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UNITED STATES-OMAN FREE TRADE AGREEMENT

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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UNITED STATES-OMAN FREE TRADE AGREEMENT

MONDAY, MARCH 6, 2006

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 2:30 p.m., in room SD–215, Dirksen Senate Office Building, Hon. Craig Thomas (chairman of the subcommittee) presiding.

Also present: Senator Bingaman.

OPENING STATEMENT OF HON. CRAIG THOMAS, A U.S. SENATOR FROM WYOMING, CHAIRMAN, SUBCOMMITTEE ON INTERNATIONAL TRADE

Senator THOMAS. I call the committee to order so we can get going.

Thank you very much for being here. We welcome all of our witnesses and everyone who is interested in this Subcommittee on International Trade, U.S.-Oman Free Trade Agreement hearing.

Geographically, of course, the Middle East is a region quite far removed from the United States. Because of the distance, of course, U.S. trade interests are at a disadvantage when compared to our competitors from Europe, Africa, and elsewhere.

We need to reach out to the countries in this region to develop stronger relations. It is a region that far too long has been ignored or taken for granted. I am pleased to see a renewed commitment to the region, and we are here to discuss the Oman FTA.

We cannot ignore the critical role the Middle East has played, and continues to play, in the world's history—culturally rich, of course—a long history of trade and commerce.

Today, the area provides much of the energy that drives the global economic engine and will remain a critical region, certainly, for some time. Trade will play a key role, as it is increasingly throughout the world.

I believe trade does play an important role in raising the standard of living for everyone. Oman and the United States is not the largest trading partnership that we have ever talked about, but it is an important one, both strategically and economically.

I think what we seek to do, certainly, in these trade agreements, is to find ways to work together in a fair fashion, one that will be fair to the participants in the two-way agreement. This provides opportunities for both nations, and I welcome the beginning of the debate on this FTA.

Senator Bingaman?

OPENING STATEMENT OF HON. JEFF BINGAMAN, A U.S. SENATOR FROM NEW MEXICO

Senator BINGAMAN. Thank you very much, Mr. Chairman. Thank you for having the hearing. Ambassador Schwab, thank you for being here.

I was going to just mention three issues before the testimony, issues that I am particularly interested in focusing on this afternoon.

One is the issue of labor worker standards there, what we have in the agreement and what we have failed to provide for in the agreement. I understand that we have, once again, chosen not to inquire or not to include in the text of the agreement anything on this issue, other than a requirement that they comply with their own law.

I believe Congressman Rangel has been trying to get agreement from Oman to encourage them to take some additional steps with regard to improving labor standards.

I will be anxious to learn more about that if I can during this hearing, and what the administration's position is with regard to the efforts that Congressman Rangel has been making.

Second, on the issue of the Arab League's boycott of Israel, it is my understanding that Oman has a good record of working with Israel. But again, it strikes me that this perhaps is an issue that we should go ahead and put in as standard language in our trade agreements with these countries, rather than just trying to deal with it on a case-by-case basis. I will want to ask questions about that.

The final issue is not related to the Oman trade agreement, but it is one that I wanted to just bring up for Ambassador Schwab's attention and ask her help on, and that is related to the NAD Bank. I am informed that the administration has made some type of decision with regard to withdrawing funding from the NAD Bank.

Of course, the NAD Bank was a central part of the package of provisions that persuaded many of us to support the NAFTA agreement, and I wanted to get any information that Secretary Schwab had on that and ask for her help in running down additional information, if that is needed.

Thank you very much, Mr. Chairman.

Senator THOMAS. All right. Thank you, Senator.

We will have two panels today. Let me see. I think the Ambassador from Oman was here. There she is in the back. Welcome. We are very glad to have you here. I know you may have to leave early, but we are pleased to have you in attendance.

On our first panel we have the Honorable Susan Schwab, Deputy U.S. Trade Representative, in the U.S. Trade Representative's office here in Washington.

Ambassador, if you would like to go right ahead, please.

STATEMENT OF HON. SUSAN SCHWAB, DEPUTY U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ms. SCHWAB. Mr. Chairman, Senator Bingaman, thank you very much.

Let me begin by thanking you and others on this committee who have been working in such close partnership with us on our free trade agreements. I very much appreciate the opportunity to discuss the U.S.-Oman Free Trade Agreement with you today.

This and other recent FTAs that the committee has considered are important elements of U.S. policy in the Middle East. With this agreement, Oman has made legally binding commitments to liberalize trade with the United States.

The FTA will provide new market access opportunities for U.S. farmers, manufacturers, service providers, and workers. It will also help to create an economic environment conducive to additional employment opportunities for the people of Oman.

Beyond substantial trade liberalization, the FTA will help to support ongoing economic, political, and social reforms in Oman and promote the benefits of pursuing market liberalizing policies in other countries in the region as well. Embracing trade will benefit the people of the Middle East as they strengthen their ties outside the region and with each other.

The administration's trade agenda is a fundamental part of the President's vision for developing economic growth and democracy in the Middle East. In May, 2003 the President announced a plan of graduated steps for Middle Eastern nations to increase trade and investment with the United States and others in the world economy, and to create a U.S.-Middle East Free Trade Area, MEFTA, by the year 2013.

Oman is the fifth Middle Eastern country to have negotiated an FTA with the United States, building on our existing agreements with Israel, Jordan, Morocco, and, most recently, Bahrain.

We are also negotiating an FTA with the United Arab Emirates and have Trade and Investment Framework Agreements, TIFA agreements, with most of the other countries in the region.

These are important steps on the path to implementing the President's initiative, and consistent with the 9/11 Commission's urging that the United States expand trade with the Middle East in order to "encourage development, more open societies, and opportunities for people to improve the lives of their families, and to enhance prospects for their children's futures." The President and USTR take this recommendation very seriously.

As to the agreement itself, on the first day the agreement enters into force, 100 percent of bilateral trade in industrial and consumer products, with the exception of certain textile and apparel products, will flow duty-free.

In addition, Oman will provide immediate duty-free access for 87 percent of U.S. exports of agricultural products. This means there will be new opportunities for U.S. companies to produce machinery, automobiles, optic and medical instruments, and it will mean new opportunities for U.S. producers of vegetable oil, sugars, and sweeteners for beverages.

Under the FTA, Oman will provide substantial market access across its entire services regime, with new opportunities for U.S. companies involved in banking and securities, insurance, telecommunications, express delivery, distribution, health care, construction, architecture, and engineering.

This agreement will also help ensure a secure and predictable legal and regulatory environment in Oman that foreign investors will want to see in 21st-century commerce.

Under the agreement, Oman will provide effective enforcement of labor and intellectual property rights laws. This will help Oman be a more attractive place for investors and also create new opportunities for the Omani people.

The agreement also includes important transparency, public notification, and anti-bribery provisions. The application of these provisions will also improve the business and investment environment.

The FTA's labor and environment provisions fully meet the negotiating objectives set out in the Trade Act of 2002. These provisions are included in the core text of the agreement. Senator Bingaman, I would be happy to address more specifically some of the labor issues later on.

Suffice it to say that the agreement requires each party to effectively enforce its labor and environmental laws. Each party commits to ensure that its laws and policies provide for and encourage high levels of environmental protection, to strive to ensure that labor laws provide for labor standards consistent with internationally recognized labor principles, and to strive not to weaken or reduce labor and environmental laws to attract trade and investment.

Oman passed a new labor law in the year 2003 that allows for the creation of worker representative committees for the first time. The law details procedures for dispute resolution and removes a 1973 prohibition on strikes.

Oman recognizes the need to continue its efforts on labor rights, and is working to raise awareness and educate workers about their rights and to establish new worker representative committees. Oman is working with the ILO on these efforts.

This agreement enjoys widespread support from our trade advisory committees. The most senior committee, the Advisory Committee for Trade Policy and Negotiations "unanimously endorses the U.S.-Oman Free Trade Agreement" and found the agreement is in the best interests of the United States.

The agreement is also supported by an impressive group of businesses, over 100 members, who make up the U.S.-Middle East Free Trade Coalition. I suspect you will be hearing more from them later, but they represent construction, energy, services, automobile, pharmaceutical, IT, and defense companies.

Let me close by noting that, for decades, Oman and the United States have shared a desire for peace, stability, and economic opportunity in the Middle East. This agreement is an important step in our partnership that will not only remove trade barriers, but also cement our longstanding friendship and growing commercial ties and create new economic opportunities for both of our countries. With your guidance and support, we will continue to pursue the President's MEFTA initiative.

As the next step in implementing that initiative, we look forward to working with you and building bipartisan support for legislation implementing the U.S.-Oman FTA this spring.

I would submit my longer, formal statement for the record, and would be pleased to respond to any questions or comments that you would have.

Senator THOMAS. Thank you very much. Your statement will be included in the record.

[The prepared statement of Ms. Schwab appears in the appendix.]

Senator THOMAS. A little selfishly, 87 percent of agricultural products are duty-free. What about the other 13 percent? What products does that represent?

Ms. SCHWAB. Eighty-seven percent of line items in agriculture all are duty-free upon date of entry. The products that are not duty-free upon date of entry get unlimited duty-free access within 10 years. They include alcohol, tobacco, and pork. As you might imagine, in a Muslim country, those are obviously very, very sensitive products.

Senator THOMAS. Good. With the recent discussion here in Washington, I thought we would want to get rid of as much pork as we could. [Laughter.] A little off the subject.

There has been a lot of discussion on port security lately. Do these agreements go into the question of safeguards regarding improper transshipment of goods?

Ms. SCHWAB. These agreements do not formally do that. But, as you know, whether it is through World Trade Organization agreements or any of our free trade agreements, there are specific exceptions for essential security.

No country would give up its ability to protect its own national security, but we must be careful in the use of this provision so as not to encourage others to abuse it as an excuse for protectionism.

Senator THOMAS. As we have made various agreements throughout the world and have a number of them in place, and dealing with others, what is the normal relationship in terms of labor agreements with other countries?

Do you find that often they are similar? Do you find that our agreements are quite different, that none compare to what we do? What is, generally, the situation, comparing our labor agreements with those that we compete with?

Ms. SCHWAB. In terms of other free trade agreements that other countries negotiate?

Senator THOMAS. Yes, ma'am.

Ms. SCHWAB. That I am aware of, you find very few labor provisions in free trade agreements negotiated by other countries. In fact, as a general rule, U.S.-negotiated free trade agreements tend to be much broader and much deeper in their impact than the free trade agreements negotiated by other countries with third parties.

Senator THOMAS. I see.

Ms. SCHWAB. And that includes on labor.

Senator THOMAS. All right. Thank you.

Senator?

Senator BINGAMAN. Well, thank you very much.

First, just to sort of get the issue on the record here. This NAD Bank issue that I mentioned before that is not related to the Oman free trade agreement.

That is something that obviously would be of great concern to us if, in fact, the administration is taking the action that we have been advised that they are thinking of taking.

I gather that would be coming out of the Department of the Treasury, not out of the U.S. Trade Representative's office. Are you familiar with this issue, or would you just agree that you will help us find what the right information is?

Ms. SCHWAB. Absolutely. Senator, I am familiar with the issue. The Treasury Department does have the lead on NAD Bank. I can assure you, no decision has been made as to the disposition of NAD Bank. NAD Bank, as you stated, was created as part of the NAFTA agreement, designed to provide commercial rate lending to border States for waste water and other environmental treatment.

I am sure you are also aware that certainly all of the border States involved, and virtually everyone else, have been quite disappointed in the operation of NAD Bank. NAD Bank has involved a fair amount of investment set aside by both the United States and Mexico, and the return on that investment in terms of environment impact has been quite disappointing.

There have been efforts to reform NAD Bank's administration, but as I said, while there is a discussion going on about what should happen next with NAD Bank, no decision has been made. I can assure you that no decision would be made, absent consultations with Congress, with interested members, including yourself, on this.

Senator BINGAMAN. All right. I appreciate that. We will look forward to additional conversations with you or with the Treasury Department about this if some change in policy is being contemplated, because I was not aware of that until today in preparing for this hearing.

Let me ask about this trade agreement. There is obviously a difference of opinion between you and Ms. Lee, who is the policy director for the AFL–CIO, on this set of issues. I gather she is on the second panel.

She says, "Oman's labor laws are egregiously out of compliance with the ILO core labor standards," and then goes on to point out that, in her opinion, "Oman's free trade agreement labor provisions constitute a step backward from existing labor rights provisions in the U.S.-Jordan FTA and in our Generalized System of Preferences program."

What is your response to that claim?

Ms. SCHWAB. As I noted in my opening statement, Oman enacted a forward-leaning labor law in 2003. Prior to that time, I think all, including the Government of Oman, would agree that their labor laws were not up to standard. They have worked very closely, and continue to work closely, with the ILO to ensure that workers in Oman enjoy the same protections and benefits as workers in other countries.

In terms of our FTA agreement, by some definitions, this is a stronger provision than that in the Jordan FTA.

Senator BINGAMAN. What interpretation would lead you to that conclusion?

Ms. SCHWAB. In terms of some of the key elements in enforceability, the transparency, and what the Omanis have agreed to do in terms of ongoing work with the ILO, to improve the standards and enforcement.

In terms of enforcement activities and evidence that these are working, recognizing that this law was just enacted in 2003, for example, the Omani government reports that there have been, I believe, 33 strikes or labor stoppages since this law was enacted.

We know that there are worker representative committees. Oman knows that there needs to be more than one such committee, if workers in a given enterprise wish to have another one.

So, there are a variety of improvements that were made, dramatic improvements made in 2003, on which the Omanis are building. In terms of where they were and where they're going, it is a strong and growing accomplishment.

It is very important to recall that, absent the FTA agreement, a lot of these efforts might go by the wayside, and they certainly would not be enforceable through our FTA. So, we believe that this is the right way to go. Oman is the first to acknowledge that they have more work to do, and they are working with the ILO and with us to see that improvements continue to be made.

Senator BINGAMAN. Mr. Chairman, my time is up here. If we are going to have another round with this witness, I will have a couple of other questions.

Senator THOMAS. All right. I just have one other sort of general question, Senator, and then we will get on to our second panel.

I recognize, and I think all of us recognize, the importance of our trade relationships. The world is changing, and billions of dollars move around the world, so we need to find ways to ensure that they move around as fairly as possible, I am sure, if we are interested in having relationships with other countries, and maybe particularly in this area of the Middle East.

Our trade in this instance, I am told—I guess it was in 2004—is about $330 million, which is a relatively small amount. So how would you classify this arrangement? Is it more designed for a trade agreement? Is it more designed for a relationship agreement? How would you classify this?

Ms. SCHWAB. Senator, you ask a very, very good question. In this particular case, as I noted, this is yet one more step in seeing the President's MEFTA, Mid-East Free Trade Area initiative, become a reality.

This is the fifth country in the region with which we have negotiated an FTA. It is designed to improve economic growth, development, and commerce, both between the region and the United States, but also among countries in the region.

So this is a critical step in terms of broadening the base of economic, and ultimately political, liberalization across the region. So, it is based both on economic and on foreign policy objectives.

Senator THOMAS. I see. All right. Thank you.

Senator, go ahead, if you would like.

Senator BINGAMAN. Let me ask about this boycott of Israel. It is my understanding that Oman has good relations with Israel. Generally, it is not thought to support any type of boycott.

But I guess my question is, if we have this strategy or this plan of signing agreements with all of these Middle Eastern countries, and you indicated this was the fifth agreement that you have concluded, why do we not put language in each of these agreements, in the text of the agreement, that deals with this issue and makes it clear that that is part of what is being agreed to here, is that there will not be any involvement or participation in any boycott of Israel?

Ms. SCHWAB. Senator, I am glad you asked the question about the boycott. As you note, Oman has a very good record in terms of the Arab League boycott. We have a letter that I might invite you to place in the record from the Minister of Commerce and Industry, which, among other things, assures us that Oman does not apply any aspect of the boycott, whether primary, secondary, or tertiary, or have any laws to that effect.

[The letter appears in the appendix.]

Ms. SCHWAB. As a member of the WTO, Oman has not taken a reservation as to the application of most favored nation status with other WTO members, which includes Israel, and therefore that obligation, by being a member of the WTO, is there, and it has been faithful to that obligation.

As part of our free trade agreements in the region, we have also received assurances about the secondary and tertiary application of the boycott. In 1994, Oman, as well as other countries of the Gulf Cooperation Council, eliminated the secondary and tertiary aspects of the boycott.

As I understand it, in 1996, Oman and Israel signed an agreement to set up trade offices, trade missions, in each other's countries. These were shuttered after the launch of the second Intifada, but Oman still has had trade with Israel.

In terms of how one locks these in, we have a written letter of commitment. In each country, we take a different approach to fit——

Senator BINGAMAN. And that is my question: why do we take a different approach with each country? Why do we not just say, this is what we are going to require if you want to have a free trade agreement with the United States, on this issue? Here is the language. It is going to be in the text. If you do not like it, we will move on and negotiate with someone else. I mean, why do we not take that position?

Ms. SCHWAB. Well, the first part of your statement, we do require that the non-application of the Arab League boycott, whether it is primary, secondary, or tertiary, non-application is a prerequisite for an FTA.

Senator BINGAMAN. Well, why do we not put that in the FTA?

Ms. SCHWAB. It is in the FTA. It depends where we——

Senator BINGAMAN. You mean, there is language in this free trade agreement that says that?

Ms. SCHWAB. In each individual free trade agreement, it is memorialized. It depends on the country, and depends on the circumstances.

Senator BINGAMAN. But there is language in this free trade agreement that says that?

Ms. SCHWAB. As part of Oman's commitment to its accession to the WTO, it has, by definition, renounced the——

Senator BINGAMAN. So you think that their commitments through the WTO are adequate to resolve this issue.

Ms. SCHWAB. These are enforceable commitments.

Senator BINGAMAN. All right.

Under the agreement that you have here with regard to labor rights, is there any explicit agreement by Oman to comply with ILO standards? I mean, I know you have this language in here about "striving" in various respects. But is there any commitment to actually comply with ILO standards?

Ms. SCHWAB. As you know, Senator, as part of the Trade Act of 2002, the negotiating objectives, negotiating responsibilities laid out for us, whether through WTO negotiations or through FTAs, are for the enforcement of our own labor laws. That is what we have built into this particular agreement as well.

In terms of Oman's labor practices, we obviously spent a lot of time, and had experts over in Oman studying their law and studying their practices, to assure ourselves that they are striving to meet ILO core labor standards.

There are a lot of countries, Senator, that are signatories or have ratified core ILO standards that you would not consider doing an FTA with, and that certainly do not practice fair treatment and protections for their workers.

In the case of Oman, it is clear from their own legislation and from their practices that they are working very hard to make sure that their labor practices are consistent with core labor standards of the ILO.

Senator BINGAMAN. Thank you. My time is up, Mr. Chairman.

Senator THOMAS. Thank you very much.

Thank you, Madam Ambassador. We appreciate it. It is always interesting to take on these issues. When you read about them, a lot of times, compared to our investment overseas, their investment here changes the balance of trade, and all these things make it very difficult. So, I appreciate your work, and thank you for being here.

Ms. SCHWAB. Mr. Chairman, thank you. Senator Bingaman, thank you very much.

Senator THOMAS. May we call up our second panel now, please? I would like to thank all the witnesses on panel two for appearing before the committee today to testify on this Oman free trade agreement.

Before I introduce you, and as you are taking your places, I would like to mention the absence of one of our witnesses, Jalel Aossey, from Midamar Corporation. Unfortunately, he encountered flight delays this morning and is unable to reschedule his flights to be here. So, his statement will be included in the record.

[The prepared statement of Mr. Aossey appears in the appendix.]

Senator THOMAS. We thank all of you for being here, Ms. Lee, Mr. Hemphill, Mr. Walker, and Mr. Hamod. We appreciate that very much.

I have them listed here, in no particular order, but if you do not mind, we will just start that way. We will start with you, Ms. Lee.

STATEMENT OF THEA M. LEE, POLICY DIRECTOR FOR LEGISLATION, AFL–CIO, WASHINGTON, DC

Ms. LEE. Thank you so much, Mr. Chairman, Senator Bingaman. I appreciate your holding the hearing, and I appreciate the opportunity to testify today on behalf of the 9 million working men and women of the AFL–CIO on this issue, which is of great interest and concern to us.

I think you know that we have two sets of concerns about the Oman FTA. One has to do with the actual agreement itself and the template of the free trade agreements that the Bush administration has negotiated, and the other set of concerns has to do with the situation in Oman, and particularly the labor laws.

With respect to the template, our argument has been that the worker rights provisions in this agreement are entirely inadequate to ensure that workers' human rights are respected, and, in addition, the dispute settlement mechanism for workers' rights and environmental protections is far weaker than that available for commercial provisions.

In our view, that is a violation of the TPA negotiating instructions which called for "equivalent" protection for all the principal negotiating objectives.

The other concerns have to do with the provisions on services, investment, government procurement, and intellectual property rights, that those will undermine the ability of both governments to protect public health, strong communities, and the environment.

But the concerns with respect to Oman's labor laws are those that I want to focus on today. As Senator Bingaman noted, in my testimony we outline our view that Oman's labor laws are egregiously out of compliance with the ILO core labor standards, and we are deeply concerned about the lack of protections for Omani workers in both the law and in practice.

The concerns that we have, have to do with the most fundamental workers' rights: freedom of association, the right to organize and bargain collectively.

Under the ILO standards, workers ought to be able to form their own organizations free of interference from their employers or their government. Omani labor law, in contrast, provides the government with an entirely inappropriate level of oversight and control over the activities, meetings, finances, and selection of representatives of both the national and industrial worker representative committees.

In addition, the laws fail to protect workers who participate in the worker committees from anti-union discrimination, nor do they spell out protections for workers who choose to engage in strikes.

When you take the combination of these problematic and flawed labor laws with the weak provisions contained in the FTA itself, to us this is an insurmountable obstacle to speedy passage of the FTA.

I think one of the key concerns we have has to do with the fact that, even though there are provisions in the FTA that the countries ought to meet the ILO standards and not weaken their labor

laws in order to increase trade, the Oman FTA, like all the Bush FTAs, explicitly excludes those provisions from any possibility of dispute settlement or enforcement.

So what this means is that, even in the very best of scenarios, where Oman's labor laws were brought fully into compliance with ILO standards over the next couple of months—this is assuming that there is massive work being done—you still have a huge problem, which is that the U.S. Government has absolutely no recourse to dispute settlement or enforcement if a future Omani government were to reverse those gains and weaken or gut Oman's labor laws after Congress passed the FTA.

Because the Omani workers do not have any voice in electing their government, they would not be in a position to vote out of office a government that chose to weaken their labor laws.

I think one way of illustrating how problematic this is, is to take the situation and to transpose it to the intellectual property rights provisions.

You ask yourself, if we had an IPR chapter that only required countries to enforce their existing copyright and patent laws, but they could change them any time and they do not need to bring them up to any kind of international standards, I do not think that there are many business lobbyists who would consider that adequate, even if the government in question were well-meaning and cooperative.

I wanted to give some specifics about some of the issues in the Omani labor law that we find problematic in the Ministry of Manpower Decrees 135 and 136, which were issued in 2004, part of the follow-up to the 2003 labor law. Those decrees outline inappropriate government oversight for the worksite-level committees and the national committee.

The government reserves the right to be notified 1 month prior to each meeting of the General Assembly, with a copy of the invitation letter, agenda, documents and papers relating to the issues to be discussed, and to delegate who it chooses to attend the meeting.

It also requires the committees to provide minutes of all meetings to the government and reserves the right to review the dues structure. All of these requirements constitute violations of ILO standards of freedom of association.

I think, again, if you put this in the context of the United States, it would be as if the Bush administration were to inform the AFL–CIO that any of our meetings, agendas, minutes, materials, and so on needed to be provided to them ahead of time, and that they could attend any meeting if they chose to do so. That would be entirely inappropriate.

Another issue has to do with the main representative committee, which is the national-level worker representative committee. At the time, all the appointees, as we understand, to the main representative committee have been appointed by the government, and at least five of those members are actually management employees and not worker representatives. Many of them serve as CEOs or personnel managers.

So, the idea that this somehow is equivalent to a functioning and independent union is, I think, not credible at this time.

In addition, the law prohibits the worker committees from joining any organization or authority with headquarters outside the Sultanate, from sending delegations outside the Sultanate, or receiving delegations, and even from holding public festivities or presenting public lectures without the approval of the Minister.

Again, under ILO standards, worker organizations need to be able to affiliate with whom they choose internationally and to make the kinds of choices that they want in terms of where they travel and when they travel, and what kind of public reports they hold.

So let me just say that our view is that the kinds of concerns that we have outlined with respect to Oman are pretty serious and pretty deep, and that it is unlikely that these can be fixed in the short term.

Even if they could be fixed in the short term, the provisions in the labor chapter of the agreement are so weak that we would have no confidence that these would be adequate. So, we ask Congress to reject the Oman FTA, to continue the negotiations.

We certainly appreciate that there has been progress made by the government of Oman; we do appreciate the role that the ILO has played in Oman. We would like to encourage that to go on, but we think that this process is premature in the sense that Congress should not be asked to vote on an FTA until these problems are resolved adequately. Thank you very much for your time. I appreciate the opportunity.

Senator THOMAS. Thank you very much. I appreciate it.

[The prepared statement of Ms. Lee appears in the appendix.]

Senator THOMAS. I would like to introduce the panel. I did not do that very well. Let me go back and do that again so that everyone knows.

Ms. Lee is the policy director for legislation, AFL–CIO; Mr. Robert Hemphill is executive vice president, AES Corporation, Arlington, VA; Mr. Walker is president of the Middle East Institute in Washington, DC; and David Hamod is president of the National U.S.-Arab Chamber of Commerce here in Washington, DC.

So, following the order, Mr. Hemphill, please?

STATEMENT OF ROBERT HEMPHILL, EXECUTIVE VICE PRESIDENT, AES CORPORATION, ARLINGTON, VA

Mr. HEMPHILL. Thank you very much, Mr. Chairman and Senator Bingaman. I appreciate the opportunity to testify today.

My name is Robert Hemphill. I am the executive vice president of the AES Corporation. I am here to provide testify on its behalf and tell the committee why the recently negotiated free trade agreement between the U.S. and the Government of Oman should be approved by Congress. I serve as the chief of staff of the AES Corporation, where I have worked for over the last 23 years.

AES is a Fortune 300 company, with some $9.5 billion in annual revenues from worldwide operations. We were founded in 1981. We are headquartered in Arlington, VA.

We own and operate power stations, we distribute electricity, and we operate liquified natural gas facilities here in the United States and in 25 other countries worldwide, including Oman.

In the U.S., we have power stations or electricity distribution businesses in Wyoming, California, Texas, Colorado, Indiana, Or-

egon, Maryland, Pennsylvania, New Jersey, New York, and Connecticut, as well as the territory of Puerto Rico. Unfortunately, nothing in New Mexico, but we are trying.

In addition, we have projects under development in Florida, Massachusetts, and elsewhere. Outside the U.S., we operate on four continents: Europe, Asia, Latin America, and Africa.

We run things from hydroelectric power stations in Argentina to coal-fired power plants in India, from energy distribution in eastern Kazakhstan, to the National Utility of Cameroon.

We span the globe in providing the world energy and energy services in the most responsible manner possible, delivering the best value to all of the stakeholders concerned.

Our interest in Oman specifically began over 10 years ago, when we first visited the region and saw the tremendous potential that people in the country had to offer.

Several years ago, the government of Oman began a comprehensive program to restructure and privatize its supply of electricity and related water industries, and we were eager to participate.

The new structure involves distribution companies, several generation and desalination companies, independent electricity and water transmission companies, and a central buyer of both water and power.

In short, the restructuring done by the government of Oman showed foresight and vision to ensure that both local and foreign investors were able to compete for projects that bring quality service and sustainable development to the people of Oman.

After a competitive tender process, we were selected to build, own, and operate a 450-megawatt power station, combined with a 20 million gallon-per-day desal facility. Located some 60 kilometers south of Muscat, construction was begun in 2001 and completed in June of 2003, when the facility became fully operational.

Called AES Barka, the facility employs some 53 people and the output of the facility is under contract with the government of Oman until 2018. The project company is a public company on the Omani stock exchange, and, when it was initially offered for trading, it was over-subscribed by almost 17 times. This is a testament to the faith the Omani stock exchange puts in an American company operating there.

The AES experience in operating in Oman has been a success. In addition to bringing reliable power and clean water to the people of Oman, we have integrated our operations into the local economy and community.

We have supported local schools, added street lighting, and we have a trainee program in conjunction with Sultan Q University to develop young Omanis by allowing them to be exposed to a modern industrial environment.

We have been a good corporate citizen in Oman, and in return the Omani people have been gracious hosts, good neighbors, as well as paying customers. Passing the free trade agreement that is before Congress will directly contribute to further advancing economic growth and trade between the two nations.

This agreement will provide substantial market access across the entire services regime, in addition to providing a stronger legal

framework for U.S. investors, like AES Corporation, operating in Oman.

Elimination of tariffs by the government of Oman will increase the export opportunities for U.S. companies, including farmers and ranchers, and it will directly contribute to the creation of jobs here in the United States.

Our experience of operating in Oman over 6 years has convinced us Oman is committed to open and free trade. This agreement will augment the reform made to date and further strengthen the relations between the two countries.

In addition to the obvious economic benefits, the passage of the U.S.-Oman Free Trade Agreement will directly contribute to increased opportunities not only in Oman, but in the region as well.

With increased business activity comes the need for increased energy and energy services, and the AES Corporation is proud to provide it. Thank you very much.

Senator THOMAS. Very well. Thank you, sir.

[The prepared statement of Mr. Hemphill appears in the appendix.]

Senator THOMAS. Mr. Walker? Who, by the way, for your information, is the former ambassador to Israel, Egypt, and the United Arab Emirates. Nice to have you, sir.

STATEMENT OF HON. EDWARD S. WALKER, JR., PRESIDENT, THE MIDDLE EAST INSTITUTE, WASHINGTON, DC

Mr. WALKER. Thank you very much, Mr. Chairman.

Mr. Chairman, Senator Bingaman, I would like to thank you for giving me the opportunity to address the strategic importance to the United States of Oman, and the part the Free Trade Area Agreement might play in that relationship.

Oman's geographic position facing the Indian Ocean, its access point to the Persian Gulf, and its share with Iran of guardianship over the Strait of Hormuz, makes Oman a particularly important location for protecting American interests; 20 percent of the world's oil is shipped through the Strait of Hormuz.

In 1981, Oman signed a 10-year military access agreement with the United States. It has now been renewed twice since then. Oman was part of the 1990 Gulf War coalition and, to my personal knowledge, made a major contribution to the war effort while I was ambassador to the United Arab Emirates.

Equipment, and particularly massive quantities of ammunition, were off-loaded in Omani ports along the Gulf of Oman, transported by truck convoy through the UAE up to the front in Saudi Arabia.

The fact that Oman provides a land bridge to the Arabian peninsula and the Persian Gulf from the Indian Ocean could prove extremely important if for any reason the Hormuz Strait was blockaded, traffic through the Strait was limited, or ports inside the Gulf were overburdened.

Omani airports have reportedly been freely used on request, with the permission of the Sultan of Oman, by the U.S. Air Force for its operations in Afghanistan and Iraq. According to one website, *globalsecurity.org,* "In March, 2002, Vice President Cheney toured the air base on Oman's Masirah Island. Neither the United States,

nor Oman, acknowledges U.S. use of the base, but it is an open secret in the region that it has been used for bombing runs to Afghanistan."

The Global Security report goes further to say that more than 1,100 refueling missions had been mounted from Omani bases by February, 2002.

According to Global Security, the U.S. Air Force also maintained three pre-positioning sites in Oman, with support equipment for 26,000 personnel, and the equipment and fuel to maintain three air bases, including munitions, medical equipment, rations, and various other supplies.

Oman has worked closely on counter-terrorism financing operations, and in 2004 established strong controls to combat money laundering. The U.S. report, "Patterns of Global Terrorism" for year 2002 noted that Oman continued to provide public and private statements of support for the war on terrorism in 2002, and has been responsive to all coalition requests for military and/or civilian support.

In an area of deep concern here, Oman has signed an agreement with the United States' Departments of Commerce and Energy on a program to enhance Oman's ability to detect illicit radiological cargoes on vessels and in containers under the U.S.-sponsored Container Security Initiative. U.S. Customs officers and the Omani container port of Salalah will pre-screen certain containers destined for U.S. ports.

Omani support for the United States and its relations with Israel have not always been popular at home. In October, 2000, serious demonstrations forced the Omani government to close its trade offices with Israel, but it has quietly maintained that contact since.

Omani popular opinion mirrors the negative mood in the region, but disquiet over the relationship with the United States has been relatively subdued compared to other countries in the Gulf. This is partly due to the very moderate and tolerant Ibadi brand of Islam that Omanis practice.

According to Valerie J. Hoffman, the Professor of Islamic Studies at the University of Illinois, "British observers of Omani rule in East Africa commented that Ibadis are the least fanatic and sectarian of all Muslims and openly associate with people of all faiths, and pray together with Sunni Muslims. Hostile action is reserved for one type of person, the unjust ruler who refuses to mend his ways or relinquish his power."

Omani popular acquiescence in the Sultan's close relationship with the United States has also been due to the growing Omani economy and the government's ability fully to provide for the welfare and expectations of Omani citizens.

Over the past years, Omani growth has been heavily linked to its modest oil reserves and its ability to export about 721,000 barrels of crude per day in 2005.

The problem Oman faces is that its oil reserves are decreasing, while its population is increasing. In the absence of economic diversification, Oman will face increasing problems in fulfilling the needs of its citizens, which may well lead to destabilizing trends in the society, trends that could work against U.S. interests.

By anyone's reckoning, Omani reserves at current rates of production will be depleted in from 16 to 22 years. It is, therefore, essential for Oman to diversify its economy in the intervening period.

Oman, having joined the WTO in 2000, is committed to the liberalization of its economy and participation in the larger global market. In this regard, in 1994, Oman terminated support for the secondary boycott of Israel. Oman has no laws on the books supporting a primary, secondary, or tertiary boycott of Israel.

Oman's plans for diversification and trade depend heavily on its FTA agreement with the United States. Omani's anticipate they will achieve the same measure of success through the FTA as Jordan has achieved. It is in this sense that the FTA would be a critical element in the continuing close strategic relationship we have enjoyed with Oman.

Thank you, sir.

Senator THOMAS. Thank you, sir. I appreciate your comments.

[The prepared statement of Mr. Walker appears in the appendix.]

Senator THOMAS. Mr. Hamod?

STATEMENT OF DAVID HAMOD, PRESIDENT, NATIONAL U.S.-ARAB CHAMBER OF COMMERCE, WASHINGTON, DC

Mr. HAMOD. Mr. Chairman, Mr. Ranking Member, and distinguished members of the Senate Finance Subcommittee on International Trade, thank you for the opportunity to testify today, and thank you for inviting me back.

My name is David Hamod. I serve as president and CEO of the National U.S.-Arab Chamber of Commerce. I have also been a regular visitor to Oman for most of the past 2 decades.

Our chamber supports FTAs between the U.S. and our trading partners because we believe that such agreements create win-win opportunities. In our view, the FTAs that are currently being negotiated with countries of the Arab world will help both sides to increase exports, generate jobs, promote investment, develop business practices that are well-suited to the international marketplace, and, over time, improve the quality of life in the United States and the Middle East.

Under the thoughtful leadership of Sultan Qaboos bin Said al-Said, Oman has been transformed from an economic backwater to one of the most progressive and attractive nations in the region.

Oman's remarkable development is borne out in a just-released special issue of our chamber's newsletter, which focuses on U.S.-Oman economic relations.

With your permission, Mr. Chairman, we respectfully request that this special issue be included in the record of today's hearing.

Senator THOMAS. Without objection.

Mr. HAMOD. Thank you.

[The newsletter appears in the appendix.]

Mr. HAMOD. According to our chamber's forecast for 2006, U.S. merchandise exports to Oman are on track to reach nearly $1 billion this year, which translates into more than 15,000 direct U.S. jobs.

The 2006 figures represent an increase of nearly 56 percent over 2005, when U.S. merchandise exports totaled $593 million. The

U.S. has become the third largest exporter to Oman behind the UAE and Japan.

As *forbes.com* reported on February 27, "Japan, under pressure from its business community, is moving aggressively to sign its own FTAs with Oman and other countries in the region."

A Japanese trade official said, "As China has started FTA talks with the GCC in April last year, and South Korea and India have similarly started talks, it is inevitable for Japan to start talks with the GCC nations." It is clear that the United States is not the only country that is interested in vying for business in Oman and the GCC.

Mr. Chairman, our chamber encourages the U.S. Congress to support the U.S.-Oman FTA for a variety of reasons.

Oman is an open economy. According to the Fraser Institute, Oman has the seventeenth freest economy in the world.

Oman respects the rule of law. According to Transparency International's Corruption Perception Index, Oman ranked 28th in the world, tied with Israel, with a low level of perceived corruption—the best ranking in the Arab world.

Oman prides itself on political stability and investment appeal. The Sultanate has been one of the most stable nations in the Arab world for more than 3 decades. In recent years, Oman has implemented a range of investment incentives to attract more business partners from around the world.

Oman adheres to international agreements. Omani authorities are keeping the heat on IPR offenders, for example, routinely conducting sting operations on illicit video producers and busting rings of counterfeiters.

Oman offers strategic support and has been a reliable partner in the war on terrorism. According to the U.S. Department of Defense, "Oman's active participation during the Gulf crisis, and their willingness to allow access to port facilities and air bases, make them vital to any coalition's success in the region."

Oman's commitment to human development makes it one of the most progressive nations in the region. Sultan Qaboos has encouraged women to play a leading role in the development of Oman, on the grounds that "to exclude women is to exclude 50 percent of the country's potential." Oman has three women in its cabinet, as well as the only Arab woman ambassador to the United States, Hunana Al-Mughairy.

When it comes to respect for workers' rights, our chamber is encouraged by steps that Oman has taken. Oman joined the ILO in 1994, and the labor law that was passed in 2003 enables workers—Omanis and foreigners—to join worker representative committees.

These committees represent an important step forward in effectively granting workers the right to strike, engage in collective bargaining, and take their employers to court.

In conclusion, Mr. Chairman, our chamber lends its full support to this win-win agreement, and we urge Congress to act on this FTA very soon.

Thank you for the opportunity to testify. I would be pleased to answer any questions you may have.

Senator THOMAS. All right. Thank you. Thank you all very much.

[The prepared statement of Mr. Hamod appears in the appendix.]

Senator THOMAS. I have a few questions. I will be fairly quick with my questions, and perhaps you can do the same with your answers.

Ms. Lee, do you share these same kinds of concerns with all of the trade agreements that are talked about here that are either up for consideration or have been considered?

Ms. LEE. Yes. The Jordan agreement was one that we supported because the worker rights provisions were much stronger. There was a single dispute settlement provision.

All three of the key commitments in the worker rights chapter—the commitment to honor the ILO obligations, the commitment to enforce its own laws, and the commitment not to derogate from or weaken those laws—were subject to dispute settlement. That was a crucial difference, and we did enthusiastically support the Jordan agreement. But all the new agreements have the same problem.

Senator THOMAS. I see.

Mr. Hemphill, you mentioned that you have done business in the adjoining countries, as well as this country. What difference do you see in a country where we have an agreement as opposed to—apparently you have done fairly well in this country—where we do not have an agreement?

Mr. HEMPHILL. I do not know that I can give you some exact specifics, but, by and large, wherever the United States has made sufficient commitments and sufficient agreements, we found that the business is more open, it is less corrupt. We are far more likely to be treated fairly than in other sorts of countries. This is another reason why we support these sorts of agreements.

Senator THOMAS. I see. All right.

Mr. Walker, I guess my question to you is similar. You have served in several of these countries. What difference or what do you see is the impact of having a free trade agreement as opposed to being able to trade, as we apparently do now, with Oman?

Mr. WALKER. I think the impact is that it gives additional support for the Sultan and his policies, and the development of Oman to maintain a strong economy. Oman has been sort of an exception in the Arab world. Oman was one of three countries in the Arab League that supported Anwar Sadat in his peace with Israel.

Oman had a trade mission, until riots made them close it, with Israel. In my time in Israel, Oman was always cited as being the one Arab country that was favored by Israel because of its willingness to break the mold and to go against the basic public opinion in the region. To do that requires a strong leader, a strong economy, and that is why I think the FTA would contribute to it.

Senator THOMAS. I see. All right.

Mr. Hamod, you indicated in your statement that if this agreement can be entered into, that it will increase profits for U.S. exporters by cutting some of the transshippers and middlemen who drive up the costs. Cutting out the middlemen sounds like a form of bribery, to say we will reduce some of these costs if you enter into the agreement?

Mr. HAMOD. I have never heard any Omani officials suggest that one way or the other. I look at it from a U.S. perspective: that if we have to pay middlemen to sell our products into Oman or other countries in the region, it is going to make our products more ex-

pensive. We are already up against some of the toughest competition in the world, from China, Japan, and elsewhere.

Senator THOMAS. Why do you have to use middlemen now?

Mr. HAMOD. We do not have to use middlemen now, but an FTA would certainly increase the chances that we could sell with lower tariffs into Oman. What is happening now, in many instances, is that we are selling to the UAE, which is then transshipping to Oman. We can cut out middlemen every step of the way.

Senator THOMAS. I see. All right. That is very good.

Ms. Lee, on a broader issue, as you talk about labor rules, and laws not being comparable to ours, is that a trade arrangement with you or is that more your effort to change the way countries do business? Since other countries operate the same as we do, are we insisting they ought to do it our way?

Ms. LEE. Well, not at all. In fact, I am not comparing Oman to the U.S., I am comparing Oman to the International Labor Organization standards and their obligations. Oman is a member of the ILO, as was mentioned here.

So the question is whether countries meet their international obligation with respect to respecting workers' rights, and that is the standard to which we hold them, not whether they look like us or not. Frankly, U.S. labor laws are not that great. We would like to see them improved.

But the point is, when you do a trade agreement with a country, it is the closest economic relationship we have. It is a symbolic relationship. It is one where you are using better access to your consumer market to ask countries to make some changes. One of them is lowering tariffs.

The question is whether labor rights are a priority for our government or not, whether we really care whether workers in Oman have the right to organize unions. If we do, we ought to put it into the trade agreement and make it enforceable.

Senator THOMAS. I understand. As you know, one of the current, continuing concerns that other people have is that we are seeking to impose all of our rules on them, so that becomes a little bit of a problem. All right. I have taken my time.

Senator Bingaman?

Senator BINGAMAN. Thank you all very much for testifying.

Ambassador Walker, let me ask you on this issue that I raised with the Trade Representative's office, the question of the boycott of Israel. Is there a reason why we do not just have a standard requirement in all of these trade agreements with these countries?

I understand that Oman is not involved in this boycott. But is there a reason why we do not just say, here is the requirement, if you are going to do a free trade agreement, on this issue?

Mr. WALKER. Well, Senator, I honestly do not know the answer to that. The USTR would be the appropriate office to make a determination of that. I think that in the case of Oman specifically, such a provision is not necessary, given the commitments to the ILO and the fact that Oman has already taken the steps, legally and in practice, to eliminate the boycott. But as for other countries, I honestly do not know the reasons that they are not negotiated into the agreement.

Senator BINGAMAN. Let me also ask about Ms. Lee's point there, that they were pleased with the provisions that were in the U.S.-Jordan Free Trade Agreement, and that their desire is that those same provisions be included in these other agreements with countries in that part of the world as well.

Is there any reason you know of why those governments—I will ask you again, Mr. Ambassador—like the Government of Oman, in this case, would object to those provisions?

Mr. WALKER. I have no information to indicate they would object to those provisions.

Senator BINGAMAN. Should it be a change in our own policy?

Mr. WALKER. The fundamental question really is how the negotiations were implemented, and each country has a different set of problems that it has to deal with. Oman has dealt with the problems that we have identified, or most of the problems that we have identified, and has promised to deal with the rest of those issues.

So, I think it is country-specific as to what needs to be done, and that is probably the easiest way to get at the problems directly.

Senator BINGAMAN. But you know of no basis for believing that the government of Oman, in this case, would object to the agreements that the government of Jordan was agreeable to?

Mr. WALKER. To my personal knowledge, no, Senator. But then again, I was not in the negotiations, so I cannot speak to that.

Senator BINGAMAN. Right. I understand.

That is all I have, Mr. Chairman.

Senator THOMAS. Thank you all for being here. I think, obviously, all of these agreements are very important. Certainly, every one of them has different people, different views and different impacts. I represent agriculture, and we often have some difficulties with certain aspects of agreements.

Obviously, we are all concerned about the trade deficit and trying to equalize that somewhat throughout the world, and on the other hand, recognizing that trade is happening, and will happen. What we need to do is find a way to participate fairly for our country and our workers, and so on. So, we appreciate that very much.

I would like to remind the members that any questions for the record should be submitted by tomorrow. I would like to ask all witnesses to please submit their responses within 2 weeks, if you should get questions from this.

I thank Ambassador Schwab and all of the witnesses for testifying on this important matter, and thank the members, Senator Bingaman, for appearing here today.

So with that, the hearing is adjourned.

[Whereupon, at 3:38 p.m., the hearing was concluded.]

APPENDIX

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Statement of Jalel Aossey, Director of Midamar Corporation – Cedar Rapids, Iowa

Mr. Chairman and distinguished members and guests of this committee meeting, personally and on behalf of our Midamar management and staff, we thank you for the opportunity to be present today to testify on the "U.S.– Oman Free Trade Agreement."

My name is Jalel Aossey, Director of Midamar Corporation of Iowa. Midamar was a founding member and continues to be a strong supporter of the National US Arab Chamber of Commerce, which has always strived to support trade and investment between the USA and the Arab world, including the Sultanate of Oman.

Midamar is a member of the International Trade Bureau, the US Meat Export Federation, and the USA Poultry & Egg Export Council.

To understand our interest in the promotion of free trade with Oman, I would like to provide you with a few insights into the history and development of our company. My father served in the Peace Corps from 1963 -1965, went to Vietnam in 1966, and worked in Saudi Arabia from 1967 until 1970. Through his years of international experiences, he recognized widespread problems around the world associated with the lack of agricultural productivity, malnutrition, and protein deficiency. Unfortunately, to a large degree, this plight continues.

Midamar was incorporated in Iowa in 1974, specifically to develop international trade and development. At the time, Midamar did not have a business plan or economic background, but we focused our attention on taking Iowa's agricultural resources and traditions to some of the areas and countries in which my father served.

Today, Midamar serves all 50 U.S. States and has a staff of 30 highly dedicated and skilled people representing diverse international backgrounds. We export to nearly 35 countries in Asia, the Middle East, North and West Africa, and the Caribbean. I am proud to say that many citizens of the Gulf Cooperation Council (GCC) nations region have

sampled our products in local supermarkets, "5-Star" hotels, international theme restaurants, or through catering services.

Midamar was the first U.S. company to focus on the development of *Halal* USDA quality meat and poultry products that are in full compliance with Islamic requirements. I'm proud to say that, based on Midamar's high quality and integrity, products from our home State of Iowa are now respected and sought after around the world. In addition, Midamar has a full service division for export consolidation and supplies, and we have built and supplied turnkey restaurant concepts around the world.

Midamar today transacts millions of dollars of sales overseas, including a substantial amount of business in the Arab world. We view Oman as an important prospective growth area in the Gulf region. Like some of the other nations in the region, Oman is committed to value-added quality and imports most of its key agricultural products and foodstuffs. It is also a market in which Midamar has long-established trade relationships. Midamar has supplied in the years past to various International Restaurant Concepts and hotel chains in Oman with numerous foodservice products. Even as recent as the last two weeks at the Gulf Food Show in Dubai, UAE, Midamar established further business contacts with Omani Businesses in the Hotel and Restaurant Industry which our representatives believe to be solid prospects for added sales of U.S. produced goods.

In our experience at Midamar, countries that are committed to trade and investment – as Oman is – depend less heavily on international aid and largesse to sustain or develop their economies.

In my opinion, it is very important for U.S. industry and trade groups to recognize and respect the regulations and requirements of overseas consumers, who represent an increasingly important percentage of America's sales. In Midamar's experience, we have seen the countries of Africa, Asia, and the Middle East continually refine their import regulations with a view to opening up these markets to foreign products and investment. Overseas regulators don't always move as quickly as we would like, but in our experience, it is important to work with them and respect them.

In this context, it is refreshing to see the forward progress that Oman has made over the years. We believe that the Free Trade Agreement (FTA) will help to open up Oman's market for small U.S. companies like Midamar, and it will also open up the U.S. market for businesses in Oman. And as Midamar knows from our own experience, Oman has a strong infrastructure, a transparent decision-making process, and a population

that is growing rapidly. Oman is also one of the safest, most comfortable societies in the region.

With the increase in crude oil prices, shipping costs will continue to rise, and this will have a direct bearing on the costs and competitiveness of U.S. companies trying to do business overseas. As you may know, the food industry works on very small margins. Thus, the U.S.-Oman FTA, which will help to reduce tariffs, could have a significant impact on the ability of Midamar and companies like ours to retain or increase sales overseas.

When it comes to meat protein, America's major competition is from Australia, New Zealand, and South America, with lesser competition from Europe. I can tell you that the global supply for protein products is being aggressively pursued by increasingly powerful exporters stretching from China to Brazil. The United States and Europe continue to lose market share, so FTAs like this one will help to level the international playing field for small companies like ours.

In closing, I wish to thank you for the opportunity to present testimony today. As Director of Midamar, I strongly support this trade agreement, and I urge Congress to approve it in a timely fashion. I would be pleased to answer any questions that you may have.

Respectfully submitted,

Jalel Aossey
Director, Midamar Corporation

Committee On Finance

Max Baucus, Ranking Member

NEWS RELEASE http://finance.senate.gov

For Immediate Release
Monday, March 06, 2006

Contact: Carol Guthrie
202-224-4515

Prepared Statement of U.S. Senator Max Baucus (D-Mont.)
Hearing on the U.S.-Oman Free Trade Agreement

In 1833, an enterprising merchant named Edmund Roberts piloted the U.S. war ship *Peacock* to the Port of Muscat, the capital of today's Oman. Roberts bore a letter from President Andrew Jackson to the Sultan Said. Three days later, Roberts and the Sultan signed a Treaty of Amity and Commerce. The United States Congress ratified it the following year.

The treaty was a first for our young nation and part of a larger vision. Roberts also traveled to Siam – today's Thailand – and Cochin China – today's Vietnam – to initiate broader commercial ties that would serve as a basis for engagement with the entire region. At the same time, America was building a merchant fleet to seize the opportunities that these new ties promised.

Today, nearly two centuries later, we begin consideration of another trade agreement with the Sultanate of Oman. Then as now, this agreement is part of a bolder vision of embracing the Middle East in the prosperity of open and fair trade and investment. This vision includes Oman, but also builds on our successful relations with Jordan, Morocco, and Bahrain, and the trade agreements that we have reached with them.

Each trade agreement – including the one before us today – must stand on its own merits. But Congress is called upon to review this FTA in a rapidly deteriorating climate on international trade.

Even in ideal times, trade agreements are not popular. But today – with a record trade deficit, deep insecurity about the relationship between trade and job losses, memories of a very difficult vote on CAFTA, and frustration with how the administration has used Trade Promotion Authority since 2002 – free trade agreements engender even more concern for my colleagues and, more importantly, for their constituents. It is no longer a given that most Members of Congress will reflexively support these agreements, irrespective of their small size and consequent inability to affect the U.S. economy in any meaningful way.

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As the President's trade promotion authority approaches expiration mid-next year, I believe that we are standing at the threshold of a difficult era for trade agreements in the Congress.

It is unfortunate that this free trade agreement may get caught up in this important reassessment. On its merits, this agreement has much to offer. On the first day of enactment, one hundred percent of bilateral trade in industrial and consumer products will become free of duties. The remainder of our trade will be duty-free within ten years, opening the growing Omani market for manufactured goods, including industrial equipment for the energy sector, medical devices, and appliances. Oman's agriculture market will also open to U.S. exports like frozen beef, frozen chicken parts, and snack foods.

In this agreement, Oman recognizes the importance of trade in services by opening the Omani market beyond its WTO commitments. Oman would lift equity limits, and other hurdles to services trade will be lifted.

Oman has also pledged to protect innovation through vigorous intellectual property laws, including copyrights for sound and audiovisual records, protection of satellite programming, and the transmission of proprietary information over the Internet. Already the least corrupt country in the Arab world, Oman has promised to remain vigilant against corruption and bribery. Oman has also assured the United States that it has no intention of enforcing boycotts of any kind against Israel.

Oman has shown a willingness to reform its labor laws to better serve its workers. I think that it still has a ways to go. But Oman is working with the United States and with the International Labor Organization to continue to give workers a voice in the workplace and a stake in the future of its economy. I hope that the Omanis will view labor market reforms not as a burden, but as an opportunity to serve as an example to their neighbors, to prove their critics wrong, and to offer all of their workers a share in their country's prosperity.

As we consider this agreement, we must also remember that simply signing and implementing agreements is not enough. We must also innovate to create products and services that foreign markets will demand. And we must educate our workforce to produce them. We must work to enforce this and all international trade agreements to back up our companies and workers engaged in the world's markets. We must create an economy that inspires Americans and our friends around the world, by improving our health care, education, energy use, and national savings. In short, we must improve the long-term competitiveness of our economy.

We have a great deal of work to do in that regard. I look forward to working with Ambassador Portman, the administration, and my colleagues in the Congress to improve the competitiveness of the U.S. economy.

# # #

U.S. SENATE COMMITTEE ON
Finance
SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN
http://finance.senate.gov

Statement of Senator Chuck Grassley
Senate Committee on Finance
Subcommittee on International Trade
Hearing on the U.S.-Oman Free Trade Agreement
Monday, March 6, 2006

I'm pleased that we're holding a hearing today on the U.S.-Oman Free Trade Agreement. This agreement will benefit U.S. farmers, workers, and businesses. It will lead to economic growth and enhance the predictability of the rule of law in Oman, a reliable ally of the United States in the Middle East. The U.S.-Oman Free Trade Agreement will also serve as a model for other free trade agreements in the Middle East. In this way, the U.S.-Oman Free Trade Agreement will contribute to the formation of a Middle East Free Trade Area, a development that would provide major economic and political benefits for the United States.

Let me begin by discussing the economic gains that this Agreement will bring to the United States. On the day that the Agreement goes into effect, Oman will no longer impose any tariffs on U.S.-produced consumer and industrial products. The Agreement will also benefit U.S. farmers as some 87 percent Oman's tariff lines will go to zero for U.S. agricultural products on day one of the Agreement. Oman's remaining tariffs on U.S. farm products will be phased out over 10 years. In addition, the U.S.-Oman Free Trade Agreement will result in substantial improvements in market access for U.S. service providers and new protections for U.S. investors. Given the benefits that it will provide to the United States, the Agreement has been endorsed by groups as varied as the American Farm Bureau Federation, the American Chemistry Council, the Association of Equipment Manufacturers, the National Foreign Trade Council, and the U.S.-Middle East Free Trade Coalition, an entity consisting of over 110 U.S. companies and associations supporting trade expansion in the Middle East.

The U.S.-Oman Free Trade Agreement will result in new market opportunities for farmers, workers, and businesses throughout the United States, including those in Iowa. For example, the Midamar Corporation – a small business located in Cedar Rapids, Iowa, that specializes in halal foods – anticipates that the U.S.-Oman Free Trade Agreement will lead to new sales of Iowa-produced foods in Oman. Profit margins in the food sector are very low, and Oman's current average applied tariff of 5 percent on many of Midamar's products cuts into the company's profits. With Oman's tariffs on many of Midamar's products going to zero on day one of the Agreement, Midamar will have significantly improved access to the Omani market immediately upon implementation of the U.S.-Oman Free Trade Agreement.

At least two other Iowa businesses expect to benefit from the Free Trade Agreement. The HNI Corporation of Muscatine is the second largest manufacturer of office furniture in North America, and HNI is specifically targeting the fast-growing market of the Middle East. HNI

anticipates that the Agreement will provide improved opportunities for it to sell its products in Oman. Likewise, Lennox – which manufactures residential heating and cooling products in Marshalltown – predicts that it will gain from the U.S.-Oman Free Trade Agreement. Thus, the U.S.-Oman Free Trade Agreement could have a direct impact on Iowans in Cedar Rapids, Muscatine, and Marshalltown. This agreement will benefit people in other states as well.

I'm confident that the Oman Free Trade Agreement will ultimately lead to new market access opportunities for American products in yet more Middle Eastern countries. President Bush is advocating the development of a U.S.-Middle East Free Trade Area by 2013, and the U.S.-Oman Free Trade Agreement is another building block toward the accomplishment of this goal. The United States has already implemented free trade agreements with four other countries in the Middle East – Bahrain, Israel, Jordan, and Morocco. A completed U.S.-Middle East Free Trade Area would result in significantly improved market access for U.S farm, consumer, and industrial products in a region of the world populated by 350 million people that is growing quickly. Such an arrangement would also benefit people throughout the Arab world by providing needed economic reforms. The fact is, open economies that are actively engaged in international commerce tend to grow at much higher rates than closed economies. So a U.S.-Middle East Free Trade Area is in the best interests of the people of the Middle East, and it would advance American interests as well.

In addition to providing new economic opportunities for the United States, the U.S.-Oman Free Trade Agreement will contribute to the security of our country. Oman is a consistent ally of the United States in an unstable part of the world. Given that the United States is currently engaged militarily in two countries in the region, now is a particularly appropriate time for us to further cement our close ties with Oman. By improving economic conditions in Oman, I'm convinced that the U.S.-Oman Free Trade Agreement will contribute to the stability of that country. Such stability will help solidify Oman's position as a moderate Arab country and a friend of the United States. For all these reasons, I urge my colleagues to support passage of legislation implementing the U.S.-Oman Free Trade Agreement.

National U.S.-Arab Chamber of Commerce

United States – Oman Free Trade Agreement

Hearing Before the International Trade Subcommittee
of the U.S. Senate Committee on Finance
Monday, March 6, 2006

Testimony Submitted by
David Hamod
President & CEO
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"From the first recorded contact -- the arrival in Muscat of a ship hailing from Boston named the *Rambler* in September 1790 -- until the present day, the bonds between Oman and the United States have been warm and enduring. Both nations share a seafaring heritage, mutual commercial interests, a tradition of tolerance and a desire for contact with other cultures as some of the distinguishing features of this long-term relationship." ***U.S. Embassy, Muscat, Oman***

Mr. Chairman, Mr. Ranking Member, and distinguished members of the Senate Finance Subcommittee on International Trade: Thank you for the opportunity to testify today on the proposed Free Trade Agreement (FTA) between the United States and the Sultanate of Oman. My name is David Hamod, and I serve as President & CEO of the National U.S.-Arab Chamber of Commerce (NUSACC). I have also been a regular visitor to Oman for most of the past two decades.

NUSACC, established nearly 40 years ago, is widely regarded as the voice of American business in the Arab world. We are America's longest serving chamber of commerce dedicated to U.S.-Arab business, with membership rolls that now include more than 1,500 companies. With offices in New York, Houston, Los Angeles, and our headquarters in Washington DC, NUSACC is a nexus for U.S.-Arab business and the only chamber of its kind that covers the nation from coast to coast.

Moreover, NUSACC is the only entity in the United States with official recognition conferred by the League of Arab States and the General Union of Arab Chambers of Commerce, Industry, and Agriculture. As such, we serve as the U.S. point of contact for the national chambers of commerce in the 22 Arab nations -- including the Oman Chamber of Commerce and Industry. We also have longstanding relationships with the American Business Council of the Gulf Countries (ABCGC) and the Muscat American Business Council.

NUSACC supports free trade agreements between the United States and our trading partners around the world because we believe that such agreements create "win-win" opportunities. In our view, the FTAs that are currently being negotiated with countries in the Arab world will help both sides to increase exports, generate jobs, develop business practices that are well suited to the international marketplace and, over time, improve the quality of life in the United States and the Middle East.

We are pleased and honored that the Senate Finance Committee has invited us to provide this "big picture" assessment of U.S.-Oman relations and why we believe that an FTA between our two nations would be in the best interests of the United States and Oman alike.

* * *

Under the thoughtful leadership of H.M. Sultan Qaboos bin Said al Said, Oman has been transformed from an economic backwater to one of the most progressive and attractive nations in the region. And unlike some of its neighbors in the Arabian Gulf area, Oman has achieved this status without the benefit of huge energy reserves -- relying instead on the resilience, determination, and entrepreneurial spirit of its people.

Oman's remarkable development is borne out in a just-released special issue of our chamber's newsletter, *U.S.-Arab Tradeline*, that focuses on U.S.-Oman economic relations. With your permission, Mr. Chairman, we respectfully request an opportunity to include that special issue of *Tradeline* in the record of today's hearing.

According to our chamber's forecast for 2006, U.S. merchandise exports to Oman are on track to reach nearly $1 billion this year – which translates into more than 15,000 direct U.S. jobs. The 2006 figures represent an increase of nearly 56 percent over 2005, when U.S. merchandise exports totaled $593.3 million.

The U.S. has become the third largest exporter to Oman, and if our two nations implement this FTA, market share for U.S. products in Oman is expected to close in on that of the United Arab Emirates and Japan, ranked first and second, respectively. The UAE is an important hub for re-exports to Oman. If and when the U.S.-Oman FTA enters into force, it is safe to assume that the FTA will increase profit margins for U.S. exporters by cutting out some of the transshippers and "middlemen" who drive up the costs of U.S. products. And as for Japan, it is moving aggressively to sign its own FTAs with Oman and other nations in the region.

Under the terms of the FTA, according to the Office of the U.S. Trade Representative, 100 percent of bilateral trade in industrial and consumer products, and no less than 87 percent of agricultural tariff lines, will become duty-free immediately upon entry into force of this agreement. The United States and Oman will phase out tariffs on the remaining products within ten years.

With this in mind, our chamber encourages the U.S. Congress to support the Free Trade Agreement with the Sultanate of Oman for a variety of reasons:

Successful Market for the United States -- In recent years, Oman has steadily grown its commercial relationship with the United States. As a result, there are upwards of 100 U.S. companies with a presence in Oman, and U.S. firms are playing an important role in Oman's strategic planning for the 21st century.

A little over a year ago, for example, the Dow Chemical Company entered into a partnership with the Oman Oil Company to build a polyethylene complex at the Sohar industrial port zone. H.E. Maqbool Ali Sultan, Oman's Minister of Commerce & Industry, hailed the new partnership as a "further milestone in the Omani Government's objective to attract foreign investment, diversify the economy, create job opportunities, and lay the foundation for future downstream industries."

Equally impressive was the initial public offering (IPO) last year for shares of AES Barka, the largest operating independent power and water project in Oman. Led by the AES Corporation of the United States, the IPO was oversubscribed by more than 16 times, according to BankMuscat, amounting to nearly half a billion U.S. dollars. The company, which has an installed capacity of 427 MW and 20 million gallons of water, started commercial production in June 2003 and,

within the first year, it reached profitability. The project was named "Investment Project of the Year — 2003" at the Oman Awards for Excellence.

Another high profile undertaking involving a U.S. company is the $3.5 billion Dolphin project, in which Occidental Petroleum is a joint venture partner. This ambitious project is linking the gas networks of Qatar, the UAE, Oman and, eventually, the Indian subcontinent. Under a deal reached in March 2003, Oman Gas Company (OGC) began supplying gas to Dolphin in the fourth quarter of 2003, and deliveries will continue for a period of up to five years. This agreement marks the first cross-border gas delivery in the history of the GCC.

Open Economy -- Oman has made significant progress over the years in integrating its economy into the global marketplace, and an FTA with the United States would further reinforce Oman's efforts to promote economic liberalization. According to *Economic Freedom of the World: 2005 Annual Report*, published by The Fraser Institute (www.freetheworld.com), Oman has the seventeenth freest economy in the world. This ties Oman with Finland and places the Sultanate ahead of such nations as Germany (#19), Taiwan (#24), Spain and Japan (tied for #30), South Korea (#35), and Italy (#54).

Just a few years ago, some of Oman's tariffs ranged as high as 15 percent (e.g.- food products). Today, according to the National Association of Manufacturers, Oman's applied tariff rates range from 4.5 percent to 5.7 percent. The Government's decision to lower tariffs is helping to make U.S. products more competitive in the Omani market, thereby serving Oman's consumers and curbing overland imports from Dubai, the re-export capital of the Arabian Gulf.

Respect for the Rule of Law -- The best objective measure of Oman's adherence to the rule of law may be Transparency International's Corruption Perception Index 2005, which ranked Oman 28th in the world – tied with Israel – with a low level of perceived corruption. (www.transparency.org) Oman ranks number one in the Arab world and placed higher than such nations as Taiwan (#32) and Italy & South Korea (tied for #40) among the 159 nations that were studied. TI's Corruption Perceptions Index draws on 16 different polls from ten independent institutions.

Oman is also making headway in its efforts to promote good governance. For example, the Central Bank of Oman (CBO), in association with the Arab Banking Union and the Oman Chamber of Commerce and Industry, has been hosting seminars on the role of corporate governance in Arab banking institutions. One such seminar recently attracted corporate leaders from throughout the Arab world.

Political Stability and Investment Appeal -- Under the leadership of H.M. Sultan Qaboos, Oman has been one of the most stable nations in the Arab world for more than three decades. This is not easy, given the "tough neighborhood" that the Middle East can sometimes be. Oman has a well deserved reputation for diplomacy and moderation, two traits that have enabled the Sultanate to stay on good terms with just about everyone in the region. Because of Oman's commitment to tolerance, the Sultanate has also been very successful at accommodating traditional Islam while at the same time hosting a wide variety of cultures among Oman's many expat residents and foreign visitors.

Oman remains heavily dependent on oil, which makes up approximately 40 percent of the country's GDP, more than 80 percent of the country's exports, and some 75 percent of the government's revenues. Such dependence is of great concern to the Government of Oman because the life cycle of the nation's oil fields is in decline. With this in mind, Oman is aggressively pushing for diversification and privatization, particularly in the form of "Omanization" -- replacing expatriate workers with Omanis.

In an effort to make Oman more attractive to prospective partners around the world, Oman has waived requirements that foreign businesses had to enter into exclusive agency agreements. In addition, a ministerial decision was issued in 2000 waiving the requirement for foreign firms to partner with a 51 percent Omani-owned company in order to obtain an import license.

Oman has also created a series of incentives in recent years that will encourage investments by U.S. partners and others. Some of these incentives include tax exemptions for five years for industrial enterprises that contribute to Oman's economy, a stable currency with full convertibility, no personal income tax and no foreign exchange controls, tax and import duty exemptions, and interest-free long-term loans for industrial and tourism projects that involve foreign investment. Oman also touts its price stability, with an inflation rate that has not exceeded one percent since 1992.

NUSACC sees these efforts to liberalize Oman's economy as important steps along the path to a U.S.-Oman Free Trade Agreement.

Adherence to International Agreements -- Oman is a member of the World Trade Organization (WTO) and is making steady progress in its efforts to support intellectual property rights (IPR). The Omani trademarks regime consists of Royal Decree 68/87, Decree Law No. 635/1991 and Royal Decree 33/91. Oman's latest Copyright Law, No. 37/2000, updated the earlier Royal Decree 47/96, enacted in 1996. In addition, Oman has joined the Patent Cooperation Treaty and has asked the World Intellectual Property Organization (WIPO) to register the Sultanate as a signatory to the Paris and Berne Conventions on IPR.

According to the International Intellectual Property Alliance (IIPA), Oman is enforcing its copyright laws and bringing down piracy levels. The piracy level for business software was 87 percent in 2000 and dropped to 71 percent two years later. The piracy level for motion pictures is even more impressive: from a high of 100 percent in 1995, it has dropped to below 25 percent -- making it one of the lowest rates in the region. However, the IIPA reports that there is still room for improvement when it comes to the WIPO Copyright Act and the Performances and Phonograms Treaty.

During my visits to Oman 15 years ago, the telltale signs were everywhere that there was relatively little enforcement of intellectual property rights. Pirated computer software, bootleg videos, and designer clothing knock-offs were widely available. Following its accession to the WTO, however, Oman began cracking down in earnest on IPR violations. Today, with support from the private sector, Omani authorities are keeping the heat on IPR offenders, routinely conducting sting operations on illicit video producers and busting rings of counterfeiters.

Strategic Support -- The Sultanate of Oman, with its close proximity to the strategic Straits of Hormuz, is an important asset for the United States military in the Middle East. Over the years, Oman has provided invaluable support to the U.S. forces in terms of forward deployments of U.S. servicemen and women and the pre-positioning of U.S. materiel. Oman hosts an estimated 3,000 U.S. servicemembers, particularly from the U.S. Air Force.

According to the U.S. Department of Defense, "Oman has been a coalition partner for over thirty years. Oman's active participation during the Gulf crisis and their willingness to allow access to port facilities and air bases make them vital to any coalition success in the region."

Supporting the Fight Against Terrorism -- Oman has been a strong and reliable partner in the war against terrorism. Since 2001, the Sultanate has taken decisive steps to combat money laundering and to shut down any financial resources that might be available to terrorists. Oman is also hoping to become the second Arab nation to put the U.S. Container Security Initiative in place, allowing U.S. personnel to inspect cargo bound for the United States.

Oman has been unequivocal about its willingness to stand "side by side" with the United States in America's fight against terrorism. H.E. Yousef Bin Alawi Bin Abdullah, the Head of Oman's Delegation to the United Nations, stated in New York not long after 9/11, "We would like to reaffirm again our solidarity with the United States of America in fighting all forms of terror against humans wherever they are." He went on to say, "Stemming from my country's firm position of condemning terrorism in all its forms, and in compliance with the goals of the United Nations of maintaining international peace and security, my country ensures its support toward the international efforts in fighting terrorism . . . ."

Commitment to Human Development -- When it comes to capacity building through social policies, Oman is one of the most progressive nations in the region, thanks to the enlightened leadership of H.M Sultan Qaboos. The Sultan has encouraged women to play a leading role in the development of Oman on the grounds that to "exclude women is to exclude 50 percent of the country's potential." In large part as a result of the Sultan's encouragement over the years, there are more female graduates these days than male graduates.

Women in Oman have the right to vote and run for office in Consultative Council elections, held every four years. Oman has three women in its Cabinet, and it is no coincidence that Oman has produced the first fully accredited female ambassador to the United States from the Arab world, H.E. Hunaina Sultan al-Mughairy.

A strong commitment to education is a key component of a nation's ability to encourage economic development, and Oman has one of the most respected literacy rates in the Arab world. The Omanis have made remarkable progress since 1970, when H.M. Sultan Qaboos acceded to the throne. Before 1970, Oman had only three schools, and only boys were allowed to receive an education. Today, Oman boasts upwards of 1,000 schools, and boys and girls are equally represented.

There was also a time in Oman when the opportunity to learn English was only available to small number of Omanis. Today, in recognition of English as the *lingua franca* of international commerce and diplomacy, English is being taught in the first grade, with five lessons per week.

One academic success story that connects the United States to Oman is The American International School of Muscat (TAISM), which "pursues academic excellence for students in the international community through an American-based education that develops ethical, responsible, and globally conscious life-long learners." TAISM, designed to afford expatriate children of all nationalities with an educational program in the context of an American-based curriculum, is accredited by the New England Association of Schools and Colleges (NEASC) and the Council of International Schools (CIS).

Respect for Workers' Rights -- Oman joined the International Labor Organization in 1994, and the Sultanate has come a long way over the years in its efforts to encourage labor reform and support the rights of workers. This is still a work in progress, but NUSACC is encouraged by steps that Oman has taken and continues to take.

In NUSACC's view, the most significant step forward came in 2003 with the passage of a new labor law (Royal Decree 35) that enables workers – Omanis and foreigners – to join "worker representative committees." These committees represent an important step forward in effectively granting workers the right to strike, engage in collective bargaining, and take their employers to court. According to the Office of the U.S. Trade Representative, "Oman is currently working with the ILO on additional regulations to ensure that the implementation of collective bargaining provisions is consistent with international labor standards."

Environmental Protection -- Under the leadership of H.M. Sultan Qaboos, a lifelong environmentalist, Oman has been dedicated for decades to the preservation of nature. Oman was the first country in the Arab world to establish a full-fledged Ministry of Environment, and Oman was one of the first nations in the region to design a strategic plan for the environment. As part of that nation's efforts to raise public awareness, Omani Environment Day is celebrated each year on January 8.

In addition to establishing the Ministry of Regional Municipalities and Environment to handle environmental issues, H.M. Sultan Qaboos sponsors a major biennial conservation award, the first of its kind in the Arab world. The award is presented as part of the UNESCO "Man and the Biosphere" Program to highlight outstanding contributions to environmental preservation.

In recognition of his environmental stewardship, H.M. Sultan Qaboos has received the prestigious John C. Phillips Memorial Medal from the World Conservation Union and the Order of the Golden Ark from the World Wildlife Fund (WWF). In cooperation with the WWF, Oman has established six nature preserves to protect and support the breeding of endangered species.

* * *

When the United States and Oman inked the Free Trade Agreement on January 19, 2006, U.S. Trade Representative Rob Portman noted, "With our signatures today, we cement our long-standing friendship and growing commercial ties and create new economic opportunities for both of our countries . . . For decades, Oman and the United States have shared a desire for peace, stability and economic opportunity in the Middle East. Today we take an important new step in our partnership." The U.S. is well aware of "Oman's enthusiasm for open trade and free

markets," concluded Ambassador Portman. "We welcome that spirit and we are pleased to have Oman as a partner in our efforts to raise living standards and promote peace through trade."

In many ways, these statements echo the sentiments of the House Ways and Means Congressional delegation that visited Oman in late 2004. Their report stated, "The delegation strongly supports the negotiation of an FTA with Oman and is pleased to see the commitment and drive by Oman to conclude such negotiations . . . . Oman has undertaken significant economic and political reforms in a short time, particularly in the banking and insurance sectors, demonstrating its capacity and willingness to use objective, transparent standards."

A wide range of business leaders and U.S. policymakers recognize Oman's genuine commitment to reform and to enhancing free trade with the United States. With this in mind, NUSACC lends its full support to a U.S.-Oman Free Trade Agreement, and we look forward to doing our part to help turn this vision into a reality in the months ahead.

Thank you for the opportunity to testify today, Mr. Chairman. I would be pleased to answer any questions that you may have.

US-Arab Tradeline

A Publication of the National U.S.-Arab Chamber of Commerce

الغرفة التجارية العربية الأمريكية الوطنية

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U.S.-Oman Free Trade Agreement Signed

"With our signatures today, we cement our long-standing friendship and growing commercial ties, and we create new economic opportunities for both of our countries."

– Ambassador Rob Portman, U.S. Trade Representative

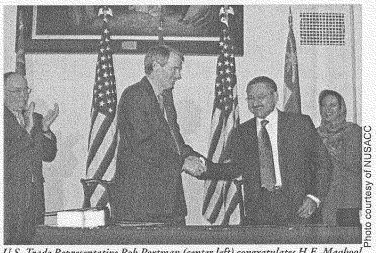

Photo courtesy of NUSACC

U.S. Trade Representative Rob Portman (center left) congratulates H.E. Maqbool bin Ali Sultan, Oman's Minister of Commerce and Industry, as Assistant U.S. Trade Representative Shaun Donnelly (far left) and Ambassador Hunaina Al-Mughairy (far right) look on.

On January 19, 2006, the United States and the Sultanate of Oman signed a Free Trade Agreement (FTA) that promises to eliminate barriers to trade and enhance the already close commercial relations between the two nations.

"This is a good day for the people of Oman and the United States," noted Ambassador Rob Portman, U.S. Trade Representative. "With our signatures today, we cement our long-standing friendship and growing commercial ties, and we create new economic opportunities for both of our countries."

Portman's counterpart at the signing, Oman's Minister of Commerce and Industry, H.E. Maqbool bin Ali Sultan, described the FTA signing as a "turning point for us — the closing of one chapter in our relationship and the opening of another." He said that the FTA will "bring an increase in trade between our two great nations . . . and U.S. foreign direct investment will grow in Oman. The FTA Agreement will lead to job creation and income growth in Oman . . . and will promote the establishment of knowledge-based industries in Oman and the growth of our services sectors."

Concluded Portman, "We began talks only last spring and concluded them by October of last year. This is a sign of Oman's enthusiasm for open trade and free markets. We welcome that spirit and we are pleased to have Oman as a partner in our efforts to raise living standards and promote

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U.S.-Oman Trade and Investment: Ready for Takeoff?

Abdul Rahman Al Busaidy, Oman Air's Chief Executive Officer, told *Gulf News* last year that his airline is turning to Boeing to maintain Oman Air's aggressive new route expansion. "We are looking at ordering Boeing 787s as part of our future expansion, starting with at least three."

Like the Boeing Dreamliner, U.S.-Oman trade and investment appears poised for takeoff.

Oman signed a Free Trade Agreement (FTA) with the United States on January 19, 2006. (See related story, above.) The FTA is expected to open a new chapter for U.S. exporters, particularly service providers, who have traditionally been regarded as "latecomers" to the region. The commercial relationship between Oman and the United Kingdom, for example, extends back to at least 1616, when the British East India Company began to develop a substantial trade presence in the area.

The United States supplied 5.2 percent of Oman's total demand for merchandise imports in 2004. The U.S. faces intense competition from Oman's other major import partners – the UAE (21.6 percent of imports), Japan (17.1 percent), the UK (5.7 percent), Germany (4.4 percent) and India (4.4 percent) – but there is a growing perception that Oman wants to expand its commercial relationship with the United States.

One area in which U.S. companies are well positioned revolves around oilfield services and equip-

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A Publication of the National U.S.-Arab Chamber of Commerce
الغرفة التجارية العربية الأمريكية الوطنية

NUSACC President David Hamod

FROM THE PRESIDENT'S DESK

The Sultanate of Oman: Integrating Past, Present, and Future

"I will proceed as quickly as possible to transform your lives into a prosperous and bright future . . . . Yesterday it was complete darkness and, with the help of God, tomorrow will be a new dawn on Muscat, Oman, and its people."

- H.M. Sultan Qaboos, July 1970

Oman, perhaps more than any other country in the Arab world, has successfully melded the past and present. It boasts some of the most progressive policies in the Middle East, yet at the same time retains much of the character and charm of traditional Arabia.

This ability to draw upon the best of both worlds can be directly attributed to H.M. Sultan Qaboos bin Said Al-Said – Oman's visionary leader for nearly 35 years. He has been a consistent advocate of "gradual and deliberate social and political change," and his success in moving Oman from, in his words, the "dark ages" to the thriving nation it is today is nothing short of extraordinary.

When Sultan Qaboos took over the helm from his father in 1970, Oman had not yet modernized. The country had only six miles of paved roads and three schools with a total of 909 students. Today, Oman has some 5,000 miles of paved roads, more than 1,000 schools, and one of the most respectable literacy rates in the Arab world.

His Majesty has encouraged women to play a leading role in the development of Oman on the grounds that to "exclude women is to exclude 50 percent of the country's potential." In large part as a result of the Sultan's encouragement, there are more female graduates these days than male graduates.

Oman in 1970 was in a state of quiescence, but this was not always the case. For centuries, Oman was a thriving trade center straddling East and West, and the city of Sohar was widely regarded as one of the greatest seaports in the Islamic world. Oman's strategic position allowed it to control commerce into and out of the Gulf, including the sea route that rounded Africa to India.

The United States saw great value in establishing commercial relations with this "regional superpower." In September 1790, the first ship from the New World to visit Oman, the *Rambler,* dropped anchor in Muscat. It was not long before the U.S. and Oman signed a Treaty of Commerce and Amity – the first bilateral accord between America and an Arab Gulf nation. And in April 1840, the Omani trading ship "Sultana" was the first Arab vessel to sail into a U.S. port (New York).

It was this proud past that Sultan Qaboos sought to revive when he ascended to power in 1970. Pledging that there is "no evolution without roots," His Majesty has skillfully guided Oman into the 21st century.

The Omani leader once told his people that "our ancestors who lived in the desert valued and lived the principles of our culture . . . [They] put up with the hardship of their surroundings more than anything else, but today, with the changing times, our descendants must still adhere to the basic values and principles – now and in the future."

This adherence to the traditions of honor, hospitality, and unity has helped the Omani people to maintain an "even keel" and "stay the course" – particularly during those times when the Sultanate's neighbors found themselves in very choppy waters. Under the wise leadership of Sultan Qaboos, who believes that "peace has one face and no nationalities," Oman has developed a reputation in the region for wielding common sense to resolve seemingly intractable disputes.

The breadth and depth of the U.S.-Oman relationship is remarkable in many ways, and a new chapter will soon be opened with the recent signing of the U.S.-Oman Free Trade Agreement. In the words of the U.S. Embassy in Muscat, "From the first recorded contact in September 1790 . . . until the present day, the bonds between Oman and the United States have been warm and enduring. Both nations share a seafaring heritage, mutual commercial interests, a tradition of tolerance, and a desire for contact with other cultures."

As the U.S.-Oman commercial relationship sails into its third century, it is safe to assume that the best is yet to come.

David Hamod
President & CEO

US-Arab Tradeline

Q&A with H.E. Maqbool Ali Sultan, Oman's Minister of Commerce & Industry

Tradeline recently interviewed the Sultanate of Oman's Minister of Commerce & Industry, H.E. Maqbool Ali Sultan. His responses to questions about Oman's commitment to a Free Trade Agreement and WTO requirements provide insights into the increasingly close commercial ties between the U.S. and Oman.

Tradeline: *What is the state of U.S.-Omani relations?*

Minister Maqbool Ali Sultan: Oman and the United States have had a cordial and productive relationship since 1833, when Oman became one of the first Arab states to sign a treaty of Amity and Commerce with the United States. We have had formal diplomatic relations since that time, with the U.S. Embassy opening in Muscat in 1972.

Tradeline: *Why is the FTA good for Oman?*

Minister Maqbool Ali Sultan: Oman's economy has been transformed from a modest economic base that depended on exports of raw materials such as dates, dried limes, fish, and leather into a modern and integrated structure, which has enabled it to achieve one of the world's highest growth rates. A key to this success has been careful use of oil revenues for infrastructure projects, together with development of our non-oil sector. Manufacturing is concentrated at six industrial zones with over 120 factories (in a country with only 3 million people).

To achieve the long-range goal of establishing a viable non-oil sector, Oman realizes that we need a larger, global market that goes beyond the opportunities offered by trade among the six countries of the Gulf Cooperation Council. Hence, Oman's aggressive and high-quality accession to the WTO in 2000 and this FTA with the United States.

Tradeline: *Why is the FTA good for the United States?*

Minister Maqbool Ali Sultan: Oman's high quality accession to the WTO in 2000 and its recent willingness to use objective, transparent standards in the insurance and banking sectors demonstrates the country's commitment to trade liberalization that is considered critical to U.S. goals to expand global markets. Oman's imports from the United States from January-October 2005 were $432.1 million, a 23.6% increase from the previous year. Oman's yearly imports from the United States increased from $322.4 million in 2003 to $330.1 million in 2004. This is evidence of a general trend of increasing U.S. imports during and after free trade negotiations.

Beyond trade and investment, Oman is a critical strategic partner in the global war on terrorism and has been a consistent ally of the United States over the last three decades, which has enabled the U.S. to maintain a military presence in the volatile Gulf region.

Tradeline: *Does Oman respect worker rights and, if so, do they meet common, objective, and internationally recognized standards, such as the International Labor Organization's core standards?*

Minister Maqbool Ali Sultan: In 1994, Oman became a member of the International Labor Organization (ILO) and has satisfied various labor-related accession requirements for membership in the WTO. Oman is committed to building on progress made in enacting its comprehensive labor code in 2003. Oman has agreed to make changes in its labor code to comply with ILO standards. The 2003 law recognizes the right to collective bargaining and legalized trade unions. There are no issues of child labor or forced labor in Oman.

Unfortunately, the AFL-CIO has based its comments on the 1970s labor protections in Oman and ignored the huge changes Oman made when it adopted its new Labor Law in 2003. The Government created a Ministry of Social Development and a Ministry of Manpower to specifically oversee labor-management relations in 2002. Then, in 2003, Oman adopted its first comprehensive labor law that grants workers the right of association and allows them to pursue labor disputes in court. The 2003 Labor Law eliminated any prohibitions on the right to strike. Strikes are now taking place freely in Oman.

Tradeline: *What is Oman's position regarding protection of the environment?*

Minister Maqbool Ali Sultan: Oman has long been sensitive to the environment. It is a signatory to a range of international and regional accords for the protection of the atmosphere (including the Kyoto Protocol), hazardous substances, the marine environment, and nuclear safety.

Tradeline: *Will Oman accept the environmental consultation mechanism of the FTA?*

Minister Maqbool Ali Sultan: Yes.

Tradeline: *What is Oman's record for enforcing intellectual property rights under the TRIPS Agreement of the WTO?*

Photo courtesy of NUSACC

Oman's Minister of Commerce & Industry, H.E. Maqbool Ali Sultan

Minister Maqbool Ali Sultan: As part of its WTO accession, Oman adopted derogations to the GCC patent law to comply with obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Oman has joined the World Intellectual Property Organization (WIPO) and has asked WIPO to register Oman as a signatory to the Paris and Berne Conventions on intellectual property protection. Oman has also joined the Patent Cooperation Treaty to avoid delays in granting patents. The Pharmaceutical Researchers and Manufacturers of America (PhRMA) testified before the U.S. Government's inter-agency Trade Policy Staff Committee in support of the U.S.-Oman FTA.

Tradeline: *What is the extent of U.S. business interest in Oman?*

Minister Maqbool Ali Sultan: Oman offers an excellent investment opportunity for United States companies. Oman's political stability, modern infrastructure, large middle class, and stable securities market make it conducive to foreign investment opportunities. Currently, there are over 90 United States companies doing business in Oman. Major investments by Dow Chemical, Alcan, AIG, and Occidental Petroleum, as well as a construction project awarded to Bechtel, are good evidence of a positive business environment.

Tradeline: *Is Oman adequately addressing U.S. concerns about mandatory shelf-life and the ban on U.S. beef imports?*

Minister Maqbool Ali Sultan: In joining the WTO, Oman committed itself to eliminating mandatory shelf-life standards for shelf-stable foods, establishing regulations and procedures in line with international norms for highly perishable refrigerated food products, and

continued on page 10

US-Arab Tradeline *Research, quantitative analysis and forecast support provided by* The Institute for Research: Middle Eastern Policy, Inc. (IRmep)

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Tourism in Oman – Ancient Attractions and Modern Infrastructure

For years, Oman's diverse ecosystems and rich history have made it a niche destination for European tourists. But it is only recently that U.S. tour operators have begun to sit up and take notice of the Sultanate. This is good news for Oman, which is making tourism one of its highest priorities for economic development.

In the aftermath of the 9/11 debacle, Arab visitors who traditionally traveled to the United States are instead going to Arab world destinations in record numbers. One of the biggest beneficiaries of this trend is Oman, which saw visitor increases of 16 percent in 2003 and 9.3 percent in 2004. Oman Air launched a "Magic of Muscat" campaign and other packages that generated thousands of room nights for tourists traveling from Dubai, Abu Dhabi, Kuwait, Doha and Bahrain.

There is no other country in the Middle East like Oman, and recent investments in tourism projects suggest that the Sultanate has clearly been "discovered" as an increasingly important tourist destination.

Oman offers a stunning contrast in ecosystems, from mountain peaks and desert oases to long stretches of pristine beaches. It is preserving its many traditions while, at the same time, carefully managing an economic boom.

Oman has thoughtfully melded the ancient with the modern. Touring the capital, Muscat, offers history buffs access to the Jalali, Marani, and Mutrah forts, dating from the Portuguese occupation in 1580. The Oman Museum displays exhibits covering geography, geology, Islam, and arts & crafts, as well as architecture found in the Sultanate. The Mutrah *Souk* (marketplace) is regarded by many as one of the best in the region for cloth, silver and antique jewelry.

Sohar, in the north, used to be the largest population center and offers an important glimpse of Oman's history. Salalah is the capital of the Southern Region and geographically situated to benefit from the summer monsoon by staying cool and green throughout mid-June to mid-September, when many Gulf residents seek refuge from searing summer temperatures.

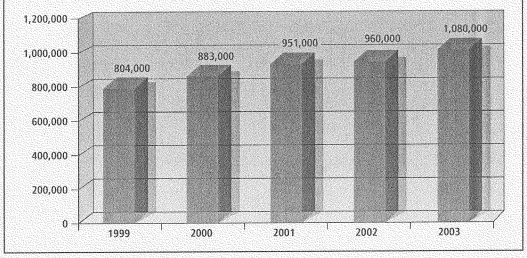
While historic sites and museums and ecological destinations abound, Oman has embarked on a modern tourism infrastructure build out on par with any in the region. The Omani government increased its tourism marketing budget to $30 million for 2005, up from $10 million in 2004.

The government is also working closely with private developers to achieve a broad and rapid facilities build out. In the past, major hotel developments, because of their cost, were the exclusive domain of the Government of Oman. Today, the private sector is playing an increasingly active role in helping to fund and manage such developments.

The most recent announcement of a mega-project came last year, when the Government of Oman and private developers announced "The Blue City" at Barka, located 60 miles north of Muscat. Construction of the tourism complex is expected to take 15 years. Located on a 75-year land concession designated a "strategic tourist zone," the complex will cover 14 square miles. Guests will be able to take advantage of a range of specialized services, such as a high capacity marina, health clubs and sports facilities.

Al Suwaidi Investment and Tourism Company (ASIT), a corporation established to manage the Blue City project, is comprised of Cyclone LLC (Oman), Ahmad Abubaker

Oman: Number of Tourists Nights in Hotels
(Source: Oman Tourism Development Authority)



At a Glance: Hotel and Resort Development Projects in Oman
(Source: Various developers, advertising firms and contractors)

Project	Location	Investment (U.S. million)
The Blue City	Barka	$15,000
Beach to Mountain Resort	Yetti	$822
The Wave	Seeb	$805
Barr Al Jissah (Shangri-La)	Barr Al Jissah	$180
Salalah Coastal Resort	Salalah	$45
Oman Golf and Country Club	Seeb	$52
Haycoot Beach Leisure Retreat	Musandam Peninsula	$30
Mirbat Tourism Village	Salalah	$30
Heritage and Culture Precinct	Nakhl	$12
Ecotourism Center	Ras al-Jinz	$9
Khasab and Dibba Hotels	Musandam Peninsula	$9
Masirah Hotel	Island of Masirah	$4

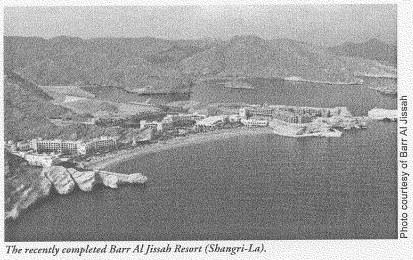


Photo courtesy of Barr Al Jissah

The recently completed Barr Al Jissah Resort (Shangri-La).

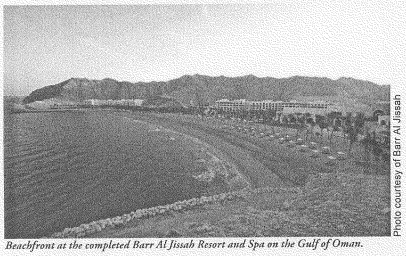


Photo courtesy of Barr Al Jissah

Beachfront at the completed Barr Al Jissah Resort and Spa on the Gulf of Oman.

Janahi Holdings (Bahrain), and Oasis Middle East Holding. The project's partners have committed to $15 billion in financing and have retained Bear Stearns as placement agents. Phase 1 building, started in 2005 and ending in 2009, will cost $1.8 billion. Oppenheimer of North America is a lead investor, but ASIT is looking for additional institutional investors and is considering listing shares on the Oman stock exchange.

The most recent mega-project to be inaugurated was the Barr Al Jissah Resort & Spa (Shangri-La), which opened in February, 2006. According to Shangri-La, which manages the facility, the resort "nestles against the dramatic backdrop of the rugged interior mountains and the spectacular waters of the Gulf of Oman – offering both the leisure and business traveler a fully integrated destination resort and providing the perfect gateway to discover this historic land of contrasts and culture."

Located on the bay just 15 minutes from the historic city of Mutrah, this development offers 680 rooms and suites, all with sea views, in three hotels aimed at different luxury markets. Set amidst 124 acres of landscaped gardens, this property offers more than a half mile of beachfront, three swimming pools, an outdoor amphitheater, a conference center, and an exclusive spa.

New York-based Turner Construction managed construction of the Barr Al Jissah Resort, as well as "The Wave" – an $805 million resort project in Seeb that broke ground last year. When completed, the resort will offer an 18-hole Oceanfront PGA Golf Course, a 500 berth marina, a variety of residential properties, world class hotels and commercial space.

The Wave is a joint venture consisting of Oman's Waterfront Investments (representing the Government of Oman), the National Investment Funds Company (representing the Omani Pension Funds and State General Reserve Funds), and Majid Al Futtaim Investments (UAE).

The United Arab Emirates is getting into the development boom in a big way with the $822 million "Beach to Mountain Resort" project at Yetti, near Muscat. In March 2005, then UAE Defense Minister Sheikh Mohammed bin Rashid al-Maktoum, visited Oman to look at prospective properties. Mohammed Abdullah al-Qarqawi, Executive President of Dubai International Real Estate company, subsequently signed an agreement to construct a 2.6 million square meter tourism complex. The coastal hotel, health resort, golf course and yacht club will also feature residential villas and a mountain resort.

By ministerial decree, non-GCC nationals can now own property in Oman in designated tourism developments, and this is helping to fuel real estate growth in the Sultanate. The Muscat Golf and Country Club, for example, began promoting properties to Omani nationals and GCC residents in October 2003. According to the developer, buyers have already snatched up 40 percent of the villas and 60 percent of the apartments. The entire second phase of the development, including retail stores, is on track for completion by September 2006.

The surge in visitors, foreign ownership rights, and top-notch tourist infrastructure in Oman may vastly increase visitor duration in the Sultanate and alter regional tourism flows. According to Kevin Skillin, who served as the top commercial officer at the U.S. Embassy in Muscat, visitors coming through the region invariably wish they had allocated more time to Oman. He says, "All who came to visit Oman primarily for business invariably wanted to go back for tourism. Visitors coming through the region spend a week shopping in Dubai, and then three days in Oman. Many say they should have reversed the time allocated to each country."

As Oman builds out a broader array of tourism attractions, Dubai and other competitors for international travelers will face a savvy contender offering a unique mix of history and modernity.

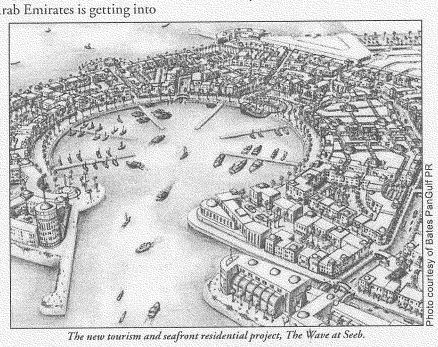


Photo courtesy of Bates PanGulf PR

The new tourism and seafront residential project, The Wave at Seeb.

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U.S.-Oman FTA Signed – continued from page 1

peace through trade."

The agreement now moves to the U.S. Congress, which must approve the FTA before it can go into force. The U.S. Senate and House of Representatives are expected to hold FTA hearings and mark-ups this Spring and, if approved by Congress in a timely fashion, the Free Trade Agreement could become operational by mid-2006. (See page 8 for Congressional testimony provided by the National U.S.-Arab Chamber of Commerce.)

Oman is the fourth Arab nation to sign an FTA with the United States, after Jordan, Morocco, and Bahrain. On the first day that this agreement goes into effect, according to the U.S. Trade Representative, 100 percent of consumer and industrial products and 87 percent of agricultural tariff lines will be duty free. The two nations will phase out tariffs on the remaining products within ten years.

> ***"U.S. foreign direct investment will grow in Oman. The FTA Agreement will lead to job creation and income growth in Oman [as well as] promote the establishment of knowledge-based industries and the growth of our services sectors."***
>
> **– H.E. Maqbool bin Ali Sultan, Oman's Minister of Commerce and Industry**

Enhancing its trade position with the United States is important to Oman. The Sultanate is a petroleum exporting country, but its oil and gas reserves are limited. Under the circumstances, then, diversifying the economy and increasing foreign direct investment are very high priorities.

Oman has made significant progress over the years in integrating its economy into the global marketplace, and the FTA with the United States further reinforces Oman's efforts to promote economic liberalization.

According to *Economic Freedom of the World: 2005 Annual Report,* published by The Fraser Institute (www.freetheworld.com), Oman has the seventeenth freest economy in the world. This ties Oman with Finland and places the Sultanate ahead of such nations as Germany (#19), Taiwan (#24), Spain and Japan (tied for #30), South Korea (#35), and Italy (#54).

In the same vein, Transparency International's *Corruption Perception Index 2005* ranked Oman 28th in the world – tied with Israel – with a low level of perceived corruption. (www.transparency.org) Oman ranks number one in the Arab world and placed higher than such nations as Taiwan (#32) and Italy & South Korea (tied for #40) among the 159 nations that were studied. TI's Corruption Perceptions Index draws on 16 different polls from ten independent institutions.

The Sultanate was a relative latecomer to the WTO when it acceded in the year 2000, clearing the way for FTA discussions. The U.S. treats WTO accession as something of a baseline, or a "Good Housekeeping seal of approval," that helps to lay the groundwork for bilateral agreements that go above and beyond the WTO framework.

Given the relatively modest level of trade between the U.S. and Oman, some wondered why the USTR devoted so much time and energy to this one nation. The answer is simple, according to Kevin D. Skillin, former head of the Commercial Service at the U.S. Embassy in Muscat: "We recognize Oman as the type of country with which we want to negotiate free trade agreements."

The Sultanate's ongoing efforts to liberalize and privatize the economy made it a highly attractive candidate for an FTA, says Skillin. But Oman is also representative of a larger trend toward bilateral FTAs between Gulf countries and the United States. According to Jason Buntin, who coordinates Oman FTA issues at the Office of the U.S. Trade Representative, "Even major energy producers like Kuwait, Qatar, and Saudi Arabia support free trade as a way to become less dependent on energy exports."

In remarks to the National U.S.-Arab Chamber of Commerce, H.E. Maqbool Ali Sultan, Oman's Minister of Commerce & Industry, stated that Oman is "committed to a policy of open market economy based on free competition in which the private sector is encouraged to play a leading role. We have liberal laws and we are constantly attempting to make our rules, regulations, and procedures as simple and client-friendly as possible."

Minister Sultan went on to say that Oman wants to build on its relationship with the United States in order to "stimulate business-to-business discussions, partnerships and alliances with a view to refreshing, re-energizing and reorienting this relationship for our mutual benefit. We firmly believe that expanded, unrestricted trade is very effective in contributing to the process of economic development and growth," as well as "enhancing the quality of life and welfare of our people."

With every passing year, Oman is gaining international stature as an attractive destination for investment and tourism. As *The Economist* magazine opined not long ago, "The Sultanate of Oman remains a calm and tranquil environment . . . a place where business visitors can expect high standards of corporate governance and tourists can relax on superb beaches or visit its castles and breathtakingly beautiful mountains. There remains a friendly and hospitable welcome for non-Omanis whatever their race or religion. Perhaps, that is Oman's best asset of all."

Photo courtesy of Encyclopaedia of the Orient

His Majesty Sultan Qaboos bin Said Al-Said has guided his nation for nearly 35 years.

Upcoming Trade Shows in Oman

INTERIORS AND BUILDEX
International Exhibition of Architecture, Interior Design, Furniture Building, Construction, Public Works, and Maintenance Exhibition
1-3 April 2006
www.omanexpo.com

OIL AND GAS WEST ASIA
Oil, Gas, Refining and Petrochemical Exhibition
10-12 April 2006
www.omanexpo.com

MOTOR SHOW AND AUTO PARTS AND ACCESSORIES
20-23 September 2006
www.omanexpo.com

EID FESTIVAL
International Exhibition of Consumer Goods and Services
24 October-1 November 2006
www.omanexpo.com

US-Arab Tradeline

Hon. Richard L. Baltimore III, Outgoing U.S. Ambassador to Oman, Comments on U.S.-Oman Economic Developments

What are the U.S. policy priorities toward Oman?

Issues of economic prosperity and security have come to the forefront of our bilateral relationship. We signed a Trade and Investment Framework Agreement (TIFA) with Oman in July 2004, and efforts to conclude a Free Trade Agreement (FTA) are advancing rapidly. We also encouraged the establishment of the Muscat American Business Council last year in an effort to increase U.S. exports to Oman.

Of course, the promotion of democracy and human rights around the world continues to be a key U.S. Government priority. We've been pleased by our successful cooperation with Oman on various programs aimed at the modernization of education, the rule of law, and women's empowerment.

Through the Middle East Partnership Initiative (MEPI), we have made inroads by reaching the youth of Oman with messages of hope and optimism for the future. We provided English language micro scholarships for 120 Omani students who otherwise could not afford the training, and we are preparing to expand the program in 2006.

What advantages would a trade agreement have for U.S.-Oman trade?

As part of the President's vision for a Middle East Free Trade Area, bilateral FTAs are critical components for opening up economies and liberalizing their trade practices. As then-U.S. Trade Representative Robert Zoellick noted in his October 2004 visit to Oman, U.S. FTAs are cutting-edge, high quality agreements that can play an important role in stimulating economic growth and development.

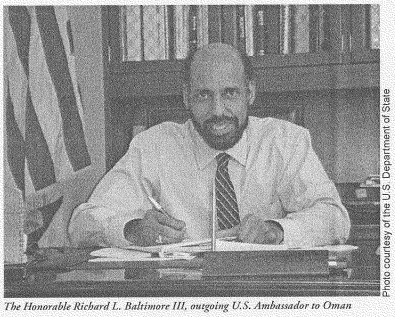

Photo courtesy of the U.S. Department of State

The Honorable Richard L. Baltimore III, outgoing U.S. Ambassador to Oman

The U.S.-Jordan FTA, signed in 2000, is perhaps one of the best examples of this development. Between 2000 and 2003 alone, two-way trade between the U.S. and Jordan increased from roughly $300 million to over $1 billion. As a result of the FTA, nearly 40,000 jobs were added to the Jordanian economy.

With U.S.-Oman trade already hovering around $1 billion a year, and large U.S. investments in Oman's booming industrial and tourism sectors, there will certainly be additional opportunities for both American and Omani companies and entrepreneurs under an FTA.

Doing Business in Oman: Key Points of Contact

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Excerpts: NUSACC Testimony on U.S.-Oman FTA

In March, the National U.S.-Arab Chamber of Commerce (NUSACC) is expected to testify before the Senate Finance Committee on the U.S.-Oman Free Trade Agreement. Excerpts of NUSACC's testimony follow.

Under the thoughtful leadership of H.M. Sultan Qaboos bin Said Al-Said, Oman has been transformed from an economic backwater to one of the most progressive and attractive nations in the region. And unlike some of its neighbors in the Arabian Gulf area, Oman has achieved this status without the benefit of huge energy reserves – relying instead on the resilience, determination, and entrepreneurial spirit of its people.

"Oman has achieved success by relying on the resilience, determination, and entrepreneurial spirit of its people"

According to our Chamber's forecast for 2006, U.S. merchandise exports to Oman are on track to reach nearly $1 billion this year – which translates into more than 15,000 direct U.S. jobs. The 2006 figures represent an increase of nearly 56 percent over 2005, when U.S. merchandise exports totaled $593.3 million.

The U.S. has become the third largest exporter to Oman, and if our two nations implement this FTA, market share for U.S. products in Oman is expected to close in on that of the United Arab Emirates and Japan, ranked first and second, respectively.

Oman as an Open Economy: Oman has made significant progress over the years in integrating its economy into the global marketplace, and an FTA with the United States would further reinforce Oman's efforts to promote economic liberalization. Just a few years ago, some of Oman's tariffs ranged as high as 15 percent (e.g.- food products). Today, according to the National Association of Manufacturers, Oman's applied tariff rates range from 4.5 percent to 5.7 percent. The Government's decision to lower tariffs is helping to make U.S. products more competitive in the Omani market.

Political Stability and Investment Appeal: In an effort to make Oman more attractive to prospective partners around the world, the Sultanate has waived requirements that foreign businesses had to enter into exclusive agency agreements. In addition, a ministerial decision was issued in 2000 waiving the requirement for foreign firms to partner with a 51 percent Omani-owned company in order to obtain an import license. Oman has also created a series of incentives in recent years that will encourage investments: tax exemptions for five years for industrial enterprises; no personal income tax and no foreign exchange controls; tax and import duty exemptions; interest-free long-term loans for industrial and tourism projects that involve foreign investment.

Adherence to International Agreements: Oman has joined the Patent Cooperation Treaty and has asked the World Intellectual Property Organization (WIPO) to register the Sultanate as a signatory to the Paris and Berne Conventions on IPR. In the past, pirated computer software, bootleg videos, and designer clothing knock-offs were widely available. Following its accession to the WTO, however, Oman began cracking down in earnest on IPR violations. Today, with support from the private sector, Omani authorities are keeping the heat on IPR offenders, routinely conducting sting operations on illicit video producers and busting rings of counterfeiters.

Strategic Support: Over the years, Oman has provided invaluable support to the U.S. forces in terms of forward deployments of U.S. servicemen and women and the prepositioning of U.S. materiel. Oman hosts an estimated 3,000 U.S. servicemembers, particularly from the U.S. Air Force. According to the U.S. Department of Defense, "Oman has been a coalition partner for over thirty years. Oman's active participation during the Gulf crisis and their willingness to allow access to port facilities and air bases make them vital to any coalition success in the region."

Supporting the Fight Against Terrorism: Oman has been unequivocal about its willingness to stand "side by side" with the United States in America's fight against terrorism. H.E. Yousef Bin Alawi Bin Abdullah, the Head of Oman's Delegation to the United Nations, stated in New York not long after 9/11, "We would like to reaffirm again our solidarity with the United States of America in fighting all forms of terror against humans wherever they are."

Commitment to Human Development: When it comes to capacity building through social policies, Oman is one of the most progressive nations in the region. H.M Sultan Qaboos has encouraged women to play a leading role in the development of Oman on the grounds that to "exclude women is to exclude 50 percent of the country's potential." Women in Oman have the right to vote and run for office in Consultative Council elections, held every four years. Oman has three women in its Cabinet, and it is no coincidence that Oman has produced the first fully credentialed female ambassador sent to the United States from the Arab world, H.E. Hunaina Sultan al-Mughairy.

Respect for Workers' Rights: Oman joined the International Labor Organization in 1994, and the Sultanate has come a long way over the years in its efforts to encourage labor reform and support the rights of workers. In NUSACC's view, the most significant step forward came in 2003 with the passage of a new labor law (Royal Decree 35) that enables workers – Omanis and foreigners – to join "worker representative committees." These committees represent an important step forward in effectively granting workers the right to strike, engage in collective bargaining, and take their employers to court.

Environmental Protection: Oman was the first country in the Arab world to establish a full-fledged Ministry of Environment, and Oman was one of the first nations in the region to design a strategic plan for the environment. As part of that nation's efforts to raise public awareness, Omani Environment Day is celebrated each year on January 8.

"Omani authorities are keeping the heat on IPR offenders, routinely conducting sting operations on illicit video producers and busting rings of counterfeiters"

A wide range of business leaders and U.S. policymakers recognize Oman's genuine commitment to reform and to enhancing free trade with the United States. With this in mind, NUSACC lends its full support to a U.S.-Oman Free Trade Agreement, and we look forward to doing our part to help turn this vision into a reality in the months ahead.

US-Arab Tradeline

U.S. Oman Trade – continued from page 1

ment, a sector that expects to see U.S. firms edge out British competitors for a larger share in exploration and development. Last year, for example, California-based Occidental and the UAE's Liwa Energy announced investments of more than $2 billion to increase the Mukhaizna oilfield's heavy crude flows from 10,000 barrels per day (bpd) to 150,000 bpd.

The Sultanate reassigned exploitation of the field from Shell to Occidental as part of an aggressive development scheme designed to reverse declining production and to increase Oman's total output to 800,000 bpd by 2009. Petroleum Development Oman (PDO), the country's main producer, plans to invest $1.5 billion per year to reach the 2009 petroleum production goal.

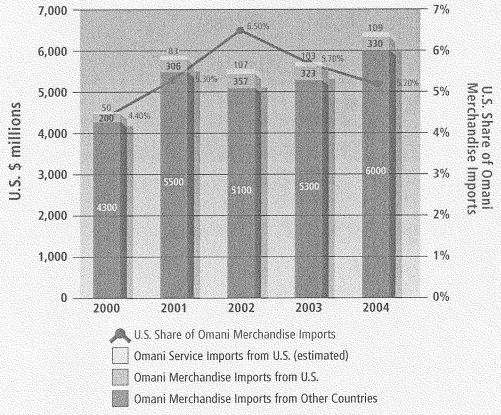
The investment by Occidental comes on the heels of a comparable commitment by Michigan-based Dow Chemical Company. (See related story on page 12.) Dow and its partners are investing at least $2.6 billion to engineer, construct and operate a petrochemical complex in Oman – the largest investment ever in Oman by a U.S. company.

Increased exports of liquefied natural gas (LNG), coupled with major projects designed to generate value-added production from Oman's feedstock, signal growth opportunities for Omanis and their partners. According to the Institute for Research: Middle Eastern Policy (IRmep), the exploitation of natural gas reserves could increase from less than one percent of total energy exports to as much as 25 percent by the end of the decade, replacing anticipated declines in petroleum revenues.

U.S. merchandise exports to the Sultanate have traditionally been concentrated in industrial goods. Total U.S. exports during the period 1989-2004 saw particular emphasis on heavy machinery (36 percent), vehicles (15 percent), and electrical equipment (seven percent). With the economic boomlet that Oman is experiencing in the aftermath of 9/11, driven in part by investments from the UAE and elsewhere in the region, U.S. industrial goods are expected to continue their strong performance.

Exhibit #1; 2000-2004 Direct Omani Imports from the U.S. and Other Countries

(Source: U.S. Census Bureau, IRmep)



Oman's annual import demand, like that of other petroleum producers in the region, is strongly correlated to petroleum export revenues. For now, that's the good news. In recent years, the overall market share of direct U.S. merchandise exports has increased to $330 million (2004).

The bad news is that daily petroleum production has fallen steadily – from just under a million barrels per day in 2001 to 724,000 bpd in 2004. With this in mind, Oman's five-year economic development plan seeks additional economic diversification, as well as greater value-added transformation of energy reserves.

No one has sounded the clarion call on diversification more convincingly than H.E. Maqbool Ali Sultan, Oman's Minister of Commerce and Industry. He recently told *Emerging Oman 2005* (Oxford Business Group) that "diversification of the economy away from dependence on oil is a fundamental challenge for Oman. Obviously, this requires a large, sustained investment in non-oil sectors – manufacturing, mining, fisheries, and services. In the manufacturing sector, Oman will have a competitive advantage in those industries which use natural gas as an input and/or as a primary source of energy."

Oman's goal to diversify away from commodity energy production, combined with the new Free Trade Agreement with the United States, promises to provide new development and export opportunities for U.S. companies.

According to IRmep, service exports from the United States to Oman should accelerate, reaching half a billion dollars by 2010. The major component of these exports, travel services, should increase as U.S. carriers serve increased flows of passengers into feeder airlines and code sharing partners like Oman Air. As petroleum passes "peak" and becomes harder to extract, additional consulting and engineering services will be required to squeeze out each additional barrel. In the same vein, specialized engineering and field services will be needed to increase value-added production of Oman's natural gas supplies.

IRmep also forecasts that business services – such as management and financial consulting, public relations and advertising – should at least double each year as demand in Oman surges. New entrants and the maturing business sector should also generate strong demand for business services. In terms of government demand, says IRmep, budgets for business services should also double each year as Oman reaches out to U.S. and other international professionals to help reach objectives set by the Government of Oman.

Plans by Oman Air to upgrade its fleet will serve as a "boarding gate" to increased

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U.S. Oman Trade – continued from page 9

tourism infrastructure in the Sultanate. Oman is implementing a plan to double tourist arrivals by 2010 by diversifying offerings to include more ecotourism, adventure tourism and cultural tourism. Mohsin bin Khamis al Balushi, Under Secretary for Tourism at the Ministry of Commerce and Industry, has pledged to turn Oman into a magnet for regional tourism and to increase this service sector's contribution to GDP to three per cent by the year 2020.

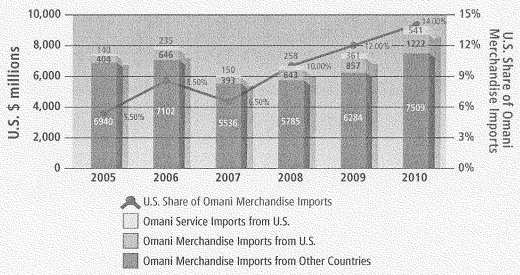
Taken together, these positive developments suggest that America's share of Oman's market may reach new highs by the end of the decade. Competing petroleum suppliers may depress prices as more capacity comes online around the world, thereby dampening Oman's overall import appetite during the period 2007-2009. But according to IRmep, aircraft and oilfield sales will boost U.S. share of Omani imports to 8.5 percent in 2006 (as they did for previous sales) and then continue an upward market penetration. U.S. goods and services exports to Oman should break the $1 billion mark by 2007, says IRmep, reaching an estimated $1.763 billion in 2010.

But as the Boeing deal suggests, none of this economic growth will take place on "autopilot." Oman will need to compete aggressively as an international destination for trade and investment opportunities. The Free Trade Agreement with the United States will help to put Oman on the map, but then it will be up to the U.S. and Omani private sectors to generate ideas, projects, and jobs.

In the words of Faisal Bin Turki Al-Said, Head of Planning and International Relations at the Omani Center for Investment Promotion & Export Development (OCIPED), "From our extensive travels and contacts with members of the international economy, we have realized that Oman is still relatively unknown. Oman can have the best incentives in the world, but they would be of little use to us unless people know about us and what we stand for."

Exhibit #2; 2005-2010 Forecast Omani Imports from the U.S. and Other Countries

(Source: IRmep)



Minister Maqbool Ali Sultan – continued from page 3

replacing remaining shelf-life requirements with a science-based regulatory framework. These conditions will be met for the FTA with the United States.

Tradeline: *What impact, if any, would the FTA have on the U.S. textile industry?*

Minister Maqbool Ali Sultan: None. Oman is a very minor producer of textiles. On the other hand, exports of U.S.-made textile products will benefit from the Agreement.

Tradeline: *What impact, if any, would the FTA have on the U.S. agriculture sector?*

Minister Maqbool Ali Sultan: Although agriculture imports of some select products such as figs or dates from Oman may increase under the FTA, those amounts would not harm U.S. growers. More importantly, exports of a wide variety of U.S. agricultural products to Oman will likely increase substantially.

Tradeline: *Does Oman have open and transparent foreign investment laws?*

Minister Maqbool Ali Sultan: Yes. Oman's political stability, modern infrastructure, large middle class, and stable securities market makes it conducive to foreign investment opportunities. Companies in Oman can be foreign owned. The provisions of the FTA will significantly enhance the transparency and predictability of U.S. investment and business in Oman.

Tradeline: *What are the top exports to Oman from the United States?*

Minister Maqbool Ali Sultan: In 2004, machinery (and parts thereof), vehicles (and parts thereof), medical equipment, and plastics were the top categories of U.S. items exported to Oman.

Tradeline: *What role do women play in the Government of Oman?*

Minister Maqbool Ali Sultan: Oman is the first of any Gulf nation to have a female ambassador to the United States. In addition, Oman has three women in its Cabinet.

Tradeline: *Can workers strike in Oman?*

Minister Maqbool Ali Sultan: The 1972 ban on strikes was repealed in Oman. Workers in Oman have the right to strike and exercise it often. According to recent statistics, there were 33 strikes in 2004, representing almost 6,000 workers. Workers in 17 companies held strikes in the disciplines of construction, services, tailoring, and industrial activities. All the strikes were resolved through a mediation process held by the Ministry and through consultations between the companies and the workers.

Tradeline: *Are there labor unions in Oman?*

Minister Maqbool Ali Sultan: Workers (foreign or Omani) in any establishment may form "representative committees" (labor unions) to protect their interests and to defend their legally prescribed rights. To date, 24 worker representative committees have been established. It is important to note the size Omani companies when assessing the issue of labor unions. There are 55 companies with more than 500 employees and only nineteen companies with more than 1,000 employees.

Tradeline: *Thank you for your time, Your Excellency.*

US-Arab Tradeline

Oman: Key Indicators At-a-Glance

	Data	Source
Total Population	3,001,583	U.S. Government
Omani Citizens	2,424,290	U.S. Government
Expatriates	577,2933	U.S. Government
Annual Population Growth Rate	3.32%	U.S. Government
GDP Purchasing Power Parity (PPP)	$38.09 billion	U.S. Government
GDP per Capita (PPP)	$13,100	U.S. Government
GDP (2004 Real)	$21.58 billion	U.S. Government
Real GDP Growth Rate	1.2%	U.S. Government
Total 2004 Exports	$13.14 billion f.o.b.	U.S. Government
Total 2004 Total Imports	$6.373 billion f.o.b.	U.S. Government
Exchange Rate U.S. Dollar = Omani Rial (OMR)	.38498	Oanda.com
Government Type	Monarchy	Sultanate of Oman
Date of WTO Accession	October, 2000	World Trade Organization
Mobile Telephone Subscribers	900,000+	Oman Mobile
Estimated Petroleum Reserves	5.5 billion barrels	U.S. Government
Estimated Natural Gas Reserves	300 trillion cubic feet	U.S. Government
2004 Petroleum Production	657,000 barrels per day	Petroleum Development Oman
2005 Forecast Petroleum Production	635,000 barrels per day	Petroleum Development Oman
2009 Petroleum Production Goal	800,000 barrels per day	Petroleum Development Oman
Member of OPEC	No	Sultanate of Oman

Affiliate-at-a-Glance: Oman Chamber of Commerce and Industry

The Oman Chamber of Commerce and Industry (OCCI), an affiliate of the National U.S.-Arab Chamber of Commerce, is widely regarded as the leading voice of Oman's private sector.

Established in 1973 by Royal Decree, the Oman Chamber of Commerce and Industry provides a wide range of services to its approximately 100,000 members, including (but not limited to): serving as a catalyst for growth and development of Oman's industry; providing access to policymakers within the Government of Oman; conducting research and due diligence requests; fulfilling requests for certification and legalization of documents; raising awareness among its members about quality, transparency, the environment and consumer protection; providing specialized services for women entrepreneurs and small & medium-sized enterprises (SMEs).

The Oman Chamber of Commerce and Industry

OCCI plays a significant role in implementing Oman's development plans with a view to diversifying the economy. With this in mind, OCCI conducts trade missions to foreign countries and welcomes foreign business delegations to the Sultanate. In an effort to expand the exchange of expertise, investment and technical know-how, OCCI participates in international and local trade fairs, economic seminars and conferences. Through its members, OCCI represents private sector interests within a variety of Government committees and entities.

Photo courtesy of NUSACC

Salem Said Al Ghattami (right), President of the Oman Chamber of Commerce & Industry, discuses commercial relations with David Hamod, President of NUSACC.

OCCI is divided into seven departments: Economic Research, Public Relations, Legal Affairs, Information Center, Registration and Legalization, The Specialized Committees, and Training & Omanization. For additional information about OCCI, please visit www.ChamberOman.com.

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Industrial Development: Oman's "OPIC" Creates Value-Added Opportunities for Investors

In 2004, the Oman Oil Company (OOC), the Government of the Sultanate of Oman, and the Dow Chemical Company created Oman Petrochemicals Industries Company (OPIC) to engineer, construct and operate a petrochemical complex in Oman. Dow's involvement in this project represents the biggest investment yet in Oman by a U.S. company.

Situated in Fahud and the Sohar Industrial Port Area, the facilities will consist of feedstock production units, a gas cracker, and three world-scale polyethylene production trains based on state-of-the-art catalyst and process technology. With a view to generating additional value, the shareholders and OPIC will encourage the development of downstream industries in Oman that will convert polyethylene to end-products, thereby creating jobs and multiplying the economic impact of the complex.

For Omanis, the formation of OPIC "is a further milestone in the Omani Government's continuing efforts to develop Al Batinnah region by promoting foreign investment which will contribute to job creation, in addition to laying the foundation for future downstream industries," according to H.E. Ahmed Macki, the Minister of National Economy and Deputy Chairman of the Financial Affairs and Energy Resources Council. *Tradeline* caught up with Romeo Kreinberg, Dow Chemical's Senior Vice President for Plastics, to get a status update about the new company.

Tradeline: *We've heard that the total investment in this deal could be as high as $2.6 billion. Is that the exact value of the plant and infrastructure?*

Kreinberg: You are correct that the investment was described in October 2004 as one billion Omani Rials which, at the current exchange rate, is approximately $2.6 billion. In the meantime, commodity prices, including steel, have increased. So the final number may be somewhat higher, but the project is still at an early stage and we cannot provide more precise figures at this time.

Tradeline: *Tell us a little bit about how the deal is structured. Who has the controlling stake?*

Kreinberg: The ownership is 50 percent Dow, 25 percent the Government of the Sultanate of Oman, and 25 percent the Oman Oil Company. The company represents a true partnership – helping the Omani government to meet its objectives of attracting foreign investment, diversifying the economy, creating job opportunities and laying the foundation for future downstream industries – while at the same time helping Dow to access cost-competitive feedstock to supply the fast-growing markets of Asia.

Tradeline: *So neither Dow nor the Sultanate of Oman has a controlling stake? What does that say about the selection of Oman as a partner and your joint venture relationship?*

Kreinberg: Oman is well positioned for foreign direct investment in terms of openness and the benefits of working in the Sultanate in particular and the Gulf in general. Oman has a historically strong trade culture with a high degree of political stability created by His Majesty Sultan Qaboos.

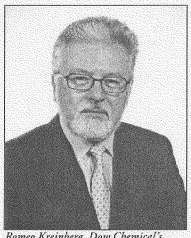
It also has a young, well-educated, and highly motivated population with a strong work ethic. One component of the work force development will be Dow's investment in a training program to develop the necessary tools to operate these highly-skilled jobs

For a global company like ours, Oman is an important trade point for us to be able to manufacture key products for the Asian market – based on proximity to key markets and long-standing trading partnerships in the region.

Our investment in Oman is not about reducing our manufacturing in the U.S. It is about gaining market access for American products and manufacturing inputs from the U.S. to support growth of our production in Oman, which will ultimately reach out to Asia/Pacific consumer markets. The creation of OPIC is a key step in Dow's strategy of having cost competitive geographic and product positions that will enable value growth.

Tradeline: *What is the core of the facility and estimated employee headcount?*

Kreinberg: Co-location at the petrochemical complex and installation of a gas cracker will allow Dow to employ patented production processes to produce polyethylene – a key product in the manufacture of numerous industrial goods and packaging. I can't give you an exact headcount, but OPIC's goal is to train and provide jobs to as many qualified Omani workers as possible.



Romeo Kreinberg, Dow Chemical's Senior Vice President for Plastics

Tradeline: *So OPIC will fully participate in the "Omanization" program, which trains Omanis for the workforce?*

Kreinberg: That's right.

Tradeline: *When will the plant go into production?*

Kreinberg: Usually this type of project is operational within 3-4 years. Groundbreaking and construction will begin in 2006.

Tradeline: *What other high growth markets, besides Asia/Pacific, will Dow and Oman tap with output from this plant?*

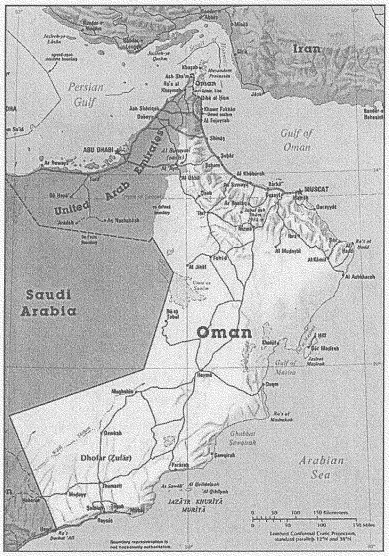
Kreinberg: Certainly the local (Middle East) market. Europe is also a strong possibility.

Tradeline: *In terms of industrial goods and engineering services, what level of impact could the plant construction project have on the United States? It probably won't produce $2.6 billion in sales, as workers and equipment will likely be sourced globally, but do you have any idea of the benefit the construction phase might have for the United States?*

Kreinberg: I cannot give you an estimate of the level of impact this project will have on the U.S. in terms of industrial goods and engineering services. However, we can certainly see great potential for other American companies following us to Oman and setting up manufacturing bases there, particularly as the Sohar Industrial Port complex is being developed.

Also, with our "value park" concept, which involves bringing in manufacturing partners to co-locate with our facility, there are great economic opportunities for American companies in downstream plastic industries.

Tradeline: *Thank you for your time. We wish you the best of luck!*



Forecasting Methodology

The forecast of year 2006 import potential is derived from a "top down" model of country market import demand growth that involves correlating the International Monetary Fund (IMF) real GDP growth predictions, actual 2005 year-to-date exports from the U.S. to the Arab market, and U.S. market share trends for each country's imports over time.

Granular U.S. export category growth rates are estimated from five-year slope calculations. 2005 year-to-date exports to each country market are adjusted with country-specific historical five-year seasonality to arrive at year 2005F exports.

For 2006, "top down" model predictions have been checked against updated baseline "bottoms up" models driven by import demand correlated to real year-to-date average free on board (F.O.B.) petroleum prices, Energy Information Administration (EIA) forecast prices, and production forecasts for major petroleum exporting countries. For some major categories, such as aircraft sales, the five-year slope has been adjusted against a longer purchase pattern and official country market purchase intentions.

Major services export categories, such as travel, financial services, education, consulting, and engineering, are not covered in this 2006 Outlook report. Empirical data reveal that in one major country market, services accounted for additional revenues of 30 percent or more of the total U.S. manufactured good export revenues. In others, the revenues from services are estimated to provide an additional 10-20 percent of reported manufactured goods exports as U.S. companies provide comprehensive "solutions" involving equipment and installation and maintenance services.

As with any forecast, the numbers and estimates in this report should not be a sole source of planning information. Rather, they should be compared and contrasted against other public and proprietary data sources.

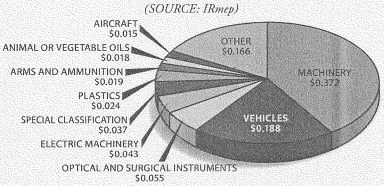
Oman Data

Metric	2005 est.	2006 est.	Source
Forecast Real GDP Growth Rate	3.6%	5.3%	IMF
Total Merchandise Imports	U.S. $7.3 billion	U.S. $10.8 billion	IRmep
Merchandise Imports from the U.S.	U.S. $0.554 billion	U.S. $0.923 billion	IRmep

Oman's stability, governance, and market opening strategies – begun in the 1970s – have begun to pay off. Oman still relies heavily on exports of petroleum and natural gas, but the country has spearheaded a broad diversification of the economy in the Sultanate's five-year plan, which calls for expanded tourism, value-added petroleum product manufacturing, and the participation of more companies in manufacturing projects to serve European and Asian markets.

Oman – 2006 Forecast Top Ten Manufactured U.S. Imports ($ Billion)

(SOURCE: IRmep)



Sectors to Watch	Export	5 Year Annual Growth Rate	2006 U.S. Export Opportunity
Explosives	Explosives, Pyrotechnics	38%	$8.3 million
Paper	Paper	33%	$6.6 million
Food and Beverage	Pet Food	177%	$5.1 million
Food and Beverage	Fruits & Nuts	34%	$1.1 million
Cosmetics	Cosmetics	15%	$2.0 million
Fabrics	Woven	69.3%	$0.1 million

The U.S. share of oilfield services and equipment is picking up as U.S. companies edge out European and Asian competitors for a larger share in exploration and development. In 2005, U.S. petroleum company Occidental and the UAE's Liwa Energy announced investments of more than U.S. $2 billion to increase the Mukhaizna oilfield's heavy crude flows from 10,000 barrels per day (bpd) to 150,000 bpd. The Sultanate reassigned exploitation of the field from Royal Dutch/Shell to Occidental as part of an aggressive development scheme aimed to reverse declining production and increase Oman's total output to 800,000 barrels per day by 2009.

With the recent signing of a U.S.-Oman Free Trade Agreement, the Sultanate hopes to build on its increasingly close economic ties to the United States.

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The Sultanate of Oman and the 2005 Smithsonian Folklife Festival

Q&A With Dr. Richard Kennedy

"Oman: Desert, Oasis and Sea" was a focal point at the 2005 Smithsonian Folklife Festival, held on the National Mall from June 23 to July 4. It was the first Folklife program ever to feature an Arab nation, and the exhibit skillfully blended the unique music, dance, foods and rich craft traditions of the Sultanate of Oman.

Spearheading this event was Dr. Richard Kennedy, Deputy Director of the Smithsonian's Center for Folklife & Cultural Heritage. *Tradeline* discussed with him Oman's participation in the 2005 Folklife Festival.

Tradeline: *What distinguishes Omani culture, arts and crafts?*

Kennedy: Oman's connections to India, Africa and Persia are as strong as its Arab and Middle East heritage. Oman is a complex Arab culture drawing on all of these resources from the Middle East and Indian Ocean for millennia, and it presents an interesting cultural counterpoint for any who may have certain regional stereotypes.

Tradeline: *So what kinds of myths and stereotypes may have been dispelled through the firsthand experience of visitors?*

Kennedy: The biggest may be that people generally think of Arab nations as exclusively Bedouin. Oman is somewhere in the middle. It remains connected to its Bedouin traditions, and is trying to preserve those traditions, yet it also has maritime traditions. The oasis and trade are equally important to the complex culture of Oman, a nation with a long seafaring tradition.

Second, when we talk about the Gulf, people often focus on high rises, glass, and gleaming sky scrapers. In terms of the modern high-rise stereotype, Oman has been very careful architecturally to keep cities like Muscat consistent and connected to its heritage. There are modern cities, replete with motor vehicle expressways, but Omanis have been careful to make a human scaled urban environment.

Tradeline: *Exhibitors at the Folklife Festival displayed many arts and crafts. But could exhibit visitors actually buy ceremonial daggers and other unique items?*

Kennedy: Definitely. We hope that by exhibiting, the festival honored individuals who have held onto their traditions in the face of pressure from "Madison Avenue." Visitors saw everything from weaving of Wahiba Sands in the eastern region of Oman to jewelry from the oasis, baskets, indigo scarves, perfumes and incense from Salalah.

No one was allowed to sell on the National Mall, but a marketplace across from the Freer Gallery of Art served individuals who wanted to buy items or establish commercial relationships.

Tradeline: *How does Oman fit into the larger Folklife mission?*

Kennedy: The Smithsonian is particularly interested in Oman because they made some wise decisions as they came out of isolation in the 1970s. Oman has not galloped quickly into globalization. It has been careful about ecological preservation, such as marine turtle breeding grounds, even reintroducing species extinct from Oman. Oman's leadership has revitalized the country as a center for trade, music, craft and architectural heritage. Omanis realize that they don't want to lose what is uniquely theirs as they move into the global market.

The Smithsonian is honoring and recognizing cultures and nations that are aware that their roots are as important to nurture as their future. Omanis are doing both at the same time. They are in balance.

Tradeline: *What are some good reading materials for those wanting to get up to speed on Oman?*

Kennedy: That is one of the challenges: There is relatively little written about Oman. A few geologists and anthropologists, who love Oman because of its stance on preservation, have written in specialty publications. There is not much available to the general public. There is a special two-volume set called "The Craft Heritage of Oman" by Marcia Dorr and Neil Richardson, which we offered at the festival.

In addition, there are excellent English language websites through the Ministry of Information, as well as books from Motivate Publishing and travel guides from Lonely Planet. You can also learn quite a bit about Oman in the early 18th century – stories of true life drama and intrigue – and books critical of British government involvement in Oman. But these and other general history books are a little out of date and not entirely relevant. I suggest that readers look over Amazon.com, which will come up with the dozen or so available books.

Photo Neil Richardson, courtesy Oman Crafts Heritage Documentation Project

An embroiderer is resplendent in her own hand-stitched finery in Sur, on the eastern coast of Oman.

Tradeline: *What can you tell us about culinary specialties of Oman?*

Kennedy: We featured demonstrations of Omani cooking and foods in the oasis kitchen, and demonstrations by chefs from the Al Bustan Hotel. In front of Freer, Emir's Bistro prepared and sold Middle Eastern food – such as spiced kebab along with coffee and dates.

True Omani delicacies, however, are best sampled during visits to Oman. There are fish dishes unique to Oman that simply cannot be reproduced for thousands of diners in a "fast food" setting.

Tradeline: *How many and what type of festival visitors does Smithsonian usually receive?*

Kennedy: More than one million visitors attended the 2005 festival. A number between 900,000 to 1.5 million visited the Silk Road in 2002. It is an open festival,

continued on next page

Folklife Festival– continued from page 14

and we really cannot determine exactly how many will attend.

Tradeline: *Tell us what it takes for potential tourists to get a visa and visit Oman.*

Kennedy: Tourism is one of the highest priorities of the government, which is looking to diversify service revenues. People need to know that Oman is safe, secure, and a fascinating destination. Until now, it doesn't seem that tourism promoters have really tried very hard to penetrate the American market. In Oman, like many countries "off the beaten path," you find larger numbers of Europeans, particularly German visitors. So the American market is largely untapped for Oman.

Tradeline: *What were some of the unexpected delights of the festival – things that most visitors didn't know about until they arrived?*

Kennedy: Well, some heavyweight contenders were the camels coming in from Texas. We also brought in Florida date palms and set up an entire Bedouin camp! I think that was interesting for American visitors – to tour a camp among men, and particularly veiled Bedouin women, who talked about why they chose their dresses and adornment, as well as the importance of perfume and frankincense.

We also gave out a very popular item: date palm fans. There were different Internet website addresses for the "fans of Oman," as well as lapel pins.

Tradeline: *Were visitors exposed to Omani music only during scheduled concerts?*

Kennedy: No, the Center for Traditional Music programmed performances all day long. There were workshops ranging from traditional to modern music and ongoing music from ensembles of the three towns of Qurayat, Salalah and Sohar.

In addition, musical recordings are available through Global Sound (http://www.smithsonianglobalsound.org), a Smithsonian recording and online music company that provides global distribution to a diverse array of performers from many cultures.

Tradeline: *Thank you for sharing your perspectives on the Folklife Festival and Oman's rich heritage.*

For additional information on the Smithsonian Folklife Festival, log onto www.folklife.si.edu

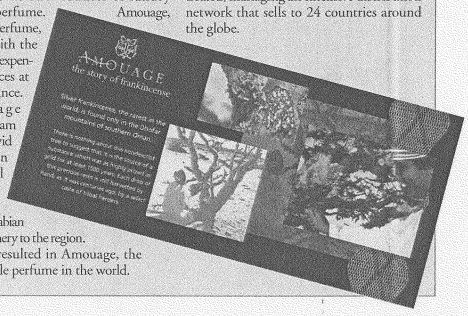
Photo courtesy Oman Centre for Traditional Music

The traditional al-razhah dance displays a performer's courage, swordsmanship and poetic skills. Al-razhah used to announce war or victory. It also would provide a way for men to express their demands to their leaders. Today al-razhah is performed at weddings, holidays and to welcome an honored visitor.

Frankincense – From Resin and Incense to Luxury Items

High quality frankincense is currently fetching $7.30 per pound on the world market. Aromatic resin from the Boswellia sacra tree grown in southern Oman provides the raw material for frankincense, seeping from cuts in the tree. Frankincense is still burned for its fragrance, but don't look for low prices at the counter of luxury items like perfume. Amouage, an Omani perfume, competes with the world's most expensive fragrances at $220 per ounce.

Amouage began as a dream of H.H. Sayyid Hamad bin Hamoud al bu Said, who wished to restore the Arabian art of perfumery to the region. His vision resulted in Amouage, the most valuable perfume in the world.



Headquartered in Muscat, the Amouage perfumery still provides the individual hand finish to every bottle of perfume that it sells. Visitors can tour the showroom, which welcomes every guest with traditional Arabian hospitality. The inner workings of the headquarters are considerably more sophisticated, managing an extensive distribution network that sells to 24 countries around the globe.

A Publication of the National U.S.-Arab Chamber of Commerce
الغرفة التجارية العربية الأمريكية الوطنية

A Celebration of Omani Culture

On June 29, 2005, a capacity crowd of nearly 500 people attended "A Celebration of Omani Culture" in Washington, DC. The gathering consisted of performances by music and dance ensembles from the Sultanate of Oman, as well as a reception featuring Omani cuisine. The event was the first of its kind to be held in the Smithsonian Castle – a Washington landmark for 150 years.

The Celebration was hosted by the National U.S.-Arab Chamber of Commerce, the Smithsonian Center for Folklife and Cultural Heritage, the Embassy of Oman, and the Oman Chamber of Commerce & Industry. Corporate sponsors included The Boeing Company, Parsons Brinckerhoff, Turner Construction – International, and W.J. Towell.

Photo courtesy of NUSACC

Singers and dancers lead a procession of nearly 500 guests and performers from the Mall to the Smithsonian Castle.

The Celebration was attended by a wide variety of high-level Washingtonians, including Members of Congress, senior officials in the Bush Administration, business leaders, academics, and top diplomats representing some 40 nations. This people-to-people gathering was held in conjunction with the 2005 Smithsonian Folklife Festival, which was focused on the Sultanate of Oman – the first Arab nation ever to be featured at the Festival.

"I am extremely impressed by the response we received from the American people," said H.E. Mohamed Ali Al-Khusaiby, then Oman's Ambassador to the United States. "This event gave us an opportunity to reach out to Americans through music, dance, and traditional artifacts. We are hopeful that many of these new friends will be inspired to visit Oman and gain firsthand experience with our country, culture, and people."

The 2005 Smithsonian Folklife Festival and the Celebration of Omani Culture – featuring over 100 musicians, dancers, craftspeople and cooks representing cultural traditions from the desert, oasis and sea – provided a unique opportunity to raise awareness in the U.S. capital about the Sultanate of Oman. The cultural exchange helped to enlighten and entertain, but it also served as a link that may translate into stronger ties between the United States and the Sultanate of Oman.

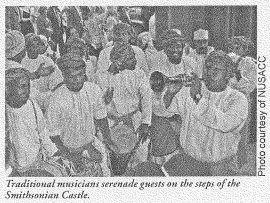


Photo courtesy of NUSACC

Traditional musicians serenade guests on the steps of the Smithsonian Castle.

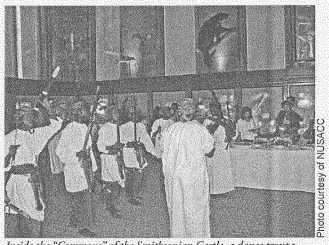


Photo courtesy of NUSACC

Inside the "Commons" of the Smithsonian Castle, a dance troupe performs for honored guests.

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Oman Appoints First Arab Woman Ambassador to the USA

H.E. Hunaina bint Sultan Al-Mughairy was appointed Ambassador to the United States on December 2, 2005. She is the first fully-credentialed woman ambassador sent to the United States by an Arab nation.

Ambassador Al-Mughairy's professional career has focused largely on Oman's commercial and industrial sectors, which makes her an ideal candidate to lead Oman's efforts in the United States to market the recently signed U.S.-Oman Free Trade Agreement.

Prior to coming to Washington, Ambassador Al-Mughairy served for six years as Oman's Commercial Attaché at the Permanent Mission to the United Nations in New York. That posting came on the heels of her stint as Director General of Investment Promotion at the Omani Center for Investment Promotion and Export Development (OCIPED).

Ambassador Al-Mughairy served for many years at Oman's Ministry of Commerce and Industry – first as Director of Industrial Loans and Grants, then as Director of Industrial Planning and Research, and finally as Advisor to the Undersecretary for Industry. In addition, she served as a member of the Planning Committee of Major Gas Projects in Oman.

Photo courtesy of the Embassy of Oman

H.E. Hunaina bint Sultan Al-Mughairy, Oman's Ambassador to the United States

Ambassador Al-Mughairy received her Bachelor's degree from the High Polytechnical Institute in Cairo, Egypt and her Master's degree in Economics from New York University.

The AES Corporation

United States - Oman Free Trade Agreement

Hearing Before the Senate Committee on Finance
219 Dirksen Senate Office Building
March 6, 2006

Testimony Submitted by
Robert Hemphill
Executive Vice President
The AES Corporation

Mr. Chairman, and distinguished members of the Senate Finance committee, I thank you for the opportunity to testify today. My name is Robert Hemphill and I'm executive vice president of the AES Corporation. I am here to provide testimony on behalf of the AES Corporation and tell the committee why the recently negotiated free trade agreement between the United States and the Government of Oman should be approved by Congress. I serve as the chief of staff of the AES Corporation where I have worked for over the last 23 years.

The AES Corporation is now a Fortune 300 company with some $9.5 billion in annual revenue from world wide operations. Founded in 1981 and headquartered in Arlington, Virginia, we operate power stations, distribute electricity, and operate liquid natural gas facilities here in the United States and in 26 countries worldwide. In the United States, we have power stations or electricity distribution businesses in California, Texas, Wyoming, Colorado, Indiana, Oregon, Maryland, Pennsylvania, New Jersey, New York, & Connecticut, as well as the territory of Puerto Rico. In addition, we have projects under development in Florida, Massachusetts and elsewhere. Outside the United States, AES operates on four continents, Europe, Asia, Latin America, & Africa. From hydro-electric power stations in Argentina to coal power stations in India and from energy distribution in eastern Kazakhstan to the national utility of Cameroon, AES spans the globe in providing the world energy and energy services in the most responsible manner possible, delivering best value to all the stakeholders concerned.

Our interest in Oman began over 10 years ago, when we first visited the region and saw the tremendous potential the people and the country had

to offer. Several years ago, the Government of Oman began a comprehensive program to restructure its supply of electricity and related water industries and the AES Corporation was eager to participate. The new structure involves distribution companies, several generation and desalination companies, independent electricity & water transmission companies, and a central buyer of both water and power. In short, the re-structuring done by the Government of Oman showed foresight and vision to ensure that both local and foreign investors can compete for projects that bring quality service and sustainable development to the people of Oman.

After a competitive tender process, the AES Corporation was selected to build, own and operate (BOO) a 450 MW power station combined with a 20 million gallon per day desalination facility. Located some 60 km south of Muscat, construction was begun in 2001 and completed in June 2003 when the facility became fully operational. Called AES Barka, the facility employs some 53 people and the output of the facility is under contact with the government of Oman until 2018. The project company is a public company on the Omani stock exchange and when it was initially offered for trading, it was over subscribed by almost 17 times. This is a testament to the faith the Omani stock exchange puts in an American company operating there.

The AES experience in operating in Oman has been a success. In addition to bringing reliable power and clean water to the people of Oman, we have integrated our operations into the local community. We have supported local schools, added street lighting and have a trainee program in conjunction with Sultan Q University to develop young Omani's by allowing them to be exposed to a modern industrial environment. We have been a good corporate citizen in Oman and in return the Omani people have been gracious hosts, good neighbors as well as paying customers.

Passing the free trade agreement that is before Congress will directly contribute to further advance economic growth and trade between the two nations. This agreement will provide substantial market access across the entire services regime in addition to providing a stronger legal framework for US investors like the AES Corporation operating in Oman. The elimination of tariffs by the Government of Oman will increase the export opportunities for US companies, including ranchers and farmers, and it will directly contribute to the creation of jobs here in the United States. Our experience of operating in Oman over six years has convinced us Oman is committed to open and free trade. This agreement will augment the reform made to date and further strengthen the relations between our two countries.

In addition to the obvious economic benefits, the passage of the US/Oman Free trade agreement will directly contribute to increased opportunities not only in Oman, but in the region as well. With increased business activity comes the need for increased energy and energy services, a need the AES Corporation is proud to provide.

Testimony of Thea M. Lee
Policy Director
American Federation of Labor and Congress of Industrial Organizations
(AFL-CIO)

before the
Subcommittee on International Trade of the
Senate Committee on Finance

March 6, 2006

Hearing on the
Implementation of the United States-Oman Free Trade Agreement

Good afternoon, Mr. Chairman, Senator Bingaman, and members of the Subcommittee. I thank you for the opportunity to testify today on behalf of the 9 million working men and women of the AFL-CIO on the U.S.-Oman Free Trade Agreement (FTA). Trade policy in general, and this agreement in particular, are of great interest and concern to our members, to America's workers, and to workers in Oman as well.

In our view, the Oman FTA provides precisely the wrong answers to the challenges faced in Oman and the United States. The agreement is based on a failed model that neither addresses the problems confronted by workers in Oman, nor contributes to the creation of good jobs and decent wages at home. The workers' rights provisions are entirely inadequate to ensure that workers' fundamental human rights are respected, and the dispute settlement mechanism for workers' rights and environmental protections is far weaker than that available for commercial provisions. At the same time, flawed provisions on services, investment, government procurement, and intellectual property rights will undermine the ability of both governments to protect public health, strong communities, and the environment.

In addition to the problems outlined above with the Oman FTA template, which are common to all the FTAs negotiated by this Administration, we have very serious concerns about Oman's labor laws. We have reviewed Oman's labor laws in great detail, and we have consulted a number of sources, including the annual State Department Human Rights reports, the International Labor Organization (ILO), and the International Confederation of Free Trade Unions (ICFTU) annual survey of workers' rights, as well as the actual Omani labor law, as issued by the Sultanate of Oman's Ministry of Manpower.

Oman's labor laws are egregiously out of compliance with the ILO core labor standards, and we are deeply concerned about the lack of fundamental protections for Omani workers in both law and practice. Oman's labor laws do not provide for the exercise of the most important and fundamental workers' rights: freedom of association and the right to organize and bargain collectively. ILO standards call for workers to be able to form their own organizations, free of interference from employers or government.

Omani labor law, in contrast, provides the government with an entirely inappropriate level of oversight and control over the activities, meetings, finances, and selection of representatives of the national and industrial "worker representative committees." In addition, the laws fail to explicitly protect workers who participate in the worker committees from anti-union discrimination, nor do they spell out protections for workers who choose to engage in strikes.

In conjunction with the weak and inadequate labor provisions included in the Oman FTA, these enormous problems in Omani labor law constitute an insurmountable obstacle, in our view, to a speedy passage of this FTA.

The problems we have identified in Omani labor law are fundamental to viable democratic processes and rights. While we recognize and welcome the efforts the government is making, with the assistance of the ILO, to improve its labor laws, we should not underestimate the magnitude of the changes needed. The complete absence of strong and independent institutions of representative democracy in Oman means that meaningful changes are unlikely to occur quickly – certainly not in time for passage of this deal this year.

Furthermore – and even more important – the labor provisions included in the Oman FTA do *not* include any enforceable provisions preventing the weakening of or derogation from domestic labor laws. This means that even in the rosiest of scenarios, where Oman's labor laws were brought fully into compliance with ILO standards over the next couple of months, the U.S. government would have absolutely no recourse to dispute settlement or enforcement if a future Omani government were to reverse those gains and weaken or gut Oman's labor laws after Congressional passage of the FTA. And because Omani workers do not have any voice in electing their government, they would not be in a position to vote out of office a government that chose to weaken their labor laws.

The AFL-CIO has on numerous occasions conveyed our grave concerns about Oman's labor rights situation to the Administration. In January 2004, we testified before the Trade Policy Staff Committee that in our view Oman is "an egregious and outright violator of the most fundamental core labor standards of the International Labor Organization"; in 2004 and in 2005, we submitted petitions to revoke Oman's trade benefits under the Generalized System of Preferences program (GSP), due to Oman's "systematic" denial of the right to freedom of association, among other serious infringements; and last November, the Labor Advisory Committee on Trade Negotiations and Trade Policy (LAC) submitted its report to the U.S. Trade Representative, reiterating these concerns. Regrettably, our concerns were not addressed in the negotiation of the labor provisions of the FTA.

In addition to our concerns on Oman's labor situation, any vote on the Oman FTA must take into account the broader economic reality that we are facing today. Our trade deficit hit a record-shattering $726 billion last year; we have lost more than three million manufacturing jobs since 1998; and average wages have not kept pace with inflation this

year – despite healthy productivity growth. The number of people in poverty continues to grow, and real median family income continues to fall. Offshore outsourcing of white-collar jobs is increasingly impacting highly educated, highly skilled workers – leading to rising unemployment rates for engineers and college graduates. Together, record trade and budget deficits, unsustainable levels of consumer debt, and stagnant wages paint a picture of an economy living beyond its means, dangerously unstable in a volatile global environment.

The AFL-CIO Executive Council adopted a statement last week calling for a moratorium on all new free trade agreements, including with Oman, until we can rewrite them to protect and advance workers' interests.

Trade Impacts of the Oman FTA

While the overall trade relationship with Oman is small relative to the economy of the United States, it is possible that the agreement will result in a deteriorating trade balance in some sectors, including sensitive sectors such as apparel. Even where the market access provisions of the agreement themselves may not have much of a negative impact on our trade relationship, these provisions when combined with rules on investment, procurement, and services could further facilitate the shift of U.S. investment and production overseas, harming American workers.

The dramatically lower costs of energy in Oman provide enormous opportunities for energy-dependent industries to use the country as an export platform. As is the case with the United Arab Emirates (UAE), where a foreign glassware manufacturer has set up shop and may use the UAE's natural gas -- which costs less than 1/12th of what it does in the U.S. -- to flood the U.S. market with glassware, a similar opportunity exists with Oman.

Chemical manufacturers, energy interests and others could similarly benefit from Oman's energy pricing structure. Oman, like many other energy-rich nations, has a built-in advantage in low energy costs. But, beyond this initial advantage, energy costs to Oman's manufacturing interests do not reflect market prices. Additionally, the failure of the United States to have a comprehensive energy policy to ensure long-term stable supplies and affordable prices puts the U.S. at a substantial disadvantage. The failure of the Bush Administration to aggressively address energy costs has serious repercussions for our manufacturing sector and, indeed, for all energy consumers. The U.S.-Oman FTA will exacerbate that disadvantage by providing enhanced access to the U.S. market without addressing the non-market pricing of energy.

Labor Provisions of the Oman FTA

Unfortunately, the Oman FTA labor provisions actually constitute a step backwards from existing labor rights provisions in the U.S. – Jordan FTA and in our Generalized System of Preferences (GSP) program. In the Oman agreement, only one labor rights obligation – the obligation for a government to enforce its own labor laws – is actually

enforceable through dispute settlement. All of the other obligations contained in the labor chapter, many of which are drawn from Congressional negotiating objectives, are explicitly not covered by the dispute settlement system and are thus completely unenforceable.

Labor Rights in Oman

Oman does not come close to meeting International Labor Organization (ILO) criteria for compliance with core labor standards, and the weak and inadequate labor rights protections in this agreement will allow these severe deficiencies in Oman's labor laws to persist.

The most serious issue is Oman's systematic denial of workers' freedom of association. The Omani government is in egregious violation of ILO conventions and universally accepted international practice.

A review of Oman's current Labor Law, issued by decree in 2003,[1] reveals a pattern of exceptions to the very standards it proclaims as law, from the exclusion of foreign domestic workers and civil servants from protection under the law, to loopholes that allow for a wide variety of interpretations of basic rights. This leaves workers dependent not upon the law, but upon the discretion of powerful vested interest groups that form the core of a semi-authoritarian regime.

Ministry of Manpower Decrees 135 and 136, issued in 2004, outline stringent and inappropriate government oversight parameters for both worksite level committees and a national committee intended to serve as a national representative body.[2] The government reserves the right to "be notified one month prior to each meeting of the general assembly with a copy of the invitation letter, agenda, documents and papers relating to the issues to be discussed," and to "delegate who it chooses to attend the meeting." It also requires the committees to provide minutes of all meetings to the government and reserves the right to review the dues structure. All of these requirements constitute violations of ILO standards of freedom of association.

In its defense of the provision allowing Ministry delegates to attend worker committee meetings, the government has said that "the presence of the representative from the Ministry is to help the committee in case of their need to consult with the Ministry on any issue." It certainly seems that if the worker committees need advice

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[1] *Omani Labour Code of 26 April 2003*
Ministry of Information
The New Labor Code was issued by Royal Decree No. 35 of 2003. and abrogates the previous Labor Law issued by Royal Decree Nov. 34 of 1973.
www.omanet.om/arabic/goverment/gov20.asp?cat=gov

[2] Sultanate of Oman, Ministry of Manpower, "Ministerial Decision No. (135/2004), "On Principles of Formation and work of Representative Committees in Establishments," and Ministerial Deicion No. (136/2004) –"On Principles of Formation and Work of the Main Representative Committee."May 11. 2004. Translated by POLE: Ahmed Al-Sawei.

from the government, they could ask for it, rather than having a government presence at all their meetings ordained in labor law.

The government has claimed that "eleven members [of the Main Representative Committee] were all elected from the existing Representative Committees and are all workers." This is untrue. The government appointed at least some of the members of the Main Representative Committee, and five of them actually serve in management positions within their companies, either as CEOs or Personnel Managers.

Any paid representative of an enterprise with management responsibilities should be disqualified from running for office on either the enterprise level or Main Representative Committee. The candidates in the next round should be allowed to campaign publicly, and democratic elections should be held to decide the officers.

Although the workplace level committees allow for a semblance of rank and file participation through the General Assembly, workers may not join the assembly until they have completed one year of employment. The Minister of Manpower is directly responsible for ratifying the election results for both the workplace and national committees, and may object to any nominee to the administrative bodies who does not meet a set of stringent conditions, including fluency in written and spoken Arabic language, a condition which would disqualify most foreign-born worker from leadership positions (contrary to the USTR factsheet). Non-citizens account for as much as 80% of the private-sector work force (according to the State Department 2004 annual human rights report). Under ILO Standards for Leadership Positions, workers should be able to choose their representatives free of Government or employer interference.

The labor law also decrees that membership in the administrative body [of the worker committee] is terminated in the case that a member "commit[s] any act that causes material or moral harm to . . . the public interest of the Sultanate." Again, this is totally inappropriate.

The labor law prohibits the administrative body of the worker committees outright from "join[ing] any organization or authority with headquarters outside the Sultanate," from sending "delegations outside the Sultanate or receiv[ing] delegations," and even from holding "public festivities or present[ing] public lectures" without the approval of the Minister. ILO standards explicitly lay out that unions may affiliate to international organizations of their choosing, and certainly the government has no business monitoring the travel, visitors, or public festivities and lectures of workers' organizations.

Collective bargaining rights are not guaranteed. While the law provides that "the employer *may* [emphasis added] establish schemes from which workers may get advantages which are more beneficial than what is prescribed, or provide them with other benefits, or enter into agreements with them, the terms of which are more beneficial than the terms provided for in this law," this falls far short of protecting workers' rights to bargain collectively. This provision relies upon employer largesse, permitting such

"schemes" to take place if the employer desires it, but not requiring employers to engage in collective bargaining.

While all workers in Oman are denied basic labor rights, the large foreign workforce, who constitute the majority of private-sector workers in Oman, are especially vulnerable to abuse and exploitation. Foreign workers have the right to remain in the country for the duration of their work contracts; but employers are known to hold the passports of guest workers, and in the worst cases of abuse, even deny individuals the ability to extract themselves from dangerous or cruel work conditions. Laws protecting workers from forced labor are not enforced. According to the State Department:

> The Government did not investigate or enforce the law effectively. Foreign workers at times were placed in situations amounting to forced labor. Employers have withheld documents that release workers from employment contracts and allow them to change employers. Without such a letter, a foreign worker must continue to work for his current employer or become technically unemployed, which was sufficient grounds for deportation.3

Oman has an equally problematic record on trafficking in persons, according to the State Department's 2004 Trafficking in Persons Report:

> Oman is a destination country for women and men who migrate legally and willingly from South Asia –primarily from India, Bangladesh, Pakistan, Sri Lanka, and the Philippines—for work as domestic workers and laborers but are subsequently trafficked into conditions of involuntary servitude. Some of these workers suffer from physical and sexual abuse or withholding of ages or travel documents. . . According to a noted human rights activist, several dozen foreign children trafficked for the purpose of exploitation as camel jockeys were reportedly seen near the border with the United Arab Emirates.[4]

Oman has not taken steps to ensure that its laws afford workers their internationally recognized rights. The establishment of workplace committees and a national representative committee do not substitute for the overhaul in Omani law necessary to bring it into compliance with ILO standards. Despite commitments dating back to the mid-1990s to reform Omani labor laws to make them consistent with the core labor standards of the ILO, this has not yet happened.

The proposed FTA would allow Oman to maintain these restrictions on workers' rights in its law, and even to further limit workers' fundamental rights in the future. Even for the one labor obligation in the FTA that is subject to dispute resolution – the

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[3] State Department COUNTRY REPORTS ON HUMAN RIGHTS PRACTICES 2004 http://www.state.gov/g/drl/rls/hrrpt/2004/41729.htm

[4] TRAFFICKING IN PERSONS REPORT – Released by the Office to Monitor and Combat Trafficking in Persons, June 3, 2005: http://www.state.gov/g/tip/rls/tiprpt/2005/46614.htm

requirement to effectively enforce domestic laws – the procedures and remedies for addressing violations are significantly weaker than those available for commercial disputes in the agreement. This directly violates TPA, which instructs our negotiators to seek provisions in trade agreements that treat all negotiating objectives equally and provide equivalent dispute settlement procedures and equivalent remedies for all disputes.

The labor enforcement procedures cap the maximum amount of fines and sanctions available at an unacceptably low level, and allow violators to pay fines that end up back in their own territory with inadequate oversight. These provisions not only make the labor provisions of the agreement virtually unenforceable, they also differ dramatically from the enforcement procedures and remedies available for commercial disputes:

- In commercial disputes, the violating party can choose to pay a monetary assessment instead of facing trade sanctions, and in such cases the assessment will be capped at half the value of the sanctions. In labor disputes, however, the assessment is capped at an absolute level, no matter what the level of harm caused by the offending measure.

- Not only are the caps on fines much lower for labor disputes, but any possibility of trade sanctions is much lower as well. In commercial disputes, a party can suspend the full original amount of trade benefits (equal to the harm caused by the offending measure) if a monetary assessment (capped at half that value) is not paid. In a labor dispute, the level of trade benefits a party can revoke if a monetary assessment is not paid is limited to the value of the assessment itself – capped at $15 million.

- Finally, the fines are robbed of much of their punitive or deterrent effect by the manner of their payment. In commercial disputes under the Oman FTA, the deterrent effect of punitive remedies is clearly recognized – it is presumed that any monetary assessment will be paid out by the violating party to the complaining party, unless a panel decides otherwise. Yet for labor disputes, the violating country pays the fine to a joint commission to improve labor rights enforcement, and the fine ends up back in its own territory. No rules prevent a government from simply transferring an equal amount of money out of its labor budget at the same time it pays the fine. And there is no guarantee that the fine will actually be used to ensure effective labor law enforcement, since trade benefits can only be withdrawn if a fine is not paid. If the commission pays the fine back to the offending government, but the government uses the money on unrelated or ineffective programs so that enforcement problems continue un-addressed, no trade action can be taken.

The labor provisions in the Oman FTA are woefully inadequate, and clearly fall short of the TPA negotiating objectives. They will be extremely difficult to enforce with any efficacy, and monetary assessments that are imposed may be inadequate to actually remedy violations. Given Oman's failure to respect core workers' rights and the huge inadequacies in its labor laws, it is especially problematic to implement an FTA with weak labor protections at this time.

In addition to the very serious problems with the labor provisions of the Oman agreement outlined above, commercial provisions of the agreement also raise serious concerns.

Investment: In TPA, Congress directed USTR to ensure "that foreign investors in the United States are not accorded greater substantive rights with respect to investment protections than United States investors in the United States." Yet the investment provisions of the Oman FTA contain large loopholes that allow foreign investors to claim rights above and beyond those that our domestic investors enjoy. The agreement's rules on expropriation, its extremely broad definition of what constitutes property, and its definition of "fair and equitable treatment" are not based directly on U.S. law, and annexes to the agreement clarifying these provisions also fail to provide adequate guidance to dispute panels. As a result, arbitrators could interpret the agreement's rules to grant foreign investors greater rights than they would enjoy under our domestic law. In addition, the agreement's deeply flawed investor-to-state dispute resolution mechanism contains none of the controls (such as a standing appellate mechanism, exhaustion requirements, or a diplomatic screen) that could limit abuse of this private right of action. Finally, the marked difference between the dispute resolution procedures and remedies available to individual investors and the enforcement provisions available for the violation of workers' rights and environmental standards flouts TPA's requirement that all negotiating objectives be treated equally, with recourse to equivalent dispute settlement procedures and remedies.

Intellectual Property Rights: In TPA, Congress instructed our trade negotiators to ensure that future trade agreements respect the declaration on the Trade Related Aspects on Intellectual Property Rights (TRIPs) agreement and public health, adopted by the WTO at its Fourth Ministerial Conference at Doha, Qatar. The Oman FTA contains a number of "TRIPs-plus" provisions on pharmaceutical patents, including on test data and marketing approval, which could be used to constrain the ability of a government to issue compulsory licenses as permitted under TRIPs and the Doha Declaration.

Government Procurement: The FTA's rules on procurement restrict the public policy aims that may be met through procurement policies at the federal level. These rules could be used to challenge a variety of important procurement provisions including domestic sourcing preferences, prevailing wage laws, project-labor agreements, and responsible contractor requirements. We believe that governments must retain their ability to invest tax dollars in domestic job creation and to pursue other legitimate social objectives, and that procurement rules which restrict this authority are inappropriate.

Safeguards: Workers have extensive experience with large international transfers of production in the wake of the negotiation of free trade agreements and thus are acutely aware of the need for effective safeguards. The safeguard provisions in the Oman agreement, which offer no more protection than the limited safeguard mechanism in NAFTA, are not acceptable. U.S. negotiators should have recognized that much faster,

stronger safeguard remedies are needed. The Oman FTA has failed to provide the necessary import surge protections for American workers.

Services: NAFTA and WTO rules restrict the ability of governments to regulate services – even public services. Increased pressure to deregulate and privatize could raise the cost and reduce the quality of basic services. Yet the Oman agreement does not contain a broad, explicit carve-out for important public services. Public services provided on a commercial basis or in competition with private providers are generally subject to the rules on trade in services in the Oman FTA, unless specifically exempted.

Conclusion

Congress should reject the Oman FTA, and send a strong message to USTR that future agreements must make a radical departure from the failed NAFTA model in order to succeed.

American workers are willing to support increased trade if the rules that govern it stimulate growth, create jobs, and protect fundamental rights. The AFL-CIO is committed to fighting for better trade policies that benefit U.S. workers and the U.S. economy as a whole. We will oppose trade agreements that do not meet these basic standards. We urge the Congress to reject the U.S.-Oman FTA and begin work on just economic and social relationships with Oman.

U.S.-OMAN
FREE TRADE AGREEMENT

Written Statement of
Ambassador Susan C. Schwab
Deputy U.S. Trade Representative
Before the
Committee on Finance
United States Senate
Washington, D.C.
March 6, 2006

INTRODUCTION

Members of the Committee:

I would like to thank Chairman Grassley, Senator Baucus, Senator Thomas, Senator Bingaman and others on the committee who work in such close partnership with us on our free trade agreements.

I appreciate the opportunity to discuss the U.S.-Oman Free Trade Agreement (FTA) with you. This and other recent FTAs that the Committee has considered are important elements of U.S. policy in the Middle East. With this agreement, Oman has made legally binding commitments to liberalize trade with the United States. The FTA will provide new market access opportunities for U.S. farmers, manufacturers, and service providers. It will also be an important force in encouraging increased direct foreign investment in Oman and in creating an economic environment conducive to additional employment opportunities for the people of Oman.

Beyond substantial trade liberalization, the FTA will help support ongoing economic, political and social reforms in Oman, and promote the benefits of pursuing market liberalizing policies in other countries in the region. Embracing trade will benefit the people of the Middle East as they strengthen ties with countries outside the region and with each other. The more nations trade with one another, the better the chances for ending political instability and economic stagnation.

The Administration's trade agenda is a fundamental part of the President's vision of developing economic growth and democracy in the Middle East – a region of almost 350 million people and a $70 billion trading relationship with the United States. In May 2003, the President announced a plan of graduated steps for Middle Eastern nations to increase trade and investment with the United States and others in the world economy, and to create a U.S.-Middle East Free Trade Area (MEFTA) by 2013. This trade agenda is one element of a comprehensive approach to address the economic, social and political challenges facing the region and U.S. interests in the area.

Our strategy toward countries in the region – to engage them at their individual levels of progress, to provide them access to the U.S. market based on mutual benefit, and to require that they adopt high standards for trade and investment – is working. Oman is the fifth Middle Eastern country to have negotiated an FTA with the United States, building on our existing agreements with Israel, Jordan, Morocco and Bahrain. We are also negotiating an FTA with the United Arab Emirates and have Trade and Investment Framework Agreements (TIFA) with most of the other countries in the region, which provide opportunities to enhance our bilateral trade and investment relationships. These are important steps on the path to implementing the President's initiative.

The 9/11 Commission urged the United States to expand trade with the Middle East in order to "encourage development, more open societies, and opportunities for people to improve the lives of their families and to enhance prospects for their children's future." The President and USTR take this recommendation very seriously.

Working in close partnership with Congress has been critical to our successes to date. The Trade Act of 2002 put in place procedures that make it possible to negotiate and implement the types of agreements that not only address the pressing need for engagement with regions such as the Middle East, but also bring real benefits to American workers and the U.S. economy.

THE AGREEMENT

The U.S.-Oman FTA will eliminate tariffs and non-tariff barriers and expand trade between the two countries, generating new opportunities for U.S. workers, consumers, farmers, manufacturers and service providers.

On the first day the agreement enters into force, 100 percent of bilateral trade in industrial and consumer products, with the exception of certain textile and apparel products, will flow duty-free. In addition, Oman will provide immediate duty-free access for 87 percent of U.S. exports of agricultural products. This will mean new opportunities for U.S. companies that produce machinery, automobiles, optical and medical instruments. And it will mean new opportunities for U.S. producers of vegetable oils, sugars and sweeteners for beverages.

Under the FTA, Oman will provide substantial market access across its entire services regime, providing new opportunities for U.S. companies involved in banking and securities, insurance, telecommunication, express delivery, distribution, health care, construction, architecture and engineering.

This Agreement will also help ensure a secure and predictable legal and regulatory environment in Oman that foreign investors want to see in 21st century commerce. Under the Agreement, Oman will provide effective enforcement of labor and intellectual property laws. This will help make Oman a more attractive place for investors and create new opportunities for the Omani people.

The Agreement's rules of origin provisions on regional cumulation allow FTA partners in the region to combine inputs into products and qualify for preferential tariff treatment. This feature will facilitate connecting our bilateral agreements as we move toward a more integrated, region-wide agreement. It will also encourage trade among countries in the region, an important yet currently missing ingredient for the region's development.

The Agreement also includes important transparency, public notification, and anti-bribery provisions. Application of these provisions will also help to improve the business and investment environment in Oman by providing more certainty and predictability for firms and individuals operating and investing there and promoting the rule of law.

The FTA's labor and environment provisions fully meet the negotiating objectives set out in the Trade Act of 2002. These provisions are included in the core text of the agreement. The Agreement requires that each Party not fail to effectively enforce its labor and environmental laws. If they consistently fail to enforce those laws in a manner that affects our trade, then they face the prospect of monetary penalties that will be directed to solve the problem, or potentially face the loss of preferential trade benefits. Moreover, each country commits to ensure that its laws and policies provide for and encourage high levels of environmental protection, to strive to ensure that its labor laws provide for labor standards consistent with internationally recognized labor principles, and to strive not weaken or reduce labor and environmental laws to attract trade and investment. Also notable are provisions calling for panel expertise in the event of labor or environmental disputes, as well as a mechanism that would allow for monetary assessments to be used to assist a country in addressing a labor or environmental violation. The Agreement also establishes processes for further cooperation on labor and environmental issues.

Oman passed a new labor law in 2003 that allows for the creation of worker representative committees for the first time. The law details procedures for dispute resolution and removes a 1973 prohibition on strikes. Oman recognizes the need to continue its efforts on labor rights, and is working to raise awareness and educate workers about their rights and to establish new worker representative committees. Oman is working with the ILO on these efforts.

The Agreement enjoys widespread support from our trade advisory committees. The most senior committee, the Advisory Committee for Trade Policy and Negotiations (ACTPN), "unanimously endorses the U.S.-Oman Free Trade Agreement," and found the agreement "is in the best economic interest of the United States." In addition, the ACTPN views the agreement as "an additional step toward the goal of a Middle East Free Trade Area," and noted that the agreement "will improve and strengthen overall U.S. relations with the countries in the Middle East." Committees representing sectors such as consumer goods, services, information technology, intellectual property, and agriculture also expressed broad support for the Oman FTA.

We recognize that the Labor Advisory Committee has concerns about all FTAs that the United States has concluded to date, and that such concerns relate as well to the Committee's assessment of this agreement. We are convinced that the disciplines and consultative mechanism in the FTA will play a major role in further improving the labor situation in Oman.

CONCLUSION

For decades, Oman and the United States have shared a desire for peace, stability, and economic opportunity in the Middle East. This Agreement is an important new step in our partnership that will not only remove trade barriers, but also cement our long-standing friendship and growing commercial ties and create new economic opportunities for both of our countries.

This Agreement also helps the advancement of economic and political freedom in the region and is an essential building block for the Administration's goal of assisting the countries in the Middle East to build more market-oriented, liberalized economic regimes.

With your guidance and support, we will continue to pursue the President's MEFTA initiative. As the next step in implementing that initiative, we look forward to working with you and building bipartisan support for legislation implementing the U.S.-Oman FTA this spring.

I would be pleased to respond to questions or comments from Members of the Committee.

Sultanate of Oman
Ministry of Commerce and Industry
Muscat

مكتب الوزير
Minister's Office

سلطنة عمان
وزارة التجارة والصناعة
مسقط

MOCI/1605

28 September 2005

The Honorable Robert Portman,
US Trade Representative
600 17th Street, NW
Washington DC 20508,
United States of America

Dear Ambassador Portman,

Please accept my congratulations on your recent appointment to serve as the US Trade Representative.

It has come to my attention that questions have arisen regarding Oman's participation in the Arab Boycott of Israel. I would like to assure you that Oman does not apply any aspect of the boycott, whether primary , secondary or tertiary or have any laws to that effect. Oman has no restriction whatsoever on U.S. companies trading with Oman or doing business with Oman , regardless of its ownership or relations with Israeli companies, and the Government is taking steps to ensure that all Ministries are aware of the situation and remove any boycott language that may unintentionally remain in their contracts .

As a Member of the World Trade Organization (WTO), Oman did not invoke the non-application provisions of the WTO Agreement toward any other Member, and therefore has all WTO rights and obligations with respect to all Members .

Your sincerely,

Maqbool Bin Ali Sultan
Minister of Commerce and Industry

SUSAN SCHWAB
QUESTIONS FOR THE RECORD

United States Senate
Committee on Finance
Subcommittee on International Trade

Hearing on
"U.S.-Oman Free Trade Agreement"
March 6, 2006

QUESTIONS FROM SENATOR BINGAMAN

NADB

1. Has the government of Mexico given the U.S. either formal or informal notice of its intent to pull out of the NADB or is this a unilateral effort by the U.S.?

   Mexico has not notified the U.S. of an intention to withdraw unilaterally from the NADBank. The United States has made no decision with respect to NADBank termination, although we do have concerns about its effectiveness.

2. Does the U.S. have the authority to unilaterally pull out of the NADB?

   The charter establishing the NADBank allows either Party to withdraw unilaterally by providing written notice of its intention to do so.

3. Is it accurate that the NADB has not had a formal meeting of the board of directors in over two years?

   USTR understands that the Board last met formally in October 2003. Since then, we understand that a single Board of Directors of the NADBank and the Border Environment Cooperation Commission have been established. As recently as December 2005, the appointment of two additional members to the new board was announced.

4. Which of the recommendations by the Business Process Review have been implemented by NADB?

   USTR does not have responsibility for the implementation of the recommendation of the Business Process Review.

5. It is my understanding that the NADB has as many as ten loan requests that are ready for Board approval but have not been acted upon. If this is true, why is this the case?

   USTR does not have responsibility for the processing of loan requests.

6. Please give us your assessment of the NADB implementation of the recommendations made by Public Law 108-215 and by the Business Process Review.

   USTR is not one of the U.S. agencies which is responsible for overseeing the operation of the NADBank, and has made no assessment of the implementation of the recommendations made by Public Law 108-215 or the Business Process Review. That said, in our consultations with the Department of Treasury, EPA and the Council for Environmental Quality, there is a desire to either see the NADBank succeed in achieving the goals for which it was intended, or in considering how to better achieve those goals.

Arab Boycott

7. Please provide us with the language in the Oman Free Trade Agreement as well as side agreements that relate to the Arab League Boycott.

   Our FTAs contain comprehensive commitments on market access for U.S. goods as well as national treatment commitments with respect to investment that expressly prohibit the type of discrimination associated with the secondary and tertiary aspects of the Arab League boycott of Israel. These commitments are subject to the dispute settlement provisions of the FTA.

   The primary aspect of the Arab League boycott is covered by WTO obligations, which require that WTO Members grant most-favored-nation (MFN) treatment to other Members. Since Israel and our FTA partners are WTO members, recourse to WTO dispute settlement procedures is the best means for addressing their rights and obligations.

8. Please describe the process and available options to USTR if Oman is discovered to be participating in the Arab League Boycott. Is any of this mandatory?

   The Government of Oman has confirmed publicly and in official correspondence that participation in or cooperation with the Arab League boycott of Israel is against official Omani government policy and that Oman does not participate in the boycott in any manner, has no laws applying the boycott, and is taking steps to ensure that all government entities understand this policy.

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The primary aspect of the Arab League boycott is covered by WTO obligations, which require that WTO Members grant most-favored-nation (MFN) treatment to other Members. Since Israel and our FTA partners are WTO members, recourse to WTO dispute settlement procedures is the best means for addressing their rights and obligations.

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March 6, 2006

US and Oman: Strategic Partners

Testimony of Ambassador Edward S. Walker Jr.
Before the Senate Committee on Finance International Trade Subcommittee

Mr. Chairman, members of the Committee, I would like to thank you for giving me the opportunity to address the strategic importance of Oman to the United States and the part the Free Trade Area agreement might play in that relationship. In 321 AD, Admiral Nearchos, commanding the fleet of Alexander the Great, identified the Island of Serepsis, now Masirah in Oman, as a strategic port for securing trading routes in the Gulf region. Oman is no less important today. Its geographic position with a coast line of 1700 kilometers (approximately 1056 miles) facing outward toward the Indian Ocean, its access point to the Persian Gulf, and its share, with Iran, of guardianship over the Strait of Hormuz controlling access to the Persian Gulf makes Oman a particularly important location for protecting American interests. Twenty percent of the world's oil is shipped through the Strait of Hormuz.

Geographic position is one element of Oman's strategic importance. Its independent foreign policy and close relations with the United States is another. In 1833 the Sultanate of Oman was one of the first Arab states to sign a treaty of Amity and Commerce with the United States. It was also the first Arab country to send an ambassador to the United States. In 1981 Oman signed a ten-year military access agreement with us, which has now been renewed twice. It demonstrated its independence from the Arab mainstream through this agreement and again through its refusal, along with Arab League members Somalia and Sudan, to break relations with Egypt after President Anwar Sadat went to Jerusalem and made peace with Israel.

Oman hosts one of the few surviving elements of the Madrid Conference Multilateral Working Groups, the Middle East Desalination Research Center, with Israel as one of its members and having representation on the Center's Executive Council. In 1994, Oman terminated support for the secondary boycott barring trade with companies doing business with Israel. Oman has no laws on the books supporting a primary, secondary or tertiary boycott of Israel. According to the National Trade Estimate of the Trade Compliance Center for 2000, "Omani customs processes Israeli-origin shipments entering with Israeli customs documentation. Likewise, Israeli immigration stamps in third country passports are not an issue. Telecommunications links and mail flow normally. However, Omani firms have shied away from carrying any identifiably Israeli consumer products. Normal commercial ties await more favorable developments in the Middle East peace process throughout the GCC [Gulf Cooperation Council]."

Oman does not advertise its military cooperation with the United States and you will find little public mention in official US channels of its critical support since signing the 1981 access agreement. Oman was a part of the Gulf War coalition, and to my personal knowledge made a major substantive contribution to the war effort in 1990-91 while I was Ambassador to its next-door neighbor, the United Arab Emirates (UAE). Oman became a critical component of our logistic support for the war effort. Equipment, and particularly massive quantities of ammunition, were off-loaded in Omani ports along the Gulf of Oman and transported by truck convoy through the UAE up to the front in

Saudi Arabia. The fact that Oman provides a land bridge to the Arabian Peninsula and the Persian Gulf from the Indian Ocean could prove extremely important if, for any reason, the Hormuz Strait was blockaded, traffic through the strait was limited, or if ports inside the Gulf were over-burdened. Oman has a state-of-the-art container facility at its port in southern Oman at Salalah.

Oman supported Operation Southern Watch in Iraq until our invasion and since then has provided logistic support in general and, in particular, has reportedly supported US military action in Afghanistan. According to one web site, Globalsecurity.org: "In March 2002 Vice President Dick Cheney toured the air base on Oman's Masirah Island. Neither the United States nor Oman acknowledges US use of the base, but it is an open secret in the region that it has been used for bombing runs to Afghanistan." According to press reports, a State Department official, speaking on condition of anonymity, said, "it's a sensitive issue, most reporters who are aware of it don't cover it." The Global Security report goes further to say that more than 1,100 refueling missions had been mounted from Omani bases by February 11, 2002. Oman has six airports with permanent-surface runways, three of which, Seeb, Masirah and Thumrait, have reportedly been used by the US Air Force. According to Global Security, the US Air Force also maintained three pre-positioning sites in Oman with support equipment for 26,000 personnel and the equipment and fuel to maintain three air bases, including munitions, medical equipment, rations and various other supplies. Verification of these statements would have to be made in a classified briefing from the Administration.

Although not a declared member of the Coalition in the Global War on Terror, Oman has worked actively with the United States to support stabilization operations in Afghanistan and Iraq. It has worked closely on counter-terrorism financing operations and in 2004 established strong controls to combat money laundering. It supported the Middle East-North Africa Financial Action Task Force, which was set up in November, 2004. The US report "Patterns of Global Terrorism" for the year 2002 noted that, "Oman continued to provide public and private statements of support for the war on terrorism in 2002 and has been responsive to all Coalition requests for military and/or civilian support." Oman is party to nine of the 12 anti-terrorism treaties and is reviewing the other three conventions. And, in an area of deep concern here, Oman has signed an agreement with the US Departments of Commerce and Energy for a program to enhance Oman's ability to detect illicit radiological cargoes on vessels and in containers under the US sponsored Container Security Initiative. US customs officers in the Omani container port of Salalah will pre-screen certain containers destined for US ports.

Omani support for the United States and its relations with Israel have not always been popular in Oman. In October 2000, popular demonstrations forced the Omani government to close its trade offices with Israel. It has, however, quietly maintained contact. "Patterns of Global Terrorism" makes the point that Omani cooperation has continued "despite popular disquiet" over military support for Operation Enduring Freedom. Omani popular disquiet over the relationship with the United States has been relatively subdued compared to the other countries in the Gulf. This is partly due to the very moderate and tolerant Ibadi brand of Islam that Omanis practice. According to Valerie J. Hoffman (Professor of Islamic Studies at the University of Illinois), "British observers of Omani rule in East Africa commented that Ibadis are the least fanatic and sectarian of all Muslims, and openly associate with people of all faiths and pray together with Sunni Muslims. Hostile action is reserved for one type of person: the unjust ruler who refuses to mend his ways or relinquish his power." But Omani acquiescence in the relationship with the US has also been due to the growing Omani economy and the government's ability to provide for the welfare of its citizens.

The 9/11 Commission Report recommended that "a comprehensive US strategy to counter-terrorism should include economic policies that encourage development, more open societies, and opportunities for people to improve the lives of their families and to enhance prospects for their

children's future." Over the past years, Omani growth has been heavily linked to its modest oil reserves and its ability to export about 721,000 barrels of crude per day in 2005. The problem Oman faces is that its oil reserves are decreasing while its population is increasing. In the absence of economic diversification, Oman will face increasing problems in fulfilling the needs of its citizens, which may well lead to destabilizing trends in the society, trends that could work against US interests. If you will recall, in 2004 it was disclosed that Royal Dutch Shell had overstated Omani reserves by a massive 40 percent. By anyone's reckoning, Omani reserves at current rates of production will be depleted in from 16 to 22 years. It is therefore essential for Oman to diversify its economy in the intervening period. Having joined the WTO in 2000, Oman is committed to the liberalization of its economy and participation in the larger, global market. Its plans for diversification and trade depend heavily on its FTA agreement with the United States. It anticipates that Oman will achieve the same measure of success through the FTA as Jordan has achieved. It is in this sense that the FTA would be a critical element in the continuing close strategic relationship we have enjoyed with Oman.

Assertions and opinions in this testimony do not reflect necessarily the views of the Middle East Institute, which expressly does not take positions on Middle East policy

Edward S. Walker Jr. *is President and CEO of the Middle East Institute in Washington, DC. He previously served as US Assistant Secretary of State for Near Eastern Affairs, US Ambassador to Israel, Egypt, and the United Arab Emirates, and Deputy Permanent Representative of the United States to the United Nations.*

COMMUNICATIONS

STATEMENT FOR THE RECORD
Submitted by
Governor Frank A. Keating
President and CEO
American Council of Life Insurers
101 Constitution Avenue, N.W. – Suite 700
Washington, DC 20001-2133

Mr. Chairman, Mr. Ranking Member and distinguished members of the Senate Finance Subcommittee on International Trade: Thank you for the opportunity to submit a statement on behalf of the American Council of Life Insurers in support of the proposed United States–Oman Free Trade Agreement. Our industry looks forward to swift and successful passage of the aforementioned agreement.

The American Council of Life Insurers ("ACLI") represents three hundred seventy-seven (377) member companies operating in the United States that account for 91 percent of total assets, 90 percent of the life insurance premiums, and 95 percent of annuity considerations in the United States. Internationally, ACLI members account for over 99 percent of life insurance premiums generated in overseas markets by U.S. based life insurance and retirement security companies.

ACLI applauds the achievement of U.S. trade negotiators in concluding the U.S.-Oman Free Trade Agreement because we believe it continues the high standard of commercially meaningful free trade agreements ("FTAs") which support our bilateral objectives in these markets and facilitate progress in the World Trade Organization's Doha Development Negotiations. We fully support the ongoing U.S. strategy of bilateral and regional FTAs as a mechanism for expanding market opportunities for U.S. insurance and retirement security exporters.

ACLI's members are proud of the positive contribution we make to the U.S. financial services export surplus and are committed to further expand our global market presence through trade negotiation and facilitation to further create wealth and jobs at home in towns across America. We are also proud that our industry's products help build

individual and national economic stability in markets where they are freely available, and that in turn supports strong and growing global economies throughout the world.

While Oman is a relatively small insurance market by global standards with a population of under three million, the Omani insurance premiums as a percentage of GDP (1. 28%) and per capita spending on insurance (US$103) are both well above the regional averages. As the vision of a broader Middle East Free Trade Area gains support, these positive Omani market indicators, coupled with a young and growing regional population, make this agreement a strong foundation upon which to build even more advanced regional objectives.

Overall insurance premiums in the region grew by 4.1% in real terms in 2004 against the backdrop of Oman's 2004 7.5% growth rate, based largely on an increasingly efficient, open and transparent regulatory system. The Omani government has demonstrated an understanding of the importance of an innovative and dynamic insurance market and it has endeavored to build one for all companies operating in the market. In addition to a virtually perfect set of commitments on market access and national treatment for our industry, the U.S.-Oman FTA disciplines on transparency and administrative procedures will lock in important pro-competitive regulatory practices that allow U.S. companies to provide new and innovative products. The value of these disciplines can not be overstated in building U.S. market share.

As a highly regulated financial service, transparency and administrative procedures commitments are regionally and globally critical to our success and the regulatory, and by extension, market stability of the nations in which we operate. Vague, inconsistent or capricious regulation and supervision is in many ways worse than outright barriers to market access and expansion. By contrast, in signing this agreement, Oman has committed to provisions based largely on the U.S. Administrative Procedures Act.

Put in a broader context, the transparency and other "rule of law" provisions in this agreement also set a strong foundation for the Omani regulatory and legal environment which has tangible benefits for our companies as foreign stakeholders in the Omani economy. This in turn allows access to competitive insurance and benefits products, which is beneficial for Omani workers and families and represents one of the best elements of U.S. commercial diplomacy.

Described more specifically, through this FTA, Omani citizens will have increased access to world standard financial services products to help them protect their families and take individual responsibility for their economic futures. Second, Omani workers will have increased access to world standard life insurance, retirement security and health insurance products. Third, Omani businesses will have increased access to world standard employee benefits and risk management technologies. Our companies therefore look forward to advancing their stake in this marketplace. By any yard stick, this agreement is a major step forward for all involved.

In conclusion, we believe the U.S.-Omani FTA builds on all previous FTA's and represents a gold standard for future bilateral and multilateral agreements, while extending traditional American values of transparency, economic empowerment and rule of law to the Middle East. ACLI looks forward to Congress' approval of the proposed United States-Oman Free Trade Agreement, and would be pleased to provide any further information that the subcommittee may request.

US-Oman FTA Business Coalition
Senate Finance Subcommittee on International Trade
March 6 Testimony, submitted by

Lisa Schroeter
Director of International Policy
The Dow Chemical Company

Mr. Chairman, and distinguished members of the Senate Subcommittee on International Trade, thank you for the opportunity to provide testimony on behalf of the US-Oman Free Trade Agreement.

The Dow Chemical Company is a diversified chemical company that harnesses the power of science and technology to improve living daily. The Company offers a broad range of innovative products and services to customers in more than 175 countries, helping them to provide everything from fresh water, food and pharmaceuticals to paints, packaging and personal care products. Built on a commitment to its principles of sustainability, Dow has annual sales of $46 billion and employs 42,000 people worldwide. References to "Dow" or the "Company" mean The Dow Chemical Company and its consolidated subsidiaries unless otherwise expressly noted.

Dow is a 109 year old American company, headquartered in Midland, Michigan. Last year, Dow announced a joint venture project with the Government of the Sultanate of Oman and Oman Oil Company (OOC) to design, build and operate a petrochemical complex in the Sohar Industrial Port Area. The complex will include feedstock production facilities, a gas cracker, and three world-scale Polyethylene production units based on state-of-the-art catalyst and process technology.

As a company, we are very excited about this project. Oman is one of the key locations in the Middle East where Dow is preferentially investing, due to proximity to Asian markets and access to cost-competitive feedstocks.

The FTA helps our development by gaining market access for American products and manufacturing inputs to support growth of our production in Oman and ultimately make us more competitive into the Asia/Pacific consumer markets. This project is a key step in Dow's strategy of having cost competitive geographic and product positions that will enable value growth.

The project is a true partnership – helping the Omani government to meet their objectives of attracting foreign investment, diversifying the economy, creating job opportunities and laying the foundation for future downstream industries while helping us to access cost-competitive feedstocks to supply the fast-growing markets of Asia.

While we began our discussions with the Omanis prior to the launch of the FTAs, we have been tremendously impressed by the speed and progress made in the US-Oman FTA negotiations. In particular, we give significant credit to the Omani negotiating team, for their very progressive attitude towards liberalization, not just in the reduction of tariffs but augmenting and improving domestic rules on intellectual property protection, investor rights and government procurement.

The Omanis are already signatories to the plurilateral Chemical Harmonization Tariff Agreement (CHTA) – not only helpful to my company but to ensuring consistent high standards dealing with chemical production.

This agreement is yet another example of the tremendous progress on reforms within Oman. The Sultan has also created a high degree of political stability within the country –instituting a new Constitution, which has created a more democratic infrastructure – including a deputy Prime Minister post, bicameral legislature and guarantees for basic civil liberties The Sultan has also been directly responsible for promoting increased accountability in the government, demonstrated by the dismissal of Ministers who have violated ethics and bribery codes

Ultimately, Oman is a key growth opportunity for American companies – particularly those, like Dow, that are heavily reliant on sustained access to low cost energy and feedstocks. With our value park concept, bringing in manufacturing partners to co-locate with our facility, the FTA will support additional American investment, creating significant new employment and economic opportunities in down stream plastics industries. This is a concept we have already successfully implemented at the DCG Schokopau site, in the former East Germany.

Dow views Oman as yet another strategic investment that enhances our global footprint – accessing low-cost natural resources in a geographically strategic location to ultimately participate in the tremendous consumer markets of Asia.
That pattern of growth helps us, as an American company, deliver significant value back to our shareholders.

The FTA is not only a benchmark for Oman's progress on economic reform and trade liberalization, but serves as a high-quality, high-standard benchmark for further progress on the President's vision for a US-Mid East Free Trade Area by 2013. Oman serves as a living example of the benefits of progressive reform.

We are pleased to be a partner in Oman's development – and urge the Senate to recognize Oman's progress with an expeditious and positive vote on this agreement.

Testimony on the U.S. – Oman Free Trade Agreement
Submitted by R-CALF USA
To the Senate Committee on Finance
March 6, 2006

The Ranchers-Cattlemen Action Legal Fund – United Stockgrowers of America (R-CALF USA) appreciates this opportunity to submit testimony on the U.S. – Oman Free Trade Agreement (Oman FTA). R-CALF USA is a non-profit association that represents over 18,000 U.S. cattle producers in 47 states across the nation. R-CALF USA's mission is to represent the U.S. cattle industry in trade and marketing issues to ensure the continued profitability and viability of independent U.S. cattle producers. R-CALF USA's membership consists primarily of cow/calf operators, cattle backgrounders, and feedlot owners. Various main street businesses are associate members of R-CALF USA.

R-CALF USA believes that U.S. cattle producers can compete and thrive in global markets if the rules that regulate those markets are fair. Today, U.S. exports of cattle and beef are thwarted by high import tariffs abroad, large subsidies to cattle and beef producers in other countries, and a failure to harmonize health and safety standards to allow for increased trade while protecting animal health and consumer safety. In addition, the highly perishable nature of our product demands the creation of special rules for cattle and beef trade that reflect the special needs of our producers and protect them from import surges and excess price volatility. While many of these issues may be most comprehensively addressed at a global level, progress can also be made through a strategic program of bilateral and regional negotiations.

The Oman FTA is one example of how such negotiations can be pursued to benefit the U.S. cattle and beef industries. Oman is not a significant producer or exporter of cattle and beef. Oman has a small domestic cattle herd of 335,000 head and produces about 4,160 metric tons of beef and veal a year.[1] Oman exports little beef to the world, and none to the U.S.[2] Though Oman is a net importer of beef, its market has so far been largely untapped by U.S. producers. Currently, Oman imports more than two-and-a-half

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[1] FAOSTAT Agricultural Production Database, Live Animals, Livestock Primary, and Agriculture & Food Trade, United Nations Food and Agriculture Organization, available on-line at http://faostat.fao.org/ .
[2] *Id.*

times more beef and veal than it produces.[3] All in all, Oman imported nearly $22 million worth of bovine meat products from the world in 2004.[4]

Yet U.S. exports of beef and veal to the region make up a very small percent of those imports. Even before Oman closed its border to imports of U.S. beef after the discovery of a Canadian animal infected with BSE in Washington state in late 2003, U.S. shipments of beef and veal regularly accounted for less than 5 percent of all of Oman's beef and veal imports.[5] If all bovine products are included, such as beef offal and beef preparations, the U.S. has accessed an even smaller portion of the Omani import market, less than 1 percent on average since 2000.[6] Though Oman lifted its temporary BSE ban in April 2005, significant U.S. exports have yet to resume.

Under the Oman FTA, Oman's tariffs on all imports of beef products from the U.S. go to zero immediately. This will eliminate Oman's current tariff of 5 percent on imports of frozen beef, beef offal, bull semen, and prepared beef products from the United States. Under the FTA, Omani beef exports to the U.S. are also granted immediate duty-free access, as long as they enter under the general "all others" quota available to exporters of beef to the U.S. under U.S. WTO commitments. Some out-of-quota exports from Oman will also have duty-free access under an additional, dedicated quota of 15,000 kilograms if the general U.S. beef quota is exhausted. This dedicated quota will grow gradually until it allows unlimited imports from Oman in 10 years, and tariffs on any Omani beef entering out-of-quota will phase out over the same 10 years. Since Oman produces only a minimal amount of cattle and beef, the majority of which is currently consumed domestically within Oman, this additional market access is unlikely to have a significant impact on U.S. producers. The net impact of liberalization of cattle and beef trade under the FTA should be to allow U.S. producers to access more of the Omani beef market and build an important, strategic presence in the Middle Eastern region.

While R-CALF USA supports the Oman FTA, it is worth noting that the agreement does not incorporate the rules of origin for cattle and beef that R-CALF USA has sought in preferential trade agreements. R-CALF USA believes that preferential trade agreements should include a "born, raised and slaughtered" (BRS) rule of origin for cattle and beef to ensure that the benefits of the agreement accrue to product of the country, or countries, participating in the agreement. While the failure to include a BRS rule of origin is not especially significant in the Oman agreement, it could be critical in other ongoing FTA negotiations. Stronger rules of origin are particularly important in FTAs with countries where the risk of circumvention is substantial, and where the third countries that would potentially benefit from circumvention are themselves resisting entering into FTA negotiations directly with the United States. In these situations, rules of origin must be strengthened to prevent diluting the benefits of the agreement and to

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[3] *Id.*
[4] *Id.*
[5] U.S. export statistics from U.S. Department of Commerce, Census Bureau, Foreign Trade Statistics.
[6] *Id.*

ensure that third countries are not allowed to benefit from preferential access to the U.S. market without providing reciprocal access to U.S. products.

R-CALF USA is encouraged by the fact that, along with the Oman FTA, an increasing number of newly proposed FTAs promise potentially substantial benefits for U.S. cattle producers. As trade in cattle and beef is liberalized through such agreements, it is important that, overall, the agreements achieve a balance between the size of new export markets opened for U.S. producers and the volume of potential foreign production given preferential access to the United States. It is critical that FTAs with countries that differ significantly from Oman – that have large domestic herds, produce significant quantities of beef, and/or are net exporters of cattle and beef – should be assessed on their own merits and may require longer phase outs of U.S. tariffs, backloading of expansion of tariff rate quotas (TRQs) and additional provisions to ensure that trade in cattle in beef will work for U.S. cattle producers.

While supporting the Oman FTA, R-CALF USA will continue to push for improvements in overall U.S. trade policies regarding cattle and beef and assess future trade agreements on a case-by-case basis. In particular, R-CALF USA believes U.S. trade negotiators should pursue a strategic program of bilateral, regional, and multilateral trade negotiations that:

- Reduce global market distortions such as high import tariffs abroad, restrictive quotas, and large subsidies to cattle and beef producers in other countries;

- Upwardly harmonize health and safety standards to allow for increased trade while protecting animal health and consumer safety;

- Include a "born, raised and slaughtered" rule of origin for beef receiving preferential market access; and

- Create special rules for cattle and beef trade that reflect the highly perishable nature of our product and the special needs of our producers by protecting them from import surges and excess price volatility.

Until distortions in international cattle and beef markets are addressed comprehensively at a global level, the U.S. should pursue FTAs strategically to move toward the goals outlined above. Because the Oman FTA represents an important step in the right direction for U.S. cattle and beef producers, R-CALF USA urges its support.

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June 28, 2006

Members of the U.S. Senate

Dear Senator:

R-CALF USA urges you to support the U.S. – Oman Free Trade Agreement, which provides new opportunities for U.S. cattle producers. Under the Oman FTA, Oman's tariffs on all imports of beef products from the U.S. go to zero immediately. This will eliminate Oman's current tariff of 5 percent on imports of frozen beef, beef offal, bull semen, and prepared beef products from the United States. Under the FTA, Oman, which produces only a minimal amount of cattle and beef, is also granted immediate duty-free access to the U.S. beef market, with a ten-year phase-out of the import quota on fresh, chilled and frozen beef from Oman.

Liberalization of cattle and beef trade under the Oman FTA will allow U.S. producers to access more of the Omani beef market and build an important, strategic presence in the Middle Eastern region. The FTA will open up an export market for U.S. producers that has so far been largely untapped. Currently, Oman imports more than two-and-a-half times more beef and veal than it produces, importing nearly $22 million worth of bovine meat products from the world in 2004. Yet U.S. exports of beef and veal to the region make up a very small percent of those imports. Even before Oman closed its border to imports of U.S. beef after the discovery of a Canadian animal infected with BSE in Washington state in late 2003, U.S. shipments of beef and veal regularly accounted for less than 5 percent of all of Oman's beef and veal imports. Though Oman lifted its temporary BSE ban in April 2005, significant U.S. exports have yet to resume. The FTA should help open up a new market for U.S. producers, enabling us to gain a foothold in an important region.

While supporting the Oman FTA, R-CALF USA will continue to push for improvements in overall U.S. trade policies regarding cattle and beef and assess all future trade agreements on a case-by-case basis. R-CALF USA believes that U.S. cattle producers can compete and thrive in global markets if the rules that regulate those markets are fair. In particular, R-CALF USA believes U.S. trade negotiators should pursue a strategic program of trade negotiations that:

- Reduces global market distortions such as high import tariffs abroad, restrictive quotas, and large subsidies to cattle and beef producers in other countries;

- Upwardly harmonizes health and safety standards to allow for increased trade while protecting animal health and consumer safety;
- Includes a "born, raised and slaughtered" rule of origin for beef receiving preferential market access and effective measures to counter transshipment; and
- Creates special rules for cattle and beef trade that reflect the highly perishable nature of our product and the special needs of our producers by protecting them from import surges and excess price volatility.

Though the Oman FTA does not meet each of the goals outlined above, R-CALF USA believes it merits support because of the overall balance of risks and opportunities it presents for U.S. producers. But failure to make progress in the areas outlined above, particularly rules of origin and special rules, may prove to be critical in other ongoing FTA negotiations. Stronger rules of origin are particularly important in FTAs with countries where the risk of circumvention is substantial, and where the third countries that would potentially benefit from circumvention are themselves resisting opening their markets to the United States. FTAs with countries that differ significantly from Oman – that have large domestic herds, produce significant quantities of beef, and/or are net exporters of cattle and beef – must be assessed on their own merits and may require special safeguards, a stricter rule of origin, specific SPS agreements and additional provisions, including longer phase outs of U.S. tariffs and backloading of expansion of tariff rate quotas, to ensure that trade in cattle in beef will work for U.S. cattle producers.

U.S. trade negotiators should focus on comprehensively addressing distortions in international cattle and beef markets. Bilateral free trade agreements that make strategic progress in addressing these distortions and provide competitive opportunities to U.S. cattle producers merit producer support. At the same time, any agreement that allows these distortions to remain, poses serious competitive risks to U.S. cattle producers, and does not include adequate mechanisms to manage these risks would be a cause for serious concern.

Overall, the Oman FTA is a step in the right direction for U.S. cattle and beef producers, and R-CALF USA urges you to support it.

Sincerely,

Chuck Kiker

President
R-CALF USA

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