer full broadband wire-

Internet penetration, 2006 (per 100 people)

	Subscribers	Users	Broadband subscribers
Oman	2.58	12.22	0.72
UAE	14.67	36.69	5.17
Kuwait	10.54	29.53	0.93
Bahrain	8.14	28.44	5.23
Qatar	8.36	34.55	5.57
Lebanon	8.58	26.28	5.26
Jordan	3.52	13.65	0.83
Iraq	0.06	0.14	-

SOURCE: International Telecommunications Union

LOOK MUM, NO WIRES!

Internet connections are infamously slow and costly in Oman. Customers, who often wait months to get broadband lines, have been frustrated to say the least. So when Nawras upgraded its wireless internet service to 3G from its earlier and slightly slower EDGE technology in December 2007, it caused a lot of interest. This package, which can deliver speeds up to 7Mbs, relieved many aggravated customers. "I have a DSL service in my home. If I am having a very good day I get 50kbs even though I am subscribing for 384kbs," one IT analyst in Muscat told OBG. So even if that hypothetical 7Mbs from Nawras delivers only 1Mbs, it is still 20 times better than what I can get from Omantel."

"What I think is going to be very interesting in this kind of emerging market is the development of wireless services is ahead, in many ways, of fixed-line services," said Peter Andersson, the vice-president of Ericsson's GCC account unit. "Wireless technology can now provide the same bandwidth and speed as cable. If you are aiming to get up to 10-15Mbs, then it can be done with a wireless solution. You can do a lot with 10 or 15Mbs. This can provide full IP-television, telephony and internet, for instance."

Mohsin Al Hafeedh, a member of the Telecommunications Regulatory Authority (TRA) explained to OBG that connecting Oman's remote rural communities is another challenge that will likely have to be met through wireless technologies. "Not every corner of the country will be able to go through normal wired services," he said. Satellite networks that allow remote sites to connect to a centralised host, are among the top-tiered contenders for providing such solutions. "VSAT [a satellite network] is probably the best way to connect rural areas," Mohsin explained.

By the end of 2007 Omantel had a subscriber base of approximately 20,000 ADSL broadband users. This capacity is met by about 10% of all of the provider's fixed lines. Omantel is in the process of delivering another 150,000 lines, but it still can not keep up with demand, even though internet take up is still relatively low.

As a result, wireless broadband will continue to develop quickly. Unfortunately, it is also ultimately limited by Oman's network backbone, the capacity of which is increasingly stretched. Wireless will continue to provide an improvement of services in the short to medium term, but a long term re-vamp of Oman's underlying IT infrastructure remains essential. One of TRA's top priorities is establishing another fixed-line operator to push forward such an initiative. Another player in the market would certainly give it a boost.

less services that are very competitive against existing DSL technologies." In December 2007 improved wireless broadband through Nawras' 3G network started to relieve the frustrations of many users.

HARDWARE, SOFTWARE AND SERVICES: The low rate of internet penetration is not so surprising, given the penetration of personal computers. In 1995 there were 9 computers for every 1000 Omanis; this improved to only 47 in 2005, according to the World Bank. Though penetration increased during this period by about 17% a year, the absolute number of computers per capita remains only about one-third of the regional average. Oman has gained some ground with some of its more IT-savvy GCC neighbours. From 1995 to 2005 the number of personal computers per capita in the UAE only grew by 9% on average. Yet in absolute numbers the UAE retained a much higher penetration rate with 116 computers per 1000 people in 2005.

Oman's hardware market remains very price sensitive and, given its size, total receipts are relatively small. According to the Business Monitor International (BMI) the Omani computer and peripherals market was worth just over $180m in 2005. Desktop computers dominate the market, although notebooks are expected to have grown the fastest during 2006 and 2007. Local notebook sales have been driven by an increased awareness of the benefits of mobility as well as increasing availability of wireless services like WiFi.

The government's IT initiatives are also creating growth in software receipts. These were predicted to be worth about $77m in 2006 according to BMI. Oman has improved its intellectual property rights regime since it joined the WTO, and by extension the agreement on trade-related property rights in 2000. Over the last decade the Omani legal system has been overhauled and intellectual property law has been modernised. With the signing of the free trade agreement with the US, there has been increased technical assistance for copyright protection. In 1997 about 93% of all software used in Oman was pirated, according to the Business Software Alliance. By 2006 this had dropped to 63%. Although this is still higher than the GCC average, Oman has had the most dramatic drop in the use of pirated software in the region over the past decade.

This has been good news for software retailers, but it still can improve. "The problem is that many people here don't really understand that intellectual property is actual property, like a building or a car. It is a bit abstract," Naushad Hamza, Microsoft's marketing executive responsible for Oman, told OBG.

IT services are also driven by government initiatives. Estimated by BMI to be worth about $66m in 2006, services have remained a smaller market segment than hardware and software, but with infrastructure improvements and increased internet penetration they are expected to grow fast. It will receive a major boost when Oman's e-payment gateway is opened by the ITA. E-commerce has not yet taken off in Oman. Already the UAE's Tejari online marketplace has branched out into Oman in partnership with Omantel to form Omania e-commerce. It focuses on linking vendors with buyer-specific needs that are floated online. The number of transactions it conducted grew four fold in 2007.

Internet penetration & economic indicators, 2003-07

	2003	2004	2005	2006	2007
Internet users	210,000	245,000	285,000	319,000	392,370
Internet subscribers	51,769	48,657	49,425	63,843	70,308
Broadband	100	700	8125	13,917	18,984
Population ('000)	2341	2416	2509	2577	2654
GDP per capita ($)	9302	10,241	12,285	13,832	14,503
GDP ($ bn)	21.8	24.7	30.8	35.6	38.5

SOURCE: Telecommunications Regulatory Authority; ITU

IT hardware vendors are looking to profit from value-added service products. For example, Ericsson, the leading IT infrastructure provider in the country, has services embedded in its Oman business strategy. "We are not only moving into multimedia and Arabic language applications, but also into being a service provider," Andersson told OBG. The challenge is for IT service providers to understand and then provide what Omani customers and businesses need and want in the country's burgeoning IT market.

IT services is a bourgeoning market in the Sultanate. Providers are learning the needs of their clients and developing quality solutions and support to meet those requirements.

HUMAN RESOURCES: "Human resources are a major problem," Raza Ashraf, the chief executive of Total Alignment, told OBG. "When you take an Omani on, you train them and develop their skills. Then they are lured away by another more lucrative option." This skills shortage is a common frustration across the sector, and it is recognised by the government and the ITA. Omanisation programmes have been tough on small IT start-ups. "I have to pay local workers three times what I pay my Indian colleagues," one Omani IT entrepreneur told OBG. "In addition, they are better trained than locals."

The government is working proactively to resolve such issues. "We want a back and forth interaction with the private sector so as to move the curriculum from being theory heavy to more practical training," Al-Ruzaiqi told OBG. The number of students studying IT in college or university has increased quickly on average by nearly 30% per year between 2000 and 2007, according to the Ministry of Economy. The number of students studying IT related courses in universities and colleges was over 7000 in 2007. IT skills are now being cultivated from a very young age as well. IT is now taught in schools as a separate subject from grades one through 10, and higher level qualifications are offered in later years. This fast growth of IT education and awareness will need to continue to meet the private sector's demand for staff with good IT skills.

OUTLOOK: Sultan Qaboos has said, "It is essential that Omani society... be prepared to encounter the challenges of globalisation." It would appear that this is the case in Oman. Government initiatives are beginning to pay dividends. But much remains to be done over the next couple of years, such as improving IT infrastructure. The emphasis on IT education promises to provide longer-term gains. The Omani population remains young; about 50% of the population is under 20. IT demand will naturally grow as young IT enabled Omanis increasingly connect with the global economy.

Mohammed Al Maskari

Brainpan

OBG talks to Mohammed Al Maskari, Director-General, Knowledge Oasis Muscat (KOM)

Can you briefly explain what KOM is?

AL MASKARI: Knowledge Oasis Muscat (KOM) is a technology park that was opened in September 2003 and is part of the portfolio of properties managed by the Public Establishment for Industrial Estates.

We are situated on a 68-ha site neighbouring Sultan Qaboos University and Rusayl Industrial Estate. In terms of infrastructure, we have built over 20,000 sq metres of Class A office and business incubator space, and have two information technology (IT) tertiary institutes operating on the Park – The Middle East College of Technology and the Waljat Colleges of Applied Sciences. We will also break ground on a new 30,000-sq-metre office building in the first quarter of 2008. With tenants that include Microsoft, Oracle, HP, NCR, Huawei, the Information Technology Authority and Qatar Airways, plus a range of small and medium-sized enterprises from Asia, Europe and the Middle East, and the two IT institutes, KOM has become an interesting place to work.

KOM is an area that has been designated for the development of property suitable for high-tech, knowledge-driven businesses. We provide a specialist environment for these types of companies looking to expand their operations and access new markets, particularly in the Gulf region and the broader Middle East.

How do you go about attracting the sort of companies that will benefit from KOM?

AL MASKARI: In terms of attracting new tenants and fostering the creation of companies, we have a four-pronged policy. First, we provide entrepreneurial and management training for tenants and potential businesspeople. Secondly, we develop schemes of cooperation amongst the tenants, Sultan Qaboos University and other tertiary institutions. We also have permanent managerial contacts. For tenants of the Knowledge Mine – KOM's business incubator programme – we provide a business mentor programme. Our partners in this regard include: Ernst & Young; Trowers & Hamlins; Talal Abu Ghazaleh Intellectual Property; KPMG; Ericsson; and Intilaaqah Enterprise Fund. We also provide tenants with access to our international networks.

Where do you see ICT developing in Oman? What are the opportunities and threats?

AL MASKARI: Security is a major concern. Aspects of government and the private sector need to place security higher up their agendas. The banking industry, in particular, has failed to react quickly enough to the issue of security by building in simple checks for online commerce. The fastest growing crime is identity theft.

The digital divide is an issue we have to tackle. It is not just about people who have access to IT and those that do not – it is not just about haves and have-nots. It is about people becoming knowers and know-nots; and doers and do-nots; those who can communicate with the rest of the world and those that cannot. This is a challenge and we need to find a solution for it.

There is a lot of discussion about wiring classrooms. Research suggests that wiring a classroom does not do that much for the educational performance of children. What matters – the really significant variable – is whether the teacher has the training to put that technology to good use. One opportunity that computers in the classroom offers is the chance to re-imagine what it is that teachers should be able to do in the classroom. How are we training them? How are we supporting them? How are their days structured? How do they develop lesson plans? Whether or not we actually put technology in the classroom, we probably ought to be thinking about how we train teachers for the kind of education that we want for our children.

The entertainment industry has no plans to leave your living room anytime soon. The market for electronic games is expanding. As it stands, the gaming industry is doing extremely well by economic standards. It maintains a fair amount of growth and continues to thrive. Indeed, given the demographics of the Middle East, I think there are tremendous opportunities for software developers that are interested in the gaming sector.

Industry & Retail

Can a growing manufacturing sector take oil's place?
Free zones lure overseas companies to industrial estates
Growing population takes to shopping malls
Local campaigns intend to help rising import costs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Vision 2020 aims to raise manufacturing's GDP contribution to 15%

Out with the old, in with the new

The country attempts to wean itself off oil in favour of other industries

The government hopes to make the manufacturing industry a pillar of a diversified Omani economy. The state's Vision 2020 charter, launched in 1995, set the ambitious target of increasing the manufacturing sector's contribution to GDP to 15%. Sultan Qaboos bin Said Al Said has said, "The industrial sector shall become the major source of national income."

Manufacturing has already made significant strides. In 1975 it accounted for less than 0.5% of Oman's GDP. By 2006 manufacturing brought in receipts of OR1.42bn ($3.70bn), just over 10% of Oman's GDP, according to the Ministry of National Economy. Expansion of the gas-based petrochemicals industry and the country's oil refining capacity, in combination with improvements to Oman's ports, has had significant effects on the manufacturing sector in recent years. In real terms, manufacturing grew at a compound annual growth rate of about 6.9% between 2003 and 2005, in contrast to the 5.6% rate of the wider economy.

Maqbool bin Ali Sultan, the minister of commerce and industry, likes to emphasise that Oman's biggest challenge, its heavy dependence on petroleum products, must be overcome with economic diversification and the development of non-oil sectors.

Since 2003 non-oil manufacturing exports have grown between 30-40% a year. In 2007 Omani non-oil exports were given a boost by the effective softening of the currency as a result of the dollar's slide in international markets. The effective exchange rate of the Omani riyal depreciated 5.7% between January and November 2007, according to the central bank. In the first half of 2007 alone non-oil exports grew more than 70% and accounted for nearly 13% of all exports. With production picking up at several new plants in Sohar and Salalah, non-oil exports will likely continue their rapid expansion through 2008 and 2009.

Although the weak dollar has helped boost exports, it has not helped all Omani manufacturers, according to Bader Saif Bader Al Oufi, the chief economist at the Muscat branch of the Oman Chamber of Commerce and Industry. The weakness of the currency has pushed up prices of imports not only for consumers but also for manufacturers, who buy their imports and intermediate goods from abroad. Some Omani goods have, as a result, become more expensive than foreign products. If the dollar continues to slide through 2008, it will become more clear which industries have benefitted and which have not.

Total gross fixed capital formation accounted for about 18.5% of GDP in 2006, while investment in non-oil activities accounted for about 10%. The government is still the major investor in the economy, but the private sector's share has increased markedly in recent years. In 2006, for example, the government and government-owned enterprises contributed 63% of total capital investment; in 2005 they contributed about 74%, according to the Ministry of National Economy. Most investments in the manufacturing industry are in the refining industry. In 2005 these accounted for 55%, according to the Ministry of Commerce and Industry. That year the next most important subsectors for investment were the chemicals industry, with 20%, the non-metallic minerals industry, with 9%, and the food processing industry, with 6%.

SUB-SECTORS: In 2006 the size of the manufacturing sector increased nominally by 33% to OR1.42bn ($3.7bn), according to the Ministry of National Economy. The refining of petroleum and liquefied natural gas products still accounts for most of the sector's income. By the end of September 2007 production of these products accounted for 68% of all manufacturing income. Their value increased 6.8% to OR684m ($1.78bn) over the same period the year before. Big increases in oil prices in recent years pushed up this segment's proportion of the manufacturing sector – in 2005 it accounted for only 58% of total receipts.

Other manufacturing products come from a wide range of industries including chemicals production, food processing, cement and ceramics, and machine

Oman's biggest challenge is its dependence on petroleum products, which might be overcome with economic diversification. A growing manufacturing industry is a key part of this solution.

The Omani manufacturing industry has grown faster than the overall economy, increasing 33% and accounting for 10% of Oman's GDP in 2006.

Capital investment by government and private sector (OR m)

	2003	2004	2005	2006
Non-oil and gas activities				
Government	427.7	496.5	533.8	347
Government-owned enterprises	114.4	346.1	526.7	551.7
Private sector	162.1	231.2	254.4	487.1
Oil and gas activities				
Government	265.7	276.7	278.4	614.5
Government-owned enterprises	100.6	324.1	246.4	102.3
Private sector	236.1	283.6	307.5	443.1

SOURCE: Ministry of National Economy, Statistical Yearbook, multiple years

and equipment manufacturers. By September 2007 those products accounted for almost 32% of all industrial income. Production grew by 15% to OR326m ($847m) over the same period a year earlier. "Omani products generally meet very high standards," said Vijay Kumar, the managing director of Jotun Paints. "This quality is very important as Oman looks to increase its exports."

In 2005 the biggest sub-sectors after petroleum products were chemicals, non-metallic mineral products and the food processing industry. Chemicals accounted for 13% of total value-added production in 2005. It jumped into second place, from fourth place in 2004, with a massive 325% year-on-year increase in production value. Chemical revenues soared when production of urea and ammonia at the Oman India Fertiliser Company in Sur came online. In 2005 production of non-metallic mineral products accounted for about 12% of total value added. The surging construction sector's demand for these products spurred strong growth of nearly 30%. The Raysut Cement Company and the Oman Cement Company – two of the region's bigger cement companies – produced OR79m ($205m) worth of cement. The food processing industry accounted for about 7% of the total value added by the Omani manufacturing industry.

It is difficult to get a handle on exactly how many industrial manufacturing firms exist in Oman because a significant number are small and employ less than 10 people. Moreover, many firms that claim to be manufacturing businesses in surveys are often actually traders. The Ministry of Commerce and Industry's statistics department regularly adds up all the manufacturing businesses that employ more than 10 people. In 2005 the department counted about 500 large and medium-sized establishments, an increase of nearly 6% from 2004. The 2007 Oman Industrial Directory, prepared by the Oman Chamber of Commerce and Industry, lists about 750 industrial firms. According to industry analysts, the total number of manufacturing firms in Oman, including small businesses with less than 10 people, is probably around 900. About half of those are export-oriented. In 2005, large and medium-sized manufacturing businesses employed about 36,700 workers, approximately 38% of which were Omani, according to the ministry.

Although the petroleum refining and liquefied natural gas industry adds the most value, it actually involves few firms, just 13, and only 1200 workers (3% of all manufacturing employees), according to the Ministry of Commerce and Industry. Small and medium-sized businesses are essential in driving change in the economy. In 2005 cement, ceramics and marble manufacturing accounted for the largest number of firms with about 120. The second largest sub-sector was food processing with nearly 100 firms. These two sub-sectors also employed the most people, with 8600 and 8100, respectively. The cement, ceramics and marble industry tends to attract fewer Omanis (32% of the employees are Omani) than the food industry (45% of employees are Omani).

But these industries do contain some major players. Industrial companies account for some of the largest trading on the Muscat Securities Market. Raysut Cement is the fourth-biggest company listed on the exchange with a market capitalisation of about OR435m ($1.13bn). The Oman Cables Industry and the Oman Cement Company are the eighth and ninth largest, with market capitalisations of OR276m ($717m) and OR218m ($566m), respectively.

INDUSTRIAL ESTATES: Oman has followed the industrial zone model whereby manufacturing firms are concentrated near power plants and ports. In 1993 the Public Establishment for Industrial Estates (PEIE) was established to administer these industrial zones. It is responsible for arranging land and infrastructure for zones' tenant firms. It now manages six industrial estates – Rusayl, Raysut, Sohar, Nizwa, Buraimi and Sur – in addition to the Al Mazunah Free Zone and the Knowledge Oasis Muscat technology cluster. There are more than 270 industrial manufacturing projects on PEIE's industrial estates. Around 35% of firms are joint ventures with foreign partners. They have attracted about OR2.5bn ($6.5bn) and now employ about 16,000 people, of which nearly 40% are Omanis.

Oman industrial production (OR m)

	2004	2005
Refined petroleum and liquefied natural gas products	448.1	589.4
Chemicals (fertilisers, pharmaceuticals, detergents, perfumes)	32.9	139.9
Cement, ceramics and marble	98.5	127.6
Food and beverages	71.2	77.2
Basic metals, including pipes and casting metals	25.7	20.2
Furniture industry	19.4	18.5
Fabricated metal construction products	20.8	18.1
Manufacturing electric appliances and machines	9.5	15.6
Plastics	11.7	15.4
Other industries	6.6	10.1
Publishing	9.9	9.7
Manufacturing machines and equipment	6.8	9.3
Wood products	3.7	7.1
Paper products	4.6	5.2
Clothing	4.5	3.4
Total	775.2	1066.6

SOURCE: Directorate General of Industry and Industrial Statistics, Ministry of Commerce and Industry


The petroleum refining and liquefied natural gas industry involves just 13 firms and 1200 workers

Oman's Public Establishment for Industrial Estates (PEIE) administers the country's six estates. The organisation is looking to develop more land for newcomers who want long-term contracts.

The Rusayl Industrial Estate is currently the largest, with about 140 firms employing nearly 9000 workers. The estate at Sohar, however, which has 54 firms employing about 4000 workers, looks set to overtake Rusayl in the near future. With the development of the port and industrial area around it, which has led to increased scope for downstream businesses, there have already been over 100 new applicants wanting to rent a spot on the Sohar estate. "There is a boom in downstream petroleum projects. This has fed a general demand for tenancy spots on the industrial estates, with over 260 on the waiting list," Hilal Al Ahsani, PEIE's chief executive, told OBG. Nearly 40 firms are currently constructing new facilities.

As such, PEIE is looking to develop more land so it can provide newcomers with the long-term concessions they are looking for. Contracts are generally signed for 25 years and are renewable for up to 99. While the estates are not free zones, most of Oman is already close to being one, as industrial tariffs average about 2.5%. Al Ahsani points out the real benefit of coming to the estates are the very competitive rental and utility costs. They range from 150-500 baisa per metre per year, at 1000 baisa per riyal.

The firms within the estates are concentrated in four manufacturing sub-sectors, according to Al Ahsani. Food processing dominates, followed by production of construction materials, the chemicals industry, and the manufacture of mechanical parts and machinery. "Besides these areas, we also have a boom, obviously, in oils and gas-related industries in the Nizwa area," Al Ahsani added.

The estates have contributed to impressive non-oil industrial growth in recent years. "Building-related materials and products are growing. The food industry is also prosperous," he said. "These sectors have a

Industrial estates require more Omani semi-skilled workers

Government incentives, including subsidised loans, tax relief and import duty exemptions, have sweetened the deal for smaller and foreign-owned companies that want to do business in Oman.

positive reflection on value-addition." They also help the incorporation of Omanis into the labour force. They are dominated by small and medium-sized businesses and require much more semi-skilled manpower than the refining or chemicals industries. Al Ahsani said that about 80% of the firms on the estates are export-oriented and this has helped expand export growth in the region by 16-26% in recent years.

GOVERNMENT INCENTIVES: In line with its policy objectives, the government has provided significant incentives for the development of industry in Oman. Subsidised loans through the Oman Development Bank (ODB) and the Ministry of Commerce and Industry have helped encourage industrial development. Since the early 1970s the Ministry of Commerce and Industry supported the industrial sector with loans worth more than OM170m ($442m). At the same time, the government provided more than OR500m ($1.3bn) for infrastructure to service industrial needs. The ODB has been given increased responsibility for the provision of soft loans since Oman's accession to the World Trade Organisation (WTO). Since a 2006 royal decree, the lending ceiling of ODB loans has been increased to OR1m ($2.6m).

The bank is also now able to provide non-subsidised loans for working capital. Emphasising the importance of small and medium-sized enterprises, the ODB now offers subsidised loans to small enterprises for amounts less than OR5000 ($13,000) on projects totalling less than OR20,000 ($52,000). Small enterprises and self-employment are also encouraged through the Ministry of Manpower's Sanad programme, which provides soft loans, and the government's Youth Projects Fund.

Industrial projects are also offered tax relief. New industrial projects are awarded income tax exemptions for a renewable five-year period, according to a 2005 ministerial decision. In terms of tariff reductions for industry, there is an exemption from import duties on equipment and materials that are used in industrial production. Through PEIE, industrial plots are provided with infrastructure support. Industrial firms with a total capital of OR20,000 ($52,000) must be licensed with the Ministry of Commerce and Industry, which also helps secure reduced utility rates for industrial companies. Oman has further liberalised its foreign investment and taxation regime. Since joining the WTO, the level of foreign equity allowed in joint ventures has been raised to 70%. In special cases, subject to approval, 100% foreign ownership is allowed. Moreover, companies with foreign equity are treated the same as 100% Omani companies.

MARKETS AND EXPORTS: The Omani market is small, and so necessitates penetration of export markets. With the improvement of the country's port services, Oman is becoming a strategic location for export industries. In 2006 the UAE took about 40% of Oman's OR812m ($2.11bn) worth of non-oil exports. India took about 15%, which is more than in 2005 due to the increased export of fertiliser from the Oman India Fertiliser Company. After India, Saudi Arabia took about 6%

ALL THE FISH IN THE SEA

Omanis have a long tradition of earning their livelihoods at sea. The government estimates that perhaps as much as a quarter of the population still depends on fishing directly or indirectly, although the industry accounts for less than 2% of GDP.

Most of Oman's 32,000 fishermen still fish using traditional methods. In 2006 fish landed by traditional methods totalled 129,000 tonnes; 23,000 tonnes were landed by modern commercial vessels, according to the Ministry of Agriculture and Fisheries. Tuna, lobster, grouper, sardines and shrimp are major catches. As a result of the government making the sector one of its key development objectives, fishery harbours have been developed in places like Ashkarah, Saham, Liwa and Sohar.

The waters off Oman's shores suffered in the 1990s from over-fishing and pollution. Though catch sizes have improved since 2000, the Omani government now is reasonably strict and places restrictions on commercial trawling. Fishing for high-value catches like lobster and abalone is restricted to two months in the winter.

Between 2004 and 2006 fish exports dropped from 83 tonnes to 36 tonnes, and the value dropped from OR40.3m ($104.78m) to OR36m ($93.6m). Domestic catches remain too small to support large-scale processing facilities. Oman Fisheries Company processes local fish and sells them fresh and frozen. Dhofar Fisheries Industries processes canned as well as frozen tuna and sardines. Margins at both have suffered from the high costs of procuring a constant supply of fish.

"For facilities like ours to remain operational, we need to source a lot of fish from abroad," said Hamid Ali Dahma bin Salman Al Nahdi, the commercial manager of Dhofar Fisheries Industries. "This obviously increases costs a lot. Selling it is easy. It is getting the raw material that is tough."

Several factors have increased the difficulties facing the industry in 2007. A change in timing of the fishing season, from an early July start date to a later date in September, caused several foreign-owned trawlers operating in Omani waters in June to move elsewhere. By September no foreign boats had arrived for the start of the season, according to reports by the Oman Fisheries Company, whereas nine foreign trawlers had come the previous September. Despite the role fishing plays in the lives of thousands of families in Oman, it plays a small role in the wider economy. Any move toward modern, industrialised fisheries remains contingent on securing a better supply chain for the segment's struggling processing units. Effectively managing the fishing industry and building it into a sustainable segment is a delicate balancing act in Oman, as in countless other coastal nations.

A quarter of Oman's population still depends on fishing even though it accounts for less than 2% of GDP

of Oman's non-oil exports. The fourth- and fifth-largest shipments of non-oil exports went to Qatar and Pakistan. Mineral products, which include liquefied petroleum gas, make up nearly one-quarter of total non-oil exports. "We think that export credit has been one of the vital ingredients for the increase of non-oil exports," said Nasir Issa Al Ismaily, the general manager of the Oman-based Export Credit Guarantee Agency.

A series of trade deals and Oman's WTO membership have left many with hopes of securing business abroad. The US free trade deal that was inked in late 2005 came into effect in 2007. This will help some of Oman's heavy industries through the reduction of the 8-10% tariffs placed on petrochemicals and aluminium. Oman is also part of the Greater Arab Free Trade Area, which came into existence in 2005. Although this pan-Arab free trade deal is intended to boost trade across the Arab world, Oman's non-oil exports to most non-GCC major Arab trading partners, except Yemen, decreased in 2006, according to the Ministry of National Economy. Industrialists hope for more agreements with the EU, India and Pakistan. Not all companies joining the export market are in heavy industries. Amouage, a high-end perfume maker, is also going international. "Around 60% of our goods go to GCC countries and 40% to the rest of the world. This year we will try to reverse these numbers while expanding our product lines and production capacity," said David Crickmore, the CEO of Amouage. "We also have to outsource a lot of our creative work to Dubai and London. With this in mind, I would like to see more creative industries in Oman."

OUTLOOK: Omani industry faces several challenges. The skill set of the workforce needs to be improved. Developing the quality of managerial and technical talent is a serious concern. Increased private sector participation in the manufacturing segment should help drive the competitiveness of Omani non-oil exports. Major developments in Sohar and Salalah in the next few years are set to give a major boost to the Omani manufacturing sector's bottom line.

The small Omani industrial sector still faces several challenges, including a low percentage of economically active citizens whose skill sets need to be improved.

Oman's fishing industry, which affects about a quarter of the population, faced difficulties in 2007 when the government moved the start of the fishing season from July to September.

Maqbool bin Ali Sultan

Come one, come all

OBG talks to Maqbool bin Ali Sultan, Minister of Commerce & Industry

Why have non-oil exports increased and what are your expectations for them in the next few years?

ALI SULTAN: Non-oil exports have grown significantly as a result of the successful strategy formulated to accelerate their development. The strategy adopted to increase exports is based on development efforts focused on certain thrust sectors that can provide significant export growth. Based on this strategy, 29 product sectors on which to focus promotional efforts together accounted for exports worth about OR350m ($912.33m) in 2005 and represented 63% of non-oil exports. The thrust sectors have been segmented into four categories in order to formulate a thorough approach suitable for each group.

The first category involves high-value products with export values exceeding OR50m ($130.33m). Urea is in this category. The second group is medium-value products for which exports are worth between OR5m ($13.03m) and OR50m ($130.33m). They are likely to grow rapidly and may need certain support initiatives, such as infrastructure and trade pacts, to help their growth. This group includes products such as electric cables, steel tubes, marble, vegetable oil, steel bars and rods, plastic films, aluminium profiles, lead acid batteries, copper wire and detergents.

The third category consists of low-value products whose exports range between OR3m ($7.82m) and OR5m ($13.03). They have the potential to graduate to the medium category and may need product-specific support from the government. This category's products include steel billets, ceramic tiles, metal furniture, plastic tableware and kitchenware.

The last category comprises products with exports between OR1m ($2.61m) and OR3m ($7.82m), but which have good growth opportunities. This group includes frozen fish, dates, glass containers, canned tuna, surgical gloves, tomato paste, switchgear, transformers, electric heaters and mushrooms.

Another contributor to this rapid growth were development studies conducted by the government to help and guide exporters to potentially promising export markets and to support their efforts. These studies include market entry strategy studies for Asian markets, with a special stress on India for copper, Omani dates and fish. Another important study explored how to market Omani products internationally through companies in Dubai. In addition to that, several studies were conducted to identify export markets in six major African and Arab countries between 2001 and 2006. These countries include Yemen, Kenya, Tanzania, Iran, Syria and Sudan. All of these studies were of great help to exporters for identifying opportunities in these countries and the types of products to concentrate on in order to achieve success in exports.

Expectations for non-oil exports in the next few years are guided by our strategy target to reach [RO2750m] ($7177.50m) by the year 2010. That means almost five-fold growth during the period from 2005 to 2010, with a compound annual growth rate of 38%. We feel that this target is achievable.

How does the government plan to continue to attract foreign direct investment?

ALI SULTAN: The Sultanate of Oman has achieved remarkable growth in all sectors of the economy during the past years and it is well on course to continue this positive trend. A rise in GDP, an increasing budget surplus, relatively controlled inflation, rising public and private investment, an active capital market and a steady increase in employment generation are all indicators of the strength of the Omani economy. Although oil remains the single most important source of revenue for the Sultanate, expansion of the non-oil sector is expected to make the growth and development process in Oman more sustainable.

The Sultanate encourages foreign capital to supplement its local investment in order to utilise untapped resources, foster economic growth, facilitate transfers of technology and managerial skills, and benefit from worldwide connections to multinationals for opening new markets for Omani products. Oman is committed to an open-market economy based on free competition in which the private sector is encouraged and facilitated to play a leading role.

World-class infrastructure, incentives packages, attractive corporate tax and tax holidays, soft loans, simplification of business procedures and transparent corporate governance have made Oman an attractive destination for investment. This is evident from the recent industrial and infrastructure developments in Sohar and in other regions. Many global technology leaders like Alcan, LG International, Ferrostaal and Shell are currently involved in joint ventures with various industrial projects in Oman, bringing investment and the latest technology to the Sultanate.

Apart from Sohar, the Salalah Free Zone is now an attractive destination for international companies to establish their base and take advantage of the strategic location and the logistics, which are necessary to reach global markets. The free zone has attracted many international companies that are looking to establish a base in this region especially in manufacturing.

Duqm will be an important centre for diversifying the nation's economy in the coming years. Its development is a major undertaking and will be the first time that a new city is created in Oman's recent history. The government is developing the necessary infrastructure and other facilities plus the amenities necessary to attract companies and service providers. This area is expected to grow into a town of more than 50,000 people and almost everything will be built in active partnership with local and international companies.

With an international partner, the government is currently developing a world-class ship repair facility with very large docks within the Duqm port area. The facility is expected to encourage greater development in the support industries. Furthermore, the government is considering the development of an integrated refinery and petrochemicals complex that should help to establish a great range of new specialist downstream processing projects to the region, as has already happened in Sohar. Duqm also has prolific marine resources and it is expected to emerge as a major centre for the processing and export of fish and fish products. Duqm has the great opportunity to become a centre for the export and potentially the processing of industrial minerals, limestone and so on.

Apart from the above-mentioned sectors, tourism has attracted many international players. With many integrated tourism complexes in the pipeline, there will be great opportunity for the major players to be part of Oman's economic development programme.

To what extent do Oman's free trade agreements (FTAs) with the US and other nations have economic rather than political significance?

ALI SULTAN: The FTA that the Sultanate of Oman signed with the US is of economic importance since it will most likely result in increased bilateral trade between the two countries. The manufacturing sector stands to gain from duty-free entry into the US market, which will contribute to an increase in Omani exports.

Regarding Omani imports of US duty-free products, it is unlikely that this is going to create problems for Omani producers. As a matter of fact, duty-free entry of US products will help create competition in the local market, which will induce Omani producers and companies to give greater attention to productivity.

We expect the FTA to attract further US investors to strategic and high-priority industries in the Sultanate and especially in industrial products and knowledge-based industries. The FTA should also provide mechanisms for the Sultanate to benefit from the enormous capabilities that the US possesses in both economic and technological fields. We are certain that the FTA will be of economic importance and it will also function in tandem with the excellent political relations existing between our countries. It will set an example for our neighbours to follow, which in the end will enhance peace and stability in the whole region.

Domestic cement consumption in 2006 was around 2.7m tonnes

Quarry quandary

New industrial plan could be cut back by rising costs

Oman is currently on its seventh five-year plan, which will end in 2010. Included in the plan is some $30bn worth of investment in real estate and tourism projects.

The recent growth in construction and the rapid rise in the cost of building materials has, on one hand, been good for the industrialists that produce these materials. On the other hand, margins have often been squeezed as they face input shortages and increased costs. Manufacturing plants have, as a result, found it increasingly difficult to turn a profit. The Muscat wholesale price index increased 6.1% in 2007 and prices for many categories of inputs have been even higher; basic metals products, for example, increased 7%.

With the rise of oil prices a few years ago, construction and capital investments across the region have raced ahead thanks to massive increases in government revenues. In Oman and the wider region this massive wave of oil income has encouraged government plans for industrialisation and economic diversification.

Oman's long-dormant real estate market has combined with tourism and major industrial projects in Sohar to seriously stretch Omani concrete supplies. The government has helped trigger this growth by committing $30bn to real estate and tourism projects during its seventh five-year plan, which runs until 2010. Moreover, the enormous number of construction projects in the wider region has left some contractors unable to meet demand and having to turn down contracts. Between 2007 and 2012, construction projects across the region are estimated at $1.2trn. This has stoked demand for cement around the region, resulting in Saudi cement companies frantically expanding.

In 2007 demand took a sharp upward turn in the wake of Cyclone Gonu, which caused billions of riyals in damage along Oman's coast. Reconstruction of villas and offices pushed the demand for cement up by as much as 20% in the months following the disaster.

In 2000 Oman's cement consumption was about 1.4m tonnes. By 2005 consumption had reached 2.4m tonnes and it grew by 12.5% to 2.7m tonnes in 2006. Expected growth in 2007 was 15%. Oman remains one of the lowest per capita consumers of cement at 1000 kg per person. The Gulf average is closer to 2000 kg.

In early 2008 Oman Cement Company, which is partially government-owned, announced its fourth-quarter results for 2007. Profits had fallen for the third consecutive quarter. Despite sales increasing nearly 5% during the year, margins were tight as the firm had to resort to sourcing materials from Asia.

Oman Cement and Raysut Cement are two of the countries biggest industrial firms. It has been a challenge for them to keep pace with soaring demand over the past several years. In 2004 the government banned the export of locally produced cement as a result of supply constraints in the local construction industry. Raysut used to export 50% of its production but has now given priority to the local market. In 2006 the government started allowing companies to import cement.

In 2007 the Muscat wholesale building supply price index for cement increased 3.2%. Tight supply not only in Oman but across the entire Gulf region has pushed up prices. "The cement market in Oman used to be a real buyers' market – construction was very quiet. But it has become much more of a sellers' market, since oil prices started going up a couple of years ago," Khalid Abdoon, Raysut Cement's chief marketing officer, told OBG. "Despite high demand, all our costs have increased."

Cement companies across the region have had to increase prices to cover the rising costs. "The cost of shipping is high and the costs associated with labour are also increasing," said Abdoon. "The demand for technical staff has increased everywhere. Many workers are going back to Pakistan and India, and inflation is cutting into our competitive advantage."

In February 2007 Oman Cement announced it would give employees a 27% pay raise. Moreover, throughout 2007 Oman Cement faced a shortage of clinker – the lumpy material that is ground up to produce finished cement – and was forced to buy it on the international market at significantly elevated prices.

So while Oman Cement turned a record profit of OR6m ($15.6m) in the fourth quarter of 2006, profits fell to OR4.3m ($11.18m) in the fourth quarter of 2007.

Despite surging costs, Raysut Cement still managed to post record profits in the fourth quarter of 2007. The company, which is based in Salalah, finished expansion in 2007, bringing its capacity to 3m tonnes of cement per annum. Production in 2006 was about 1.8m tonnes. The expansion and big sales to the Sohar Industrial Port development project doubled Raysut's receipts in the fourth quarter of 2007. "We were mainly an export-oriented business, but lately we have focused on the local market. There is such high local demand; we expanded at just the right time," Abdoon told OBG.

The company's expansions have left it in good stead. In addition to being Oman's largest producer of cement, it is the largest industrial company by market capitalisation on the Muscat Securities Exchange. The labour costs per output have dropped, despite employee expenditure increasing by almost 18% in 2006.

Oman Cement was established by the government on the Rusayl Industrial Estate in 1978. Though it sold off a partial stake and another 37% is on the Muscat Securities Market, the government still retains 51% of the company. While the company is smaller than its counterpart, having a capacity of 2.4m tonnes of cement per year and a clinker capacity of 1.2m tonnes, it does have plans to expand. In November 2007 it signed an agreement with China National Building Material Equipment Corporation to expand its production. The $162m expansion should come on-line by the end of 2009. The shortage of clinker capacity forces the firm to import 800,000 tonnes every year from Thailand and India. The expansion will bring its clinker capacity in line with its cement production capacity.

NEARING THE END OF A CYCLE: Activity may finally be reaching a peak. In his budget address, Ahmed bin Abdul Nabi Macki, the Minister of National Economy, announced there would be a slowing down of new development projects – a step that aims to take some of the heat out of the construction sector and ease demand. Moreover, it has been estimated that construction at the Sohar Industrial Port has consumed up to half of Oman's cement production over the last few years. With many of the projects there now nearing completion, local demand should slacken considerably.

The per-capita consumption of cement in Oman is quite low, standing at 1000 kg per person per annum

There have been indications that cost pressures may affect the start of new projects, such as Duqm's refinery and petrochemicals complex. Even if planning is not delayed, its initial capacity might be curtailed to 150,000 barrels a day instead of the 300,000 originally planned.

Inflation will have consequences. Many economists have warned that inflation may start to cut into growth, as it dampens demand. This may be just starting to happen. Many analysts are predicting inflation will be instrumental in ending the Gulf's current construction and, some say, property bubble. "This cycle will come around in 2009 and 2010, and construction will drop. But right now it's good for sales," concluded Abdoon. The bigger danger is that as inflation pushes up input costs, it could make the new diversified industrial schemes, which governments and investors have poured so much money into developing, worryingly uncompetitive. This would have unfortunate repercussions.

Oman Cement Company has expansion plans in the works which will increase its current capacity of 2.4m tonnes of cement and 1.2m tonnes of clinker per year.

Nicholas Barakat

Solid choices

OBG talks to Nicholas Barakat, CEO, Octal

Why was Salalah chosen for an APET (amorphous polyethylene terephthalate) and a polyester plant?

BARAKAT: The first reason was the Salalah Free Zone, and secondly was the logistical advantages of Salalah. The Salalah Free Zone offered us incentives such a tax holiday and proximity to the port. It takes only four hours to get into the major shipping lanes from Salalah, so there is great access to East and West trade routes. We are able to get our raw material from anywhere in the Middle East and bring it into Salalah at a low cost.

We looked at a range of places to make our investment, from Morocco to Kuwait. We looked at about 10 locations, and Salalah offered the best environment for us. We went to see the Oman Centre for Investment Promotion and Export Development, and it introduced us to two possible locations: Sohar and Salalah.

How is Octal planning to reach its aim of a 20% share of the APET market? What is driving demand?

BARAKAT: Our business model is to collapse the value chain into one location to reduce costs and directly interface with the market. We do not use brokers. We know the customers and the market, so we are better off going directly to them. Margin play is one way in which we will profit, so the sourcing of raw materials is very important. Also, we need operating leverage, and we want to run the plant at 110% capacity.

The market for the consumer packaging business is extremely innovative. The demand has moved from paperboard to plastics to APET, which is produced in rigid films. It is the fastest-growing segment of the packaging industry. At the moment it is only a 1m-tonne market, but demand is set to rocket. Initially we are going for 20% of the market. We were attracted to this market because there was no global player. The Middle East is the lowest-cost source of raw materials for polyesters and has recently emerged as a huge consumer market. There are around 460m people in the greater region, but they have just started to buy goods using such packaging, and more is being manufactured.

Is Octal concerned about the uncertainty surrounding industrial gas supply in Oman?

BARAKAT: This is not such a problem for us, as our manufacturing process uses only a small amount of gas. Many industries setting up in Oman in recent years demand a lot of gas. If you look at the ratio of gas used to people employed, our business model is very efficient.

How are soaring construction and commodities costs affecting your business?

BARAKAT: There is a huge demand for construction in Oman and costs of materials and labour have increased prices. The cost of construction in Salalah is higher than in Muscat as there hasn't been such a demand for the industry in the past and they are starting from scratch. Commodity prices have a significant effect on our business. However, in Salalah, we are very close to our raw materials, which mainly come from the Middle East, and this gives us an advantage.

How will free trade agreements (FTA) affect Octal?

BARAKAT: The FTA with the US added certainty to our investment and gives us confidence. We don't pay duty when selling to the US, an extremely important market. Negotiations with the EU are underway, and we would certainly welcome an EU FTA.

Has hiring and training a workforce been difficult?

BARAKAT: The requirement for companies in the Salalah Free Zone is only a 10% Omanisation level. We are running at 30%, and this is a business decision. It makes sense for us to hire local workers, and it gives us stability. I have been impressed with the quality of candidates available. We of course need experts, as we require some technical skills that aren't available in Oman. We are running training programmes to pass on required knowledge to local staff, so we should start to employ even more Omanis. Unemployment is high in Salalah, so we are working closely with the Ministry of Manpower and the Salalah College of Technology.

Local shoppers have more to spend since wages have gone up

Out from the shadows

Shopping options in Oman are becoming more varied – and lucrative

The retail industry in Oman is starting to come into its own. Rising wages, population growth and more retail space have led to increased spending.

A weekend shopping trip in Oman has long entailed a 380-km trip north to the booming monument to commercialism that is modern-day Dubai. Coupled with the unofficial national pastime of driving, these long-distance spending sprees have become as common as frankincense and traffic jams in the country. But after years of living in the shadow of its neighbour to the north, Oman's retail sector is beginning to come into its own as more people stay home to shop.

INCREASING APPETITE: Following in the footsteps of the real estate and construction industries, retail is now on pace to become a driving force in the country's economy, as the government continues to move forward in diversifying its finances. The combination of a buoyant economy, increased government spending on infrastructure, rising wages, rapid growth in retail space and a swelling population (including a significant boost from foreign workers) is driving retail growth. Fuelled by oil prices nearing $100 a barrel, the $35.7bn economy is growing at a rate of 6.5% per year.

"What we're seeing in Oman is the confluence of three factors – accessibility, affordability and availability – that has led to increasing consumption and retail growth," said Raman Kaicker, the CFO of Bank Sohar, in the *Oman Economic Review*. "When goods become affordable and available and the consumer can access the market, consumption is bound to go up."

As a result, total consumer spending has soared from OR3.66bn ($9.52bn) in 2003 to OR5.67bn ($14.74bn) in 2006, 55% increase. In total spending, retail purchases increased 48%, growing from OR1.79bn ($4.65bn) in 2003 to OR2.66bn ($6.92bn) in 2006. In the first half of 2007 wholesale and retail trade continued to increase at a 28% rate – OR889m ($2.31bn) in current prices – over the same period of the previous year, said the Ministry of National Economy.

The recent growth of the retail market in Oman is indicative of a regional trend sweeping the other five Gulf Cooperation Council (GCC) nations of Saudi Arabia, Kuwait, Bahrain, Qatar, and the United Arab Emirates (UAE). Already generating more than $100bn, the retail industry is now the second largest industry in the GCC, behind oil production. According to *RetailME* magazine, Dubai will soon boast 16 times more shopping mall floor space per capita than the EU average.

Despite the growing economy, many Omanis are still careful as to where and when they choose to do their spending. Often times special promotions, instalment payments or other forms of discounting are necessary to convince discerning purchasers to part with their paychecks. Not coincidentally, the most profitable times of the year for retailers occur when there are the most promotions. The Muscat Festival, running from late January to mid-February, the summer sale season, and the Eid and Ramadan holidays are especially profitable.

In 2007 Cyclone Gonu, the first documented tropical cyclone in the Arabian Sea, also affected the market. Although the storm put a temporary damper on the sector by forcing the closure of many shops and causing millions in damages (the entire lower floor of the Markaz al Bahja shopping centre has been closed for months), the catastrophe also triggered a spike in sales after the waters subsided as Omanis sought to re-supply and replace damaged goods.

DEMANDING MORE: Regardless of where they spend their money, many Omanis have a bit more of it after the country's largest employer (the government) enacted a 15% pay raise in 2006. This raise – along with increases in the private sector – helped fuel an increase in GNI per capita from OR3800.9 ($9882.34) in 2004 to OR5071.60 ($13,186.16) in 2006. This represents an annual increase of 14.3% over 2005 income and 33.4% over 2004.

As the country's economic development lures in more expatriate workers and its population grows, the pool of potential purchasers also increases. From December 2006 to September 2007, the expatriate workforce grew by 90,561 people, while Omani manpower increased by 13,398. Even more important than the number of new workers is the type of worker, as

Omanis are very discerning shoppers. They often need the lure of big promotions or instalment plans to entice them to open their wallets and part with their hard-earned money.

A growing number of Omanis are doing more of their shopping in department stores and hypermarkets

Higher-end goods traditionally marketed to European expatriates are now finding a new market in the Omani middle class, which has a growing disposable income.

more educated, higher paid employees will generally have more disposable income to spend. Over the same period, the number of expatriate workers in the country increased by 17.7%, and the amount of workers with a university education increased by a better-than-average 21.1%.

Supplementing Omani shoppers is a strong increase in tourists, which is an important population segment considering their relatively high spending rates. With a 14% increase in tourism over 2006 and near 100% occupancy rates in the country's hotels, Oman is making rapid strides in this area.

Retailers have managed to reap the benefits of the country's strengthening economy as private, government and intermediate consumption has increased from 7.5% in 2003 to 10% in 2005. With wages and disposable income on the rise, higher-end goods that were traditionally marketed primarily to high-income expatriates are now finding a market in the growing Omani middle class. "Our furniture store used to only cater to European expats, and now Omanis are entering the market," explained Kim W Jepsen, the general manager of IDdesign in Markaz Al Bahja.

"Overall, Omanis now make up around 65% of all shoppers." According to Jepsen, retailers in luxury brand-oriented Markaz Al Bahja are reporting turnover increases upwards of 40% annually, with only one unoccupied shop in the mall.

In a recent interview in a local business publication, Chiwon Suh, the president of Samsung Middle East and Africa, indicated that his company received 40% of revenues from premium products, compared with 30% each for the middle and affordable price segments.

As incomes continue to increase and fuel demand for a greater variety of goods across the board, international brands previously established in neighbouring markets have taken notice. Well-known names such as Marks and Spencer, GAP, Hugo Boss, EMax, Borders bookstores, Banana Republic, Forever 21, Zara and others have all set up shop in Oman. In addition to the financial argument, convenience and other secondary issues also play a factor. "The reason customers are coming now is because first of all, we are very near Dubai but we don't have the traffic problems or the saturated market they have there," Muscat City Centre marketing manager Ahmed Hamdy told OBG. With increased variety and a depreciating Omani riyal against the UAE dirham, it is not difficult to see why more Omanis are choosing to stay home to spend their money.

Fewer people are doing their shopping in traditional, smaller markets. Most are opting instead for shopping malls anchored by large department stores.

BUOYANT SUPPLY SIDE: While nowhere near the level of saturation the market has reached in Dubai, Muscat boasts a rapidly increasing array of retail space. With more concentrated shopping mall-style retail areas now available, the infrastructure sought by large international brands is now coming into place. As of late 2007 some 68,000 sq metres of gross leasable area (GLA) were under development, with another 75,000 sq metres slated for delivery by 2011, according to the UK property consultancy service Retail International. This additional floor space would nearly double the 200,000 sq metres of GLA available at the end of 2006 for a total of 343,000 sq metres upon delivery.

Moving away from traditional, smaller markets and souks, the successful GCC retail business model of many international and local franchise stores anchored by one or more hypermarkets or department stores in a shopping mall is becoming established in Oman.

The immensely popular Muscat City Centre (MCC) mall is the largest of all the new malls with a total GLA of 60,484 sq metres and 144 stores, following an expansion project completed in 2007. Flush with the success of MCC, parent company Majid Al Futtaim Properties has a similar but smaller project in the works, to be located in the Al Qurm area of Muscat. Construction of the first phase of the project is set to begin in August 2008.

Another shopping mall-style retail centre located near MCC is the Markaz Al Bahja, which opened in November 2002 and has 33 shops, a movie theatre and a bowling alley, though the latter two were temporarily closed after Gonu. Other malls, which are spaced around the Al Qurm and Al Khuwair retail districts of Muscat, include Al Araimi, the Al Harthy complex, Zakher, Al Sarooj, Capital Commercial Centre, Sultan Centre, Capital Stores, Khimji Megastore, Al Khamis Plaza, City Plaza, Sabco Centre and Jawharat A Shati.

A number of new malls are planned for the near future, most notably Qurm City Centre, which is being developed by Majid Al Futtaim Properties, the Muscat Grand Mall, which is part of the Tilal project scheduled to be online by 2009, and a yet-to-be-named mall next to the Lulu hypermarket in Muscat.

In addition to the standard, stand-alone shopping malls being developed, retail areas are being included in nearly all of the new tourism and mixed-use developments in the sultanate. A few of the larger of these projects include The Wave, Blue City, the Muriya resorts, Yenkit and Journey of Light.

Because of Oman's relatively small market, the large regional retailers already established in the country have managed to capture over one-quarter of the market share. Just five companies – Emke Group, Al Safeer, Spinneys, Al Jadeeda Stores and Carrefour – account for 27% of all retail traffic and expect to attain 50% market share by 2012, according to Planet Retail. Other top companies include The Sultan Centre, Khimji, Bahwan Foods, Shell, Woolworths and BP.

HOLDING BACK THE REINS: Although the retail sector is thriving when compared to just a few years ago, closer inspection reveals a few hurdles yet to be overcome, some which are a direct result of the vibrant economy. For instance, although total consumer spending increased by 55% from 2003 to 2006, rising inflation wiped out some of these gains. Starting from a low of 0.2% consumer price inflation (CPI) in 2003, levels have increased every year since and reached 4.7% in June 2007. Oman's consumer price index increased 5.1% during the first nine months of 2007 compared with the same period in 2006. Food, beverages and tobacco led all goods with a 10% rise in price, followed by rent (6.5%), personal care items and other services (6.1%) and educational services (4.8%).

Amid growing concern over inflation and price increases of essential commodities, the minister of commerce and industry, Maqbool bin Ali Sultan, appealed to merchants to rein in prices over the holiday season, telling retailers to "refrain from increasing prices of essentials during Ramadan," and "reduce prices, give discounts and ensure that enough supplies of basic commodities and consumer goods are available in the market."

The effectiveness of such pleas will be difficult to gauge, but it is a clear indication of the seriousness with which the government views the escalating cost of goods. Another measure introduced recently by the Public Establishment for Industrial Estates (PEIE) that is intended to curb inflation and keep currency in the country could produce much more tangible results. Replacing the 1997 National Product Promotion Campaign, a new Origin Oman campaign is designed to stimulate demand for locally produced goods through a programme of education and branding.

If successful, the campaign could help reduce debt and inflation by weaning the country off its penchant for imported goods, the cost of which have skyrocketed as the US dollar-pegged riyal has depreciated. While the value of imported merchandise increased by 45.2% to OR2.37bn ($6.16bn) through the first six months of 2007 compared to the same period in 2006, exports increased by just 1.9% to OR3.49bn ($9.07bn).

Price increases have not been limited to just retail goods. The exploding real estate market has driven up rent and housing costs dramatically over the past two years. Although most Omanis already own their own homes outright due to government handouts, skyrocketing residential rents threaten to put a damper on expatriate spending, and retailers will ultimately pass on increased rental overhead to the end consumer.

Price inflation

	2003	2004	2005	2006
Retail sales (OR m)	1786	2087	2467	2659
Consumer price inflation (%)	0.2	0.7	1.9	3.2

SOURCE: Planet Retail Ltd

Some larger malls and resorts target tourists and expatriates

Because the Omani riyal is pegged to the US dollar and the government has shown no immediate signs of moving away from the beleaguered currency, the recent financial crisis in the US has also suppressed spending power. This problem could be exasperated in the future by the UAE or other GCC countries moving off the dollar standard, leaving Oman pegged to a declining US currency.

Competition from neighbouring countries will also remain a serious challenge, with an estimated 16.35m sq metres of additional GLA retail space expected to be developed in the GCC by 2010. Saudi Arabia and the UAE will account for 30% and 44%, respectively, of the total increase. Omani retailers will continue to feel pressure from foreign competition from within their country as well.

OUTLOOK: With a positive macroeconomic forecast for the near future, driven in part by high oil prices and increased foreign investment, the retail market looks to continue its rapid growth. With Muscat's population of 720,000 expected to grow to approximately 815,000 in the next five years due to population growth and a continued influx of foreign workers, the market size will increase across all segments.

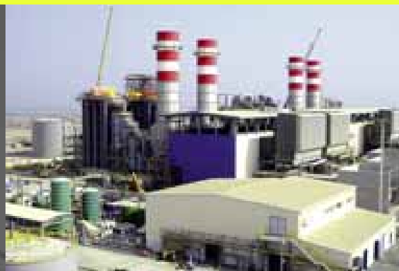
Although much smaller than its GCC neighbours, Oman's retail segment will continue to expand as more modern shopping centres come online and increase the competitiveness and variety within the industry. Increases in tourism and the development of mixed-use properties and resorts both in Muscat and in the rest of the country will also stimulate demand. Provided that inflation remains under control, the government maintains a business-friendly environment and merchants are able to remain competitive against larger foreign businesses, Oman's retail industry should enjoy continued development.

Rising inflation has led to increasing prices for basic goods and supplies. In response to this, over the 2007 holidays the minister of commerce and industry asked retailers to refrain from hiking prices.

The riyal's peg to the US dollar has caused the price of imported goods to increase drastically. If the government continues to peg the riyal to the dollar, spending power could decrease.

Sohar

Sohar becoming a major port of call
Petrochemicals industry now coming to the fore
Aluminium is set to become a key Omani asset
Sohar Industrial Estate benefits greatly from the port



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The new port is owned by the state and the Port of Rotterdam

Industrial shake-up

New developments and initiatives are boosting local industry

Sohar, the story goes, was the home of Sinbad the sailor. Although his exploits in "One Thousand and One Nights" may well be fiction, Sohar was an important port of call along the ancient trade routes to China. Although in recent centuries it has not enjoyed the pre-eminence it once did as Oman's principle city, Sohar has retained its long and proud sailing history. A newly developed industrial port could potentially put Sohar back on the maps of global merchants.

The modern city of Sohar has a population of about 110,000 and is the capital of the Al Batinah region, which with 700,000 people is almost as populous as the Muscat governorate. The flat, fertile Al Batinah region, enclosed by the Gulf of Oman on the east and the foothills of the Hajar Mountains found on the west, has become the most concentrated farming region. Irrigated date plots line the 200 km of road north between Muscat and Sohar. The region accounts for nearly 40% of Oman's agricultural area. It has also remained a centre for Omani fishing. Fishing and agriculture are the traditional occupations for the majority of Omanis across the region.

AGRICULTURE: Over the last 25 years the area under cultivation in Al Batinah has increased considerably. This has put a lot of strain on the aquifer. Over-pumping has led to ground water depletion and salinity. In some areas, the water is so saline that it has started killing date trees, which are relatively salt-tolerant. Water harvesting and new irrigation techniques are gradually becoming increasingly necessary. Restoring the productivity of the date industry is one of the current key aims of the government. Some date trees in the Batinah region are currently being replaced with better-quality varieties and the government has made a proposal that some farmers be relocated to the Nejd region.

However, the seventh five-year plan, running from 2006 through 2010, has prioritised industrial development. The newly developed Sohar Industrial Port and the established Sohar Industrial Estate, located just north of the city along the main Muscat-Dubai road, promise to reawaken the region's economy.

INDUSTRIAL PORT: The Sohar Industrial Port is a massive project that began in late 1999. In addition to developing the port from scratch, it includes a refinery and a number of large-scale petrochemicals and metals plants. The total capital investment at the industrial port is expected to total more than $12bn. To put that into perspective, Oman's entire economy was worth about $36bn in 2006.

In just four years the port area has been completely transformed. "Back then it was still a wide open, empty piece of land with a breakwater," Jaap van Dalen, the Port of Sohar's executive commercial manager, told OBG. The port is a joint venture between the government and the Port of Rotterdam, the latter of which manages the day to day running of the port. "The situation is considerably different today. It is now a 21-sq-km port and industrial area."

"The port has been clustered around a few key industries. Petrochemicals takes up the central component of the industrial activities," said Van Dalen. "Then there are the metals and the logistics clusters." The port has a carefully planned spatial organisation so as to keep complementary industries in proximity to one another. For instance, the polypropylene and aromatics plants sit adjacent to the refinery. The port acts as a landlord, leasing out land to appropriate private enterprises. About 80% of the land on the site has been leased or is reserved, according to Van Dalen, although many of the industries have space to add extra capacity. Once the plots are leased out, the administration has nothing to do with the operation of the firms as long as they follow the rules and regulations of the port.

Development of the site has happened at breakneck speed. A small army of about 14,000 construction workers have put the pieces together. "The providers of utilities have been running for a couple of years, and the terminal operators are all oper-

The area being used for agriculture has increased a great deal, creating challenges for farmers and leading to the use of new irrigation techniques. There are currently proposals to move some farmers to different regions.

Established in 1999, the Sohar Industrial Port is a major development that includes not only port facilities, but also a refinery and petrochemicals and metals plants.

The Sohar Aluminium power plant was built to provide power to the firm's new smelter

There are several companies taking part in the running of the Port of Sohar under the landlord model. The port boasts a general cargo terminal as well as two liquid bulk berths, and more berths are in the pipeline.

ational," said Van Dalen. "Unlike a traditional service port manager, the Port of Sohar, using the landlord model, does not involve itself in any operational activities such as tugboats, piloting or stevedoring – private companies do all this."

Several companies take care of these activities depending on the type of cargo. In April 2004 Steinweg Oman began operations of its general cargo terminal. In August 2006 Oiltanking Odfjell Terminals began operation of its liquid bulk terminal. Liquid tankers have access to six liquid bulk berths along a stretch of roughly 200m. More berths are planned along the 2.5 km breakwater that is still under construction. Oman International Container Terminal began operations of its cargo terminal in December 2006. The port's draught is currently 16 metres and is being deepened to 18 metres as of 2008, which will make it among the deepest in the Middle East.

Many of the industries that have been set up in Sohar are counting on the availability and moderate price of gas to provide a competitive advantage. This is especially true of gas intensive businesses, such as aluminium, urea and methanol. The gas comes through a 350-km pipeline from Fahud in Oman's interior. Power for the site comes from power plants that are connected to the national grid, one of which is located at the port, and a desalinisation plant. The smelter being built by Sohar Aluminium will need such large amounts of energy that the firm has built its own power plant.

PETROCHEMICALS: Several petrochemicals companies are also operational. A major step forward was the start of production in March 2007. The Sohar Refinery Company, owned by Oman Refineries and Petrochemicals, which is 100% government-owned, runs the $1.25bn refinery. The refinery is supplied with crude by a 250-km pipeline from Mina Al Fahal near Muscat. It has a capacity of 116,400 barrels per day (bpd) and a residue-fluid-catalytic-cracking unit with a capacity of 75,260 bpd. In addition to producing products such as unleaded gasoline and jet

LOTS OF POTS

"Aluminium prices are very buoyant," Tony Kinsman, the chief executive of Sohar Aluminium, told OBG. "It is an excellent time to start up production." The Sohar Aluminium project, one of the largest industrial projects Oman has ever seen, is actually a joint venture between the Oman Oil Company and the Abu Dhabi Water and Electricity Authority, both of which own 40%, and Rio Tinto Alcan, which owns the remaining 20%. The smelter, when it is fully operational in late 2008, will produce 350,000 tonnes of aluminium per year. The $1.4bn facility will have the longest potline in the world with 360 pots. Although annual production will initially only be about half of Dubai Aluminium's, Kinsman hopes to double the capacity as long as they can secure enough power.

The project's wider benefits will come from the efficiencies it can effect through the sale of liquid metal to nearby downstream industries. "The area between the smelter and the industrial estate is reserved for downstream industries fed by the smelter alone," explained Kinsman. Such downstream firms minimise shipping as well as the costs of cooling and re-heating the aluminium. "Sohar Aluminium is very optimistic about the prospects for downstream, value-added industries. We intend to sell up to 60% of our production locally."

One contract has already been signed for the sale of liquid metal. Sagtak will take 20,000 tonnes each year to make busbar and special billets. Oman Cables plans to take another 50,000 tonnes each year to make rods and cables.

It is not only downstream industries that are likely to benefit. Linkages with a wide range of local industries will develop from outsourcing contracts for areas such as maintenance and repair to the provision of materials. During the construction phase $93m and $286m in contracts were awarded to local firms related to the power plant and smelter, respectively. So far, developing local partnerships and skills has been one of Sohar Aluminium's most significant achievements. "One of our company's strategic objectives is the development of people and industry in the Batinah region."

Kinsman described how Sohar Aluminium, in conjunction with Bechtel, their construction contractor, developed a training programme in collaboration with the Ministry of Manpower to employ local workers. "Initially we selected 800 inexperienced Omanis who showed potential and sent them on a rigorous six-month training induction," said Kinsman. "At the end of it, we offered over 700 of them jobs. They then went through training in a number of essential skills, from rigging and block laying to computers and English. The course was a unique combination of practical and classroom learning."

A number of new petrochemicals projects in Oman are creating opportunity for downstream investment

The first polypropylene plant in Oman became operational at the end of 2006 at a cost of $300m and had a capacity of 350,000 tonnes per year.

fuel, the plant produces large quantities of feedstock, such as propylene, for example.

The polypropylene plant next door to the refinery takes its propylene and polymerises it. The Oman Polypropylene Company's $300m plant has a capacity of 350,000 tonnes per year of polypropylene. It is the first polypropylene plant in Oman and started operations at the end of 2006 making it Oman's first operational petrochemical plant. The company is a partnership between the Oman Oil Company, LG International and the Gulf Investment Corporation. The Oman Polypropylene Company also produces a number of other industrial polymers. The polypropylene plant already employs 150 people directly and another 100 in related services.

Aromatics Oman Limited is also setting up shop next to the refinery. It will use naphtha from the refinery to produce key raw materials for plastics production and other chemical derivatives. The plant, estimated to cost $1.6bn, will be able to produce 814,000 tonnes of paraxylene and 210,000 tonnes of benzene a year.

Already the new petrochemicals production is providing opportunities for entrepreneurs. "There is already one company in Sohar using polypropylene," Sunil Sharma, the marketing manager at Oman Polypropylene, told OBG. "There is considerable scope for downstream industries. The more steps in the value chain, the higher the value of Oman's exports." There is currently some talk that a plastics park for downstream companies should be created.

The Oman Methanol Company was the first fully private investor in Sohar and the first methanol company in Oman. Its $500m plant became operational in September 2007. Using gas from the government as feedstock, it produces about 3000 tonnes of methanol a day. Odfjell Terminals is expected to handle about 1m tonnes of methanol exports every year.

The petrochemicals cluster includes a urea and fertiliser plant. The International Urea and Chemical Industries Company is investing more than $600m in the urea plant, which should eventually produce 1.2m tonnes of granular urea per year. The first shipment is expected in early 2008.

METALS: The metals cluster significantly deepens the port's industrial base. The Sohar Aluminium smelter is the flagship metals project. It is one of Oman's largest industrial projects to date. Its capital investment has been about $2.3bn. When it reaches full capacity producing 330,000 tonnes of aluminium each year, it alone will account for around 2% of Oman's GDP. It has been built just outside the port area for environmental and safety reasons. According to Tony Kinsman, its chief executive, the plant should come online in June 2008 and be fully operational by November. The port site is convenient both for bringing in supplies from around the world as well as exporting the aluminium they do not sell locally. For instance, they will source their alumina from Alcan's mine in Northern Australia, coke from Oxbow's facilities in Kuwait and pitch from China.

Two steel processing units have been set up on the industrial site. Shadeed Iron and Steel will be Oman's first iron and steel plant. The project is expected to cost around $750m. When the first phase is complete, the plant will produce about 720,000 tonnes of hot bricket iron and steel billets every year. The Sharq Steel rolling mill next door will make about 200,000 tonnes per year of continuous cast mild steel billets out of the scrap iron. "Initially we will source locally and from the UAE," Sharq's plant manager told OBG. "After that we could bring it in from India or China." The $40m project is due to come online in early 2008.

It is anticipated that VALE (previously Companhia Vale do Rio Doce, CVRD), one of the world's largest metal and mining companies, will set up an iron ore pelletising project at the port, adding another dimension to the metals industry on the port. The project would be massive, worth over $1bn. It would require a new, deeper jetty so that VALE could bring in ore from Brazil on larger ships. A decision on this development is expected in the first half of 2008.

A Larson and Toubro fabrication yard for the construction of offshore structures for drilling of decks, rigs, jackets and pile foundations will round out the metals cluster. The $50m facility, like many of the facilities at the port, will be the first of its kind in Oman.

CHALLENGES: The port is now shifting from being a massive construction site to being a proper port and industrial area. This will bring operational challenges that have yet to be dealt with in the port's short life. "For example, environmental as well as health and safety issues have now become much more important," van Dalen pointed out. "It will take some time before all the wrinkles are ironed out." But several executives pointed out that the government had shown considerable foresight, and has been extremely mindful of the future and maintaining standards. "The environmental standards are higher than those in Europe," said one. Nonetheless, new standards and practices are still being adopted by the environmental authorities.

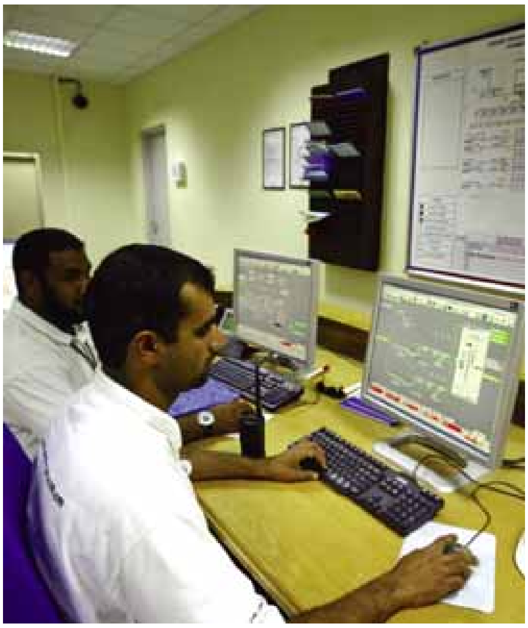
Expansion is all part of the port's master plan. Not only do many of the plants have space to double their capacity, but the entire scope of the port's activities were officially announced to be expanding in late 2007. The port will expand from 2000 ha to more than 6000 ha. On the extra land just across the highway, connected to the industrial port with dedicated roads, will be a new special economic zone (SEZ). The SEZ and industrial port, in combination with upgrades in the highways and the construction of the local airport, should provide the port with an enhanced re-export dimension. "With the extent of our basic industries, our port's capacity and now the SEZ, we see the start of something very big," said Van Dalen.

The understanding and support of the government has been essential in allowing the project to move ahead as fast as it has. Many executives commented on the proactive, helpful nature of the ministries. "They were looking for ways to take things forward," one executive told OBG."

SOHAR INDUSTRIAL ESTATE: Given all the activity at the new port, visitors sometimes overlook the continued importance of the Sohar Industrial Estate, which was in existence long before the port plan came together. It opened in 1992 just 6 km down the road from where the port now sits on a plot of 330 ha. The Public Establishment for Industrial Estates (PEIE) administers the estate. So far, 226 plots of 1200 to 12,000 sq metres have been developed.

Development of the port has created demand for downstream and affiliated businesses on the estate. "The Sohar estate will soon overtake the Rusayl estate as the largest in Oman," Hilal Hamad Al Ahsani, the PEIE's chief executive, told OBG.

"The area now contains 50 operational firms. So far capital investment into the estate has been over OR1.3bn ($3.38bn), but this is increasing. There are currently 18 firms under construction, and another 104 have applied for plots." Expansion will be able to continue for some time, as there are still around 160 ha available for new development. The firms on



Some new firms run programmes to train Omani citizens

the estate are widely diverse and employ nearly 4500 people. Production includes foodstuffs, detergents, footwear, furniture, toothpaste, engine oil, resins, marble, recycled paper, steel bars and beverages.

There is a massive opportunity for those interested in developing industries downstream and allied with those at the new port, as the industrial estate has the benefit of being close and having in place ample infrastructure and subsidised utilities.

SOHAR IN TRANSITION: Few doubt that the region's economy can do anything but benefit from the new developments. With a new period of rapid economic growth, the community is entering a period of transition. "Many don't really understand what has happened," one executive told OBG. "It all happened very fast. The development has brought congestion, increased prices and higher rents. Some services have lagged behind with such a surge in demand." Such growing pains are always associated with rapid economic development. Policies that are aimed

The Sohar Industrial Estate is an important part of economic activity in the region. The area currently houses 50 operational firms and over OR1.3bn ($3.38bn) has been invested.

Many of the new projects will only come on-line in 2008 or later

Many industrial plants have started training programmes in order to incorporate locals into their businesses. However, the most significant employment opportunities are likely to come from indirect jobs created by industrial expansion.

at bringing widespread economic benefits go a long way in easing such transitions. Job creation is the most direct way to give people a stake in change. So far many of the construction jobs have been for expats, but the government has its eyes set on ensuring that Omanis get in on the new permanent jobs, primarily through quotas. Ultimately the port is expected to provide about 8000 direct jobs. All firms within the port have long-term Omanisation targets. "However, the Ministry of Manpower understands that at the beginning experienced expatriate staff may be required as the port establishes itself. Firms will be given a five- to 10-year period to reach their ultimate Omanisation targets," said Van Dalen.

Many of the plants have already developed programmes for training and building local capacity. Bosses who talked to OBG saw the incorporation of local skills as essential to the success of their new businesses and were very positive about the prospects. "Omanis are capable and ready to work, in contrast to residents of other Gulf countries," one industrialist told OBG. "Elsewhere people are very reticent to work in industrial jobs, but here people have a much better attitude towards work." But it is not only the direct jobs from the port – it is the indirect jobs in downstream and affiliated industries in the in the greater Sohar area that are likely to provide broad-based benefits. There should be around 30,000 new jobs in knock-on industries around the region.

The government and local authorities have worked with investors in Sohar to find ways of resolving critical housing, education, recreation and other key civic concerns. The Batinah Development Association, which represents some of the major tenants at the port, has worked to find ways of resolving staff accommodation problems. An OR56m ($145.6m) real estate project, the Sohar Residential and Commercial Project, will help to meet growing housing demands. Other local issues are also being addressed. The first international school opened in 2007 as well as a new polyclinic, and a new hospital should open in 2008. Meanwhile, retail outlets have also expanded to meet growing demand. For example, Lulu, the largest retailer in the Gulf recently opened a new hypermarket and the Safeer Group is set to build one of Oman's largest malls in Sohar.

OUTLOOK: Given that many of the new projects around Sohar will only come online in 2008 and beyond, the number of vessels that passed through the port has remained small and is not yet comparable to major ports. In 2007, for example, just 600 vessels passed through the port. However, this number is expected to grow by at least 50% every year over the next two to three years. Then, as the neighbouring special economic zone starts up, traffic will likely again be boosted accordingly. This once quiet agricultural area is being transformed. The new port and burgeoning industrial activity have already started to remake Sohar as an important 21st century port of call. The economic and, eventually, the social ramifications of these developments are far-reaching.

The country's geography is an asset in terms of competitiveness

It's all about location

Expansion may lead to the Port of Sohar becoming a regional leader

"Location has obviously been critical to our success so far," Jaap van Dalen, executive commercial manager of the Port of Sohar, told OBG. A quick look at the map illustrates his point. Sohar is located along major shipping lines and not far from rapidly growing markets such as the one in India. "Moreover, Al Batinah has a relatively deep coastline, so creating the port at Sohar was relatively easy." Although costs have increased in recent years, they have not soared sky-high the way they have in other areas in the Gulf.

Sohar's location has other major advantages. For one, it is outside the Strait of Hormuz – which given its position as the bottleneck to the Gulf is vulnerable to blockade. The associated political risk with this means that insurance premiums increase for boats that want to pass through the strait.

"This gives Sohar an edge on the likes of Dubai, which is just inside the strait," said Van Dalen. Abu Dhabi and Dubai are both within a few hours drive via good roads and good border crossings. Sohar could eventually act as a regional hub. Moreover it has access both to labour and the domestic market. Half of Oman's population lives in Muscat and Al Batinah.

"It is also much easier for some types of Muscat-bound cargo to come through Sohar rather than Port Sultan Qaboos in Muscat," said van Dalen. "Some importers have transferred their shipments to Sohar rather than Muscat because heavy road traffic through Muscat is now restricted at certain times of day due to congestion." Although the current highway between Muscat and Sohar has only two lanes, there is a major expansion plan. Container traffic through Sohar is expected to overtake that in Muscat over the next few years. Plans to build an airport just adjacent to the port will give the area an entirely new dimension as a fully integrated transport hub.

CHALLENGES: The port is now shifting from being a massive construction site to being a proper port and industrial area. This will bring operational challenges that have yet to be dealt with in the port's short life. "For example, environmental as well as health and safety issues have now become much more important," Van Dalen pointed out. "It will take some time before all the wrinkles are ironed out." But several executives have stated that the Omani government had shown considerable foresight and has been mindful of the future and maintaining its long-term vision. "The environmental standards are higher than those in Europe," said one executive. Nonetheless, the site's infrastructure remains strained.

SPREAD THE WEALTH: Expansion is all part of the port's master plan. Not only do many of the plants have space to double their capacity, but also the entire scope of the port's activities; it was announced in 2007 that the port was set to expand. The port will expand from 2000 ha to more than 6000 ha on the extra land found just across the highway. It will be connected to the industrial port with dedicated roads and will be a new free-trade zone. The free zone and industrial port, in combination with upgrades in the highways and local airport, should provide the port with an added re-export dimension that it currently lacks. "With the extent of our basic industries, our port's capacity and now the free zone, well, we think this is the start of something very big," Van Dalen said.

The understanding and support of the government have been essential in allowing the project to move ahead as fast as it has. Many executives have commented on the proactive, helpful nature of the ministries. "They have been looking for ways to take things forward," one executive told OBG.

Sohar stands well placed to leverage the added geographical advantage it has over local competitors, like Dubai, with its manufacturing hub. In time, as the port expands and the free zone becomes fully established, it may even begin to challenge Dubai's pre-eminence as the region's leading trans-shipment centre. The outlook for the successful execution of non-oil export-oriented development looks more likely as each of Sohar's new plants starts production.

The Port of Sohar's ideal location not only makes it a gateway for neighbouring Dubai and Abu Dhabi, but for Muscat as well, due to its traffic congestion.

A large part of the refinery's output will go towards exports

Sweet deal

A sugar refinery at the Port of Sohar will increase regional competition

Oman's current demand for sugar is approximately 120,000 tonnes per year, meaning that 80% of its 660,000-tonne planned annual capacity will be available for export.

Oman is looking to bridge the gap between the Gulf's growing demand for sugar and the limited local production. An Omani company recently announced its plan to construct a large sugar refinery at the port of Sohar.

On October 13, Al Hafri Sugar Refinery signed a series of agreements with the Sohar Industrial Port Company (SIPC) laying the groundwork for the construction of a $233m facility with an annual capacity of 660,000 tonnes. Work on the refinery, to be built on a 15-ha plot within the port area, is planned to begin shortly, and is expected to be up and running by March 2010.

Maqbool bin Ali Sultan, who is Oman's minister of commerce and industry as well as the chairman of the SIPC, said the refinery would bring a number of benefits to the Sultanate's economy. "Oman presently imports all of its sugar," he said in an interview with a local newspaper. "Thus, a project of this nature will help the country. Besides, this will also increase our exports and help us in the balance of trade – because economic diversification is important for Oman. It will also generate employment for Omanis." The refinery would ensure food security for Oman and encourage the development of other food-based industries, the minister said.

EXCESS: A large part of the Al Hafri refinery's production will be earmarked for export. With Oman's current demand for sugar at 120,000 tonnes a year, more than 80% of the plant's output would be available for sales overseas. Though Oman is looking to end its reliance on imported sugar, it will still have to buy the raw material from elsewhere, as the Sultanate does not produce sugar cane or sugar beets. Most of the raw molasses to be refined at the plant is expected to come from Brazil.

Al Hafri's general manager, Abdulhamid Bu Abdullah, said the company, which is part of the business group controlled by Sayyid Asaad bin Tariq Al Said – the sultan's representative – had already locked in contracts for the supply of raw molasses and for the sale of excess production as security for the project. If the refinery proves to be a success, Bu Abdullah said the company would consider expansion plans to double capacity.

TALE OF THE TAPE: Al Hafri's two main rivals are Al Khaleej of Dubai and Saudi Arabia's United Sugar Company. Al Khaleej is the Gulf's leading producer, having processed 1.2m tonnes of sugar in 2006, compared to United, with a capacity of 805,000 tonnes per annum. Al Khaleej is also planning investments in plant capacity that will boost production to 7000 tonnes per day.

Abu Dhabi is also getting involved in the sugar refining business, with the National Sugar Refining Company due to start production at a $150m facility at the Industrial City of Abu Dhabi in the second half of next year. The initial capacity of the refinery will be 300,000 tonnes per annum, rising to 750,000 tonnes a year by 2013. However, while the Oman refinery already has competitors and will face more competition in the future, there is strong potential for growth. The current shortfall between regional demand and supply is estimated to be in excess of 5m tonnes a year. With the massive growth in the Gulf region's processed food industries, many of which require sugar for their products, local demand can only increase.

As Oman is a regional trans-shipment centre, being located next to one of its largest port facilities will help Al Hafri gain export contracts, with the refinery well placed to promise a fast turnaround on processing raw material delivered from the docks at Sohar.

Another factor in Al Hafri's favour is the reduction in sugar processing in Europe, after the World Trade Organisation (WTO) ruled in 2003 that EU member states were breaching the 1.27m-tonne limit on exporting subsidised sugar. The European bloc lost its appeal against the WTO ruling that set a hard ceiling on the level of price-supported sugar that could be exported, prompting a number of refiners to either close their operations or scale back production.

These closures will result in a shortage of global refining capacity in the coming years. Bu Abdullah said that this would put Al Hafri in a good position to capitalise on the increasing global demand for sugar as well as carve its own niche in the world sugar market.

Hans Smits

Ideal location

OBG talks to Hans Smits, President & CEO, Port of Rotterdam; Deputy Chairman, Sohar Industrial Port Company

Why did the Port of Rotterdam decide to get involved in the management of Port of Sohar?

SMITS: Originally the government of Oman invited the Port of Rotterdam to manage the Port of Sohar and the idea appealed to both parties. Sohar Industrial Port Company is a 50:50 joint venture between the Port of Rotterdam and the government of Oman. We wanted to run this project with the expectation of allowing it to help us expand to other locations in the future. Our port-management landlord model is very successful, and we have a good reputation for strategic port planning, innovation and sustainability, so it made sense for the government of Oman to ask us.

We think that industries are attracted to investing in Sohar because Port of Rotterdam is known as a safe and reliable port. It was very appealing for us to get involved in the project. Firstly, we would hope to make a profit from the Port of Sohar, and we see tremendous opportunities in the way it is developing. Secondly, it allows us to give our employees experience abroad and this builds their management skills and knowledge. Having international operations makes the company more attractive on the labour market. Sohar is a new port with many cutting-edge industries and technologies, and we gain vital experience, which we would not otherwise in our older, more established ports.

What are the advantages of Sohar compared to some of the other regional ports?

SMITS: The Port of Sohar was a greenfield project, meaning the design could be on a modular model and incorporate all the latest standards. The location is geographically ideal as ships can avoid going through the Strait of Hormuz. It was very wise of the government of Oman to diversify the development of the port, meaning it has a long-term future and can lead to further economic growth in Oman. We concentrate on the petrochemicals industries but we also now have a container terminal, load-cargo and project-cargo facilities, and we continue to think about new services.

What are your expectations for attracting downstream businesses in the next few years?

SMITS: It is an important role for us to attract new businesses to Sohar. We expect that the infrastructure and proximity to the petrochemicals cluster will attract downstream businesses. There is certainly a lot of interest from downstream industries, and I am confident that these industries will continue to grow. We will need to improve the infrastructure. We would like to attract businesses with a good ratio of energy use per employee. As we go downstream, we want to attract more jobs and will look for less capital-intensive industries.

Many industrial projects in Sohar require huge amounts of gas. How important is a reliable supply of gas to the success of the development of Sohar?

SMITS: It is very important to the continuing development of Sohar, and this has to be assured in the coming years. The government is doing its utmost to ensure that there is a reliable supply. There are certainly many companies who want more supplies and new companies waiting to see what will happen. We have concrete plans to import gas into the Port of Rotterdam.

How important is social infrastructure to the development of Sohar and the special economic zone?

SMITS: More and more people are now working here. We need houses, schools and hospitals, and these need to be developed in tandem with industrial development. We work closely with the government on this and know that it is vital to Sohar's success. This year we have seen the price of housing go up and know the pressure this has put on our own staff. We have established the Batinah Development Association where we discuss social infrastructure with both the industry and the government. It is different from other big developments in Oman, as it is not just driven by one company. We all need to work closely together to ensure that Sohar and the 4300 ha of land designated for the special economic zone properly develop in all areas.

Salalah

The Port of Salalah expands its handling capacity
The monsoon season a popular time of year for tourists
Free zone is the region’s most important development
Despite plenty of opportunity, challenges lie ahead

Port of Salalah, P.O. Box 369, Salalah, PC 211, Sultanate of Oman.
Tel: 23219500 • Fax: 23219540
For further details: www.salalahport.com • info@salalahport.com

Port of Salalah

The biggest development in the region is the Port of Salalah

Regional rhapsody

The appeal of a rapidly developing region continues to broaden

The Dhofar region in the south of Oman has a long and illustrious history for engaging seafaring merchants. Eight centuries ago, Marco Polo stopped in and made note of its prodigious trade with India and the Far East. Remains of the ancient city of Al Baleed, and the medieval frankincense trading port of Zafar are close to the centre of the modern city of Salalah, the capital of Dhofar governorate. Bold new developments are reinvigorating this historic port of call.

Salalah lies 1000 km to the south of Muscat, the capital of Oman. Bordering Yemen, the region is distinct from the rest of the country. The people of Dhofar speak a collection of southern dialects. The region even staged its own rebellion in the 1960s and 1970s – before Oman was pacified, modernised and revamped under Sultan Qaboos's auspices.

The area is famous for the copses of frankincense and myrrh that grow throughout the foothills and wadis of Dhofar's mountains. But it is perhaps best known across the Gulf for catching the edge of the Indian Ocean's south-west monsoon. Every year between July and September, the *khareef* rains now also bring with them thousands of tourists from the Gulf in search of moisture and cooler temperatures. The rains also produce verdant pastures that support sheep, goats, cattle and camels seen throughout the mountains. Across the Dhofar region some 60% of the population of 235,000 still depends on livestock and farming for their livelihood. Another 10% depends on fishing. The rains also provide water for lush plantations of bananas, papayas and coconuts along the coast. But industry and tourism are redefining Salalah and the Dhofar region.

PORT OF SALALAH: The lynchpin behind the industrial transformation is the Port of Salalah. It was opened in 1998 at Mina Raysut, which was previously the site of a small fishing port about 15 km south-west of Salalah. On a natural deep-water coastline, the port was built with the express purpose of putting Oman on the global shipping map. It is currently the only port between Europe and Singapore that can accommodate the largest class of container vessels, the S-Class. Its location, just a few hours sailing from the major equatorial trade route, has made it one of the fastest-growing trans-shipment container ports in the world, easily servicing India, the Middle East, and Africa.

The Salalah Port Services Company is owned by the Danish AP Moller-Maersk Group (30%), the government (20%), private business (19%), government pension funds (11%) and private investors (20%) through the Muscat Securities Market.

In 2006 its container terminal handled 2.4m 20-foot equivalent units (TEUs) and 1300 vessels. It can also handle bulk and liquid cargo. Throughput has been growing fast; between January and September 2007, loaded cargo at the port had increased 17.2% to 1.5m tonnes over the same period a year earlier according to Salalah Port. As a result, it has become one of the most important container trans-shipment terminals in the region. Shipping lines APL, CMA-CGM, Maersk Line, MOL and Safmarine use the port. The port also provides bunkering, warehousing and repair services.

The ever-increasing demand has meant continual expansion for several years. In 2007 a fifth container berth opened and another is under construction. "The sixth berth will be completed in spring 2008, taking the container terminal capacity to around 4.5m TEUs," said Gary Lemke, the chief executive of the Port of Salalah. Developments include the construction of a new breakwater, the dredging of a turning circle and 18-metre water depth at berths five and six – the current draught is 16 metres. The general cargo terminal has 11 berths. Liquid cargo is handled on a dedicated oil pier.

RAYSUT INDUSTRIAL ESTATE: Before the port ever became a reality, the Public Establishment for Industrial Estates (PEIE) opened the Raysut Industrial Estate just 6 km down the road from the site of the future port. The estate has slowly evolved into a 103-ha industrial zone that is now divided into 556 plots, that are 1200-2100 sq metres each. It is now extremely well placed to benefit the from its proximity to the Port of Salalah.

The Port of Salalah continues to grow. Its container terminal handled some 2.4m TEUs and 1300 vessels in 2006, and throughput increased 17.2% between January and September 2007. Capacity is expected to increase to 4.5m TEUs in 2008.

The khareef rains attract tourists from the Gulf and other countries every July-September

The expansion of the port has boosted demand. "Some 27 firms have applied to set up business on the estate. And six new firms are under construction," Hilal Hamad Al Ahsani, the PEIE's chief executive, told OBG. "The Raysut estate has attracted over OR33m ($85.8m) of investment." The 27 firms active on the estate employ over 800 people, making everything from cement and vegetable oil to flour and pharmaceuticals.

The estate offers a range of incentives. It makes investment and day-to-day operations much easier for firms since they can go through one channel for all queries. The PEIE's administration block provides a range of services from a post office and a bank to a mosque. One attractive feature is that gas is cheaper on the estate than off, and there has recently been some spare capacity, unlike the rest of Salalah. In 2006 a gas distribution project worth OR495,000 ($1.29m) to supply gas to the estate's firms when finished. It could attract new gas-based businesses, when a pipeline from the north to Salalah is in place in late-2008 or 2009.

But development of industry even with the assistance of the PEIE is not without its challenges. "The port of Salalah is convenient for our exports and import of materials," Ahmed Aqeel Al Ibrahim, the managing director of Salalah Medical Supplies Manufacturing Company, told OBG. "However, since the volumes of trade are not that high yet, tariffs can be expensive. It is cheaper to export our products to other Gulf countries via road, although as more industries locate in Salalah, we expect tariffs to come down as volumes increase."

Raysut Cement, the largest of the companies on the estate, has benefitted immensely from Oman's large-scale construction projects. It is currently the largest publicly listed industrial company on the Muscat Securities Market. It expanded and more than doubled its capacity in 2006. It was also able to increase production by approximately 72% to 1.8m tonnes, according to Khalid Abdoon, the company's chief marketing officer. Although he acknowledges the benefits of the port, he questions how competitively priced it is.

The Raysut Industrial Estate, located 6 km from the Port of Salalah, is also experiencing rapid growth. The estate is now home to 27 firms and employs approximately 800 people.

RAIN DANCE

Salalah's *khareef* and its associated festival have become major attractions for tourists from around the Gulf. In 2005 tourist arrivals increased nearly 15% to 240,000 during the khareef season alone. There is currently a mismatch of supply and demand for accommodation during the khareef. Many locals rent out their houses. But the poor quality of some accommodation during the festival has caused complaints. To address these concerns and demand, a string of projects have been initiated that will lead to $1bn worth of investment in the region's tourism industry over the next several years.

From its central role in the ancient frankincense trade to a number of religious sites, Dhofar's historical pull alone is impressive. The tomb and shrine of Nabi Ayoub, the biblical prophet Job, sits beside a small mosque on its own hill in the mountains overlooking Salalah. The reputed resting spot and shrine of Nabi Imran, the father of the Virgin Mary, is also in Salalah. Meanwhile the ruins at Samhuram, 30 km east of Salalah, are reputed to be those of the palace of the Queen of Sheba.

The Muriya Tourism Development Company and a partnership between Orascom – famous for its Red Sea tourist projects – and the government has ambitious plans for Salalah. Its multiphase Salalah Beach plan includes the development of a series of posh hotels, upmarket residential suits, a golf course and a marina. An 11-km stretch of coastline between Salalah and Taqah is to be overhauled for tourism. In 2008, a new Golden Tulip hotel will be finished. Between 2008 and 2010, a new OR10m ($26m) hotel will open in Mirbat. Salalah's existing Crowne Plaza and Hilton hotels will be expanded.

The area of beach along Salalah's undeveloped Corniche where schoolboys now play football in the sand along is also in developers' sights. The municipality is supervising a project to remove the collection of old homes along the Corniche and replace them with a new tourist-oriented beach front.

Salalah is served by an airport with domestic flights from Muscat and regional flights from Dubai, Kuwait and Doha. Charter flights from Sweden also bring tourists once a week during the winter. A new airport is due to open in 2010 that will serve 2m people a year. As well, the free zone should increase the arrival of business and corporate travellers.

"It is friendly, safe, hospitable – it has natural beauty and history," Osama Mohammed Mariam, of the Dhofar Tourism Company, told OBG. He worries not about the potential for tourism in Salalah; instead he worries about delays, indecision and the generally slow pace of business in the region. But ultimately this may be a major advantage to Salalah as a tourist destination – as that is exactly what tourists attempting to get away from it all want.

SALALAH FREE ZONE: The estate is not the only game in town for businesses hoping to get in on government-sponsored incentives. The Salalah Free Zone (SFZ), a government initiative, is being set up around the port. "The free zone provides a one-stop shop," Ahmed Mohammed Qattan, SFZ's marketing executive, told OBG. "Investors can arrange licences, permits and visas, and any other details with us."

The SFZ also provides many other benefits according to Qattan. "Businesses get a 50-year lease with an option to renew for another 50 years. Of that, profits and dividends are tax-free for the first 30 years, and there is no restriction on repatriation of capital or profits. We can even get Customs clearance fast-tracked. Moreover, foreign investments on the SFZ do not require Omani partners. Foreigners are allowed 100% ownership. There is no minimum capital investment required and no tax on personal income," said Qattan. Access to human resources is also a draw. "Here companies only require 10% Omanisation and 45% outside the zone," he continued. The free zone is counting on three major factors to lure clients. "The first benefit is being close to the port – this provides obvious synergies. The next is that Oman is a safe and stable country, especially here in Dhofar. And our fees are comparable or cheaper than our competitors," Qattan concluded.

The first phase covers 73 ha, but the entire project is planned to cover an area of approximately 2000 ha. This has been a long time coming – the idea has been floating around for nearly a decade. It was formally established by royal decree in 2006.

There are currently four companies signed up and the investment from these will total nearly $1bn. The companies so far include Octal Petrochemicals, Sohar Methanol, an autoparts manufacturing subsidiary of the Tata Group and a maker of energy drinks, with another 130 tenants on the waiting list.

"Our location in Salalah is key. It allows us to source our raw materials in the Middle East, process them and have them to markets around the world within two weeks," Nicholas Barakat, Octal's managing director, told OBG. "Our value proposition is collapsing the value chain, eliminating all the intermediaries on one site." Octal's $300m petrochemicals plant started producing amorphous polyethylene terephthalate (APET), used in packaging consumer products, in late 2006. It is the first major project on the SFZ – and has so far been very successful. It plans to capture about 20% of the world APET market in 2008. Although the SFZ has low Omanisation requirements, Barakat insists that employing locals is key to developing a sustainable plant. Octal has worked with the Salalah Institute of Technology to developing courses for its potential new recruits.

The development of the free zone is now being touted as the most important development project in Salalah, given the potential linkages for supporting and ancillary businesses outside the zone. Some forecasts suggested that it may directly provide 8000 new jobs – while indirect jobs could add up to 30,000. The SFZ is building accommodation, both villas and apartments, for staff. The SFZ is already planning an internet city for a future phase of the project. But first more businesses will have to set up shop in the port.

The regional government is working to upgrade infrastructure in order to make it easier to do business

The Salalah Free Zone is being hailed as the most important project in Oman to date. When finally completed, it could create as many as 8000 jobs directly and 30,000 jobs indirectly.

SALALAH'S CHALLENGES: Despite its potential, many executives that OBG spoke to have voiced concerns for the future. They said that decisions from the local government take too long and inadequate power and water supplies remain major stumbling blocks for investors. On top of that, given the surge in construction demand, it has become a challenge to find contractors, especially ones that can meet their deadlines.

Several businessmen outside the SFZ complained they and the community have felt left out of the free zone project. They said it was often difficult to tell what was happening and why the project has taken so long to get off the ground. Many complained there was a lack of transparent pricing for tenancy agreements at the SFZ, which they worried would keep investors away.

Many worry about the human resources-inflation challenge, given that so many workers in the region come from South Asia. "Even we are feeling the demand for technical staff. Inflation has meant that many of our employees have preferred to go back to India and Pakistan," Abdoon told OBG. "Inflation is affecting the whole country. But in Salalah it has doubled the challenge in getting and keeping human resources."

"Recruiting and maintaining quality staff is the toughest challenge," Octal's Barakat told OBG. The last thing employers want is for their freshly trained recruits to be plucked away by another higher-paying firm.

OUTLOOK: The region's strength lies in its location and its quick access to global trade routes. But its location is also its weakness, as it is poorly connected by land to other parts of the country and the wider region. The government is addressing connectivity issues by upgrading the highway and airport which, when delivered, will pay dividends in connecting industry with the rest of the country and in bringing in more tourists. The biggest threat is delays. Power and water concerns need to be resolved to impart confidence that Salalah can cope with the demands of growing industry and tourism.

The SFZ will compete with other regional ports and industrial zones

A natural advantage

The Salalah Free Zone must act soon if it wants to meet its potential

The port at Salalah is the only one in the region that can handle the super-sized E-Class container vessels that are becoming more and more prevelant in shipping channels.

A NEED FOR URGENCY: Just as the economies of the Middle East and Asia have grown, so has the sheer volume of goods that they send across the world. Going back 20 years, container ships plying the equatorial trade route would generally carry between 1500 and 1800 20-foot equivalent units (TEU). But with increased trade, ships have grown. Now the ships moving between Asia and Europe and further on to the Americas carry over 10,000 TEU. These ships have become so large that they have sized themselves out of many ports, and they are so bulky that stopping at several ports is out of the question during any one journey. Salalah has developed a bit of a regional niche in this regard. It is the only regional port that can deal with the super-sized E-Class of container vessels. This along with its proximity to the equatorial trade route gives it a major competitive advantage. Salalah is just hours off the main route, whereas ports in the Gulf require almost five days travel, to and fro. Calling in at Salalah can represent a considerable saving in costs. This combination of factors has rapidly put the Port of Salalah at the forefront of the trans-shipment business.

However, the potential advantage inherent in the combination of good location and hefty capacity has not been leveraged to its fullest. The next building block of developing Salalah as an industrial and trading centre, the Salalah Free Zone (SFZ), has not come to fruition smoothly or quickly. The SFZ was originally planned as a joint venture between the government, Salalah Port Services and Hillwood Development. Disagreements brought the partnership to an abrupt end. The project, however, continued on as a 100% government-owned company.

Initial discussions and plans for the SFZ were mooted in the late 1990s. Critics openly question why it has taken so many years to get the product to market. There are still only four companies with signed-up capital. Meanwhile, other free zones in the region continue to gobble up potential clients. For instance, Jebel Ali Free Zone in Dubai – the oldest and most established free zone in the region – continues to expand its already considerable trading and manufacturing capacity every year and has ambitious plans for the future. It is already the home of several international companies' regional offices.

Meanwhile, since talk of the Salalah Free Zone started in the late 1990s the Port of Sohar has been able to build and make operational a greenfield industrial port. Now Sohar has also announced that it will add a free zone to its burgeoning basic industries complex. Many wonder how the Salalah Free Zone will be able to compete with the economies of scale that Sohar will gain with the new development, and its reputation for productivity.

REGIONAL RIVALS: Then there are other ports in the UAE which are also growing quickly, such as Khor Fakkan in Sharjah and Fujairah. Some say that part of the problem is a lackadaisical attitude towards the project by officials, who maintain the notion that they are not in competition with other regional free zones.

The SFZ needs to act with urgency if it wants to build a strong portfolio of trading tenants and trading partners, several local businesspeople told OBG. They also worried that the municipality was not keeping up in providing infrastructure for the new development. "The SFZ should be responsible, liaising with the government and creating its own facilities. The flow of information between the different bodies has been a problem," one businessman told OBG.

"We will need attractive incentives for businesses, and not just direct requirements like power and gas, but indirect requirements like professional medical centres, schools and recreation facilities," a member of the local chapter of the Oman Chamber of Commerce and Industry told OBG. "If they do not provide these things, we will not be able to provide investors with what they expect. We are competing with other places that already have these things – just look at what Dubai already has for investors."

Media & Advertising

Liberalisation of print and airwaves continuing steadily
Introducing independent circulation auditing
Privately owned radio stations introducing competition
New ways of advertising gaining significant ground

The local market supports a variety of newspapers and magazines

Bloom time

Despite restrictions, the sector is steadily becoming more liberal

Like many of it neighbours, the evolution of the Omani media sector from state control to a free and independent press is proceeding at a cautious pace. Similar to other industries in the Sultanate, the current economic success of the country is providing a springboard for the development of the media. As a result, liberalisation and investment are breathing new life into the sector. This progress is especially important for media in that an increased bottom line will not only invite investment and boost profits, but could also lead to a greater deal of autonomy from the government as dependence on public subsidies decreases.

DEPENDENCE: After a number of delays, three new private radio stations are entering the market, the first independent audit of a print publication was carried out in 2007, and the Omani Journalist Association (OJA) marked its one-year anniversary in March 2007.

Since its inception in 2006, the OJA has sponsored numerous events designed to improve the quality of journalism in the country, including training workshops, lectures and seminars. Although there has been international support for the programme and participation from both Omani and non-Omani media representatives, there are still concerns about the organisation's integrity, given its ties with senior government members and the Ministry of Information (MoI).

Despite the progress made in recent years, many international observers are still sceptical of the independence of the press in a country that has long been characterised by strong government involvement in media outlets and a substantial amount of self-censorship by the press. The MoI still exerts a great deal of control over content and operates Oman's only TV and radio broadcasts – with the exception of the new radio stations that started operating in 2007 – as well as numerous print publications and the Oman News Agency. The Committee to Protect Journalists described freedom of the press in Oman as "either nonexistent or heavily constrained" and Reporters Without Borders noted "noticeable problems" in this regard.

The first independent circulation audit in Oman was carried out in 2007. The top weekly newspaper, *The Week*, underwent an audit by BPA Worldwide, which confirmed its circulation figure of 51,000.

PRINT: Spurred by its dominance as the medium of choice for advertisers, Oman currently supports numerous daily and weekly newspapers, as well as roughly two dozen magazines. Perhaps signalling a change of heart for Omani publishers, the leading weekly newspaper, *The Week*, decided to buck trends and became the first print publication in the Sultanate to get an independent circulation audit. US-based non-profit BPA Worldwide carried out the audit for its publisher, Apex Press & Publishing, and validated the existing circulation data.

"With the number of publications increasing, it has become more important for advertisers to know that they are getting the maximum return on their advertising money spend," Saleh Zakwani, the publisher and CEO of Apex Press & Publishing, said in an interview with the Arab Press Network. "The concept of auditing is relatively new in this part of the world, with the natural resistance to change and the fear of the outcome. With the increasing demands of advertisers to see support of publisher's claims, we expect changes to occur shortly within the Gulf Cooperation Council market."

Although newspaper circulation figures are difficult to verify without an independent audit, the Arab Press Network posted the following figures for the market. Established in 1971, *Al Watan* is the largest Arabic-language daily in Oman, with 34,000 copies per day. The *Oman Daily* is second with a circulation of 26,000 and is published by the state-run Oman Establishment for Press News Publishing & Advertising. Relative newcomer *Al Shabiba*, which began operations in 2004 and is published by Dar Muscat for Press Publishing & Distribution, ranked third with 15,000 daily copies. For English-language dailies, the *Times of Oman* boasted the largest circulation, with 34,000, and is also published by Dar Muscat for Press Publishing & Distribution. The *Oman Observer*, with 18,000, is published by the Oman Establishment for Press News Publishing & Advertising.

Weekly publications have become increasingly popular in recent years, none more so than *The Week*, with 51,000 copies. Other weeklies on the market include

Arabic-language *Al Isboua* (also by Apex Press & Publishing), *Al Nahda*, *Al Akidah* and *Nizwa* magazine.

BROADCAST: Liberalisation took a large step forward in 2007 with the much-anticipated arrival of Oman's first private radio stations. On May 3, 2007 Arabic-language Hala FM hit the airwaves and began competing directly with incumbent state-owned stations Al Shabab Radio, Radio Oman and Sultanate of Oman Radio.

The process was set in motion nearly four years ago when the Private Radio and Television Companies Law of March 2004 allowed private companies to own and operate their own stations for the first time and was followed up by the issuance of the first two radio licences in October 2005. Oman Holdings International was awarded one licence to operate both an English and an Arabic station, while the other licence went to the SABCO group for an Arabic station.

The competition should bring welcome change for listeners and advertisers alike as the new entrants provide fresh content and formats to win over the audience. "We have had a lot of talking on the radio till now," SABCO's chairman, Sayyid Khalid Al Busaidi, told local press. "With enhanced competition there will be less of this and more music." To this end, SABCO has been aggressively acquiring new content and has already purchased annual music rights from regional recording labels Rotana and Melody. While the entrance of private radio stations has marked a turning point in the market, the momentum is not expected to carry over into television mainly due to simple economics.

Although the Private Radio and Television Companies Law legally allows new entrants into the television market, the lack of high-quality production studios, generally low advertising revenue and a limited audience make turning a profit difficult.

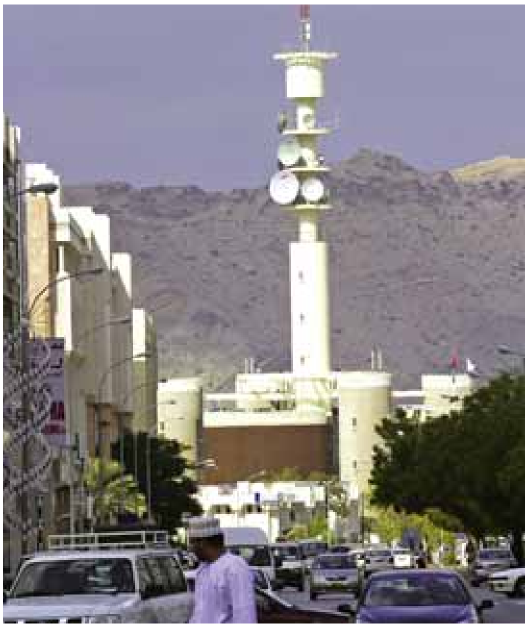
Since its inception in 1974, Omani television has been a government-operated affair beamed to even remote areas of the Sultanate. Over time, Omani television has been marginalised as larger regional satellite providers, such as the Pan Arab Network, moved in.

But despite the prevalence of foreign content, there is still a niche for locally produced television as the evening news remains the most popular show. In an effort to modernise its television operations and improve production quality, the MoI has recently embarked on a $32.2m upgrade which will yield four new television studios for Oman TV by late 2009.

MULTIMEDIA: Still in its infancy, internet-based media is developing along a different path than traditional media in Oman. While usage remains sparse due to low internet penetration, a growing number of Omanis – especially those of younger generations – are accessing a wider range of content through the web. Far from discouraging use of the new and more difficult-to-control medium, the government is pushing for further development of the internet through the installation of up-to-date infrastructure and the implementation of e-government programmes.

Although the internet does provide some freedoms not afforded to more traditional media, the government's "internet service manual" clearly outlines material deemed inappropriate for dissemination. And although detention and punishment are relatively rare, websites are monitored and operators continue to receive warnings from the government if posted content does not fall within the state's accepted guidelines. As with other media, the price for failing to exercise self-censorship can be quite severe, as evinced by the arrest and six-month detention of Omani resident Tiba Almauli after criticising the government on a website.

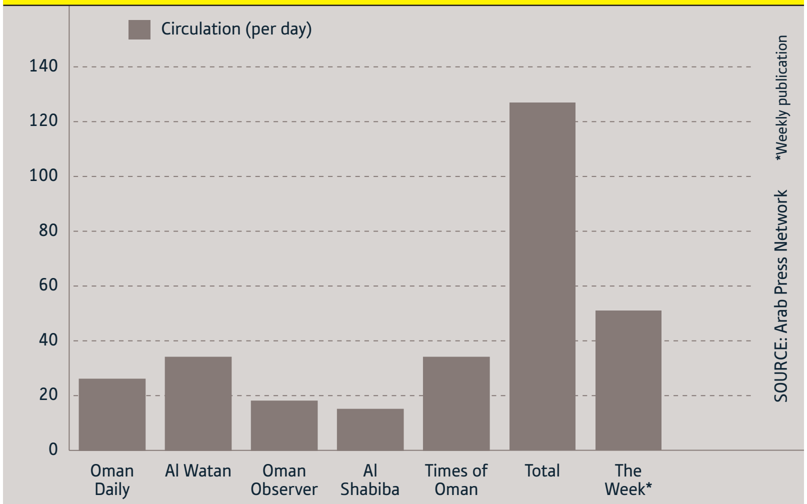
OUTLOOK: While moving slowly, Oman's media took significant steps towards liberalisation in 2007 – a move many hope serves as a sign of greater things to come. The future of radio looks particularly bright with the emergence of three private stations – ad expenditure which could spur a rebirth in the industry as competition breathes life into the once dormant sector. Television will take longer to develop, as it first has to muster the resources to pry viewers away from larger regional content providers. Print media remains steady, while the first independent circulation audit in the industry and the continued presence of the OJA should help strengthen the integrity of the sector over the long run.



Foreign giants and regional content dominate the television segment

Two players, Oman Holdings International and SABCO, entered the radio segment in 2007 after receiving the first two private licences in 2005.

Circulation figures, 2007 ('000)



Outdoor ads make up 1% of expenditure, but this is changing

Ready for more

With some adjustments, the sector could break out of old habits

As the economy grows, advertising expenditure is rising across many sectors. Financial services (which covers home loans) spent 32% more on ads in the first six months of 2007.

Looking at the current trends in Oman's advertising market, the sector acts as an indicator of the economy as a whole. As the Sultanate powers its way through a massive phase of real estate expansion, the advertising industry registered a 56% increase in real estate- and insurance-related advertising in the first six months of 2007, according to data from the Pan-Arab Research Centre (PARC). Financial services – a segment that includes home loans – experienced a 32% increase, while the traditional market share leader, government and organisations, increased its ad spend by 30%.

Telecoms advertising remains high but has stabilised while the retail sector continues to show strong growth. Accounting for 35% of spending, government and organisation advertising amounted to $49m in 2006, up 77% over 2005. Financial services was a distant second, with a 10% share and $13m, just edging out the vehicles, accessories and supplies sector by less than a percentage point. This was followed by shopping malls and retailers, with $11m (8%) and professional services with $10m (7%).

BIG PICTURE: Cumulative advertising spending amounted to $71m through the first half of 2007, or 9% more than what was spent in the first half of 2006. The increase comes on the heels of a 47.7% boost from 2005 to 2006. Although the 2007 figure represents an all-time high for the Omani advertising sector, it ranks eighth out of the 11 regional markets in PARC's index for ad spend in the first half of 2007.

According to PARC, total advertising to the pan-Arab market was worth $1.29bn, while ads in only the UAE accounted for $631m; Saudi Arabia, $492m; Egypt, $375m; Kuwait, $305m; Qatar, $156m; and Lebanon, $120m. Jordan ranked just below Oman, with $55m, followed by Bahrain, with $49m, as well as Syria and Yemen.

Cumulative advertising expenditure was $71m in the first half of 2007, or 9% more than that in the same period in 2006. Between 2005 and 2006 spending rose 47.7%.

Oman's once overlooked market has begun to attract attention from large international advertising companies. The Holding Company (THC) – a leading regional communications conglomerate whose stable includes advertising agencies Team Young & Rubicam and Intermarket, as well as PR companies ASDA'A and Polaris – set up a new office in Muscat in 2007. THG's CEO, Joseph Ghossoub, told the press, "We believe Oman is on a high-growth track and wants to establish a significant presence to offer our communications expertise and help our partners achieve better business results."

THG is one of many advertising and PR agencies currently expanding operations in the Sultanate, including: Buzzword-Action, Trans-Arabian Creative Communications, Advertising International Company, Muscat Promoseven, Asha Advertising & Marketing, Oman Advertising Agency, DDB Oman Advertising & Publicity and Paradigm Communications. Despite Oman's print-heavy market, TV advertising led in the region, with $1.37bn through the first six months of 2007, followed by newspaper ($1.26bn), magazine ($296m), outdoor ($81m), radio ($37m) and cinema ($5m).

PRINT: Although ad spend in the Middle East generally tends to be skewed in favour of print media, Oman's media split is disproportionately high. Its 89% share of the pie trails only Qatar's 92% in the region and has increased from 81% in 2006. Unfortunately, this high percentage has less to due with an overwhelming superiority in the quality of print media and more to do with a lack of viable competition from other alternatives.

Oman Mobile made a splash on the scene by increasing newspaper advertising more than 300% and spent $1.12m through the first six months of 2007 – knocking GSM competitor Nawras Telecom from the top spot in the process. The Muscat Festival ran a close second, with $1.1m in newspaper advertising, followed by BankMuscat, with $788,000; Toyota, with $783,000; and the National Bank of Oman rounded out the top five, with $727,000. The National Bank of Oman also captured the top spot in magazine advertising, with $70,000 spent through June 2007. Retail shopping centre Markaz Al Bahja came in second, with $58,000 in its first foray into the top 15. Health care service provider Badr Al Samaa ranked third, with $49,000; followed by Oman Mobile, with almost $49,000; and paint manufacturer Sadolin Paints Oman's $41,000. The exact income derived by newspapers and magazines is cloudier. Because of the widespread practice of offering discounts (typically starting at around 15%) to advertisers, true advertising revenue figures are difficult to gauge. Reasons for the discounts vary, but exaggerated circulation figures could be partly to blame, due to the shortage of independently audited publications. The practice has also spawned a trend which favours quantity (of the amount of the discount) over quality (accountable, high-value products).

"The challenge is to build confidence from advertisers in that they will get a good return on investment," United Media Services' CEO, Sandeep Sehgal, told OBG. "If audited for 100,000 circulation, advertisers still won't pay a premium price because there is no market. There needs to be more innovation, accountability and value-added services to displace the discounts."

TELEVISION: Hampered by a shortage of locally produced content, stiff regulations and a limited audience, the radio and television advertising segments continue to lag behind print. "TV is unaffordable. You don't get enough bang for the buck," said Radha Mukherji, the executive director of DDB Advertising and Publicity Company. "It's not feasible to use pan-Arab advertising – it's too big and expensive for Omani products." Advertising rates for pan-Arab media – such as the major TV providers for the region – are cost-prohibitive for the vast majority of firms looking to specifically target Omani consumers, while the limited local channels are generally not cost-effective for local companies either.

Production quality of radio and TV commercials has also suffered, due to a lack of investment in technology and talent. Until production houses can generate revenue streams from advertising using other avenues, they will be unable to be able to produce material up to the standards that advertisers demand.

One quirk in the broadcast market is its two-tiered pricing system differentiating between Omani advertisers and foreign advertisers. The regulation is a remnant of the era of radio and television advertising in the early 1990s, when government advertising subsidies were put in place to make Omani companies more competitive with larger international ones. Although the subsidies stopped in the mid-1990s, two separate pricing systems remain, meaning that a local company will still pay OR200 ($520) for a 30-second commercial spot while a foreign firm will pay OR600 ($1560).

Another weakness of broadcast media is the continued reliance on a few key time slots for the majority of advertising revenue. In the television market, about 36% of advertising dollars were spent on commercials aired during the evening news, with the next closest time slots capturing 16% (overnight), 14% (early evening) and 13% (primetime evening) of the spending.

The same trends affect the radio segment, with the majority of desirable slots occurring during the morning and evening rush hours. For these reasons, radio and television will continue to be limited to supplemental roles in advertising, rather than act as effective, stand-alone media like in more developed markets.

Oman International Bank is the country's fifth-largest advertiser

Following this, the majority of top television advertising spenders also rank high in terms of spending in other media. Financial institutions displayed an affinity for television advertising in 2007, accounting for three of the top six spenders. Oman International Bank led the way, with $702,000 in TV advertising for the first half of 2007 (a 72% increase on the previous year), followed by the Muscat Festival, with $472,000. BankMuscat was third, with $470,000 spent, followed by Bank Dhofar, with $431,000, and Gulf Air, with $323,000.

ALTERNATIVES: Although alternative media currently make up just a fraction of the total advertising spend in Oman, their future potential for growth is great enough for many advertisers to take notice. So far, one of the biggest hindrances to advertising growth in this platform is the limited audience clients can reach through the internet, due to low penetration.

As of September 2007, there were a grand total of only 67,000 internet subscribers in the country, or roughly 2.56% of the population, although the number of actual users is estimated to be more than 10%. The adoption of technology is also starting to have an

There is still a two-tiered system in TV advertising that enforces lower prices for domestic companies than foreign ones. Foreign companies often pay three times what local firms pay for the same slot.

Top 10 advertisers, 2007 ($ '000)

Brand	H1		2006 & 2007		Media split - H1 2007 (%)			
	2007	2006	Total	Average	TV	Newsp	Mag	OT*
Muscat Festival	1584	1281	2865	1433	29.87	69.6	0.55	0
Bank Muscat	1312	1851	3163	1581	35.81	60.08	0.98	3.12
Oman Mobile	1213	316	1529	764	0	92.36	3.96	3.66
Toyota	1059	1198	2257	1129	9.21	73.95	3.7	13.16
Oman Int'l Bank	1053	954	2007	1003	66.65	23.09	3.19	7.06
Nat'l Bank of Oman	871	504	1375	688	0	83.52	8.08	8.42
Bank Dhofar	836	740	1576	788	51.6	48.11	0.31	0
Nawras Telekom	821	2080	2901	1450	8.85	86.98	4.14	0
Global Inv House	606	46	652	326	0	100.04	0	0
Port of Salalah	585	351	936	468	0	99.97	0	0

SOURCE: PARC

*OT=Radio+Outdoor+Cinema

Each of the top six outdoor advertisers increased their spend by at least 207% over the previous year

effect on the market as new platforms such as GSM and internet communication begin to pick up steam. Bolstered by government efforts to implement e-government programmes and foster knowledge-based industries, opportunities for private companies are cropping up in the form of e-payment and other portals, which will also serve to improve transparency and accountability across the board. While GSM advertising may be more cost-efficient due to its inherent ability to target narrow market segments, this part of the market has yet to be fully exploited and will likely require additional regulation in the near future.

Outdoor media is another small but rapidly growing advertising segment, accounting for less than 1% of all spending in the first six months of 2007.

Two major trends are emerging in the medium, the first being the rapid growth in sales, because each of the top-six advertisers increased spending by a minimum of 207% over the previous year; and second, outdoor advertising has become the medium of choice for the nation's thriving automobile market, accounting for four of the top-eight advertisers.

Toyota was the top spender in the category, with \$91,000, followed by Oman International Bank, with \$74,000; National Bank of Oman, with \$58,000; Nissan, with \$39,000; and Oman Mobile, with \$27,000. The major drawback to this segment is the strict government control over building codes and significant restrictions on the placement of signage.

OUTLOOK: Spending on advertising in Oman should increase as the economy continues to grow, particularly in the financial services, retail and real estate sectors. With few viable alternatives to newspapers and magazines, print advertising will most likely continue its to dominate for the foreseeable future. Radio and television will continue to lag, due to their small audiences and very limited production capacity. Although still in its infancy, there are increasing opportunities for advertising using multimedia campaigns and e-commerce through the internet.

The practice of advertising in niche segments using events has proved quite successful in Oman, where traditional mass media ads are not as cost-effective as in many other markets.

MAKE A CONNECTION

For a number of reasons – including the overall size of the market and the development of its media – Oman's market has developed in a different direction than most, even compared to many of its peers in the region.

Unlike more developed markets, the convention does not rule as print advertising, rather than television, dominates the market. But even more than that, below-the-line advertising – which relies on making a connection to buyers through face-to-face interaction such as conventions, roadshows, fairs and so on – is often more cost-effective and popular in Oman than conventional above-the-line campaigns relying on mass media to deliver the message.

This necessity of connecting with the audience directly and in niche segments has led to a surge in sponsorship-ready events including road shows, car shows and test drives, office golf, corporate challenges and holiday fairs – all ripe with sponsorship potential.

Feeding into the country's affinity for sponsored events, the Muscat Intercontinental Hotel hosted the mother of all advertising events –AdEaters – in October 2007. The two-day advertising fair featured international television commercials, as well as entertainment, including musical performers, dancers and raffle prizes.

Sponsors of the event ran the gamut of business in Oman, including everything from airlines to poultry processors, and read like a laundry list of who's who in the Sultanate: Bank of Sohar, *Times of Oman*, Nawras, Oman Air, Pizza Hut and numerous other big names.

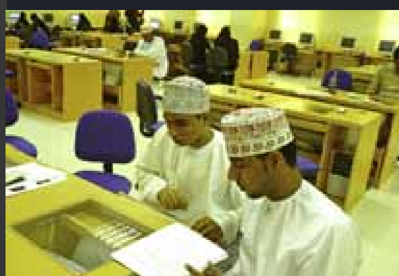
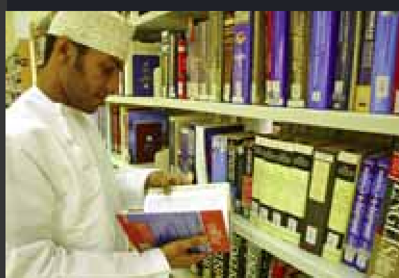
There were official partners for everything ranging from the event's insurance to lighting and sound, call centres to food and drink vendors. Not content to sponsor other events, United Media Service's "Oman Economic Review (OER)", a local business newsletter, cut straight to the core of the event by inventing and sponsoring another all its own. Now in its 10th year, the annual OER corporate challenge features 240 participants on 30 teams competing in two days of mental and physical competitions. Perhaps more importantly, it has managed to attract sponsorship from high-profile advertisers including Oman Mobile, Jeep, *Times of Oman*, Axa Insurance, Panasonic, Avis, DHL, Hewlett Packard and others.

"You need to connect with the audience. There is a different kind of market here, and mass media doesn't work so well," United Media Services' CEO, Sandeep Sehgal, told OBG. "Convention does not rule here, so you need to create perceptions through niche vehicles that have more opportunities for direct connections to people."

Health & Education

New care strategies for changing population
Private health segment continues to expand
Education sector implements new standards of quality
Technology helps students apply to universities




Specialised care and services are diversifying the sector

A clean bill

The relatively young sector tackles challenges as the market expands

The sector has shown dramatic improvement across all indicators thanks to the country's first five-year health plan, which was implemented in 1976.

The concept of organised health care in Oman – in terms of state-sponsored service – is relatively new in that it has only existed in the Sultanate since 1970. But what the industry lacks in experience it has compensated for with results. Health indicators across the board have improved consistently since the first five-year health plan was implemented in 1976. Since 1970 life expectancy in the Sultanate has increased over 50% from 49.3 years in 1970 to 74.3 years in 2006.

The infant mortality rate has been reduced by at least 10% annually over the past 10 years to a rate of 10.25 per 1000 people, and it continues to decline. The under-five mortality rate decreased from 181 to 11.02 and the stillbirth rate dropped by half from 16.6 per 1000 people in 1980 to 8.3 in 2006. Other health figures serve as examples of the social and economic evolution of Oman. The crude birth rate and total fertility rate dropped from 50 and 10.13 per 1000 inhabitants, respectively, in 1980, to 24.17 and 3.19 per 1000 in 2006.

HARD MEDICINE: Despite significant progress, both old and new challenges remain in the sector. Currently the most pressing health care needs are similar to those of all nations: combating non-communicable diseases; the shortage of qualified health care personnel; and, the increasing costs of health care. Historically the government has supported the rising demands and expectations of health care in the Sultanate, as well as granted access to a wide range of health facilities to Omanis and expatriates alike. But with a population increase of more than 22% over the past decade, a figure that continues to grow, the Ministry of Health is beginning to consider financing alternatives including compulsory health insurance and increased private sector participation.

In 1970 the entire Sultanate was serviced by only two hospitals. That number has since increased to 57, with 5319 beds nationwide.

"There is considerable interest by the government to explore options to expand the level of cost-sharing by Omani citizens and expatriate workers for health services," Mohammed Hassan bin Ali, the undersecretary for planning, told OBG. "However, no firm decision has yet been taken to adopt such a policy. As of now private individuals and companies are free to take up voluntary health insurance schemes in which the Ministry of Health has no specific role."

HEALTH CARE FOR THE MASSES: Publicly financed health care makes up the vast majority of all health services in Oman, accounting for 95% of all hospitals and 98% of available beds. Because Omanis pay only OR1 ($2.60) annually and a 200-baisa ($0.52) administration fee for medical treatment, increases in both population and healthcare costs have spiralled upwards. In order to keep pace, Ministry of Health expenditures have increased every decade and peaked in 2006 at OR210.6m ($547.6m) after reaching OR145.7 ($378.8) in 2000. These figures represent 4.7% of total 2006 government expenditures, down from 6.2% in 2000, although per capita expenditure rose to OR81.7 ($212.42) in 2006 compared to OR60.7 ($157.82) in 2000.

Over the past four decades, 57 hospitals have been established, which represents a significant improvement from 1970 when the entire country was served by only two hospitals. There were 5319 hospital beds nationwide in 2006 for a ratio of 20.6 beds per 10,000 Omanis, up from 5190 in 2000 (21:10,000) and just 12 in 1970 (0.2:10,000). Following one of the key goals of the seventh five-year plan for health development, which outlined strategies for delivering high-quality primary health care to the entire population, the minister of health, Ali bin Mohammed bin Moosa signed contracts in November 2007 to build six new state-of-the-art polyclinics for a total cost of OR20m ($52m). Existing health complexes in the *wilayats* of Sohar, Nizwa, Ibra and Sur will be replaced with four new polyclinics, while the other two health polyclinics will be constructed in the Seeb and Al Buraimi wilayats.

These new clinics will address one of the most difficult dilemmas currently posed to the Ministry of Health – the logistic and financial challenges of providing health care to the 2.6m residents living in the

PRIVATE ALTERNATIVES

Private health care still makes up only a small slice of the sector in Oman, although the number of private clinics in the country has grown from 255 in 1985 to 737 in 2007. After initially being restricted to elementary health services because of a limited number of facilities, the private sector has since expanded into primary health care and specialised medical services. By the end of 2006 the sector included five hospitals, 373 general clinics, 182 specialised clinics, 340 pharmacies, 123 dental clinics, 50 traditional medicine clinics, two medical laboratories and two MRI centres.

A big part of the recent expansion of the private sector has been the result of concerted government efforts to develop an alternative health care system, thus easing the growing financial burden on public infrastructure. "We are treating the health system the same as other industries," Mohammed Hassan bin Ali, the undersecretary for planning, told OBG. "We are offering soft loans as well as land."

Muscat Private Hospital is a prime example of public/private cooperation in the sector. Operating since 2001, the hospital focuses on outpatient and specialised care such as delivery, prenatal, nursing, critical care, intensive care and orthopaedics. Its inpatient capacity is 60 beds.

"We are not out to compete with the government, but to compliment their services and also to take some of the expatriate population that don't qualify for elective procedures," said Dr. Mohd Ali Jaffer, chairman of Oman Medical Projects Company, which owns Muscat Private Hospital.

In addition to encouraging investment in the sector, the government is allowing publicly employed doctors to moonlight at private facilities. This law has had a huge impact on the private sector as more than three-quarters of doctors working in private practice are part-time employees, whom the clinics do not have to pay the same high wages a full time employee would earn.

In 2006 there were 1044 doctors employed in the private sector, more than double the 517 working in 1995 but still far fewer in number than the 4579 working in public health care facilities. There were also 304 dentists, 598 pharmacists, 813 nurses, 31 physiotherapists, 221 laboratory technicians and 207 paramedical personnel

Another regulation designed to nudge patients towards the private sector is the law stipulating that non-Omanis be treated in private facilities except in the case of emergency or specialised services. The impact of this policy has been strengthened in recent years as the number of expatriates living in Oman has ballooned from 539,400 in 1995 to 693,486 in 2006, and now comprises 26.9% of the country's population.

Improved training programmes ensure that the number of medical staff is increasing in the Sultanate

less-developed rugged mountain interior and removing the strain on hospitals. In addition to these four new clinics, 16 others have been constructed across the country in areas with a population in excess of 20,000. Future polyclinics will be developed in even less populated areas – those with 10,000 or more residents – as well as a new 200-bed psychiatric hospital located in Seeb and a referential hospital in Duqum. In total, the seventh five-year plan calls for a total of OR78.5m ($204.1m) to be spent on 41 development projects.

SHIFT IN FOCUS: Like the ancient hydra of Greek mythology, which grew two new heads for each one that was severed, new health care problems arise as soon as the old ones are conquered. As the focus of health care moves away from communicable diseases, new priorities arise such as prevention, education and non-communicable diseases.

"There are three determinates in health care. The first is the health behaviour of the population, which comes with awareness and education. The second is a safe environment, including water, sanitation, etc. The last determinant is health service," Mohammed Hassan bin Ali told OBG. "Demographics are changing. The percentage of older people is increasing, so the number of programmes aimed at the elderly are too. There are not many now, but there will be as people live longer."

In 2006 just 3.59% of the population was 60 years of age or older, but 3.71% were between the ages of 50 and 59 with another 5.99% between 40 and 49. These population demographics, combined with longer life spans and constantly improving medical care, are expected to push the percentage of those aged 65 and over to 10% by 2025 and 20% by 2050. To prepare for this future bubble, a national strategy for elderly care has been devised within the Ministry of Health and a number of initiatives have already been instituted. Home health care projects providing the elderly with medical aides and other assistance are already in place in Nizwa and the ➔

Although the private sector makes up a small percentage of the industry, it is expanding to include primary health care and specialised medical services.

The sector is beginning to prepare for an older population as it is projected that 20% of Omanis will be aged 65 and over by 2025. As such, a national strategy for elderly care has been established.

Ali Moosa

Think local

OBG talks to Dr Ali Moosa, Minister of Health

What is the ministry doing to attract investment from reputable companies in the private sector?

MOOSA: Initially, the role of the private sector in health care provision was limited, due to the small number of clinics. Private clinics only delivered basic services since demand was not sufficient. Over time the country has gone through rapid socio-economic developments in the health care sector. This has encouraged the private sector to play an increasingly important role.

There were 214 private clinics in 1983, with 256 doctors and dentists in the private sector. This development prompted the Ministry of Health (MoH) to establish a Directorate of Private Health Establishments Affairs (DPHEA) with two sections: inspection and follow-up and licensing. It also created standard procedures and specifications for private clinics and hospitals, along with committees to monitor them.

As a gesture of support for the private sector, the MoH permits its medical consultants to work in the private sector after working hours. It is believed that development of the private sector, alongside the public health system infrastructure, has been a factor in significantly reducing the number of patients seeking medical treatment abroad.

The policy of the government, and specifically the MoH, is to encourage investment by the private sector in the health care industry. The MoH extends technical advice and cooperation to entrepreneurs setting up hospitals, clinics and pharmacies in the private sector. With regard to the private hospitals, monitoring is undertaken at all stages, from the planning and construction phases to the actual operational phase. MoH provides technical protocols and assists in the selection and licensing of doctors, nurses and paramedic staff. It also advises private hospitals on various protocols about patient care, and ensures through periodic visits that the hospitals function within them.

In addition to technical support, the government, and the MoH in particular, has developed a number of strategies to encourage the private sector to invest in health. This is accomplished through the ministry suitably restricting its own health care package.

Cosmetic, dental and a wide range of minor surgical procedures for expatriate non-government employees are only provided by private hospitals. The private sector institutions usually undertake laboratory tests, radiology and other similar treatments as well. Banks provide soft loans for health care industry investments. Drug prices are fixed, information regularly disseminated and monitored in order to benefit consumers and ensure fair trade practices. MoH also privatised its non-medical support services, such as catering for patients, cleaning services, laundry services, hospital maintenance, transportation and security.

How will the ministry work with the insurance industry and the Capital Market Authority (CMA) to improve Omani health insurance?

MOOSA: In spite of the rapid expansion of the Omani health care system in the last 35 years, the demand for services and the expectations of users and providers continue to rise. The pressure for more development is a reaction to the continuing advancement of medical technology. That's why the MoH started to consider different financing options to enhance revenues for the sector, which is financed largely through general revenues with limited cost-sharing by the general population. Omani citizens and expatriates employed in the public sector are charged minor user fees and receive access to a wide set of benefits from national health facilities. Employers of private sector expatriates are obligated to cover their workers either by paying fees directly to public or private health facilities or by purchasing private health insurance.

Given the uncertainty of future oil and gas revenues and the projected increases in health care costs, the government is interested in exploring different means to expand the level of cost-sharing that Omani citizens and expatriate workers contribute for health services. One of these options is compulsory health insurance.

However, no final decision has been taken yet to adopt such a policy. Individuals and companies are free to take up voluntary health insurance schemes in which the MoH has no specific role. The insurance industry is encouraged to promote such voluntary insurance and seek the support of the Ministry of Commerce and Industry, under whose jurisdiction falls the health sector, the CMA and other statutory bodies.

How would you describe the availability and qualifications of medical professionals in Oman?

MOOSA: The MoH has always made developing the national human resources for the health sector a high priority. The Omanisation level, or the percentage of employees who are nationals, in the Ministry of Health has now reached 67%. It already has almost total self-reliance in support staff.

Omanisation varies among medical and technical staff depending on the availability of educational facilities in the country. The MoH has invested substantially in educating and training nationals in nursing and other allied health professions. In the early 1990s the ministry laid more emphasis on establishing nursing institutes in Muscat and other regions.

Additional educational institutes and programmes were formed in the allied health professions to provide training for such positions as assistant pharmacists, laboratory technicians, radiographers, dental surgery assistants, physiotherapists, health educators, sanitarians and medical records technicians. The MoH now runs 15 institutes. They include 12 basic nursing institutes and three paramedical institutes.

One of the two nursing institutes at Ibri was closed as the Omanisation level approached 100% for the Adh Dhahira region. Altogether, 493 nurses graduated in 2006 with a basic diploma, and 187 nurses acquired additional qualifications from the country's Specialised Nursing Institute. The availability of local educational facilities in nursing and other allied health professions has significantly helped to raise Omanisation levels. So far, 5717 nurses have graduated from MoH nursing institutes. In 1990 there were 406 Omani nurses working in MoH institutions, and the Omanisation level in the nursing profession was only 11.6%. By the end of 2006, there were a total of 5104 Omani nurses representing an Omanisation level of 63%.

Another 7743 health professionals graduated from other specialised education institutes. These fields, include 459 laboratory technicians, 325 radiographers, 119 physiotherapists and 538 assistant pharmacists. Consequently, the Omanisation levels in these professions have risen to 53%, 61%, 67% and 68%, respectively. Of the 3251 physicians who are now working in the MoH institutions, there are 886 Omanis, which translates into a 27% Omanisation level.

Local physicians study at the Sultan Qaboos University College of Medicine and Health Sciences, Oman Medical College, and to a small extent from universities abroad. There have been many efforts to increase the number of graduates. The Sultan Qaboos University is accepting more applicants into its programme to meet the increased need for physicians and to promote Omanisation within this category. MoH permits the use of its Sohar Regional Hospital as a teaching hospital for the Oman Medical College and is collaborating with Sultan Qaboos University to sponsor the Oman Medical Specialty Board with the training of physicians in a number of specialties, including family and community medicine, child health, internal medicine, psychiatry, ophthalmology, general surgery, obstetrics and gynaecology, dermatology, emergency medicine, anaesthesia, clinical pathology and radiology.

MoH also provides opportunities for overseas and on-the-job training to young Omani physicians. Rapid development in health care technology, the limited numbers of medical graduates produced in the country, and the long lag in producing specialised physicians put constraints on the Omanisation of physicians. However, the Omanisation level today is 27%, and it is expected to rise as the number of graduates increases.


Two new MRI centres are the result of private sector expansion

The number of doctors and nurses practicing in Oman has increased ninefold over the past three decades, thanks to sustained efforts to develop human resources.

➔ Al Amerat wilayats, and a needs assessment of the elderly living in the interior region was carried out in 2006. Other programmes to be put in place include more hospices and home visits, a database of the elderly population and new training and geriatric curricula to increase awareness among primary health care workers specialising in elderly needs. In order to reduce the incidence of age-related ailments such as cancer and heart disease, the Ministry of Health is devoting significant resources to prevention and education.

As part of these efforts, the ministry recently trained and sent 150 health educators out into the community to spread awareness and education, as well as airing health-themed programming on Oman TV. Teachings are based on the "Facts of Life" curriculum developed in conjunction with UNICEF. While the young health care system has been more concerned with the application of primary health care services to date, new efforts are being made to promote previously neglected fields of research. To start with, studies will be directed towards epidemiology and administrative health systems with more clinical research planned for the future. The ministry is currently working on a world health survey, and the newly minted Scientific Research Council in Muscat could provide a good start for future projects.

LABOUR: As with the rest of the health care sector, the number of professionals working in the Sultanate has increased many times over during the past few decades. During 2006, Oman employed 4579 doctors, 1321 more than in 2000 and nearly nine times as many as were employed in 1980, when the count was a paltry 514. Many of the doctors currently working in Oman come from the Indian subcontinent, while roughly 27% graduated from local programmes at Sultan Qaboos University College of Medicine and Health Sciences, the private Oman Medical College and various overseas programmes.

Through sustained efforts to develop human resources in the country, the health sector has reached a 67% Omanisation level, but is still susceptible to the global shortage of qualified health care workers. In addition to the previously mentioned schools for physicians, there are also 16 training institutions run by the Ministry of Health, 12 of which are nursing schools. In 2006 these schools graduated nearly 500 nurses with basic diplomas and another 187 with post-basic qualifications from the Specialised Nursing Institute. Keeping up with international standards, nursing and other technical medical specialty programmes taught in these schools are developed in conjunction with Villanova and George Mason universities in the US.

The Ministry of Health's training programmes have had a significant effect on the sector, increasing the total number of nurses in Oman from 1096 in 1980 to 9615 in 2006. Over the same period of time, the ratio of nurses per 10,000 population has increased from 10.8 to 37.3. In addition to domestic training programmes, specialty programmes have been developed with the Royal College in the UK along with others in Australia, France and Germany, to train doctors abroad in post-graduate courses.

OUTLOOK: Oman's commitment to health care has resulted in dramatic improvement across all medical indicators over the past few decades. However, as much of the basic health care needs are addressed by the ministry, a host of more complicated and costly challenges present themselves to the industry, such as establishing proper care in preparation of the rising age of the population or the ensurance that hospitals are staffed with qualified medical experts. While the government's deep pockets have been able to sustain the rapid expansion of health care so far, a growing population and rising costs have persuaded the government to seek more private sector alliances. Driven by the rising demand of expatriates and a growing Omani middle class, as well as substantial support from the state, the private sector will see significant growth in the coming years. The implementation of compulsory insurance for some segments of the population, such as expatriate workers, is also a strong possibility in the coming years.

Health care workforce (1990-2006)

Indicators (per 10,000 pop.)	1990	1995	2000	2005	2006
Doctors	5.9	8.6	9.4	11.9	12.6
General practitioners	4.1	5.7	5.9	7.3	7.8
Specialists	2.1	2.9	3.5	4.5	4.8
Dentists	0.3	0.4	0.4	0.7	0.7
Pharmacists	0.2	0.3	0.3	0.6	0.7
Nurses	22.1	24.5	27.6	31.5	31.6
Physiotherapists	0.2	0.3	0.5	0.5	0.6
Radiographers	0.8	0.9	1.1	1.6	1.8
Laboratory technicians	2	2.5	2.9	3.5	3.6
Asst pharmacists	1	1.6	2	2.8	3
Nurse : doctor ratio	3.5	2.8	2.9	2.7	2.5
Medical officer : specialist ratio	2	2	1.7	1.6	1.6

SOURCE: Ministry of Health

The Ministry of Higher Education operates six colleges in the country

Watch and learn

The government is focusing on quality over quantity

As basic educational service is extending its reach throughout the country, literacy rates in Oman continue to improve. The government is shifting its focus away from the quantitative aspects of education to its more qualitative components. The first students are emerging from the new basic system of free education, and retooling of the regulation and quality controls of higher education is just beginning. Private education is also beginning to find its way into the sector, particularly in higher education, as government incentives and rising profits attract international institutions to Oman. As an example, stock for Sohar international school owner/operator Oman Education and Training Investment Company (OETI) increased 284.94% in 2007.

Since the first five-year plan for education was initiated in 1976, the number of public schools has increased from 261 in 1976 to 1056 in 2006. In the same 30-year period the number of teachers has increased almost 15 fold from 2553 to 37,500. In order to fund this expansion, the Ministry of Education's total budget has grown to OR449m ($1.17bn) for the 2005/06 academic year.

During this time, adult literacy continued to improve with the latest recorded figures indicating an overall literacy rate of roughly 75% and a considerably higher rate among the younger population.

"Oman has come a long way in a short period of time, although there is still a lot of catching up to do. At this pace, however, it will get there soon." Barbara Stauble, a project advisor at Oman-German University of Technology (OGTech) told OBG.

THE BASICS: Since 1999 there has been a gradual shift away from the three-tiered general education system (consisting of the primary grades one-four, preparatory grades five-nine and secondary grades 10-12) towards the new unified basic model. Oman's new approach to basic education takes a two-pronged approach: a traditional general education programme based on a 12-year curriculum; and, an alternative, 10-year basic education system initiated in the 1998/99 academic year. Created to be more adaptive to the changing educational environment, this basic programme is made up of two cycles – basic and post-basic – which are tailored to the specific needs and opportunities of the region in which the school is located.

During the 2006/2007 academic year (the first year to graduate students from the basic curriculum), 355,232 students were enrolled in general education while 212,842 students participated in the basic programme. As more students go through the system, the weight of these numbers should reverse as enrolment in grades one through four of general education amounted to 46,287 while a total of 120,828 were participating in the basic programme.

There were 1056 general and special education schools operating in Oman in 2006, compared to 967 in 1996. Over the same decade the student body increased from 502,674 to 568,074 and the number of teachers grew from 22,693 to 37,500.

A much smaller proportion of students attended private schools, with 28,253 students enrolled in 158 private schools nationwide for the 2005/06 academic year. Unsurprisingly, the vast majority of these schools are located in Muscat, with approximately 15,585 students attending 64 schools and educated by a teaching staff of 2250; 1721 in basic education schools, 529 in kindergartens and none teaching in the general education programme.

HIGHER EDUCATION: Oman's first public university, Sultan Qaboos University (SQU) was established as recently as 1986. The public higher education system is still relatively limited and young. This leaves the majority of higher education to the private sector and overseas study. The Ministry of Higher Education now operates six colleges including Rustaq Education College and the Ibri, Nizwa, Salalah, Sohar and Sur specialised colleges. The Ministry of Manpower also operates technical colleges in Nizwa,

The number of public schools has increased from 261 to 1056 since the first five-year plan for education was implemented in 1976.

As of 2006 there were 1056 general and specialty schools in Oman

In order to improve the quality of higher education, the government has compiled a bevy of attractive incentive programmes to entice private investment.

Ibra, Salalah, Shinas, Musanna and Muscat, and the Ministry of Health is affiliated with 16 nursing institutes, the Oman Institute of Public Health, the Oman Assistant Pharmacy Institute and the Institute of Health Sciences. Finally, the Central Bank is associated with the College of Banking and Financial Studies, and the Institute of Sharia Sciences is affiliated with the Ministry of Awqaf and Religious Affairs.

Excluding the 15,000 students that are attending SQU, 7748 students were registered in Ministry of Higher Education colleges for the 2006/07 academic year, with 1882 graduating and another 1893 admitted. There are currently 23 private institutions of higher education operating in the Sultanate. A grand total of approximately 20,353 students were enrolled in 22 institutions during the 2006/07 school year, consisting of 19,590 Omanis and 763 non-Omanis. The top-five draws were Nizwa University with 2577 students, followed by Sohar University with 2167 students, Middle East College with 1799, Dhofar University with 1564 and Caledonian College for Applied Sciences with 1242. Apart from the required foundation and pre-requisite programmes, the most popular fields of study were commerce and administrative sciences with 5938 students, computer science with 3964, engineering with 2788 and literature with 1459.

Students in tertiery education, 2006/07

	Omani			Non-Omani			Total		
	M	F	Total	M	F	Total	M	F	Total
Foundation programme	1367	1043	2410	38	2	40	1405	1045	2450
Medicine	54	372	426	26	32	58	80	404	484
Health science	22	199	221	0	0	0	22	199	221
Pharmacology	37	401	438	7	12	19	44	413	457
Engineering	1814	663	2477	243	68	311	2057	731	2788
Computer	1706	2174	3880	49	35	84	1755	2209	3964
Literature	151	1295	1446	3	10	13	154	1305	1459
Commerce and administrative sciences	2823	2901	5724	129	85	214	2952	2986	5938
Education	164	838	1002	0	1	1	164	839	1003
Science	164	518	682	4	14	18	168	532	700
Languages	45	526	571	0	1	1	45	527	572
Other subjects	64	249	313	1	3	4	65	252	317
Total	8411	11,179	19,590	500	263	763	8911	11,442	20,353

SOURCE: Ministry of Higher Education

A total of 2570 students graduated from private universities and colleges at the end of the 2006/07 academic year, while nearly three times as many (7492) were admitted. Of those registered, 11,442 were women, compared to 8911 men. With a mandate to improve the quality and scope of tertiary education, the government has put together enticing incentive packages to attract private investment in the sector. Furthermore, to reduce the substantial initial outlay costs associated with opening a new university, the government has started to provide land grants, tax exemptions, an initial OR3m ($7.8m) matching capital grant and another OR17m ($44.2m) grant to new private universities for the purpose of improving overall quality.

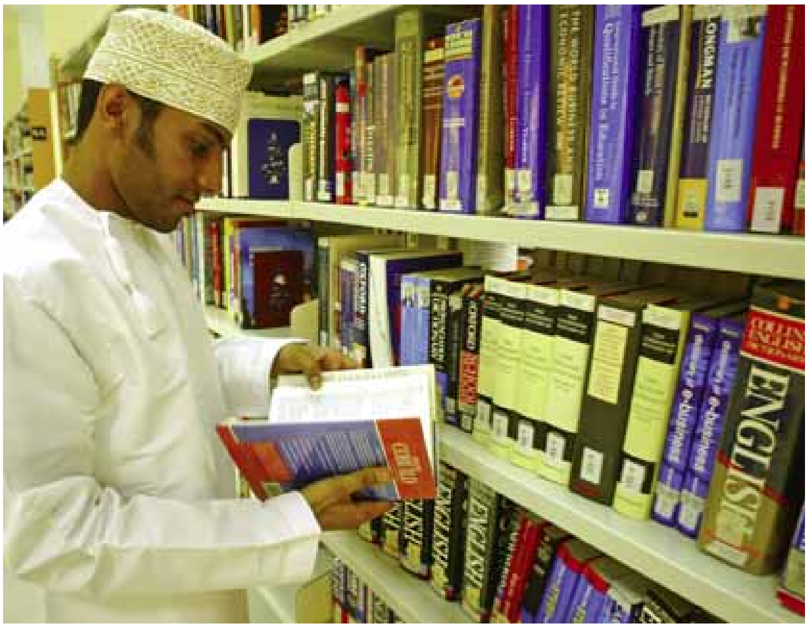
So far the strategy appears to be working. OGTech had an inaugural class of 50 students and the Arab Open University is expected to begin classes soon as well. Additionally, Muscat University, the University of Buraimi and Shargiyan University are under development.

With the recent influx of private institutions, maintaining a quality product throughout the system is a major concern for both the government, which requires qualified workforce, and private providers, who need to turn a profit. "There is a big risk in low quality if you have lots of graduates with a paper degree that are unemployed," Stauble told OBG.

The integration and implementation of technological advances has also helped the Ministry of Higher Education make the application and admissions process easier for students. The Higher Education Admissions Centre, which utilises the internet and other telecommunications technology, such as SMS, allows prospective tertiary students to apply for admission to all public and private higher education institutions. Since its implementation in 2006 the system has granted over 10,000 students easy access to the admissions process. Furthermore, the Ministry of Higher Education has awarded over 2400 scholarships through the programme alone.

QUALITY CONTROL: With new higher education institutions operating in the private sector and more on the way, the government has made it a priority to implement rigorous quality control standards. Not content with certification and established international affiliations, there are currently two layers of quality regulation undertaken by the Oman Accreditation Council and the Ministry of Higher Education's own quality department.

Composed of an independent board and a secretariat linked to the Ministry of Education, the Oman Accreditation Council is currently involved in a number of ambitious projects anchored by its new quality plan being developed in conjunction with the Ministry of Education. A 78-page draft, which was



Universities are offering a variety of courses, from shariah law to language studies

released to the public in 2007, concentrates mainly on 12 major areas of focus, to be completed in stages up until 2020. The draft report lists a minimum array of objectives and goals to be achieved along a predetermined timeline. These goals are concerned with both provider and programme licensing, quality management systems and information gathering. They are also largely aimed at interoperability and parity with the standards of so-called benchmark universities throughout Europe and the US.

In addition to the quantitative and qualitative changes sweeping the sector, the structure and regulation of Oman's higher education system might also be altered in the coming years. Regardless, the Ministry of Higher Education's well-publicised support of growing levels of private investment throughout the sector in recent years is likely continue throughout the next decade.

OUTLOOK: The graduation of the first class of students through the government's reformed basic education system could signal the beginning of a more unified education system, providing both tertiary institutions and the labour force with more qualified graduates. Significant government support of the private higher education system will continue to foster the growth in the burgeoning sector and significantly increase the number of new private institutions entering the market.

In tandem with sector growth, new quality control measures from the Ministry of Higher Education, and especially the Oman Accreditation Council, will make the sector more accountable for its results, which should also make it more attractive for students and staff alike. While the government's efforts to develop these ambitious projects is laudable and has the potential to drastically improve not only the quality of education but the quantity of students seeking higher education, the final impact of these wholesale changes on Oman's education system will depend heavily on how they are implemented.

The Higher Education Admissions Centre programme uses internet and telecommunications technology to streamline the application process for prospective students.

In conjunction with the Oman Accreditation Council, the Ministry of Higher Education has launched a series of ambitious projects aimed at improving the quality of tertiary education.

EMBRACING THE DIGITAL AGE

Spurred on by government efforts to implement e-government and e-administration programmes, the education sector is using technology to streamline administration and raise efficiency.

With the potential to provide essential services to every one of the country's estimated 60,000 grade-12 graduates, as well as students abroad, the Higher Education Admissions Centre (HEAC) is one of the most wide-ranging educational projects to be implemented. The new system was developed by the Ministry of Higher Education as a way to ease the complex college application process for aspiring tertiary students. The system uses the internet and mobile phones to streamline the procedure and provide greater access. Fee-paying students use a computer or an SMS message from a mobile phone to complete an application process that is accepted by all public and private institutions of higher education (although public schools are open only to Omanis).

Despite a few hiccups in the system, the HEAC has proven popular in just its second year in operation. For the 2006/07 academic year, 4000 students gained admission to private higher education institutions using the HEAC process. The Ministry of Higher Education also awarded more than 250 scholarships to study abroad and 2188 needs-based scholarships through this system.

Since its beginning of operations in mid-2006, the programme's website has received more than 1m visitors. Students have been applying online from a diverse range of countries including Kuwait, Saudi Arabia, India, Pakistan, Bangladesh and some countries in Africa.

In addition to acting as the unified admissions centre for the country's higher education institutions, HEAC is also compiling a database of education statistics to be used by the Ministry of Higher Education, universities and colleges, the Oman Accreditation Board, the Oman Research Council and other related parties.

The much-anticipated launch of the government's electronic education portal also took place in December 2007. The state hopes that the portal will improve the implementation, evaluation and regulation of curricula and teaching methods, and ultimately improve the overall quality of education in Oman, by facilitating easier communications between the various government agencies and other organisations, including the ministries, regional offices, individual schools and even students themselves. Additionally, the education portal will allow parents, teachers and students to track their academic and professional progress via the internet and offer interactive online administrative and learning services.

Rawya bint Saud Al Busaidi

The value of knowledge

Rawya bint Saud Al Busaidi, Minister of Higher Education, on the impact of new private universities

Until recently there was only one university in the Sultanate, the state-run Sultan Qaboos University (SQU), which was established in 1986 with only a few hundred students; today, SQU serves over 15,000 students. In addition, there are currently four private universities operating in Oman: Sohar University, Dhofar University, Nizwa University, and the Oman-German University of Technology (OGTech). A new private institution, The Arab Open University, is expected to open soon, and there are three more in the works: Muscat University, the University of Buraimi and Shargiyah University.

While Sohar University was established in 1996, Nizwa University in central Oman and Dhofar University in southern Oman began operations half a decade later in 2001. OGTech opened its doors in Muscat in 2007 and the Arab Open University has also established its premises in the capital. It is expected to begin enroling students shortly. Oman's new private universities, although relatively small, appear to be thriving. Nizwa currently enrols 2577 students, Sohar, 2167; Dhofar, 1564; and OGTech's inaugural enrolment was 50 students.

All private higher education institutions (HEIs) in the Sultanate are required to maintain academic affiliation with reputable international HEIs and Oman's private universities bring the prestige and experience of institutions such as the University of Queensland (Sohar); The American University of Beruit (Dhofar); Oregon State University; Leipzig University, the University of Exeter; the University of Reading (Nizwa); the Open University UK (Arab Open University); and RWTH Aachen University (OGTech). The affiliated universities provide overall academic guidance, including, in some instances, the provision of curriculum adapted to local circumstances, as well as quality assurance. Occasionally, both academic and administrative personnel are provided to assist in the development of the university.

Among the obvious advantages of this new system of private universities is access. And not just for the increasing numbers of students, but for people to study in their home regions. The international affiliation allows Omani students a "window on the world" and often an opportunity to pursue further studies at the partner university.

It seems that quality is always an issue with private universities. This is a matter which is taken very seriously by the government of Oman. Apart from the quality assurance measures, which come with the affiliation agreement, regulation is also provided by the Oman Accreditation Council, as well as through careful monitoring by the quality department of the Ministry of Higher Education.

In recognition of the tremendous cost of establishing a university, the government is providing a grant of approximately OR17m ($44.2m) to eligible new private universities for the purposes of quality improvement directly related to teaching, learning and research. This will include state-of-the-art instructional facilities and equipment. This is added to a grant of land, an initial matching capital grant of OR3m ($7.8m) and certain tax exemptions. Through a scholarship programme, the ministry also assists Omani students whose families cannot afford to pay fees to attend private universities and colleges.

All private universities are coeducational and have academic staff from around the world. Omanisation of professional staff is also on the agenda since, by far, the majority of teaching staff in the private HEIs are expatriates. This will change, however, over the coming years, as the Ministry of Manpower's Omanisation scheme is implemented. It is expected that, over time, the majority of academic staff employed at Oman's universities will be Omanis.

However, it is vitally important that adequate capacity is developed prior to Omanisation. It is also wise to maintain a reasonable percentage of international teaching and research faculty to offer global perspectives, and to bring world expertise in key areas to complement local knowledge and talent.

The Business Guide

A look at how to operate a business in the Sultanate
The legal aspect of managing mergers
A brief overview of the country's judicial system

Measures have been taken to empower minority shareholders

Money talks

A brief look at the necessary guidelines for operating a business

The business environment in Oman has remained stable throughout 2007 with no changes in the legal or regulatory regime.

INFORMATION DISCLOSURE: The Sultanate of Oman has been in the forefront among Middle East countries in encouraging transparency in presentation and disclosure in financial statements. Compliance with International Financial Reporting Standards (formerly International Accounting Standards) has been mandatory since 1986.

The Capital Market Authority has specified further disclosures that are to be incorporated in the financial statements of listed companies. These disclosures are to focus on related party transactions, investments and provisions.

Listed companies are required to submit quarterly reports to the Capital Market Authority and make prompt announcements of any decisions of the Board that may affect their business and earnings as well as the market in the company's shares.

Last but not least, the Central Bank of Oman requires the local banks to file some 40 annual, semi-annual, quarterly and monthly returns. These relate to financial statements, branch performance and other various aspects of the bank's performance.

CORPORATE GOVERNANCE: A Code of Corporate Governance has been applicable to all public joint stock companies whose shares are traded on the Muscat Securities Market since 2002.

Under the Code of Corporate Governance, shareholders are required to submit a report that is to be included in each company's annual report and, since 2003, this report has been required to be subject to certain procedures by the company's auditors who in turn report upon the results of the application of those procedures.

However, the Code is more than just a set of rules for procedures and processes. It requires listed companies to have at least the minimum prescribed number of independent directors; embed the principle of the board overseeing the company separate from the management who are responsible for the day-to-day operations and requires inclusion of a discussion and analysis section in each company's annual report to shareholders. It also establishes appropriate levels of approval of related party transactions, which are a key issue in what remains a relatively small business community.

Over all these measures have been designed to empower minority shareholders, improve oversight of companies and give more transparency of information to shareholders.

LEGAL AND REGULATORY FRAMEWORK: The principal laws that form the regulatory framework are:

- Commercial Companies Law, 1974, and its amendments since then;
- The Banking Law, first issued in 1974 and then reissued in the year 2000;
- Law for Organisation and Encouragement of Industry, 1978;
- Law of Income Tax on Companies, 1981;
- Foreign Capital Investment Law, 1994;
- Capital Market Authority Law, 1998; and
- Law of Profit Tax on Establishments of 1989.

Apart from these, there are a series of regulations, directives, and circulars issued by the relevant authorities.

A revised Commercial Companies Law has been expected for some time now and is expected to bring changes to the available corporate structures when it is promulgated.

FREE TRADE AGREEMENT: Oman has recently ratified the free trade agreement between the Sultanate of Oman and the US through Royal Decree 109/2006. The agreement is a comprehensive free trade agreement that is expected to contribute to economic growth and trade between both of the countries. Oman and the US will provide each other with immediate duty-free access on virtually all products in their tariff schedule and will phase out tariffs on the remaining handful of products over the course of the next 10 years.

The agreement covers all agricultural products. Oman will provide immediate duty-free access for current US agricultural exports in 87% of agricultural tariff lines. The US will provide immediate duty free access for 100% of Oman's current exports of agricultural products to the US.

The free trade agreement provides fully reciprocal market access for US-based textiles and apparel producers.

DEVELOPMENTS IN 2007: The Capital Market Authority issued rules and guidelines that are to be applied for disclosure by all public joint stock companies and investment funds regulated by the Capital Market Authority from October 1, 2007.

These new rules will shorten the time for disclosing initial un-audited financial results and should be disclosed 30 days from the end of the financial year and 45 days for holding companies with subsidiaries that are required to prepare consolidated financial statements. This new disclosure requirement has been applied for the first time in the Sultanate in order to ensure timely access to the financial results for market participants and to avoid any further misuse of information by insiders.

The new rules and guidelines do not allow any changes to be made to the proposed dividends after disclosure to the public unless there is convincing justification that is acceptable to the Capital Market Authority in order to avoid any confusion to the market participants. It is necessary for the distribution of dividends to shareholders be completed within two weeks from the date of the annual general meeting with the assistance of the Muscat Depository and the Securities Registration Company.

The Directors' report, Management Discussion and Analysis report (MD&A) and the Corporate Governance reports will now include certain minimum level of information that are set out in the new rules and guidelines to provide more information to shareholders and potential investors.

CORPORATE SECTOR OVERVIEW: A large number of companies remain under family ownership and therefore ownership is extremely concentrated. Even among listed companies, shares in the majority of manufacturing companies are closely held and are not actively traded. The shares of banks, investment and finance companies and some of the insurance companies are widely held and are actively traded on the Muscat Securities Market.

Corporate business income is defined and taxed under the Law of Income Tax on Companies (the Tax Law), which was promulgated in 1981. The Tax Law has since been amended by royal decrees and ministerial decisions.

Business income of proprietorships and other establishments owned by individuals is taxed under the Law of Profit Tax on Commercial and Industrial Establishments of 1989. Oman makes no distinction between resident and non-resident companies. If a company has income from Oman that requires occasional visits to the Sultanate, the income will be considered taxable. No individual income taxes are assessed in Oman.

The government encourages foreign investment with incentives, benefits and protection

INVESTMENT CLIMATE: Oman encourages foreign expertise, technology and investment to assist in the further development and diversification of the economy. The Foreign Capital Investment Law (FCIL), promulgated in 1994, provides certain incentives and protection for foreign investors.

Foreign participation in the capital of a company in Oman is normally allowed up to 70%, although the FCIL specifies that participation above 49% and up to 65% requires the personal approval of the Minister of Commerce and Industry. Foreign participation of between 70% and 100% requires prior approval from the Council of Ministers.

Such an approval is given only on the personal recommendation of the Minister of Commerce and Industry, and only then in projects deemed to contribute to the economic development of Oman and with capital of not less than OR500,000 ($1.3m).

COMPANIES: The business in which a foreigner has an interest must be registered as one of the types of companies recognised in the Commercial Companies Law – namely, a (general or limited) partnership, a limited liability company (LLC) or a (closed or public) joint stock company. The capital of such an entity may not be less than OR150,000 ($390,000) for a partnership or LLC, OR500,000 ($1.3m) for a closed joint stock company or approximately OR2m ($5.2m) for a public joint stock company.

A public joint stock company is one that has offered at least 40% of its capital in a public subscription and whose shares are listed on the Muscat Securities Market, the stock exchange of Oman.

A closed joint stock company is subject to similar corporate governance rules that were promulgated by the Ministry of Commerce and Industry and requires a minimum capital of OR500,000 ($1.3m).

BRANCHES: Another form in which business could be carried out in Oman is as a branch of a foreign company. A branch can operate in Oman only under specific circumstances, which are as follows:

- A project declared to be an economic development project;
- Any company or person so allowed by royal decree;
- certain professions considered to be in short supply; and
- A company working on a government contract, where the registration of the branch is valid only for the execution of that contract and its duration.

RATES: Traditionally, applicable tax rates have depended upon the extent of foreign ownership in a business entity, but now there are only two categories for determining the rate.

The rate of tax on annualised net profits is 12% on income over OR30,000 ($78,000). This rate applies to all companies and establishments, except for branches of foreign companies and companies that are not registered in Oman. In these cases, the rate of tax varies from anywhere between 5% and 30%, depending on the level of income.

Income from petroleum sales is subject to special provisions. The taxable income determined under such provisions is subject to a tax rate of 55%.

Oman Liquefied Natural Gas Company LLC is subject to special tax rates in accordance with the provisions of Sultani Decree No. 95/96.

TAXABLE INCOME: All income earned in Oman is taxable in Oman. Companies registered in the country are liable for tax on the total income earned while operating in Oman. Entities with foreign business participation are subject to income tax if they are permanently established in Oman.

The term "permanent establishment" means a fixed place of business in which an establishment carries out all or part of its business. If a foreign entity has income from Oman in connection with occasional visits made to the Sultanate, this income will be considered taxable as well.

ACCOUNTS AND AUDITS: Oman follows International Financial Reporting Standards and International Standards on Auditing. All companies must be audited annually and the audited accounts of joint stock companies are required to be submitted to the Capital Market Authority. Further audited accounts must form a part of the annual tax returns required to be submitted to Oman tax authorities if the taxable entity exceeds OR20,000 ($52,000).

Accounting records should be maintained in Omani riyals, unless the taxpayer obtains permission from the tax department to use a foreign currency. The accrual method must be used for income determination, unless permission is obtained from the Secretary General for Taxation to apply a different method, such as the cash basis.

CAPITAL GAINS TAX: At present, there is no separate capital gains tax and, as well, no defined taxation basis for capital gains. Gains on sale of shares sold through the Muscat Securities Market are exempt from tax. Generally, other gains are taxed as part of business income.

BRANCHES PROFIT TAXES: Branches of foreign entities are taxed at a maximum rate of 30% – the rates range from 5-30% depending on the level of income – on their annual profits earned in Oman.

PAYMENT OF TAXES: Entities must pay estimated tax within three months of the year-end and the final tax must be paid within six months of the end of the year.

Both payments should be supported by the official returns. The provisional return after three months is a simple one-page form. The annual return, due within six months of the end of the year, is more detailed and, in most cases, must be accompanied by audited financial statements.

DIVIDENDS: Dividends received from a company are exempt from tax when in the hands of the recipient.

Dividends are not subject to withholding tax, because they are paid out of profits that have already been subject to tax. There is also no withholding tax on interest payments to overseas banks or on related party loans.

DEPRECIATION: Depreciation is computed on the straight-line method at the rates prescribed under the tax law. The following are the rates of depreciation allowed for these categories of assets:

- Buildings, 4-15%;
- Office equipment, 15%;
- Furniture and fixtures, 33.33%;
- Motor vehicles, 33.33%;
- Machinery, 15%; and
- Heavy equipment, 33.33%.

The above allowances are for tax purposes only and replace the deprecation calculated for accounts purposes.

LOSS CARRY FORWARD: A tax loss in any one year is set off against taxable income arising in the subsequent years, to a maximum period of five years after the year in which it was incurred.

Losses incurred during a tax-exempt period may not be carried forward. However, there is an exception for companies that are exempt from tax on the basis of carrying out their principal activities in all of the areas that are exempted from tax. In such cases, the losses incurred during the exemption period may be carried forward without limitation.

CONSOLIDATION OF INCOME: Businesses are taxed as separate entities. There are no provisions for group taxation or relief.

REPRESENTATIVE OFFICE: A foreign company can open a representative office in Oman. The representative office is similar to a branch, with the exception that it cannot do business in Oman.

A representative office can promote and publicise the products of the foreign company that it represents, contact exporters and sellers and address any complaints, but cannot carry out any activities such as finalising deals or confirming the negotiated contracts on behalf of their foreign companies.

TAX PERIOD: The tax year ends on December 31. Business entities may apply to use any other date, provided that this date is followed consistently.

The first taxable period at the commencement of operations may be for less than12 months or for up to a maximum of 18 months.

DEDUCTIONS AND RESTRICTIONS:

- Donations allowable are limited to amounts paid to entities approved by the Financial Affairs Council and to a maximum of 5% of total income.
- Sponsorship fees are restricted to 5% of taxable income in taxation computations.
- Commission paid to an authorised agent of a non-Omani insurance company operating through an independent approved agent is limited to 25% of the net premium retained.
- Expenses or costs that have been incurred to generate income exempted from tax would not be allowed as a deduction.
- Loss that is incurred on sale or disposal of securities listed on the Muscat Securities Market is not deductible.
- Related-party transactions normally receive greater scrutiny from tax authorities. Accordingly, proper documentation should be obtained in order to establish that these transactions are made on an arm's-length basis.
- Remuneration paid to the directors of joint stock companies is deductible.
- Salaries paid to partners in partnerships and limited liability companies and owners of establishments are allowed deductible costs of up to OR1000 ($2600) per month, subject to certain criteria and limitations. This monthly limit may be increased to OR3000 ($7800) in the case of specialist partners and owners with technical and professional skills.
- Amounts paid to an establishment's owner in return for the use of the properties registered in her or his name are not separately deductible, but included in the allowance stated in the previous paragraph.
- Borrowings by related concerns made to or from businesses require evidence in support of the contention that the interest rates used are on par with financial market rates.
- Bad debts may be written off to the extent agreed to by the tax department.

INCENTIVES AND EXEMPTIONS: Those major activities of companies and establishments that are listed below are exempt from taxation for five years from the date of commencement of activity, and potentially renewable for a further five years.

- Industrial, defined by the Law for the Organisation and Encouragement of Industries, and mining;
- Exporting products manufactured or processed locally;
- Promotion of tourism, including operating hotels and tourist resorts but excluding management contracts;

To receive tax exemptions, a firm must be formed in Oman

- Dairy farm produce and processing of farm products, including animal husbandry, processing and production of animal products and agricultural industries;
- Fishing, fish processing and aquaculture;
- Rendering of services such as provision of public utilities, except for contracts for management or for the execution of projects;
- Companies established for privatisation projects that are not granted guarantees that the government will purchase all or part of their products are treated as industrial companies for income tax purposes.

Until 2005 no written conditions were attached to such exemptions and no formal procedures were prescribed to obtain such an exemption. To streamline the process and to make the requirements more transparent, Ministerial Decision 45/2005 issued the rules and procedures for tax and Customs exemption for foreign investment projects.

CONDITIONS FOR COMPLIANCE AT THE TIME OF APPLICATION FOR EXEMPTION:

- The company should be formed in Oman or licensed under the FCIL and registered with the Ministry of Commerce and Industry.
- The main activity should be one of the activities prescribed under the tax law or the FCIL.
- The company should not be claiming more than one exemption of the same type.
- The company should maintain proper books of accounts for each activity and ensure that these are audited.
- The company should submit its annual income returns to the Secretariat General for Taxation during the period in which exemptions may be credited.

The exemption is limited to the income that is realised by the company by practicing only its principal activity as determined from the company's Articles of Association and guidelines, provided that the activity in question contributes 90% or more to the total revenue earned by the company and could be said to be the primary activity of the company.

The majority of imported goods warrant a Customs duty of 5% on their cost-insurance-freight value

The application for exemption is to be submitted within three months of the proposed date of commencement of operations. The exemption starts from the date of commencement of production or date of operation.

EXEMPT INCOMES: Incomes that are exempt from taxation include:

- Gains on sale or disposal of securities listed on the Muscat Securities Market are exempt from tax, effective January 1, 2003.
- Dividends received from any company are exempt from tax in the hands of the recipient, effective January 1, 2000.
- Income realised by foreign airlines carrying out business through establishments in Oman. This exemption is limited to the extent of the income from operating aeroplanes for international transport, provided that reciprocal treatment is accorded in the airline's home country.
- Income realised by Omani marine companies and foreign marine companies operating in Oman through an appointed agent, provided that reciprocal treatment is given by the country of the foreign company.
- Income that has been realised by investment funds established in Oman under the Capital Market Authority Law or established overseas for dealing in shares and securities listed on the Muscat Securities Market.
- Income that has been realised by companies or establishments from their primary activities in the fields of university education, colleges, or other higher learning institutes, private schools, kindergartens/preschools, training colleges and institutes or medical care through established private hospitals.

WITHHOLDING TAX: Any entity operating in Oman must withhold 10% of gross payments of the nature referred to below made to any entities that do not have a permanent establishment in Oman:

- Rents from rental of equipment, machinery and appliances;
- Royalties;
- Management fees; and
- Amounts in return for technical know-how, research and development.

The entity that is making the deduction must pay the tax deducted to the Omani tax authorities within 14 days of the end of the month in which such tax is deducted.

FOREIGN TAX RELIEF: Entities with a permanent establishment in Oman are subject to applicable tax in Oman under the Tax Law. The branches of foreign companies, as well as other foreign-owned entities that are operating in Oman, are subject to tax only on income that is earned from activities that are conducted in Oman.

Consequently, relief for foreign taxes is not applicable. Companies that are resident in countries with double -taxation agreements with Oman are treated in accordance with the provisions of those bilateral agreements.

Similarly, Omani-owned entities that are currently operating in such companies will benefit from the provisions that have been outlined in those treaties.

PERSONAL TAX: There is no personal income tax in Oman.

CUSTOMS DUTIES: Most imported goods attract a Customs duty of 5% levied on their cost-insurance-freight value.

After the unified Gulf Cooperation Council regulation comes into effect, Customs duties on most imported goods will be levied at a single point of entry, after which these goods will be able to freely move within the member states.

Projects that are registered in accordance with the FCIL and the Law of Organising and Encouraging Manufacturing may be exempted either wholly or partly from Customs duties in respect of the following imports:

- Equipment and spare parts required by the project through the period of construction, expansion replacement or technology renewal; and
- Raw materials and semi-produced goods that are required as part of a given project's production process for a period of five years after industrial registration.

SOCIAL SECURITY TAXES: Subscription to social security payments is mandatory under the Tax Law for all employers of Omani nationals, both Omani and foreign. Effective as of July 2005, each employer is expected to contribute approximately 10.5% and each employee is to contribute 6.5% of the gross monthly salary.

The employer is responsible for paying both its own and the employee's contributions within 15 days of the end of the month, and may recover employee contributions from the wages that are paid.

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There is a trend towards consolidation in the country

Think big

The issues surrounding mergers

With the continuing buoyancy of Gulf economies, the resulting activity in the capital markets in the region, and the liberalisation of foreign investment in Oman, a number of mergers, acquisitions and initial public offers (IPOs) have taken place following the positive developments that were introduced by the Capital Market Authority (CMA). Mergers and acquisitions are not just confined to listed companies but also to limited liability companies (LLC).

In 2007 the government of Oman decided to merge Oman's two state-controlled refineries, Sohar Refinery Company (SRC) and Oman Refinery Company (ORC), to create a world-class refining company . A number of Omani companies were seen to be introducing strategic investors as shareholders through the private placement route, and the IPOs of Bank Sohar and Galfar were completed and heavily oversubscribed, demonstrating the positive investor interest in Oman.

The merger and acquisition activity marks a trend towards growth and consolidation across various sectors of Omani corporates with regard to joint stock companies or LLCs. This trend is mainly being driven by Omani businesses seeking to increase their size in order to compete on regional and global levels, increase market share in their respective business sectors, strengthen their negotiating position vis-à-vis suppliers and customers, and reduce their costs through rationalisation of operations and reduction of domestic competition. Another driver is foreign investors that are now seeking to benefit from attractive opportunities in Oman by expanding their business into a region that no longer can be ignored.

The Oman Commercial Companies Law (CCL) provides for two kinds of statutory mergers: a merger by incorporation, such as the business of one entity being taken over by another; and a merger by consolidation, where existing companies that desire a merger consolidate their businesses into a new company.

A basic issue that needs to be considered before working out a merger strategy and protocol concerns the corporate form of the merging entities. Companies in Oman are structured as LLCs, or privately held joint stock companies (SAOCs) or public joint stock companies (SAOGs). While LLCs are regulated with a relatively light touch by Omani ministries, SAOCs and SAOGs are subject to a higher degree of regulation and reporting requirements. A merger scenario involving LLCs is subject to fewer regulatory and procedural requirements than a merger in which one or more of the merging entities are SAOCs or SAOGs.

PROTOCOL COMMON TO ALL MERGERS:

(a) As an initial step it is likely and advisable for the merging entities to establish a common understanding in the form of a memorandum of understanding (MoU), setting out the principles behind the proposed merger and the salient issues to eventually be addressed in the merger agreement. These would include appointment of legal and financial advisors; undertaking of technical, financial and legal due diligence; confidentiality regarding disclosure of confidential information amongst the parties and with the concerned regulatory authorities. The MoU will ensure that companies agree on some of the material issues associated with the merger before entering into detailed negotiations involved in the formal merger agreement.

(b) The merger agreement should include: the process to be followed for the merger; identification of the surviving entity, such as the name of the merged entity; provisions relating to the calculation of consideration payable, including the basis of evaluating the assets of the merging entities; any conditions precedent to the transaction, such as the requirement of the relevant consents, permits and approvals as may be necessary; treatment of employees; representations and warranties; agreement to key dates; agreement on managerial appointments; and any special arrangements and conditions to be made applicable to business activities of the merging entities, pending the effective date.

(c) Although the MoU and the merger agreement may be executed by the governing councils of the respective merging entities, the merger agreement or the parameters of the merger agreement will need to be approved by the shareholders of each of the merging entities at an extraordinary general meeting (EGM), whilst conferring authority on the boards of the respective merging companies to take the merger to closure. The resolutions will need to be adopted by at least 75% of valid votes cast at an EGM, duly convened with a minimum 75% of the share capital being represented.

(d) After approval of the merger by shareholders of both merging entities, the merger resolution must be approved by and filed with the Ministry of Commerce and Industry (MOCI) and thereafter published on two consecutive days in two Arabic daily newspapers, and in the case of an SAOG, with the CMA as well.

(e) Creditors have a statutory period of three months to record any objections that they may have to a proposed merger. This waiting period commences from the date on which the merger application is lodged with the MOCI. In exceptional circumstances, the MOCI has waived or reduced the three-month time period. The objections of creditors, if received, must be settled amicably or through the Commercial Court of Oman.

(f) After the three-month waiting period alluded to above has been completed, the merger becomes effective once all of the above steps have been completed and the shareholders of the merged entity, such as the entity which results from the merger, either in the form of the surviving entity or as a new company into which the merging entities are consolidated, have met at an EGM, approved the amended articles of association of the merged entity, elected a new board of directors at a general meeting, and authorised the board of the merged entity to complete the merger process, which includes the filing of an application with the MOCI to register the merged entity and strike the name of the entities that have been merged from the register.

KEY ISSUES: (a) Due diligence: After the MoU has been entered into and the confidentiality obligations amongst the parties have been established, a due diligence exercise is normally undertaken. The scope, nature and extent of the due diligence exercise would depend on a number of factors including the nature of the entities involved, such as whether the merging entities are LLCs, SAOCs or SAOGs. While in the case of an LLC and to a lesser extent in an SAOC, disclosure protocols, for example, may be flexible in the case of an SAOG, and due adherence would need to be given to the CMA's disclosure regulations and guidelines, notwithstanding which the CMA's policy is that shareholders should have as much information as possible.

(b) Deal structure: Mergers in Oman are normally structured as share deals, where the shareholders of the merged entity are issued shares in the entity in which the merging entity is incorporated or in the new company into which the merging entities are consolidated. However, there are other mergers structures that may be permissible. Such structures could include the allotment of debt securities, such as bonds (convertible or non-convertible), or debentures that would be subject to the approval of the concerned authorities.

(c) Timing of disclosure and trading restrictions: In the case of a merger where one or both merging entities is/are SAOGs, disclosure relating to the proposed merger is required to be made to the CMA and the Muscat Securities Market (MSM). In general, Omani SAOGs are required to disclose all material information immediately through the electronic transmission system established by the MSM, in accordance with Administrative Decision 05/2007. Article 15 of Administrative Decision 05/2007 requires an SAOG to disclose any material information, which includes news of a merger, well in advance of a trading session. Until such time as news of the merger is disclosed to the public, an SAOG and its officers and employees (who have knowledge of the merger) are under a statutory obligation to keep such information confidential and not to trade in the securities of the SAOG on the MSM. There is also an obligation to monitor trading in the securities of the entities that are involved and to report any unusual trading activity to the appropriate authorities.

While Administrative Decision 05/2007 requires news of a merger to be made public, it is not entirely clear exactly when such information must be made public. Administrative Decision 05/2007 defines material information as "information, if disclosed, that would have a material effect on the price of the security or investment decisions of participants or effect on the market trends". In the context of a merger, the question arises when the obligation to advise the CMA/MSM should take place. The preferred view would be that the merger should be announced as soon as there is some degree of certainty of the entities involved in the process taking steps, which would result in such entities entering into formal merger agreements. Until such time as definitive guidance is provided by the CMA, it would be advisable to err on the side of caution and to make disclosure of the proposed merger as soon as the merger is mooted.

While it may be premature to disclose a potential merger pursuant to authorised personnel, such as the chairmen of the entities, of potential merging entities meeting to discuss a potential merger, if the proposal to merge was placed before the boards of such entities, it is arguable that the same should be disclosed as soon as there is some degree of certainty at the board level that the parties are moving ahead with the merger. Much would depend on the circumstances and the judgements made by the participants.

(d) Stakeholders: In a merger scenario, it would be the duty of the boards of each of the entities involved in the potential merger to provide accurate information on the company with which the merger is to take place, the methodology of the merger, the effect that the merger is likely to have on the price of their companies shares and in general the benefit of the merger to the company and its shareholders, in order to enable shareholders to make an informed decision on the merger proposal placed before them, including the exchange ratio of shares/ valuation of the company.

(e) Regulatory filings and approvals: Regulatory issues must be duly considered as part of an early due dili-

gence exercise before embarking or completing any merger transaction in Oman. The key approval that needs to be obtained is the MOCI's approval of the merger scheme (if the merging entities are LLCs) and the CMA's approval (in addition to the MOCI approval) in the event that the merging entities are SAOCs. However, depending on the sector in which the entity is operating, specific administrative authorisations must also be obtained where relevant transactions are taking place in a regulated industry.
Merger amongst entities in the following businesses require the consent of:

- Leasing Central Bank of Oman (banking)
- CMA (financial services and insurance)
- Authority for Regulation of Electricity in Oman (power generation/distribution/water desalination)
- Telecom Regulatory Authority (telecommunications)
- Ministry of Tourism (real estate development of an integrated tourist area)

In general, administrative approvals (including permits, licences and consents) that a merging entity has in place are not automatically transferable to the merged entity following the merger. In other words, it may become necessary for the merged entity to obtain relevant transfers of such administrative consents.

(f) Employees: One of the key considerations for the merging entities will be the human factor, such as the absorption of their employees in the merged entity and the rationalisation of their employment policies in terms of employment contracts, pension schemes and so on. Although the laws of Oman currently do not oblige merging entities to consult their employees or their representatives ahead of a merger, the Oman Labour Law does require the rights of employees to be protected in merger scenarios.

Article 47 of the Oman Labour Law provides that the merger of an establishment will not affect the obligations of an establishment to its employees. Article 47 provides that except in the case of the liquidation of a business entity, in accordance with applicable law, an employment contract between an establishment and an employee shall continue to be valid and effective, and the successor entity to an establishment, whether pursuant to a merger or otherwise, shall be obliged to assume all duties prescribed by law.

As a general rule, employees of the merging entity are transferred to the incorporated/consolidated entity and the incorporated/consolidated entity assumes the obligations of the merging entity towards its employees. In pursuance of these provisions before sanctioning a merger, it is necessary for the merging entities to ensure that the rights of transferring employees will be protected and that the merged entity will absorb the employees as well as safeguard their pension and end-of-service benefits.

(g) Transfer of assets: Although the assets and liabilities of the merging entity(ies) are transferred to the incorporated entity/consolidated entity by operation of law, there are a few issues that the merging entities need to consider. By way of example, contracts entered into with counterparties in Oman and abroad which contain restrictions on transfers or change of control would need to be examined to ascertain whether or not the merger would need the consent of the counterparty or trigger termination provisions in the absence of such consent. Similarly, in the event that security interests have been registered over the assets, which are the subject matter of the transfer, the consent of secured parties would need to be obtained before the transfer. Where any activities of the merging entities are subject to any statutory restrictions in terms of foreign ownership, care would need to be taken to ensure that these issues have been addressed so as to avoid a possible breach of relevant laws and regulations occurring consequent to the merger.

(f) Costs of the merger: Since Omani mergers normally take the form of share deals, the merged entity would need to issue shares to the shareholders of the merging entity(ies). In the event that the incorporated entity or the consolidated entity is an LLC, such an entity would be able to issue additional shares without incurring any additional significant costs.

However, in the case of a merged entity that is an SAOC or an SAOG, such entity would be required to register its increased capital with the MSM, the Muscat Depository and Securities Registration Company and the CMA. Each registration has a cost attached. Other elements of cost that would be incurred in the case of a merger include: costs for consulting fees, preparation and submission of valuation reports to the MOCI and CMA, and the costs involved in transferring required consents and permits held in the name of the merging entity (entities) to the incorporated entity or consolidated entity as the case may be.

In case the second route of merger is adopted, such as consolidation through transfer to a newly incorporated company, the cost of setting up a new company would also need to be taken into consideration. However, there are no stamp duties or other similar fees, duties and so on being payable in the case of a merger between two Omani companies.

(g) Taxation: Although the transfer of assets from the merged(ing) entities to the incorporated/consolidated entity would not of itself directly trigger a tax liability, since a transfer of assets from a merging entity to the incorporated/consolidated entity would normally be preceded by a revaluation of such assets (since assets would need to be transferred at fair value) and the difference between the fair value of the assets and the book value of such assets, may give rise to issues of goodwill and its treatment for tax purposes.

Comment: With foreign investments increasing in Oman, increasing competition and a mindset that is developing amongst Omani businesses that "size matters" in order to achieve greater economies of scale and to compete on a global level, the Omani capital market is indeed well placed to accommodate and facilitate greater merger and acquisition (M&A) activity. With the progressive approach that the CMA and other authorities have consistently adopted through various mergers, Oman offers a business, regulatory and fiscal environment, which is conducive to M&A activity.

Court proceedings are undertaken in accordance with Omani law

When things fall apart

The status of litigation and arbitration in the Sultanate

For their own security, investors need to know that if things go awry there is a stable and reliable legal system in place that will ensure fair, reasoned and consistent dispute resolution.

APPLICABLE LAWS: The legal order of the Sultanate of Oman has been largely codified in the Basic Statute of the State promulgated by Sultani Directorate (SD) 101/96 (the "Basic Law"). The Basic Law, introduced in 1996, defines the Sultanate's legislative process and also sets out the respective functions of the executive and the judiciary, emphasising the independence of the latter and the primacy of the rule of law.

For business law purposes, Oman, like many other Arab countries, can be considered a civil law jurisdiction. Civil law principles have spread gradually, with a measure of adaptation to local circumstances, throughout the Middle East. A draft of a civil law plan is currently in development by the legislative body in Oman.

The country has the traditional civil law distinction between commercial acts and other acts. There is a substantial body of modern legislation on commercial matters, including a commercial code. There is not, however, any underlying civil code enunciating, for example, the basic principles of the law of obligations (mainly contract and tort). Where these basic principles are called for, the practice of commercial judges is to follow the relevant principles established in legislation and learned writing in other Arab countries.

COURTS OF OMAN: Pursuant to SD 90/99 the law provides for a three-tier court system and sets out the different levels of commercial courts as follows:

(i) Courts of First Instance
(ii) Appellate Courts
(iii) Supreme Court

These courts hear civil and commercial matters, labour, tax and rent cases in addition to arbitration applications. SD 91/99 also provides for the establishment of an Administrative Court, which is an independent judicial body with exclusive powers to review decisions issued by government bodies.

All court proceedings in Oman are undertaken in accordance with the well-defined Oman Procedure Law. When considering any disputes brought before them and issuing judgements, the courts must adhere to the decrees and laws in force in the Sultanate, consider the contract between the disputing parties (provided that it does not conflict with any law, public order, proprietary or established valid practices in the field of commercial activities) and also consider those general principles that establish justice between litigants and lead to the stabilisation of commercial transactions. The Omani Courts must consider the following matters when ruling on commercial contracts:

(i) The terms of the contract
(ii) Legislative provisions
(iii) Rules of custom and practice
(iv) The provisions of sharia law

The principles set out above would also need to be followed by arbitrators in respect of any arbitration proceedings undertaken in accordance with Omani law.

FREEDOM OF CONTRACT: Parties to a contract (particularly a commercial contract) are free to arrange their own affairs subject to mandatory legislative provisions and matters of public policy and custom. For the purposes of legal certainty, as in all jurisdictions, it is very important that the parties accurately record their intentions in writing and do not rely on verbal agreements. Article 44 of SD 32/84 provides that in issuing its judgements, the Commercial Court shall adhere to the decrees and laws in force in the Sultanate, contracts between the disputing parties (provided that the conditions of such contracts do not conflict with any law, public order or propriety or established valid practices in the field of commercial activities) and whatever establishes justice between the litigants and leads to the stabilisation of commercial transaction.

JURISDICTION AND GOVERNING LAW: Omani law does not impose any limitation or restriction in relation to choice of jurisdiction or choice of governing law clauses in contracts. Although the Omani courts have in the past expressed their willingness to apply law other than the law of Oman, the choice of a foreign jurisdiction would not necessarily exclude the jurisdiction of the Omani courts, provided the litigating party is able to establish that pursuant to the Oman Procedure Law, the Primary Commercial Court has the jurisdiction to hear the disputed matter. It is very common for the courts to find they have jurisdiction despite the fact that parties are attempting to contract out of the Omani courts' jurisdiction. In our view, the election to be bound by foreign law is more likely to be successful in the context of an arbitration.

COURT HEARINGS: All court hearings are in Arabic. Accordingly, documents originally prepared in a language other than Arabic must be translated into Arabic before presentation to the court. Most law firms have specialist legal translators who can attend to this process. Difficulties can arise, however, if there are inconsistencies between the Arabic and English versions of court documents, thereby making it essential that providers of quality legal translation services are retained. There is no such requirement that documents be filed in Arabic in arbitrations, and parties may agree for arbitration proceedings to be conducted entirely in English.

APPELLATE SYSTEM: The Appellate Courts and the Supreme Court are the bodies constituted to hear appeals. An appeal is held as a retrial of the case heard at first instance. A judgement of the Courts of First Instance may not be enforced until the time for lodging an appeal before the Appellate Court has expired and, if an appeal is lodged, until the determination of the appeal. Parties to an arbitration may agree to exclude any rights of appeal and have the arbitrator's decision stand as final.

PRINCIPLE OF PRECEDENT: There is no formal principle of precedent in Oman and the courts of Oman have indicated that they do not consider themselves bound by their previous decisions. Nevertheless, the courts of Oman, if directed to previous decisions, are likely to take note of those decisions. This practice arises from the need for consistency in judicial decision making but is limited by a legal tradition that reasons from general principles of law and treats each case on its own merits.

However, SD 90/99, which came into force on June 1, 2000, provides that judgements of the Supreme Court shall only deviate from legal precedents set by previous judgements of the same court on the basis of a decision made by a body comprising the president and 10 of the most senior judges. Although this may only take place at the very highest level, it could lead to a system of precedent akin to that found in common law jurisdictions, but this is yet to be seen.

ARBITRATION LAW: The Oman Arbitration Law (SD 47/97) applies to any arbitration between parties under public or private law irrespective of the nature of the legal relationship on which disputes are based, and provided the arbitration takes place in Oman or, in the case of international commercial arbitration, takes place abroad, provided the parties have agreed to submit themselves to the jurisdiction of Omani law.

REMEDIES: As a matter of Oman Procedure Law interlocutory remedies are available in the form of injunctive relief by way of attachment orders pending the resolution of the substantive dispute before the courts or an arbitral panel. When seeking to obtain any such relief the applicant will need to be able to demonstrate the risks to which it is exposed in case such relief is not granted. It is usually necessary to persuade the court that the risks to which an applicant is exposed are far greater than the damages likely to be suffered by the other party if the relief is not granted.

FOREIGN JUDGEMENTS: With respect to the recognition of foreign judgements there are express provisions within Oman law that must be satisfied prior to considering enforcement. Article 352 of the Civil Procedure Law states that judgements and orders issued in a foreign country may be executed within the Sultanate of Oman according to the same terms applicable in the law of that country with regard to the execution of judgements and orders issued in the Sultanate of Oman. However, apart from a recent appellate court judgement, no judgement of a foreign court has ever been enforced directly in Oman. In the absence of specific Omani legislation in the future permitting registration and recognition of foreign judgements, a foreign judgement would be of evidentiary value only, and the proceedings would probably have to be litigated before the Omani courts.

LEGAL COSTS: Historically the Omani courts have not awarded legal costs to the successful party unless the contract between the parties provided for a party's ability to recover legal costs and fees in a specified amount. However, as part of recent changes in procedures, legal costs are now being awarded, although the amount of such costs is still at the complete discretion of the court. In arbitration proceedings the parties may agree upon the recoverability of legal costs. In this way, a successful party may be able recover a much larger proportion of its costs through arbitration, than would be possible through court proceedings.

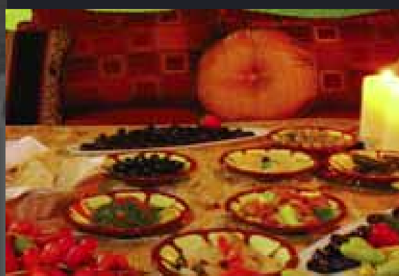
ENFORCEMENT OF AN ARBITRATION AWARD OR COURT JUDGEMENT: Enforcement of judgements obtained before the Omani courts, or of arbitration awards where the arbitration was conducted in Oman, is undertaken by the commercial division of the Courts of First Instance, to whom application for enforcement must be submitted.

SUMMARY: In recent years Oman has made great inroads in establishing and continuing to fine-tune its legal system. Depending on the nature of the agreement between parties, the nationalities and languages involved, and the amount of the contract, parties should discuss with their legal advisors whether the inclusion of an arbitration clause would be of benefit. However, whichever form of dispute resolution the parties decide upon (court or arbitration), they should feel confident that the Omani legal system will provide a relatively expeditious, clearly defined and well-maintained route to resolving disputes.

OBG would like to thank *Al Busaidy, Mansoor Jamal & Co.* for compiling these articles for THE REPORT Oman 2008

The Guide

The country has a rich and varied cultural history
A listing of Oman's best hotels
A useful collection of phone numbers
Practical information for new arrivals



Traditional crafts are still an important part of everyday life

A tale to be told

The Sultanate has a long and rich history

Due to Oman's strategic location its history has been interlinked and fused with numerous cultures. The people of Oman are widely known for their hospitality, an ingrained social and ceremonial custom that compels hosts to go to great lengths in order to ensure the comfort and pleasure of their guests.

Oman's ancient history is shrouded in legend and antiquity. It was connected to the major civilisations of the ancient world and played a role in transforming global history over 5000 years ago. It is believed to be the copper-rich civilisation of Magan – lauded in Mesopotamian texts of the 3rd millennium BC that detail the earliest long-distance sea trade in the world and refer to well-established trade routes between ancient countries now known as Oman, Iraq, Iran, Bahrain and India. Archaeological evidence reveals that Magan provided vast quantities of copper to Mesopotamia (present-day Iraq and Iran), which was considered the workshop of the world. It is important to note that during this period, writing, banking, shareholding, and urbanised settlements were initiated for the first time.

To this day, Oman is one of the very few countries able to grow the best-quality frankincense, which was an extremely popular, multi-purpose commodity in the ancient world. Ancient Western markets simply could not get enough of it, and the Romans valued it as gold. It is a cleansing, purifying and refreshing perfume, incense, deodorant and medicine that has made its way around the world, bringing great wealth to the region, and is associated with the fabled city of Ubar and the legendary Queen of Sheba.

From early times precious cargoes from Oman were taken far afield by boat and camel caravan. The country is known historically as a seafaring nation, renowned for boatbuilding, mariner's navigational skills and trade. Sindbad, the heroic character featured in *A Thousand and One Nights*, is believed to have hailed from Sohar. His character may have been fictitious, but is almost certainly based upon the real exploits of merchants, such as Abu Ubadyda, who sailed to China in 750AD.

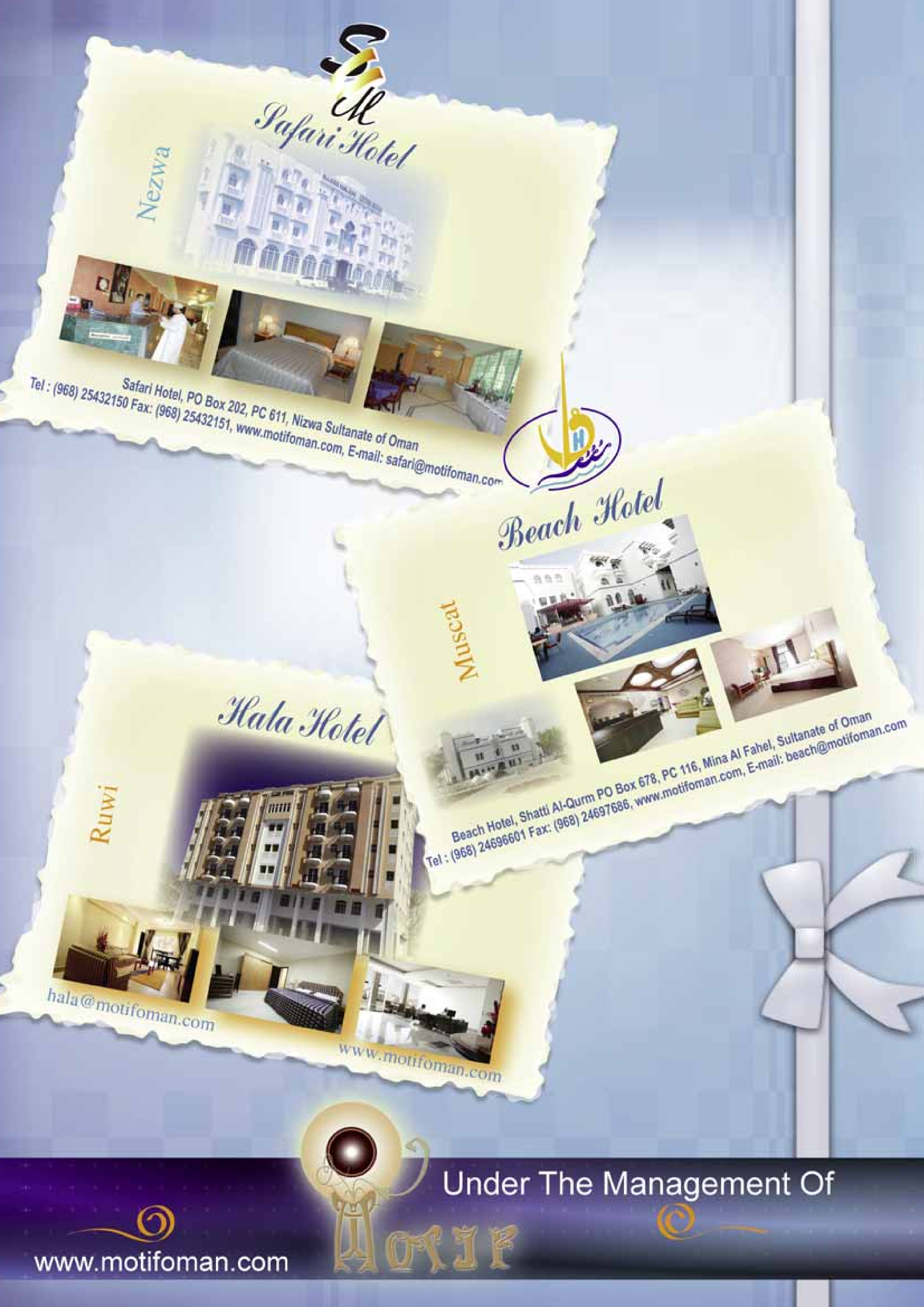
Traditional craft industries, once a vital part of the nation's economy, are now among the factors that are determining aspects of Oman's cultural heritage and providing authentic souvenirs for its visitors. Age-old skills are customarily passed on from father to son, mother to daughter, and include boatbuilding, basketry, pottery, perfumery, textiles, weaving, brass-, silver-, copper- and goldsmithing, woodcarving and leatherwork. These goods, produced by individuals or in small family workshops, are most representative of Oman, its people, identity and past.

Traditional Omani music has absorbed many cultural influences due to its long history as a seafaring nation, while firmly retaining its own identity. Each region of Oman maintains its own distinctive musical traditions, customs and, often, dialects. Its songs and dances reflect religion, local history, lifestyles, love, poetry and valour. There are particular songs performed to celebrate special events, such as Eid, national celebrations, weddings and agricultural seasons, among others. There are sea shanties and fishing songs from coastal areas, and, inland, the Bedouin and mountain inhabitants also have their own illustrious musical traditions.

For at least 5000 years Omanis have built settlements in remote mountaintops and valleys, desolate deserts and along the diverse coastline. These ancient settlements embody the essence of Arabia's past and are the result of determined efforts by a resourceful people to adapt to a formidable, often harsh, environment. Underground water was tapped by digging wells, and distribution channels called *aflaj* brought water from often-distant sources. The aflaj are often considered "gifts from God" and may be 2000 years old.

Traditional architecture, known for its elegance and simplicity, is echoed in new developments across the country. Historic forts and castles offer visitors an unforgettable experience and journey back in time.

Through preserving, promoting and presenting Oman's heritage, the foundations of its society, identity and grounding are maintained, studied and admired.



Safari Hotel
Nezwa
Safari Hotel, PO Box 202, PC 611, Nizwa Sultanate of Oman
Tel : (968) 25432150 Fax: (968) 25432151, www.motifoman.com, E-mail: safari@motifoman.com
Beach Hotel
Muscat
Beach Hotel, Shatti Al-Qurm PO Box 678, PC 116, Mina Al Fahel, Sultanate of Oman
Tel : (968) 24696601 Fax: (968) 24697686, www.motifoman.com, E-mail: beach@motifoman.com
Hala Hotel
Ruwi
hala@motifoman.com
www.motifoman.com
Under The Management Of
Motif
www.motifoman.com

Oman saw an increase in demand for hotel rooms in 2007, due in large part to rising oil prices and a growing number of infrastructure projects, both of which attracted business travellers. Oman has also been marketing itself as a luxury tourist destination, which has increased tourist numbers. New long-haul routes from the national carrier, Oman Air, look set to encourage this growth. Hotels are keen to show traditional Omani hospitality to differentiate themselves from hotels in other GCC countries. There are a number of new hotels being planned in Muscat and in areas such as Sohar, where there is huge industrial growth. With a few exceptions, hotels are the only licensed venues in Oman and are a popular place for expatriates to socialise.

Al Bustan Palace Intercontinental Muscat

The best of both worlds

Many of the country's best hotels are modern and traditional all at once

MUSCAT

AL BUSTAN PALACE INTERCONTINENTAL
PO Box 1998, Al Bustan
T: (24) 799 666
F: (24) 799 600
albustan@albustanpalace.com
www.albustanpalace.com

Rooms: 250 rooms and suites.
Business Centre: All essential services, including secretarial services, video conferencing, high-speed internet access, film library, digital camera, audio/visual equipments, banquet & conference facilities, Cyber Assist for 24-hour assistance, meeting rooms, private office space.
Leisure Facilities: 1-km private beach, 200 acres of landscaped gardens, 4 tennis courts, temperature controlled infinity pool, two lagoon pools, children's pool and playground, tennis village with 4 tennis courts, sailing, windsurfing, kayaking and snorkelling, golf putting green, private boat charters, sightseeing, dolphin watching can be arranged, scuba diving through Oman Dive Centre, fully equipped state-of-the-art gymnasium, sauna and steam rooms, aerobic studio, wellness rooms with an assortment of massages and an activities coordinator with a number of body & soul activities.
Guest Services: 24-hour front desk, express check-out, car hire, tours, shopping arcade, babysitting, concierge services, currency exchange, 24-hour laundry, dry-cleaning & pressing facilities, safe-deposit box.
Wining & Dining: Al Marjan (French & international fine dining), Al Khiran Terrace & Lounge (international & themed buffet dinners, indoor & outdoor), China Mood (Cantonese & Szechuan), Beach Pavilion (seafood restaurant & bar), Al Maha (piano bar), pool bar, Atrium Tea Lounge, Seblat Al Bustan (Omani outdoor dining on Wednesdays and Sundays).

AL FALAJ HOTEL
PO Box 2031, Ruwi
T: (24) 702 311
F: (24) 795 853
reservationalfalaj@omanhotels.com
www.omanhotels.com

Rooms: 143 rooms, including 6 suites.
Business Centre: All essential services, 5 conference halls and internet.
Leisure Facilities: Health & sports club, 3 gyms, jacuzzi, sauna, steam room, squash & tennis courts, karate, 2 swimming pools with special coaching.
Guest Services: 24-hour room service, satellite TV, valet services, beauty salon, currency exchange, safe deposit boxes, airport transfers (on request), doctor on-call, outside catering.
Wining & Dining: Al Falaj Coffee Shop (Indian/Continental/Asian), Tokyo Taro (Japanese), Ranee Bar, Café Des Sports, Mijana Restaurant (Arabian/Lebanese) and Le Pub (British/live entertainment).

AL NAHDA RESORT & SPA
PO Box 320, Barka
T: (26) 883 710
F: (26) 883 175
stay@alnahdaresort.com
www.alnahdaresort.com

Rooms: Studio rooms, villas and double villas.
Business Centre: All essential services, conferencing.
Leisure Facilities: Fitness centre & 24-station gym, qualified personal trainers and lifestyle consultants, steam tunnel, yoga, meditation centre, aerobics/dance studio, physiotherapy, 22 spa villas, treatment rooms, spa baths with beauty and wellness regimes, heated outdoor swimming pool, floodlit tennis courts and a sand volleyball court.
Guest Services: 24-hour room service, mini bar, DVD player, hair dryer, iron and ironing board, satellite TV,

Al Nadha Resort & Spa

safe deposit boxes, Camel and horse rides, orchid farm & greenhouse tour, car hire, perfumery & factory tour, diving at Damaniyat, ostrich farm tour, babysitting services, children's play area, desert dune camp, florist, gift shop, eco tours, interior and Muscat tours, data ports, all rooms with balconies.
Wining & Dining: Spa Cuisine, Khalab Restaurant (international), Nozha (casual dining al fresco with pizzeria and barbecue), Lazeez (Asian), Samar (Arabian), Pool Bar, Waha Lounge & Bar


Beach Hotel

BEACH HOTEL
PO Box 678 Mina Al Fahal, Shatti Al Qurum
T: (24) 696 601
F: (24) 697 686
beach@motifoman.com
www.motifoman.com

Rooms: 41 rooms, including singles, doubles and twins, 10 junior suites, 9 deluxe suites.
Business Centre: All essential facilities, 1 meeting room, Wi-Fi internet, secretarial services.
Leisure Facilities: Health club, outdoor pool.
Guest Services: 24-hour room service, car hire, tour information, booking & ticket confirmation, daily newspaper, doctor on-call, special weekend packages, banquet & function hall.
Wining & Dining: Al Shatti Restaurant (international/continental).


Golden Tulip Seeb

THE CHEDI
PO Box 964 Al Khuwair, Ghubra
T: (24) 524 400
F: (24) 493 485
reservation@chedimuscat.com
www.chedimuscat.com

Rooms: 156 rooms, including 57 Serai rooms, 52 deluxe rooms and 36 Chedi club suites.
Business Centre: All essential services, banquet & conferencing facilities, Wi-Fi internet.
Leisure Facilities: Fully equipped gym, spa, 2 outdoor swimming pools, private beach, 2 floodlit tennis courts.
Guest Services: 24-hour service, boutique & fine arts gallery, airport transfers, tour packages, car hire, satellite TV, laundry & dry-cleaning, doctor on-call, safe, babysitting, Wi-Fi in all rooms & most public areas.
Wining & Dining: The Restaurant (Middle Eastern/Indian/European/Asian), The Beach Restaurant (seafood a la carte), The Lobby Lounge, Chedi Poolside Cabana, Serai Poolside Cabana.


The Chedi Muscat

CROWNE PLAZA HOTEL
1730 Qurum St
T: (24) 660 660
F: (24) 660 600
Reservations@cpmuscat.com
www.cpmuscat.com

Rooms: 200 rooms, including 16 business rooms, 6 junior & 4 VIP suites with club lounge, 142 single rooms, 58 double rooms, 77 non-smoking rooms, executive suites, storage.
Business Centre: All essential services, club rooms & lounge, Wi-Fi internet access, meeting rooms & a well-equipped business centre, secretarial services, PCs available.
Leisure Facilities: Fitness centre, gymnasium, sauna, steam room, spa treatments, massage, 2 floodlit tennis courts, 2 squash courts, outdoor swimming pool, table tennis and pool table.
Guest Services: Beauty salon, gift shop, sports shop, travel desk, car hire, doctor on-call, babysitting, laundry & dry-cleaning, shoe shining, housekeeping, live entertainment, currency exchange,
Wining & Dining: Shiraz (Persian), Come Prima (Italian), Tropicana (international), Pool Snack Bar, Duke's Bar, Al Nawras Bar, The Edge restaurant.

GOLDEN TULIP SEEB
Exhibition St, Seeb
T: (24) 510 300
F: (24) 510 055
admin@goldentulipseeb.com
www.goldentulipseeb.com

Rooms: 177 rooms, including 29 deluxe rooms and 6 suites with wide balconies, 46 twin rooms, 129 single rooms.
Business Centre: All essential services, 5 meeting rooms, banquet hall and wireless internet.
Leisure Facilities: Fitness centre, gymnasium, sauna, massage treatments, crew lounge, swimming pool, tennis courts, table tennis, football pitch, golf course and the Oman Automobile Club (go-karting).
Guest Services: Doctor on-call, shuttle service, sightseeing, tour package, car hire, bookshop, gift shop and beauty salon.
Wining & Dining: Le Jardin, Coffee Shop & Terrace, Roof Top Club, Mirage Bar, La Piscine, Why Not (nightclub).

GRAND HYATT MUSCAT
Shatti Al Qurum
T: (24) 641 234
F: (24) 605 282
reservation.ghmuscat@hyattintl.com
www.muscat.grand.hyatt.com

Rooms: 280 rooms, including 44 executive suites, 6 luxury crown suites, 3 grand executive suites and 1 royal suite.
Business Centre: All essential services, translation & courier services, copying, fax, Afrah Ballroom, 2 meeting rooms, 1 boardroom, audio-visual equipment.
Leisure Facilities: Club Olympus fitness centre, gymnasium, tennis & squash courts, jacuzzi, sauna & steam room, massage rooms, outdoor swimming pool, direct access to the beach.
Guest Services: 24-hour room service, laundry & valet service, currency exchange, bank, babysitting, florist, jeweller, beauty salon, souvenir shop, car hire, travel

agent, water sports, scuba diving, airport limousine service, hotel shops.
Wining & Dining: Marjan (Asian), Mokha Café, (Middle East & international), Tuscany (Italian), Club Safari Pub & Rooftop Grill House, Copacabana (nightclub).

HAFFA HOUSE HOTEL
PO Box 1498, Ruwi
T: (24) 707 207
F: (24) 707 208
reservations@haffahouse.com
www.haffahouse.com

Rooms: 120 rooms, including 37 suites, 6 royal suites, with all amenities.
Business Centre: All essential services, 5 conference rooms, private furnished offices, secretarial services, meeting rooms for conferences, internet access.
Leisure Facilities: Health club, gymnasium, qualified personal trainers, massage treatments, swimming pool, sauna, steam room.
Guest Services: 24-hour room service, car rental, tour company, cyber café, ADSL & wireless internet, beauty salon, satellite TV, safe deposit box, banqueting facilities.
Wining & Dining: Four Seasons Restaurant, Café Rouge French Coffee shop.

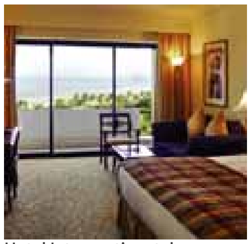
HOLIDAY INN AL MADINAH
PO Box 692, Al Azaiba
T: (24) 502 190
F: (24) 502 191
hisales@omantel.net.om
www.holiday-inn.com/almadinah

Rooms: 107 rooms, including 6 suites, 45 single rooms, 56 double rooms, 26 non-smoking rooms, 1 handicapped-accessible room, interior corridor, storage.
Business Centre: Wi-Fi, courier services, PCs available.
Leisure Facilities: Fitness centre, exercise machines, cardiovascular equipment, qualified personal trainer, sauna, outdoor swimming pool, floodlit tennis court, table tennis, badminton courts and basketball court.
Guest Services: Doctor on-call, currency exchange, daily housekeeping, laundry & dry-cleaning, live entertainment, babysitting, satellite TV, safety deposit at the reception.
Wining & Dining: Al Reem Coffee Shop, Cheers Pub, Al Nakheel Bar, Al Luban Bar, Al Ghazal Nightclub.

HOLIDAY INN
Al Khuwair
T: (24) 487 123
F: (24) 480 986
hisales@omantel.net.om
www.holiday-inn.com/muscatoman

Rooms: 123 rooms, including 3 executive suites, 3 junior suites.
Business Centre: Meeting room, ballroom, wireless internet, PCs available.
Leisure Facilities: Fitness centre, gymnasium, sauna, steam room, Thai massage, outdoor swimming pool, tennis court
Guest Services: 24-hour room service, doctor on-call, safety deposit boxes.
Wining & Dining: Al Maha Coffee Shop, Hakuna Matata, Churchill's Pub (live entertainment), Layalina Bar (Arabic), the Sports Bar & Restaurant (snooker/billiards).

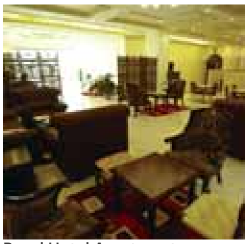
HOTEL INTERCONTINENTAL
PO Box 398, Shatti Al Qurum
T: (24) 680 000
F: (24) 600 012
reservation@icmuscathotel.com
www.ichotelsgroup.com


Hotel Intercontinental

Rooms: 265 rooms, including Club InterContinental rooms on two floors and a variety of suites, including one royal suite. Interconnecting & non smoking rooms are available on request & space availability.
Business Centre: All essential services, 11 meeting rooms, including a ballroom for up to 400 guests with modern equipment, secretarial services and internet access.
Leisure Facilities: Professional health & fitness centre, 2 swimming pools, aerobics studio, gymnasium, sauna, jacuzzi, steam rooms, cold plunge pools, massage rooms, 2 floodlit tennis courts, 2 squash courts, table tennis and whirlpool. Huge gardens with direct access to beach.
Guest Facilities: Bank, ATM machine, safety deposit lockers, concierge services, daily housekeeping, laundry & dry-cleaning services, currency exchange, babysitting, children's playground, live entertainment, car hire, jewellery, beauty salon and carpet & gift shop.
Wining & Dining: Musandam Café & Terrace Restaurant for all-day dining with international & theme buffets, Al Ghazal Pub (British pub), Majlis El Shams Tea Lounge, Senor Pico's (Mexican), Trader Vic's (Polynesian), Tomato (Mediterranean) at the poolside.

RADISSON SAS HOTELS & RESORTS
Al Khuleiah St, PO Box 939
T: (24) 487 777
F: (24) 487 778
Reservations.muscat@radissonsas.com
www.radissonsas.com

Rooms: 156 rooms, executive rooms & suites.
Business Centre: All essential services, meeting rooms, internet access.
Leisure Facilities: Health club, gymnasium, massage, sauna, steam rooms, outdoor swimming pool.
Guest Services: Car hire, massage, beauty salon/ barber, 3-hour express laundry, breakfast buffet, grab & run breakfast, express check-out, late check-out, tour package, pool bar
Wining & Dining: The Olivos Coffee Shop, Al Tajin Grill Restaurant (all-inclusive steakhouse), The Coral Bar (jazz & blues piano bar), The Cellar (live music on weekends), Grind Floor.


Royal Hotel Apartments

ROYAL HOTEL APARTMENTS
Al Wadi Al Kabir
T: (24) 819 191
F: (24) 819 190
royalhotelapartment@yahoo.com

Rooms: Spacious and luxurious single and double room apartments & two-bedroom royal suites.
Guest Services: Housekeeping, laundry service, security, satellite TV and fully equipped kitchen.
Wining & Dining: Coffee shop.


Ruwi Hotel

RUWI HOTEL
PO Box 2195, Ruwi
T: (24) 704 244
F: (24) 704 248
reservationruwi@omanhotels.com
www.ruwihotel.com

Rooms: 105 spacious single & double rooms, including 3 duplex suites.
Business Centre: All essential services, conference room, internet access, audio-visual equipments, training aids.
Leisure Facilities: Swimming pool.
Guest Services: 24-hour room service, satellite TV, music, snooker room, squash courts, beauty salon, poolside banqueting, outside catering.
Wining & Dining: 24-hour coffee shop (Indian/Continental/Oriental), Al Fakhr Restaurant (Arabian), Club Bar (European), Mehfil Bar.


Shangri-La's Barr Al Jissah Resort

SHANGRI-LA'S BARR AL JISSAH RESORT & SPA
PO Box 644
T: (24) 776 666
F: (24) 776 67
slmu@shangri-la.com
www.shangri-la.com

Rooms: 638 rooms in three hotels. Al Waha: 262 rooms with 13 suites; Al Bandar: 197 rooms with 14 premier rooms and 14 suites; and Al Husn: 179 rooms with 12 suites, 3 speciality & 1 royal suite.
Business Centre: All essential facilities, audio-visual services, internet access.
Conference: Barr Al Jissah Ballroom (700-guest capacity), 11 meeting rooms.
Leisure Facilities: 3 private beaches, 3 pools, lazy river, 4 tennis courts, 2 fitness centres, Chi spa with 12 treatment villas, sauna, steam room, massage, jacuzzi and a dive centre that offers scuba diving, boat excursions, sailing & windsurfing and kayaking.
Guest Services: On-site shopping, parking, limousine, hair & beauty salon, complimentary shuttle, tour services, babysitting, car hire, services for the disabled, florist, currency exchange, laundry and valet services, butler service available in suites, scuba diving & snorkelling, dolphin & whale watching, turtle nesting observation, Omani heritage village, 1000-seat outdoor amphitheatre and scheduled activities such as power walking, stretching, football and game of the day.
Wining & Dining: Samba (Latin American), Surf Café (light meals and snacks), Assira Pool Bar (light meals), Al Waha Lobby Lounge (snacks), Bait Al Bahr (seafood), Al Tanoor (Middle Eastern), Capri Court (Italian), Tapas, Xyro (nightclub), The Piano Lounge (bar, light snacks), The Long Bar, Mokha Café (coffee shop and ice cream), Circles (pizza and light meals), Sultanah (international), Shahrazad (Moroccan), Al Muheet (light snacks), Al Husn Lobby Lounge (snacks), Silver Lounge (cigar lounge), Mahhara (beach bar).

THE SHERATON OMAN HOTEL
PO Box 3260
Tel: (24) 772 772
Fax: (24) 795 791
reservations.muscat.oman@sheraton.com
www.sheraton.com/muscat

Rooms: 230 rooms, including 165 classic, 132 king, 2 disabled rooms, 19 suites
Business Centre: Conference facilities for 900
Leisure Facilities: Gymnasium, swimming pool.
Guest Services: 65-inch wall-mounted LCD televisions, Sheraton Sweet Sleeper beds guaranteed for comfort and sound sleep, high-speed internet connectivity (wired & wireless), coffee and tea making facilities, minibar, satellite TV channels (30), individually controlled air conditioning & heating units, double glazed windows, bed boards showing Omani art pieces, separate lounge area within bedrooms, black out curtains, in-room safes (large enough to hold laptops).
Wining & Dining: All-day dining restaurant with interactive cooking stations, South American grill.

SOHAR

AL WADI HOTEL
PO Box 459
T: (26) 840 058
F: (26) 841 997
reservationalwadi@omanhotels.com
www.soharalwadi.com

Rooms: 80 rooms – singles, doubles and suites.
Business Centre: All essential services, conference hall, audio-visual equipment and training aids.
Leisure Facilities: Health club, gymnasium, sauna, pool.
Guest Services: 24-hour room service, satellite TV & music, internet access in rooms, laundry service, valet service and airport transportation (limited).
Wining & Dining: Al Sallan Restaurant (Continental/Indian/Chinese), Oasis Restaurant(international with live entertainment), Al Wagbah Bar (live music), Al Majaz Club (billiards & darts) and coffee shop.

SOHAR BEACH HOTEL
Sallan
T: (26) 841 111
F: (26) 843 766
soharintl@omantel.net.om
www.soharbeach.com

Rooms: 45 rooms, including 2-bedroom suites, royal suites & chalets located on the beach.
Business Centre: All essential services.
Leisure Facilities: Fitness centre, sauna, swimming pool, tennis court, golf, gymnasium, go-karting and beach.
Guest Services: In-house laundry.
Wining & Dining: Al Sallan Coffee, Al Zafran, Arabian Nightclub, Al Tarif Indian Bar, Al Jizzi Lounge, Salalah Hall.

SALALAH

HILTON SALALAH RESORT

Sultan Qaboos St
T: (23) 211 234
F: (23) 210 084
mohamed.kamel@hilton.com
www.salalah.hilton.com

Rooms: 147 guest rooms and suites with balconies overlooking the Indian Ocean. In-room facilities include air conditioning, colour TV, mini fridges, hair dryer, in-room safe, internet access and tea & coffee.
Business Centre: All essential services, 3 meeting rooms, 1 ballroom, internet access, secretarial services and audio-visual equipment rental.
Leisure Facilities: Fitness centre, outdoor swimming pool, sauna, indoor & outdoor massage, aerobics, gymnasium, beach, jogging track, walking track, playground, scuba diving and tennis courts.
Guest Services: Shopping arcade, babysitting, luggage storage, doctor on-call, car hire, concierge desk, currency exchange, 24-hour room service, furrier (fur shop), gift shop, laundry & valet service, tour desk, safety deposit box, wireless internet available in all public areas and newsstand shop.
Wining & Dining: Al Maha all-day restaurant (international/Arabian), Palm Grove (beachside restaurant, Asian/Mediterranean), Sheba's Restaurant for fine dining (Asian/Arabian/international), Mayfair Bar (sports pub), Whispers Nightclub with live entertainment & Chequer Local Bar, Sunset Lounge (snacks), Sheesha Terrace. Dining on the beach is available with prior reservation.

CROWNE PLAZA RESORT

Al Khandaq Street
T: (23) 235 333
F: (23) 235 137
cpsalalah@omantel.net.om
www.crowneplaza.com

Rooms: 153 rooms, 9 suites, 42 single rooms, 83 double rooms, 3 executive suites, 19 three-bedroom family villas. 67 non-smoking rooms also available for guests.
Business Centre: All essential services, including 3 meeting rooms, secretarial services, PCs available, internet access.
Leisure Facilities: Fitness centre, gymnasium, sauna, massage, steam room, jacuzzi, outdoor swimming pools, tennis, squash, whirlpool, golf course.
Guest Services: Shopping arcade, driving range, dive centre, beauty salon, gift shop, 24-hour room service, laundry, babysitting.
Wining & Dining: Darbat Restaurant, Dolphin Beach Restaurant, Al Luban (nightclub), Pool Bar, Bar Complex, Irish Pub & Lobby Café, Birds Lounge, Splash Pool Bar, Al Khareef Pub.

HAFFA HOUSE SALALAH

PO Box 427
T: (23) 295 444
F: (23) 294 873
house@omantal.net.om
www.shanfari.com/hhhs

Rooms: 60 rooms including 5 suites.
Business Centre: Banquet facilities.
Leisure Facilities: Swimming pool, health club and tennis court.
Guest Services: 24-hour room service, beauty parlour, laundry service and supermarket.
Wining & Dining: Coffee shop and Al Haffa Restaurant.


Hilton Salalah Resort

KHASAB

GOLDEN TULIP KHASAB

PO Box 434, Khasab
T: (26) 730 777
F: (26) 730 888
info@goldentulipkhasab.com
www.goldentulipkhasab.com

Rooms: 60 rooms, including suites & chalets.
Business Centre: All essential services, internet access available.
Leisure Facilities: Fitness centre and swimming pools.
Guest Services: Tour desk, handicraft sales, shops, laundry & valet services, 24-hour room service, satellite TV, and safe deposit box.
Wining & Dining: Cappuccino Coffee shop, Dibba Café Restaurant, Poolside terrace and the Darts Pub.

SUR

SUR PLAZA HOTEL

PO Box 908, Sur Main Road
T: (25) 543 777
F: (25) 542 626
resvnsur@omantel.net.om
www.surplazahotel.com

Rooms: 108 spacious double rooms with pleasing décor, including 3 royal suites.
Business Centre: All essential services, one conference hall, audio-visual equipment, training aids.
Leisure Facilities: Gymnasium, swimming pool
Guest Services: Satellite television, laundry & dry-cleaning services also available.
Wining & Dining: Oysters Restaurant (Continental/Indian/Chinese/Arabic), Sambouq Bar and Al Shabaka Bar, Captains Pub.

International cuisine is available almost exclusively at hotels. Pubs and bars are only available in hotels. There are a very small number of licensed restaurants away from hotels, including some excellent Indian restaurants. Inquire at a hotel for directions.

The Royal Oman Symphony Orchestra is of a very high quality. It is well worth trying to see a performance while in Oman. The group often tours throughout the Arab world and beyond. The orchestra's development has been due to the Sultan's love of classical music.

GOVERNMENT

MINISTRIES

Diwan of the Royal Court
(24) 477 000
Commerce & Industry
(24) 813 500
Information
(24) 603 222
Agriculture & Fisheries
(24) 696 300
National Economy
(24)738 201
(24) 698 900
Foreign Affairs
(24) 699 500
Tourism
(24) 588 700
Finance
(24) 738 201
Social Development
(24) 602 444
Public Works and Housing
(24) 693 333
Oil & Gas
(24) 603 333
Education
(24) 775 209
Higher Education
(24) 783 555
Legal Affairs
(24) 489 802
Municipalities, Environment & Water Resources
(24) 692 550
Heritage & Culture
(24) 641 300
Defence
(24) 312 605
Health
(24) 602 177
Manpower
(24) 813 259
Civil Services
(24) 696 000
Transport & Communications
(24) 603 800
Awqaf & Regional Affairs
(24) 696 870
Justice
(24) 697 699
OCIPED
(24) 812 344
Public Establishment for Industrial Estates
(24) 155 100
Muscat Municipality
(24) 704 800
Muscat Securities Market
(24) 823 600
Majlis Al Shura
(24) 510 444
Capital Market Authority
(24) 823 258
Oman Telecommunications Company
(24) 631 000
Sports Affairs
(24) 703 299

OMAN CHAMBERS OF COMMERCE

Muscat
(24) 707 684
Chamber Offices Rusayl
(24) 446 589
Salalah
(23) 291 661
Sohar
(26) 840 147
Sur
(25) 540 337
Nizwa
(25) 431 640
Ibri
(25) 689 674
Ibra
(25) 570 337
Buraimi
(25) 641 774
Khasab
(26) 730 229
Chamber Office
Rustaq
(26) 875 118

FOREIGN MISSIONS

Austria
(24) 793 135
Bahrain
(24) 605 133
Bangladesh
(24) 567 379
Belgium
(24) 562 033
Canada
(24) 791 738
China
(24) 696 698
Egypt
(24) 600 411
France
(24) 681 800
India
(24) 814 120
Iran
(24) 696 944
Italy
(24) 695 223
Iraq
(24) 695 559
Jordan
(24) 692 760
Korea
(24) 691 490
Kuwait
(24) 699 626
The Netherlands
(24) 603 706
New Zealand
(24) 794 932
Qatar
(24) 691 152
Russian Federation
(24) 602 894
Kingdom of Saudi Arabia
(24) 601 744
Switzerland
(24) 568 202
Thailand
(24) 602 684
Turkey
(24) 697 050
United Arab Emirates
(24) 600 302
United Kingdom
(24) 609 000
United States
(24) 698 989

CONSULTANCY & ACCOUNTANCY

BDO Jawad Habib
(24) 567 322
PricewaterhouseCoopers
(24) 563 717
Ernst & Young
(24) 703 105
KPMG
(24) 709 181
BankMuscat
(24) 768 888

LEGAL SERVICES

Al Busaidy, Mansoor Jamal & Company
(24) 814 466

CREDIT CARD

American Express
(24) 696 960
Diners Club International
(24) 811 650
MasterCard
(24) 682 781/805
Visa
(24) 682 781

TRAVEL

AIRLINES

Air France
(24) 704 318
Air India
(24) 799 801
British Airways
(24) 568 777
Emirates Airlines
(24) 786 700
Gulf Air
(24) 703 222

The holy month of Ramadan is an interesting time to visit Oman. People fast through the day and it is rude to eat or drink in public, apart from in a few hotels. During the evening, as people break their fast, there is a festive atmosphere with celebrations and decorations.

There are three daily English-language papers that are widely read by both expatriates and Omanis. Despite extremely optimistic coverage, they are a good way to keep up with world events. There are also two English language radio stations that can be useful.

Indian Airlines
(24) 790 771
Kuwait Airways
(24) 798 861
Lufthansa
(24) 796 692
Oman Air
(24) 707 222
(24) 519 953
Pakistan International Airlines
(24) 792 468
Qatar Airways
(24) 783 388
Saudi Arabian Airlines
(24) 789 485
Singapore Airlines
(24) 791 233
Swiss Airlines
(24) 791 710
Thai Airways
(24) 704 455

TRAVEL AGENTS

Bahwan Travel Agency
(24) 704 455
Eihab Travels
(24) 796 387
Mark Tours
(24) 786 881
Marmul Travel & Tours
(24) 482 868
Muscat Diving & Adventure Centre
(24) 485 663
National Travel Tourism
(24) 566 046
OUA Travel Centre
(24) 704 129
Shanfari Travel & Tours
(24) 786 916
Dhofar Tourism
(23) 290 641

CAR HIRE

Al Haditha Travel & Tours
(24) 521 189
Avis Rent A Car
(24) 601 224
Budget Car Rental
(24) 510 816
Europcar
(24) 700 190
Global Car Rental
(24) 697 140
Hertz Rent A Car
(24) 566 28
Payless Car Rental
(24) 792 875
Mark Rent A Car
(24) 786 885
Sixt Rent A Car
(24) 890 082
Value Plus Rent A Car
(24) 817 964

HEALTH

EMERGENCY

Fire & Ambulance
999
Information
198
Royal Oman Police, Muscat
(24) 560 099
Royal Oman Police, Salalah
(23) 234 599

OPTOMETRISTS

Gulf Optical Centre
(24) 797 480
Pearl Optical Centre
(24) 622 227

PRIVATE HOSPITALS

Al Shatti Hospital
(24) 604 263
Badr Al Samaa
(24) 799 761
Hamdan Hospital, Salalah
(23) 212 340
Muscat Private Hospital
(24) 562 600

24-HOUR PHARMACIES

Al Hashar Pharmacy
(24) 833 115
Apollo Pharmacy
(24) 787 766
Muscat Pharmacy
(24) 702 542
(24) 736 297
Scientific Pharmacy
(24) 560 890

INFORMATION

NATIONAL NEWSPAPERS

Al Shabiba
(24) 814 373
Al Watan
(24) 591 919
Oman Observer
(24) 604 477
Times Of Oman
(24) 814 154
Oman Arabic Daily
(24) 699 681

FOREIGN NEWSPAPERS

Gulf News
(24) 564 614
Khaleej Times
(24) 700 896

RADIO & TV STATIONS

Ministry of Information
(24) 603 222
Oman FM
(24) 602 058

SPAS

Horizon
(24) 571 997
The Spa, the Chedi
(24) 524 400
Ayana Spa
(24) 693 277

ART GALLERIES

Al Majlis Gallery
(24) 501 057
Bait Muzna Gallery
(24) 793 204
Sadaf Gallery
(24) 602 123
Yiti Art Gallery
(24) 564 297

GIFTS

Bespoke Ready-to-Wear Jewellery
(24) 714 141

SHOPPING MALLS

Muscat City Centre
(24) 558 888
Markaz Al Bahja
(24) 540 200
Sultan Centre
(24) 568 913
Capital Commercial Centre
(24) 563 672
LuLu Shopping Centre
(24) 811 449
Jawharat Al Shati Commercial Complex
(24) 692 113
Al Harthy Complex
(24) 564 481
Zakher Shopping Mall
(24) 494 677
Centre Point
(24) 698 988

CINEMAS

Al Bahja Cinema
(24) 540 856
Ruwi Cinema
(24) 701 564
Star Cinema
(24) 792 360

Many meetings will begin with a cup or two of tea or coffee

Facts for visitors

Helpful information for newcomers

LANGUAGE: The official language is Arabic, but many people speak excellent English. The vast majority of business leaders speak English very well. Some 20% of the population is made up of expatriates, most of who are from India and so speak English and Hindi. Some people speak Swahili because of Oman's historical links with Africa. Road signs are in Arabic and English.

ETIQUETTE: A handshake is the accepted way to greet individuals, especially in business situations. This applies to both men and women. It is polite to accept tea or coffee in a meeting, and if traditional Omani coffee is served in a very small cup from a pot with a long spout, it is polite to have at least two servings.

DRESS: Omani men wear a simple, ankle-length white robe called a *dishdasha*. Sometimes at night the dishdasha will be some colour other than white. They wear the dishdasha with either a *kummah*, which is a delicately woven cap, or a *mussah*, which is a decorated cloth folded into a turban. The dishdasha has a tassel that is often dipped in perfume. Women's dress differs depending on the region, but generally consists of a long dress and a headscarf. It is unusual to see women's heads completely covered. There are no restrictions on expatriate dress, although modesty is recommended.

WORKING HOURS: The working days in Oman are Saturday to Wednesday. Many GCC countries have adopted a working week of Sunday to Thursday to be more closely aligned to the rest of the world, and there are rumours that Oman will make this change in the near future. Saudi Arabia is the only other GCC country to share Oman's working week. To confuse matters even more, some companies in Oman, particularly foreign energy companies, follow the Sunday to Thursday model. Working hours vary widely in the private sector. Government hours are generally 9.00am to 3.00pm. Shops often stay open until late in the evening.

VISA: Visas are available on arrival for most EU countries and the US. A one-month visa is available for $16 and can be extended by one month for $26. A fine of $26 is applied for every day a visa is overrun. To encourage tourism, visitors of selected nationalities coming from Dubai can get a free visa for three weeks. This visa cannot be extended.

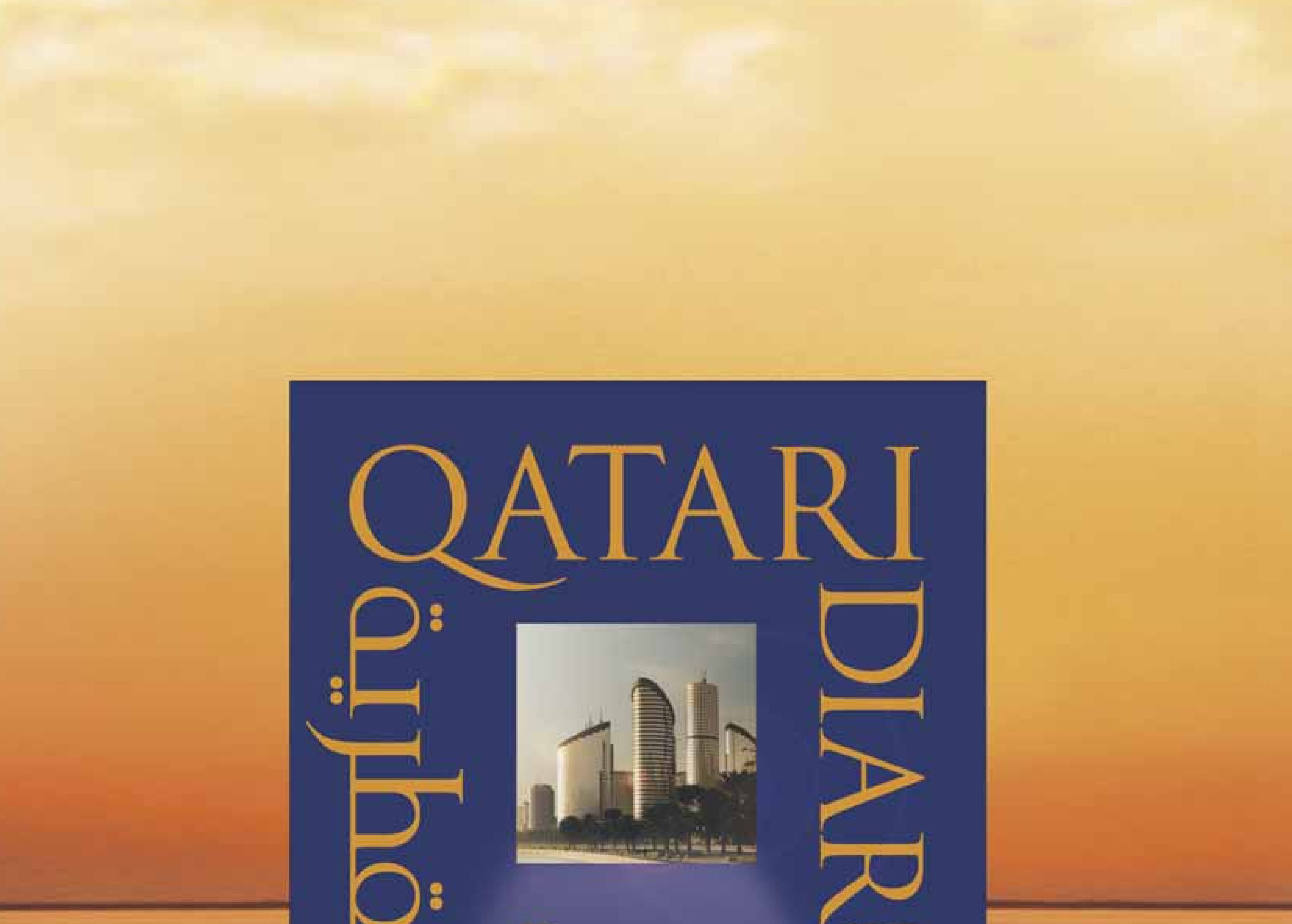
CURRENCY: The Omani riyal is pegged to the US dollar at OR1:$2.6. ATMs are widely available and accept most major credit and debit cards. There are a number of global banks in Oman, including HSBC and Standard Chartered, and currency exchanges are common.

COMMUNICATIONS: The international country code for Oman is +968. Omantel is the only fixed-line operator in the country, though there are also two mobile providers. It can take a few months to get a fixed line installed, and getting a broadband connection can also take time. To escape expensive internet fees charged by hotels, long-term visitors should purchase an internet package from the mobile provider, Nawras.

ELECTRICITY: British style three-pronged plugs are used in Oman. Despite this fact, most electrical equipment seems to be two pronged, which makes adapters essential. These are widely available but care needs to be taken to purchase an adapter that fits well and does not cause an electrical fire.

TRANSPORT: Taxis are widely available and tend to group around hotels and shopping centres. Only Omanis are allowed to drive taxis and, as such, rates are very high. Taxis are not metered so it is important to know what the journey should cost before entering a taxi. Taxi rates are more expensive from the airport and from hotels. About half of the taxi drivers speak English. Public transport is not widely used. Renting a car is one of the best ways to explore the interior, though desert trips are not recommended without a 4x4 and someone with local knowledge. There are plenty of car hire firms and it is relatively easy to hire a car.

HEALTH: It is important to have health insurance before entering the country. The quality of private health care is very good, and more complex procedures are being added all the time by private clinics and hospitals. Consequently, Oman is a cost-effective place to get dental treatment and laser eye surgery.


QATARI
DIAR
القطرية
الديار