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Oman's Economic Development

The Sultanate of Oman is located in the south-eastern corner of the Arabian Peninsula and according to official data covers a total land area of 309,500 sq. km, being the third largest country in the region¹, and the second largest country after Saudi Arabia in the GCC (Gulf Cooperation Council). It is bordered in the north-west by the United Arab Emirates (UAE)², in the west by Saudi Arabia and in the south-west by Yemen³. A detached area of Oman, separated from the rest of the country by a strip of territory belonging to the UAE, lies at the tip of the Musandam Peninsula, on the southern shore of the Strait of Hormuz, which links the Persian Gulf with the Gulf of Oman. The coastline of the country extends 1,700 km⁴, from the Strait of Hormuz in the north to the borders of the

¹ *Oman 2004-2005*, Ministry of Information, Muscat, Oman, 2004. p. 8. Foreign sources still estimate, however, smaller area, eg. 212,000 sq. km. CIA – The World Factbook, 2004, <http://www.cia.gov/cia/publications/factbook/geos/mu.html>, <http://reference.allrefer.com/country-guide-study/oman/oman27.html>, or 212,460 sq. km, <http://worldfacts.us/Oman.htm>; <http://www.fao.org/forestry/foris/webview/forestry2/index.jsp?siteId=5081&siteTreeId=18310&langId>.

² Boundary agreement signed and ratified with UAE in 2003 for entire border, including Oman's Musandam Peninsula and al-Madhah enclaves, CIA – The World Factbook 2004, <http://www.cia.gov/cia/publications/factbook/geos/mu.html>.

³ A long border dispute with Yemen was resolved in October 1992; in 1997, the countries agreed to new maps defining the border.

⁴ 2,092 km, according to CIA The World Factbook 2004, <http://www.cia.gov/cia/publications/factbook/geos/mu.html>.

Republic of Yemen in the south-west, overlooking three seas: the Persian Gulf, the Gulf of Oman and the Arabian Sea. As a gateway between the Indian Ocean, East Africa and the Arabian Gulf, Oman's location has always been strategically important. Midway along the coast and about fifteen kilometers offshore is the barren island of Masirah, which occupies a strategic location near the entry point to the Gulf of Oman from the Arabian Sea. This is Oman's largest island⁵, which Alexander the Great made his base, referring to it as Serepsis. Because of its location, the island became the site of military facilities used first by the British and then by the United States, following an access agreement signed in 1980 by the United States and Oman. In 2002 the Omani Defense Ministry decided to build a new military air base on Masirah island for the Royal Omani Air Force. Apart from the presence of a military base there, Masirah also has around 8,000 inhabitants who mainly live from fishing.

The Sultanate is divided into three governorates: Muscat (the Sultanate's capital, centre of government and main political, economic and administrative centre), Dhofar and Musandam and five administrative regions al-Batina, al-Dhahira, al-Dakhiliyya, al-Wusta, and al-Sharqiyya. Population of Oman is 2,341,000⁶, according to the recent (2003) general census of population, housing and establishment, which means doubling during the 20 preceding years. The Muscat governorate's six *wilayats*, Muscat, Matrah, Seeb, Bausher, al-Amerat, and Quriyat – represent the Sultanate's most densely populated regions with a third of Oman's population living in Muscat area. In ancient times Muscat was known far and wide as a trading port and at present it is a home to Port Sultan Qaboos and the Port of Mina' al-Fahal.

⁵ The Wilalyat of Masira has some other neighbouring islands: Marsis, Sha'anzi and Kalbaan, http://www.omanlng.com/html/community_affairs/sharqiya_010a.asp.

⁶ 1,782,000 Omanis and 559,000 expatriates, Oman Statistical Yearbook, Ministry of National Economy, 32 issue, November 2004.

Until the commercial production and export of oil in 1967⁷, Oman's budget was exclusively dependent on religious taxes (*zakat*), customs duties, and British loans and subsidies. By distributing the bulk of the revenue among the merchant families and tribal shaykhs, the sultan was able to draw in influential segments of Omani society and ensure continuance of his rule. Thus, prior to 1970, the financial position of the sultan was virtually synonymous with the public finances of the sultanate.

Since 1970, when Sultan Qaboos bin Sa'id Al Sa'id, assumed power through a palace coup, a formal separation was initiated and the Sultan started implementing an economic development and modernization program. Oman started its way from a poor underdeveloped country towards a modern nation state. It was not an easy start. On coming to power, Qaboos bin Sa'id confronted the rebellion in the Dhofar region, which had begun in 1964. Despite internal unrest in the early 1970s, substantial progress was made in developing physical and social infrastructure, mainly in the form of roads, a new deepwater port, an international airport, electric power plants, desalination plants, schools, hospitals, and low-cost housing. Government revenues derived almost exclusively from oil receipts made this possible.

⁷ The first oil concession in Oman was granted in 1925 to the D'Arcy Exploration Company but after disappointing results, the licence was allowed to lapse. Discoveries in Bahrain and Saudi Arabia in the 1930s stimulated exploration activity. In 1937, a new concession was awarded to Petroleum Concessions, a Western consortium formed by the owners of the Iraq Petroleum Company (IPC), but it was not until after the second world war that exploration began in earnest. In 1951 the concessionaire's name was changed to Petroleum Development Oman (PDO). Again the results were unsatisfactory and all the partners in the venture apart from Shell and Partex pulled out in 1960. In 1962, oil was discovered at Yibal and at Natih in 1963. When oil was found at Fahud in the following year it was decided to develop the fields and commercial exports began in August 1967. In December 1973, the government of Oman, following the participation agreements negotiated by several gulf countries, acquired a 25% share of PDO. In July 1974, the government's stake was raised to 60%, retroactive to 1st January 1974. Since 1974 the remaining 40% has been held by Royal Dutch Shell with 34%, Total with 4%, and Partex with 2%. <http://lcweb2.loc.gov/frd/cs/oman>, <http://www.omanet.om/english/oman2000/sec8/3.asp>.

The first government budget was announced already in 1971, while an extensive modernization program has opened the country to the outside world. Oman's moderate, independent foreign policy has sought to maintain good relations with all Middle Eastern countries. Oman joined the Arab League and the United Nations in 1971.

Since the beginning of development of the country's infrastructure in the 1970s, national development plans have given priority to reducing dependency on oil exports⁸ and encouraging income-generating projects in non-oil sectors, establishing new industries and industrial estates; developing minerals other than oil; promoting private sector investment, and increasing privatization of state-controlled enterprises; as well as effecting a wider geographical distribution of investments to amend regional economic imbalances to narrow the gap in the standard of living in different regions (particularly the Dhofar), and discourage migration to densely populated urban centers, such as Muscat, the capital. Equally important are the national goals to develop local human resources, increase indigenous participation in the private sector, and improve government management and organization. Specific developmental goals include encouraging agriculture, fishing, and tourism. National Development Plans have also focused on confronting problems caused by fast population growth, dramatic rural-to-urban population shift and the accompanying social transformation, large number of foreign workers, limited growth potential of alternative sectors, such as agriculture, fishing, and non-oil industry, limited involvement of the local private sector in businesses other than trade, low-skilled labour force as well as environmental constraints, including limited water resources, rising soil salinity, and beach pollution from oil spills. The govern-

⁸ Such an emphasis was essential because Oman's oil had, as it was thought, a relatively limited production span; 1992 estimates projected seventeen more years of output at the 1992 production rate. Library of Congress, Country Studies, 1993, <http://lcweb.loc.gov/frd/cs/oman>.

ment launched several economic campaigns, naming 1988 and 1989 as the Years of Agriculture and 1991 and 1992 as the Years of Industry.

Oman's economic strategy is based on a series of five-year plans that set objectives for all sectors of the government. These plans were drafted by Oman's Development Council, which was later renamed the Ministry of National Economy. The First Five-Year Development Plan was initiated in 1976 and by the end of 2000, Oman had completed five of these. The first Plan (1976-1980), which coincided with the oil sector boom was aimed at establishing essential infrastructure, such as governmental buildings, power stations, roads, and communication centres. The second Plan (1981-1985) aimed at completing the infrastructure needed to modernise the economy and raise living standards. The scope of the Plan was broadened to include water resources projects and regional development. The implementation of this plan was helped by the increasing demand for energy on world markets, which boosted oil price. The third Plan (1986-90) was affected by the steep decline in the oil price what posed a serious challenge to the government which was compelled to tighten its fiscal policy at the cost of some investment and development projects. The fourth Plan (1991-1995) concentrated primarily on broadening and diversifying the production base of the economy and private sector development. Special attention was paid to regional development, with 60% of funds allocated to projects outside the Capital area, compared with 34% in the previous plan. The plan also aimed at developing human resources, since by the end of 1995, Omanis represented only 36% of the total labour force⁹. From 1996 Omani planners started presenting a new vision of Oman's economic future up to 2020. It responded to changes in the world economy, and to the way that the revolution in telecommunications and information technology has been transforming global

⁹ <http://www.electonics.com/oman/gi/economy.asp>.

production and services. From 1999, Oman's emerging private sector, as well as government bodies, were involved in drafting the next Plan.

The Sixth Five-Year Plan (2001-2005) sets out three core goals for this period: developing human resources and basic structures, economic diversification by developing the sectors of commerce, industry, tourism, mining and insurance and providing them with support, subsidies and incentives and encouraging private sector growth, which is seen as the motor for sustainable development. The key aims of this plan are to: guarantee stable personal incomes, increase the number of secondary school students enrolling in higher education and technical colleges, create more jobs for Omanis, and adopt sustainable financial policies. The plan aims at expanding and improving services, rather than reducing governmental funding, at creating new investment opportunities for the private sector, and attracting foreign capital, technology and expertise to the Sultanate. In this period one can observe the most significant progress in the industrial expansion, which will significantly increase the sector's contribution to the future GDP.

Oman's efforts to diversify the economy also include "Omanization", a program designed to increase the percentage of Omani citizens working in the private sector (at present only 10%). The consistent focus of the government to provide the Omani youth with more employment opportunities appears to be gaining success. The number of Omani workers employed in the private sector as of June 2003 posted a 3.8% growth from the previous year. The oil and gas sector has set a target to increase its Omanisation levels from the current 40 to 70% by the end of year 2007. Also, the government has plans to Omanise an additional 2,777 jobs in the tourism industry during the current Five-Year Plan. Further, expatriates were banned from taking various jobs including driving towing and agricultural vehicles and sale of foodstuffs.

The sultanate's modern transportation system links all significant populated places within Oman and gives easy access to many international destinations. A four-lane highway runs west from Muscat along the Gulf of Oman to Dubai in the UAE. A second major highway cuts the interior from just east of al-'Ayn in the UAE to Salalah on Oman's south coast. There are 12,365 km of paved road and 24,862 km graded roads; 135 airfields including 4 airports with paved runways of over 3,047 m (in contrast to 1970, when there was one ten-kilometre paved highway and limited coastal and air traffic). The Sultanate has a total of six civil airports: Seeb International at Muscat, Salalah (international), Sur, Masirah, Khasab and Diba (in Musandam). Actually, Sur and Diba can only take light aircraft but designs for upgrading the airport at Sur and to build new airports at Sohar and al-Buraymi are being studied. Construction of Sohar Airport (still only in the planning stages) will complement the development of the seaport and relieve the pressure on Seeb International Airport. The Seeb International Airport is currently served by 26 airlines and handles from 40 to 58 flights a day. In 2003, it handled over 2,886,000 passengers on international and domestic routes¹⁰. The Seeb International Airport & Salalah Airport were privatised in 2001. The much-publicised privatisation contract was awarded to Oman Airports Management Company (OAMC)¹¹, which was managing the two airports since 21st January 2002 under a 25-year concession agreement with the government. By 2020, the proposed terminal at Seeb was to have a capacity to handle 12 million passengers yearly. The capacity of Salalah Airport was also to be expanded to nearly two million passengers. The proposed \$190

¹⁰ Ministry of National Economy, Statistical Yearbook 2003, 32 issue, <http://www.monecoman.gov.om/mone/communicat.htm>.

¹¹ OAMC is a joint venture between the Oman Government and Oman Aviation Services (a state-entity) and a consortium involving British Airports Authority (BAA), Zurich-based ABB Equity Ventures and the local Suhail Bahwan Group, <http://www.gulfnews.com/Articles/Business2.asp?ArticleID=138723>.

million new terminal at Seeb Airport was set to open in 2007, increasing the airport's throughput from 2.8 million to 6.5 million passengers – turning the airport into a regional hub¹². Targeted areas for improvement included luggage collection and hospitality centres as well as duty free shops in the departure and arrival lounges. The redevelopment of both airports was aimed at boosting the tourist industry, which by 2020 should contribute 3% of the GDP. The agreement reportedly collapsed after BAA, one of the major and more experienced partners in the venture, announced it was pulling out of its operations in Oman. BAA said its decision was down to a failure to reach a financial agreement with the authorities regarding the expansion of Seeb Airport¹³. Despite the crisis, the government reassumed the management of Seeb and Salalah airports from the private sector, after nearly three years of private sector control, the planned expansion of these airports is under way.

Oman's modern seaport development began in 1974 when Port Sultan Qaboos was built in Muscat with the capacity to handle up to two million tonnes of cargo a year. Since then many improvements have taken place. In 2004, the total quantity of imported and exported goods reached 6,595,716 tonnes¹⁴. Mina Qaboos has been in operation for many years and is Oman's first bunkering terminal since 2000. The terminal is established on a Build-Own-Operate-Transfer (BOOT) basis and is operated by a joint Omani-Saudi venture company, Oasis Energy Co LLC. It has the capacity for 20,000 cu. m of fuel oil

¹² <http://www.gulfnews.com/Articles/Business2.asp?ArticleID=138723>.

¹³ The privatization programme has suffered a serious setback following the collapse of this long-term contract to run the country's two major airports. This is the third time that international investors have withdraw from secured deals. In September 2002, Hillwood Strategic Services of the United States pulled out of a proposed free zone in the port of Salalah. A year earlier, Ogden Yorkshire Water withdrew its plan to privatize Muscat's wastewater system. The joint US and British firm was involved in lengthy talks with authorities but the two sides could not agree on financial terms. In both cases, the failure was blamed on excessive bureaucracy and lengthy discussions, <http://www.gulfnews.com/Articles/Business2.asp?ArticleID=138723>.

¹⁴ <http://www.pscoman.com/marketing/statistics.htm>.

and gas oil to meet the needs of the commercial, military, and fishing sectors. Development has progressed considerably with the establishment of the new industrial port at Sohar, which can handle the largest container vessels in service, and the upgrade of existing ports including Salalah and Khasab. The Sohar port, completed by 2001, consists of liquid cargo berths, bulk berths for aluminium smelter, cargo berths and a container berth, as well as an additional berth for the government's use. The harbour depth of 17m is enough to accommodate the fifth generation of container vessels which are coming into service. The modern container port of Salalah, built on the site of the former harbour of Raysut and one of the major infrastructure projects, was officially opened on 1st December 1998. It is in an ideal position for ships sailing between the East coast of the USA/Europe and the Far East with convenient access to the Gulf, Red Sea, Indian Ocean, and the East Coast of Africa. It is the only port between Europe and Singapore that can accommodate the S-class – the world's largest class of container vessel of 10,000 – 12,000 TEU. 1,032,845 TEUs were handled here in 2000. In November 2000 the Salalah Port set a "Berth Productivity" world record of 237 moves per hour¹⁵. However, Oman has announced a significant expansion plan for the Salalah port, which after completion planned for 2005/6 will increase its capacity up to 3 million TEUs. The new port is one of the largest in the world with highly sophisticated equipment. Salalah Port Services Company (SAOG) will run the port over a 30-year concession period¹⁶. Port Salalah has the potential to generate rapid industrial development in southern Oman and the government has also announced its intention to establish a free-trade zone in Salalah.

¹⁵ <http://www.ociped.com/investments/infrastructure.asp?ulink=1>.

¹⁶ Partners in the venture include: Sea land (15%); Maersk (15%), government (20%), pensions (11%), Omani companies (19%) and public subscribers (20%), <http://www.omonet.om/english/commerce/involve.asp?cat=comm>.

In 1969, Oman had only one electric power station, which produced 1 megawatt of electricity for the Muscat metropolitan area. Since then, electricity has been introduced in an increasing number of areas: Salahin (1970); the island of Masirah (1976); and Nizwa, al-Sahm, and Ibri (1978). In 2003 10,714 million kilowatt-hours were produced in the sultanate (compared to 818 million kilowatt-hours in 1980)¹⁷. The Muscat metropolitan area represents nearly 50 percent of the sultanate's electricity consumption, followed by the al-Batina area and Dhofar. In 2003, Oman's installed capacity was estimated at nearly 2.8 gigawatts (GW). With the exception of some very remote villages, the entire country is electrified. Electricity production amounted at 10,714 GW/h, twice as much as in 1992¹⁸.

Like other Gulf states, Oman faces growing demand for electricity due to population growth, industrialization, and rising incomes. Consumption is now increasing by 4-5% a year, and the government forecasts that electricity demand will be 75% higher in 2015 than it is today. To meet this challenge, Oman has allowed the private sector to take on a growing role, however the Ministry of Electricity and Water (MEW) continues to play a role as regulator. In July 2003, the MEW announced that it was setting up a new company, the Transmission and Distribution Company (TRANSCO), that would oversee the generation and supply of electricity in the country. It also announced that it would be selling 65% of the new firm to private investors. The Sultanate was the first country in the Arab Gulf region to allow foreign companies to manage power plants on build, own, operate and transfer (BOOT) basis. The first is al-Kamil power station in al-Sharqiyya region with a capacity of 285

¹⁷ Ministry of National Economy, Statistical Yearbook 2003, 32 issue, <http://www.moneoman.gov.om/mone/communicat.htm>.

¹⁸ Ministry of National Economy, Oman Statistical Yearbook, 32 issue, November 2004.

megawatts¹⁹. The other is Barka power station at Barka on the Batina coast with a daily capacity of 427 megawatts and 20 million gallons of desalinated water. The government will purchase electric power and water under a 15-year purchase agreement. Both the Barka and al-Kamil plants use natural gas for their production. The new, gas-fired 242 MW power plant in Salalah will replace diesel stations in Salalah, Raysut, Mirbat, Sadah, and Thumrait²⁰. Salalah power project is run by the Dhofar Power consortium²¹. It was the first deal in the region to cover generation, transmission, distribution, billing, and collection. A fourth independent water and power project will be built at Sohar to go on stream by the summer of 2006. Another 140 MW plant in Qarn Alam owned by Bharat Heavy Electrical (BHEL) of India²² was completed in mid-2004. Oman's three biggest power plants, located at Rusayl, Wadi Jizi, and Ghubrah will be offered to the public to be run as independent projects. Oman's first private power company in al-Manah (sold to Belgian Trachbel in 1996), near the historical town of Nizwa, is run by the United Power Company (UPC) which is among the blue chip stocks on MSM²³.

The country's water resources are a key issue to its economy and future development will require much more water than has been available. Rainfall is so scant that crop production is impossible without irrigation. Livestock raising is restricted to areas having a dependable supply of drinking water for animals. Any substantial expansion of agricultural production will there-

¹⁹ The RO 48 million plant, commissioned in December 2004, consists of three gas turbines and will replace diesel plants in the wilayats of Sur, al-Kamil wa al-Wafi, Bilad Bani Bu Hassan, al-Mudhaibi and al-Mudhairib, http://www.oeroline.com/php/2004_dec/cover.php.

²⁰ http://www.oeroline.com/php/2004_dec/cover.php.

²¹ *Khaleej Times*, 14 April 2004, http://www.khaleejtimes.com/Displayarticle.asp?section=middleeast&xfile=data/middleeast/2004/april/middleeast_april386.xml.

²² <http://www.eia.doe.gov/emeu/cabs/oman.html>.

²³ *Khaleej Times*, 14 April 2004, http://www.khaleejtimes.com/Displayarticle.asp?section=middleeast&xfile=data/middleeast/2004/april/middleeast_april386.xml.

fore require development of new water sources. Industrial expansion, increased tourism, and an improved standard of living combine to dramatic increase of water requirements. To meet this growing demand, ground water has been exploited intensely. The introduction of the diesel pump to replace the donkey as a means of raising water from wells has resulted in many more wells being sunk and more water being drawn from the aquifers. The result has been the overdraw of water from the aquifers and the intrusion of salt water from the sea in the coastal regions. Salinity in the well-water increased to an extent that rendered agricultural production impossible in some areas. The evaluation of sea-water intrusion on the Batina Coast showed that significant levels of saline intrusion are taking place along the entire coastal strip. Here, average long-term decline in the groundwater level is in the order of 0.5 metres per year. Similar assessments have been produced for the Salalah coastal plain, where saline intrusion is also increasing. At present, groundwater depletion is thus estimated at around 240 million cu. m per year. In 1988 the country's water resources were declared "natural wealth" by Royal Decree. This is the most far-reaching and important piece of legislation on water resources. Oman has several laws on water resources and the main measures taken for water management and conservation which states that no wells may be constructed within 3.5 km of the mother well of the *falaj* and permits are required for the construction of new wells, deepening existing ones, changes in their use, and installing a pump. A significant progress has been made in planning and development of schemes to increase recharge, provide surface water storage and to improve *aflaj* water use efficiency. Recharge dams are designed to intercept flood flows in wadis, which would otherwise run to waste in the sea or inland into the desert.

Desalination of sea and brackish water is the only alternative water resource for Oman. Desalinated sea water now meets an increasing proportion of the domestic requirements in

some coastal regions. Starting from the 1970s, the Government constructed several desalination plants. The first plant was commissioned in 1976 in Muscat at al-Ghubrah with a total capacity of 23,000 cu. m per day, coupled with a 3×7.5 MW steam turbine. Only from 1995 to 1997, a number of desalination plants were constructed at the capital cost of about 4 million Omani rials. Total water production in 2003 reached 23,978 million gallons, of which 64% was used by Muscat Metropolitan Area. Although the production costs of desalinated water are relatively higher than the cost of natural waters (ground and surface), suitable technologies of desalination, including multi-stage flush (MSF), multi effect distillation (MED) and reverse osmosis (RO)²⁴, should be selected depending on local, economic, and environmental factors. The future of desalination technology will depend largely on reducing energy costs by optimising power and water generation to achieve the goal of low cost desalination to produce water at less than USD 0.5 per cubic metre and power at USD 0.02 per 1 kWh²⁵.

While the desalinated water is used for domestic purposes, the treated wastewater is reused mainly for the irrigation of trees along the roads. The government is planning the expansion of the existing wastewater treatment plant at Darsait (Mus-

²⁴ MSF was developed in the Gulf states as early as the 1970s and has been used successfully on the Arabian peninsula in large-scale applications. The capital costs of MSF vary from USD 4.00 to USD 12.00/gpd equivalent to USD 1,050 to USD 3,150 per cu. m per day of installed capacity. MED is older than MSF and is more energy efficient. However, the technique has suffered some operational problems and its maximum unit capacity is limited compared with MSF. MSF has been the mainstay for large scale water production in the Middle East but its position is now being challenged by the latest developments in MED. Analysts believe that this type of process offers significant potential for water cost reduction. The overall CAPEX and OPEX of MED is now comparable to MSF (Taweelah AI had both in the competition). Low CAPEX and operational costs using the integrated approach have led to the development of competitive IPP bids and resulted in lower overall tariffs. Generally speaking, specific investment costs for an MED plant are 10-20% lower than for an MSF plant. The MED plant investment cost is 11% lower than the MSF plant investment cost. <http://www.ewatermark.org/Watermark7/Training.htm>.

²⁵ http://www.medrc.org/new_content/industry_news/sept00/story1.htm.

cat) to a capacity of 50,000 cubic metres a day (cm/d) from the current 13,000 cm/d. The second phase covers the construction of a new plant at al-Khuwair, which will also have the capacity to treat 50,000 cm/d of wastewater. The project is estimated at around USD 260 million²⁶.

In 1970, the Sultanate's economy was entirely based on agriculture and fisheries. Although many employment opportunities are being created with the diversification and development in other sectors of the economy, well over half the population is still dependent on the agriculture and fisheries sectors of the economy when related activities, such as wholesale, retail, transport, and other services are taken into account²⁷. The country's social and economic progress is reflected in the growing importance of agriculture and fisheries and the efforts that are being made to increase their contribution to the GDP. In 1960, agriculture accounted for 75% of the gross domestic product (GDP); in 1967 agriculture and fishery together contributed about 34% of GDP, and by the year 1991, their share had fallen to less than 4 percent, and by 2003 to only 1.9%²⁸.

At present 787,300 people hold cultivable land, according to the most recent survey, and the total number of agricultural workers is close to 187,820²⁹. A large percentage of the Omani population live in rural areas and many others own land and property in the country even though they live and work in the towns. It is a major challenge for the Government to prevent a rural-to-urban migration (where the labour force has been attracted to the higher wages of industry and the government

²⁶ A separate company, Oman Wasterwater Services Company SAOC, has been constituted for this purpose. [http://www.ey.com/global/download.nsf/Middle_East/Oman_Tax_Update/\\$file/Commentary%20on%20the%20changes%20made%20to%20Omani%20Tax%20laws.pdf](http://www.ey.com/global/download.nsf/Middle_East/Oman_Tax_Update/$file/Commentary%20on%20the%20changes%20made%20to%20Omani%20Tax%20laws.pdf).

²⁷ <http://www.omagnet.om/english/commerce/diverse.asp?cat=comm>.

²⁸ Ministry of National Economy, Statistical Yearbook 2003, 32 issue, <http://www.mone-oman.gov.om/mone/communicat.htm>.

²⁹ <http://www.nizwa.net/agr/agriculture.html>, other sources estimate that the agriculture sector employs 202,825 people, Oman 2004-2005. Ministry of Information Oman.

service sector) by setting up programmes of rural education and to ensure that communities make the best use of limited water resources for maximum productivity. The policy is to create sustainable agricultural methods and crops which will provide continuous employment opportunities for Omanis and reduce the deficit in the food trade balance. The current self-sufficiency rates are encouraging. However, Oman with its growing population and rapidly changing society will remain a net food importer.

In 2003, agricultural production totalled 1,196,000 tons, compared to 1,085,000 tons in 1993 and half the volume in 1988. The value of agricultural and fisheries production rose from RO 17 million in 1970³⁰, to RO 162.7 million in 2003³¹.

Agriculture and fish production cover around 54% of the sultanate's food requirements. The country is self-sufficient in fish, dates, bananas, as well as in vegetables and fruit when they are in season. Agricultural production accounts for 26.5% of the country's total non-oil export³². The latest estimates indicate that Oman is 64% self-sufficient in vegetables, 53% in milk, 46% in beef, 44% in eggs and 23% in mutton, but the general population depends on imported food. Sufficient quantities of dates and some other fruits are produced so that they can be exported as well as meeting local demand. The production of tomatoes, potatoes, and alfalfa has doubled in recent years³³. In 2003 fruit cultivation accounted for 57% of the total cultivated area (42,004 hectares), yielding 278,000 tons of fruit. Vegetables, which accounted for 16.8%, or 9,732 hectares of the total area under cultivation in 1990, in 2003 accounted for 9.3%, or 6,791 hectares, with production of 163,100 tons³⁴.

³⁰ <http://www.nizwa.net/agr/agriculture.html>

³¹ Ministry of National Economy, Statistical Yearbook 2003, 32 issue, <http://www.mone-oman.gov.om/mone/communicat.htm>.

³² *Ibidem*.

³³ <http://www.etectonics.com/oman/gi/natural.asp>.

³⁴ Ministry of National Economy, Statistical Yearbook 2003, 32 issue, <http://www.mone-oman.gov.om/mone/communicat.htm>.

Besides, in Oman there are 3,565 registered bee-keepers producing high-quality honey with its distinctive flavour. Research on field and forage crops and plant genetic resources had resulted in the introduction of new species in Oman's farms. This, in turn, led to a 15% rise in wheat and barley yields³⁵. In 2003 field crops occupied 6,254 hectares and perennial fodder crops occupied 17,863 hectares with production of 21,900 tons and 733,000 tons respectively. Although 2.2 million ha are considered to be suitable for agriculture, there are no figures on the irrigation potential, as no reliable data are available on groundwater availability in the deep aquifers. For 47% of the total number of 62,411 households involved in irrigation, wells are now the main source of water, 39% rely on *falaj*³⁶ water, while the remaining 14% have access to both sources. The area under cultivation increased by almost 18% to 57,814 hectares over the period from 1985 to 1990 and by another 26% to 73,080 hectares in 2003³⁷. Of the total area of 61,550 ha equipped for irrigation, only 1,640 ha, or 2.7%, benefit from sprinkler irrigation and 2,090 ha, or 3.4%, from micro-irrigation techniques. Although the Ministry of Agriculture and Fisheries tries to introduce modern irrigation techniques, the traditional flood system remains the most common irrigation technique. In order to encourage farmers to take up the new techniques, MAF has approved a financial subsidy varying between 75% for small-scale

³⁵ *Khaleej Times*, 8 November 2004, http://www.khaleejtimes.com/Displayarticle.asp?section=middleeast&xfile=data/middleeast/2004/november/middleeast_november193.xml.

³⁶ An *afraj* system was introduced into Oman about a thousand years ago, and used throughout the Interior as a means of irrigation. Water is tapped at the water table in the mountains and in wadis, and is led by man-made subterranean channels or by channels that skirt and cling to mountain sides to areas of settlement where at the surface it is used for irrigation and domestic purposes. The system may be many kilometres in length and requires tremendous expenditure of labour for maintenance as well as for construction. Because private maintenance efforts in the 1970s and early 1980s proved inadequate, the government initiated repair and maintenance of the *falaj* system to increase the quantity of water available to cultivated areas.

³⁷ According to SY2003 cultivated area accounted for 174,000 feddans (1 feddan is equal to 0.42 hectare).

schemes (less than 10 *feddans* or 4.2 ha), 50% for medium-scale schemes and 25% for large-scale schemes (more than 50 *feddans* or 21 ha).

Al-Batina coastal plain is the most concentrated farming area of the country. High-quality dates are the major product of the region, while limes are grown in quantity, dried and exported. Mangoes, bananas and other fruit as well as tomatoes, onions, egg-plants and tobacco are grown for local consumption. The area under cultivation on al-Batina coast has increased greatly in the last twenty-five years. The cooler climate on the high plateau of the al-Jabal al-Akhdar allows growing apricots, grapes, peaches, and walnuts. In the south, on the coastal plain of Dhofar, coconut palms are grown in place of date palms, which are not suited to the local climate. Bananas thrive in quantity on the coastal plain, with papaya and other fruit. Dhofar was the heart of Oman's frankincense trade in ancient times and frankincense trees³⁸ grow on the lower slopes and craggy plains of Jabal Dhofar today. As temperature starts to rise at the end of March, frankincense gatherers begin to harvest the 7,000 tonnes of fragrant resin that Dhofar produces every year. Omani frankincense is considered the highest quality in the world and is still in demand for fragrance manufacture.

The date palm is considered the most important crop in Oman, occupying about half of the total area covered by crops. It is estimated that 35,000 hectares of land are planted with date palms. Nearly 10 million date palms grow along al-Batina coast and in the oases of the interior. These statistics reflect the importance of date palm to the Omani people who have lived with it for centuries. Date palms are not only grown for their fruit, but for several other uses of their parts. The utilization of every part of the palm has been known for long time among farmers. Dates were Oman's largest export in the 19th century. Today's annual production of dates is estimated to be between 150,000

³⁸ Botanical name of the frankincense tree is *Boswellia sacra*.

and 175,000 tonnes. The season lasts from May to October with different varieties fruiting throughout this period. Between RO 150,000 – RO 200,000 is spent annually on pest control only. The Sixth Five-Year Plan (2001-2005) aims to channel millions of rials into date palm cultivation and ensure the most effective economic investment in this sector. The cloning laboratory and distributing high-yield date palm seedling to farmers. During the year it produced 30,000 seedlings³⁹.

The Sultanate is now the leading livestock producer in the Gulf region. Over 70% of the cattle and camels are reared in Dhofar where nearly two thirds of the population depend on animal husbandry for their livelihood. Latest figures indicate that there are 326,000 cows, 1,038,600 goats, 368,000 sheep and 120,200 camels, reflecting the high priority given to livestock production since the early 1970s⁴⁰. In order to relieve pressure on grazing lands, which has been building up recently due to overstocking and grazing habits of camels, Royal Decree No. 8/2003, was issued in 2003 promulgating the Law on pastures and livestock management, and giving a major boost to the national strategy for improving the natural pastures in the Governorate of Dhofar. The camels in Dhofar have been registered and numbered, and steps have been taken to sell around 95% of the Governorate's camels in the local market or export them. This project will have a positive impact on preventing desertification and developing the pastures.

Local production of 9,664 tonnes of red meat and 44,032 tonnes of dairy products in 2003 does not yet meet local needs, but there are plans to increase not only meat production, but also egg and poultry production, by establishing a number of large to medium-size projects in conjunction with the private sector, using Government guaranteed soft loans.

³⁹ <http://www.omanet.om/english/commerce/diverse.asp?cat=comm>.

⁴⁰ Ministry of National Economy, Statistical Yearbook 2003, 32 issue, <http://www.mone-oman.gov.om/mone/communicat.htm>.

In 1997, a fully-integrated poultry project was launched in Dhofar at a cost of RO 12.8 million. One of the largest projects of its kind in the Gulf and the first to be established in Oman, it has a capacity for 94,000 hens to produce 15 million eggs annually. It includes storage for 11,000 tonnes of frozen poultry. About half the production from this project is intended for export. It is expected that this and other similar projects will halve Oman's current annual imports of frozen chicken.

The Government aims to increase milk production and management of dairy herds by giving farmers assistance and equipment, as well as introducing modern techniques of artificial insemination⁴¹. Currently the government operates 62 veterinary clinics, but the private sector is now being encouraged to open private practices.

Historically, fishing was second only to farming as an economic activity in pre-oil Oman. In 2001 there were around 29,331 fishermen, as well as a large number of people employed in businesses connected to the fishing industry⁴². Like agriculture, fishing has been affected by the diminishing number of people employed in the sector as increasing numbers of fishermen turn to more remunerative employment. However, the government encourages the country's youth to work in the fishing industry and subsidises them with soft loans from the Oman Development Bank. The youth training ships programme plays an important role here. In addition, the Oman Fisheries Company launched two modern well-equipped fishing vessels with refrigeration units in May 2002. The Sultanate has fish stock totalling over 47 million tonnes⁴³. Both the Gulf of Oman and the Arabian Sea offer a variety of catch, including sardines, bluefish, mackerel, shark, tuna, abalone, lobsters, and oysters. In

⁴¹ <http://www.etectonics.com/oman/gi/natural.asp>.

⁴² <http://www.omanet.orn/english/oman2004/KEY%20INDUSTRIES.asp>.

⁴³ *Ibidem*.

2003 the total fish catch accounted for 139,000 tonnes⁴⁴, as compared to 120,000 in 2000. In the same years export of fish reached 49,000 tonnes, as compared to 35,000 tonnes, valued at RO 29.6 million and RO 18.7 million, respectively. In 2003, the GCC countries accounted for 34.5% of Omani fish export in terms of quantity and 15.7% in terms of value, while European market accounted for 14.8% in terms of quantity and 27.4% in terms of value⁴⁵. The Fisheries Quality Control Centre has helped to train fishing companies in quality management. The Sultanate is on the list of states permitted to export fish to EU member countries.

By contrast to agriculture, industry (including petroleum), which accounted for only 8% of GDP in 1960, increased to 59% by 1985. Manufacturing increased only from 1% to 3% and services from 18% to 38% in the same period.

Oman is the Middle East's largest non-OPEC crude exporter and its economy moves in lock step with the world price of oil. In 2003 Oil sector accounted for 41.2% of Oman's GDP, 72.7% of government revenues and 79.8% of exports⁴⁶. Petroleum Development Oman, together with oil producing companies such as Occidental Oman, Daleel Petroleum⁴⁷, Novus Oman and Petrogas, produced about 299 million barrels of oil in 2003. Oman's total (i.e. including condensate and other liquids) production figures fell sharply from 349 million barrels (average 956,000 bbl/d) in 2001 to 327 million barrels (897,000 bbl/d) in 2002, and finally to 299 million barrels (819,000 bbl/d) in 2003, a decline of more than 15%⁴⁸. Oil exports recorded a

⁴⁴ 20,000 tonnes by commercial fishing and 119,000 by traditional fishing, Ministry of National Economy, Statistical Yearbook 2003, 32 issue, <http://www.moneoman.gov.om/mone/communicat.htm>.

⁴⁵ Ministry of National Economy, Statistical Yearbook 2003, 32 issue, <http://www.moneoman.gov.om/mone/communicat.htm>.

⁴⁶ Ibidem.

⁴⁷ Japex was acquired in December 2002.

⁴⁸ Ministry of National Economy, Statistical Yearbook 2003, 32 issue, <http://www.moneoman.gov.om/mone/communicat.htm>.

fall of about 9% at 279 million barrels in 2003 compared with 306 million barrels exported in the preceding year. Average daily exports showed a 9% decrease from 838.9 thousand barrels in 2002 to 763 thousand barrels in 2003. However, the value added by the petroleum sector at current prices increased by 5.1% to RO 3,436.6 million in 2003 from RO 3,264.4 million in 2002⁴⁹. In the first ten months of 2004, the output has averaged 756,000 bbl/d.

Most of Oman's crude oil exports go to Asia. China occupied the first place as the main importer of Omani crude oil, as its share in total exports of Oman crude oil increased from 26.4% in 2002 to 27.7% in 2003. China's share of Oman's oil exports has risen rapidly over the last two years, running at over 300,000 bbl/d during the first half of 2004. Japan retreated to the second place, although its share increased from 17.8 percent in 2002 to 21.8 percent in 2003. The share of exports to Thailand, which ranked third, increased from 17% in 2002 to 18.6% in 2003. South Korea took the fourth place with a share of 15.5%. Malaysia was the fifth largest importer of Omani oil accounting for 4.9% of oil exports of Oman. Singapore was the sixth, with a share of 3.5% against 5.4% in 2002. Besides these countries, Oman exported crude oil to few more countries in 2003, the share of which all put together was 6.2% of total oil exports in that year⁵⁰.

In the end of 2003 Oman's proven oil and condensate reserves stood at 5.572 billion barrels, representing an increase of 12.4 million barrels as compared to 2002⁵¹. Oil Ministry officials claim that new technologies and discovered fields would increase Oman's oil production by 50,000 bbl/d from 2005 onwards. However, in April 2004, *The New York Times*

⁴⁹ Ibidem.

⁵⁰ Ibidem.

⁵¹ Central Bank of Oman, Annual Report, 2003, <http://www.gasandoil.com/goc/company/cnm43377.htm>, <http://www.timesofoman.com/newsdetails.asp?newsid=4326&pn=business>.

reported that internal documents and other data indicated that Shell had overestimated its proven oil reserves in Oman by as much as 40%. If the exaggeration is confirmed, the estimate of recoverable oil will have to be lowered. That is bad news for Oman, heavily dependent on oil and gas exports but it is also bad news for the world as a whole⁵². It is the policy of the Ministry of Oil & Gas to restrict production to a level that does not exceed 6.5% of remaining reserves per annum, but if output continues at the present pace and no major new reserves are discovered, Oman has less than 20 years left as a significant oil-exporting country⁵³. Given that estimates suggest that the amount of oil originally in place in Oman is around 50 billion barrels, finding ways to increase recoverability is a top priority. As part of its attempts to expand its reserves, in 2003, government decided to have old seismic studies reprocessed⁵⁴. Besides, several foreign companies are involved in offshore exploration (Total, Maersk Oil Oman – a subsidiary of Danish energy group AP Moeller, Mitsui & Co., Occidental and Hunt Oil). China's CNPC acquired a foothold in Oman in 2002, taking a 50% stake in Block 5 which it acquired after it was relinquished by the Japanese firm Japex.

In the face of a declining trend in oil production being experienced since 2000, high and rising oil prices have helped in sustaining the contribution of the oil sector to the growth and development process of the economy⁵⁵. Average oil price for Omani crude increased from USD 24.29 per barrel in 2002 to

⁵² Jane's, Foreign Report, 21st April 2004, http://www.janes.com/business/news/fr/fr-040421_1_n.shtml, In 2003, four years after the previous audit, Shell made an audit of proven reserves of its operations in Oman. The audit found that "proved total reserves are currently overstated by some 40 percent". <http://www.peaceredding.org/Oman's%20Oil%20Yield%20Long%20in%20Decline,%20Shell%20Data%20Show.htm>.

⁵³ Energy Information Administration – www.eia.doe.gov.

⁵⁴ Oman signed a six year contract with Spectrum Energy and Information Technology (UK), Energy Information Administration – www.eia.doe.gov.

⁵⁵ Central Bank of Oman Annual Report, 2003, http://www.cbo-oman.org/annual/chapt3_en_03.pdf.

USD 27.84 per barrel in 2003, which represents an increase by 14.6%. According to the World Economic Outlook of the IMF for April 2004, about a half of the oil price increase seen in the recent period could be attributed to the depreciation of the US dollar. The net oil revenues increased during 2003 by 5.3% to reach RO 2,316.4 million from RO 2,200.5 million in 2002. A sharp increase in oil prices brought windfall profits for Oman in 2004. Oman crude realised an average price of USD 33.9 a barrel in 2004 compared with the budgeted price of USD 21 a barrel, an increase of USD 12.9 a barrel. Though the oil revenues were estimated at RO 1.654 billion, it grew by a whopping RO 1.252 billion to RO 2.906 billion. Thus the total actual revenues rose by nearly 43% to RO 4.177 billion as against the estimated RO 2.925 billion⁵⁶ and oil revenues contributed more than 69.5% of total income in 2004.

The deposits in Oman are amongst the world's most geologically complex, encompassing the full range of structures and oil types. Oman's oil fields⁵⁷ are generally smaller, more scattered, less productive, and more costly per barrel than in other Persian Gulf countries. The average well in Oman produces less than 300 bbl/d⁵⁸, about a tenth of the volume per well of those in neighbouring countries. To compensate, Oman uses a variety of enhanced oil recovery (EOR) techniques. While these raise production levels, they increase the cost. Per barrel lifting costs rose from USD 4.79 in 2002 to USD 6.35 in 2003⁵⁹. While these figures are low by world standards, they remain substantially higher than in most other Persian Gulf oil fields.

⁵⁶ <http://www.timesofoman.com/newsdetails.asp?newsid=9053>.

⁵⁷ Most of which are located in the country's northern and central regions. The largest and traditionally most reliable fields are in the north. These fields, which include Yibal (the biggest), Fahud, al-Huwaisah, and several others, are now mature and face future declines in production.

⁵⁸ 299 million bbl from 2,843 producing wells. Ministry of National Economy, Statistical Yearbook 2003.

⁵⁹ Energy Information Administration – www.eia.doe.gov.

The Petroleum Development Oman (PDO)⁶⁰, which produces 90% of Oman's oil⁶¹, and is the second-largest employer after the government, claims its crude output fell to 703,000 barrels per day (bbl/d) in 2003 from 771,000 bbl/d a year earlier due to ageing oilfields. From 100,000 bbl/d in 1967, PDO production reached more than 800,000 bbl/d in the late 1990s. From 1998 to 2002, the annual production from PDO's existing oilfields declined by an average of 15% per year⁶². PDO currently produces around 660,000 bbl/d of oil⁶³. The company is planning to invest USD 10 billion over the next 5 years in order to increase its output capacity back to 800,000 bbl/d, of which about 20% will come from enhanced-oil-recovery projects. The upgrade project is scheduled for completion by 2008/2009⁶⁴. The Halliburton, Houston-based Company won the contract to assist PDO with oil well drilling, monitoring and production to help it increase the production output⁶⁵. By 2009, exploration is expected to contribute about 20,000 barrels per day to their aggregate oil production. The year 2004 is the first year since 2000 that PDO produced more new oil (from new wells) than the year before. PDO oil-production forecast

⁶⁰ The company is a consortium comprised of the Omani government (60%), Shell (34%), Total (4%), and Partex (2%).

⁶¹ Of the total 5.57 bn-barrel oil reserves of Oman, PDO's crude reserves stand at over 5 bn barrels. *Times of Oman*.

⁶² *Oman Economic Review*, January 2005, http://www.oeronline.com/php/2005_jan/cover2.php. In 1976, Oman's oil production rose to 366,000 barrels per day (bbl/d) but declined gradually to about 285,000 bbl/d in late 1980 due to the depletion of recoverable reserves. From 1981 to 1986, Oman compensated for declining oil prices by increasing production levels to 600,000 bbl/d. With the collapse of oil prices in 1986, however, revenues dropped dramatically. Production was cut back temporarily in coordination with the Organization of Petroleum Exporting Countries (OPEC), and production levels again reached 600,000 bbl/d by mid-1987, which helped increase revenues. By mid-2000, production had climbed to more than 900,000 bbl/d.

<http://www.traveldocs.com/om/economy.htm>.

⁶³ PDO Annual Report 2004, *Oman Economic Review*, January 2005.

http://www.oeronline.com/php/2005_jan/cover2.php.

⁶⁴ http://www.findarticles.com/p/articles/mi_go2264/is_200411/ai_n7335947.

⁶⁵ *Bloomberg News*, 1 November 2004, http://quote.bloomberg.com/apps/news?pid=10000087&sid=ahiokg2uW930&refer=top_world_news.

for the period from 2005 to 2009 is very similar to the one showed in 2004.

The country's only refinery and terminal at Mina' al-Fahal, near Muscat, completed in 1982 with an initial throughput capacity of 50,000 bbl/d and expanded to 80,000 bbl/d in 1987, was designed to meet domestic demand for petroleum products, which Oman previously had to import. Operated by the Oman Refinery Company (ORC), it produces liquefied petroleum gas (LPG), butane, jet fuel, and two grades of gasoline. In 2001, the refinery was revamped to sustain feed rate with change in crude quality and hence the capacity was increased to 85,000 bbl/d⁶⁶. ORC is making investments in excess of USD 200 million towards upgrades and new infrastructure, that will boost capacity from the present 85,000 bbl/d to 100,000 bbl/d. A contract has been awarded for the installation of an isomerisation plant⁶⁷. The output reached 31 million barrels in 2003.

A second refinery is under construction near the northern city of Sohar at a cost of around USD 1.3 billion. ORC is investing in a 266 km pipeline from Mina' al-Fahal to Sohar, which will supply a mix of crude oil and long residue as feedstock for the Sohar Refinery. The output capacity is expected to be 51,000 bbl/d of gasoline and 30,000 bbl/d of diesel and the same amount of fuel gas. The plant will also have a facility for extracting sulphur from gasoline and a catalytic cracker that will produce gas and gasoline from the leftover elements of the normal refining process. Initially, about 10% of the refined products would be sold in the local market with the remainder available for export. British Petroleum has signed an agreement with the Ministry of Oil and Gas for the purchase of all the refinery's products not required for domestic use for 10 years. Completion of this project is expected in the third quarter of 2006. The re-

⁶⁶ http://www.orc.co.om/aboutus_milestones.shtml.

⁶⁷ *Oman Observer*, 10 November 2004, http://www.newsbriefsoman.info/1104/archive_121104.htm.

finery's propylene production of approximately 327,000 tonnes per year would be sufficient to serve as feedstock for a polypropylene project planned in Sohar, which will have a capacity of 340,000 metric tons per annum of polypropylene. It will be capable of producing a range of homo-polymers and random copolymers⁶⁸. The project completion is expected in 2006. The Oman Polypropylene LLC (OPP)⁶⁹ will market production in the Indian subcontinent, Iran, Middle East and east and southern Africa while LG International will be the marketer in the remaining international markets. Initially, 90% of the production will be exported and the remaining 10% will meet the existing domestic requirements⁷⁰.

Sohar Polyethylene Project is another joint venture established to design, build and operate a petrochemical complex in Oman located in the Sohar Industrial Port Area. The plant will comprise feedstock production facilities, a gas cracker, as well as three world-scale polyethylene production units based on state-of-the-art catalyst and process technology. Further, the joint venture will facilitate the development of downstream industries in Oman that will convert polyethylene to end-products in Oman thus enhancing the level of job creation that will result from the complex. Construction of this complex is expected to begin in 2005⁷¹.

For international oil trading, including the purchase and sale of Omani crude oil, and acquiring foreign downstream

⁶⁸ <http://www.oman-oil.com/projectsunderconst.asp>.

⁶⁹ OPP is formed by Oman Oil Company (60%), LG International Corporation (20%) and Gulf Investment Corporation (20%). The Gulf Investment Corporation (GIC) was established in 1983 and is owned in equal proportions by six member states of the Gulf Cooperation Council (GCC): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Its mission is to support regional cooperation and to stimulate private enterprise in the GCC region. <http://au.biz.yahoo.com/041219/17/2j8l.html>.

⁷⁰ Oman Observer, 8 November 2004, http://www.newsbriefsoman.info/1104/archive_121104.htm.

⁷¹ <http://www.oman-oil.com/projectsunderimpls.asp>.

holdings the Oman Oil Company (OOC)⁷² was established in the late 1980s. Oman Oil Company plays a critical role in the Sultanate's efforts to diversify the Omani economy and to generate Omani and foreign private sector investment. For the future, OOC plans to continue to initiate and develop quality investment opportunities both internally and externally⁷³. OOC which acquired a 49% stake in BP Oman in December 2002 has undergone a transition to Oman Oil Marketing Company, the only 100% Omani owned fuels marketing company. The new brand, Omanoil, was officially launched in 2003. The company has four main areas of operations covering the Retail, Commercial, Aviation, and Lubricants markets. The retail business consists of 80 retail sites spread throughout the country selling approx 339 million litres of fuel per annum and having a 23% market share⁷⁴. OOC holds 10% shares of Compañia Logistica de Hidrocarburos S.A. (CLH), the largest petroleum and logistics company in Spain, which owns and operates 100% of the petroleum product pipeline system in Spain and has a market share of approximately 85% of the overall logistics business⁷⁵. In November 2004 Oman Oil Company (OOC) signed a Shareholding Agreement with LG International (LGI) of Korea and National Petrochemical Company (NPC) of Iran for the construction of an Ethylene Dichloride (EDC) plant in the Sohar Port Industrial Area. The capacity of the plant to produce 300,000 tonnes of ethylene dichloride per annum will go to the manufacturing of various plastic products. The project is aimed at diversifying and developing the Omani economy, following Oman Polypropylene project. Commercial production is expected in the second quarter of 2008⁷⁶. Another joint venture

⁷² Oman Oil Company (OOC) is a commercial company 100 % owned by the Government of the Sultanate of Oman. <http://www.oman-oil.com/aboutus.asp>.

⁷³ <http://www.oman-oil.com/aboutus.asp>.

⁷⁴ <http://www.oman-oil.com/projectsinoperation.asp>.

⁷⁵ The Company also owns and operates an extensive network of tank farms, loading facilities, trucks, and costal barges, <http://www.oman-oil.com/projectsinoperation.asp>.

⁷⁶ 7 November 2004, <http://www.oman-oil.com/newsdetails.asp?id=76>.

agreement was signed in 2001 for the establishment of the Methanol project in the Sohar Industrial Park. The company will be jointly owned by the newly created entity – Oman Methanol Holding Company, part of the local Omzest Group (50%), Methanol Holding Trinidad (30%), and Germany's Ferrostaal (20%). The production of the project is scheduled to commence in 2006 and has a projected production capacity of 5,000 tons of methanol per day⁷⁷. The project will utilize some of the 5 Tcf of gas that the Omani government has made available to the new industries in Sohar.

Germany's Krupp Uhde will build a fertiliser complex for Sohar International Urea and Chemical Industries (SIUCI), a Suhail Bahwan Group Company. The plant is due to begin production of 3,500 tonnes a day (t/d) of urea and 2,000 t/d of ammonia in 2005. SIUCI has a firm off-take agreement in place with Transammonia (USA) for the supply of the plant's entire urea output. Excess ammonia will be marketed on the Indian subcontinent⁷⁸.

One of the major upcoming oil-based projects is a construction of a world-scale ammonia/urea fertilizer manufacturing facility⁷⁹ in the Wilayat of Sur, 150 km south of Muscat, run by the Oman India Fertilizer Company⁸⁰ (OMIFCO). It will comprise two 1,750 t/d ammonia plants (trains) using the Hal-dor Topsoe technology, two 2,350 t/d urea plants using Snam-progetti's technology and two granulation units⁸¹. The complex

⁷⁷ <http://www.oman-oil.com/newsdetails.asp?id=40>.

⁷⁸ [http://www.ey.com/global/download.nst/Middle_East/Oman_Tax_Update/\\$file/Commentary%20on%20the%20changes%20made%20to%20Omani%20Tax%20laws.pdf](http://www.ey.com/global/download.nst/Middle_East/Oman_Tax_Update/$file/Commentary%20on%20the%20changes%20made%20to%20Omani%20Tax%20laws.pdf).

⁷⁹ The project was named the Petrochemicals deal of the year in the Middle East and North Africa by Project Finance Magazine (December 2002), <http://www.oman-oil.com/projects-underconst.asp>.

⁸⁰ It is a joint company with 50% participation by Oman Oil Company and 50% participation by two Indian companies Krishak Bharati Cooperative – KRIBHCO (25 %) and the Indian Farmers Fertilizer Collective – IFFCO (25 %), <http://www.oman-oil.com/projects-underconst.asp>.

⁸¹ Alexander's Gas & Oil Connections, 22-04-02, <http://www.gasandoil.com/goc/contract/cox22009.htm>.

also includes associated utilities and marine works. It will be the world's largest grassroots fertilizer complex which will contribute to the valorisation of the Sultanate of Oman's vast gas resources and the third largest investment in a single venture in the country after Oman LNG and Salalah Port. It is considered highly significant for the development of the industrial sector in Oman⁸². All the production which will amount to 250,000 metric tons per annum of surplus liquid ammonia, and 1,650,000 metric tons per annum of bulk granulated urea, is to be exported to India under long-term take-or-pay off-take agreements⁸³. Works will be completed within the latter half of 2005. The Oman Oil Company (OOC) is planning to set up another multimillion-dollar plant for manufacturing urea formaldehyde at the Sur Industrial Estate, adjacent to Oman-India fertiliser project. The plant will be operated and maintained by OMIFCO, which would purchase the entire urea formaldehyde produced by the plant⁸⁴.

Prompted by the maturation of the oil fields owned and the volatility of oil prices, the Omani government has made diversifying the country's economy a top policy priority. In the 1980s, this effort hinged on developing a domestic manufacturing base, but more recent initiatives have focused on the exploitation of Oman's other natural resources, particularly its natural gas reserves and mineral resources, and development of manufacturing sector.

Since the 1989-1991 discoveries of significant volumes of non-associated gas in Central Oman it has become the chief focus of Oman's economic diversification strategy. Intense exploration has raised proven natural gas reserves from only 12.3 Tcf⁸⁵ in 1992 to just under 30 Tcf in 2003 according to the

⁸² *Oman Observer*, 13 April 2002.

⁸³ <http://www.oman-oil.com/projectsunderconst.asp>.

⁸⁴ <http://www.oman-oil.com/newsdetails.asp?id=35>.

⁸⁵ Tcf = Trillion cubic feet = 28,316,847,000 cubic meters.

Oil and Gas Journal⁸⁶. This figure could increase by as much as another 2 Tcf when the gas beneath the Dakhiliyya field is accounted for. Most of Oman's reserves are in PDO-owned areas, and the company is Oman's biggest natural gas producer. Most gas in Oman is associated with oil, but even that which is non-associated is often located close to the country's oil fields⁸⁷. More than 10 Tcf of Oman's non-associated natural gas is located in deep geological structures, many of which are beneath active oil fields. In addition to the PDO, a number of foreign companies are involved in Oman's natural gas sector. In September 2003, Atlantis, a subsidiary of the Chinese firm Sinochem, began to drill a gas find containing up to 300 Bcf. Gulfstream (now Anadarko) as the first private company to be awarded an onshore gas concession. In August 2001, it received a fixed price gas sales agreement with the government and a 100% concession to develop three gas fields it discovered in Haffar Block 30. The field has proven reserves of 300 Bcf⁸⁸. Novus Petroleum Ltd. (Australia)⁸⁹ signed an exploration and production agreement with the Omani government for Blocks 15 and 47 in northern Oman in May 2001. The blocks form a part of the same geological structure as Novus' offshore gas producing field in Block 8, in the Straits of Hormuz. In April 2002, Novus signed another agreement for Block 31. The company is also likely to be involved in developing the Omani portion of the Iranian-Omani jointly held West Bukha/Hengam gas

⁸⁶ Energy Information Administration, <http://www.eia.doe.gov/emeu/cabs/oman.html>.

⁸⁷ Most of the gas produced comes from PDO's Yibal field; smaller volumes come from the Natih and Sayh Nuhydah fields in northern Oman and the Birba field in the south.

⁸⁸ <http://www.eia.doe.gov/emeu/cabs/oman.html>.

⁸⁹ Novus Petroleum Limited is an oil and gas company with exploration and production interests in various locations, including the Middle East, North America, South East Asia and Australia. In December 2003, Medco Energi announced an off-market takeover bid for all of Novus' ordinary shares. On 13th July 2004, Novus was removed from the official list of the Australian Stock Exchange as a result of Medco Energi obtaining an interest in more than 90% of Novus' ordinary shares and proceeding to compulsorily acquire the remaining Novus shares. 24 August 2004, <http://www.novuspetroleum.com/cmsaxs/site/1/7.asp?secID=2&noCache>.

field once an agreement is worked out between Iran and Oman. The field holds an estimated 3 Tcf of gas⁹⁰.

In 2003, natural gas production was 852.1 billion cubic feet (bcf), of which non-associated gas accounted for 586.5 bcf, as compared to total 539.5 bcf in 2000, of which non-associated gas accounted for 289.8 bcf. The natural gas exploration contribution to GDP amounted to nearly RO 210 million in 2003, representing 2.5% of the GDP⁹¹. Out of 852 bcf of natural gas produced in 2003, Oman LNG used 365 bcf, 164 bcf were used in oil fields for reinjection, compression fuel, and power generation to support facilities at producing fields, 155 bcf were used by government gas system – mostly by power facilities. The gas sector is becoming increasingly important to the economy of Oman and its development is proceeding rapidly. Total gas demand is expected to more than double by 2010, from the current level of approximately 40 million cubic meters per day.

Oman Gas Company S.A.O.C. (OGC)⁹² established as a closed Joint Stock Company in August 2000 owns and operates the Country's gas transportation facilities. In April 2001, Oman awarded a contract to operate the country's natural gas transportation and distribution infrastructure for the next five years to Canada's Enbridge and BC Gas (now Terasen). The contract includes a provision for technology transfer and training, so operation will be shifted to Omani staff after five years⁹³. In 2002 OGC completed the construction of two major pipelines, a 300 km pipeline from Fahud to Sohar and a 676 km pipeline from Saih Rawal to Salalah. The Salalah Pipeline is currently supplying the newly commissioned gas fuelled power station in Raysut in addition to Gas supply to Raysut Cement

⁹⁰ Energy Information Administration, <http://www.eia.doe.gov/emeu/cabs/oman.html>.

⁹¹ Ministry of National Economy, Statistical Yearbook 2003.

⁹² Oman Oil Company (OOC) owns 20% and the Government of Oman represented by the Ministry of Oil & Gas owns 80% of the Company, <http://www.oman-oil.com/projectsin-operation.asp>.

⁹³ <http://www.eia.doe.gov/emeu/cabs/oman.html>.

Plant. The Pipeline capacity is for approximately 4.2 million cu. m/d. The Sohar Pipeline capacity is approximately 12.7 million cu. m/d. The gas will be supplied to Major Industrial Projects in the Sohar Port Industrial Area⁹⁴.

The 500-mile gas trunk line is connecting the central fields with power plants and the processing facility of the Oman Liquefied Natural Gas LLC (Oman LNG), which was founded in 1994 to build a plant to liquefy 22.6 million cubic meters of gas per day for supply mainly to Asian markets⁹⁵. This project is expected to generate \$24 billion over 25 years⁹⁶. The Oman LNG forms an integral part of the Sultanate's strategic and economic vision of the future⁹⁷. It is not only the biggest development project ever undertaken in Oman, but with a total capacity of 6.6 million tons per year, it is also one of the largest in the world and the fastest to come on stream – less than nine years from the discovery of substantial gas reserves in central Oman. The first LNG plant, commonly referred as a train, was built in 1999, just three years after laying the foundation stone and the second train was commissioned in October 2000, both at Qalhat, near Sur in al-Sharqiyya region, one of the areas that has been targeted by the government for economic development. The Company wants to achieve an Omanisation level of 90% by the year 2008. By the end of 2003, Omanis made up 68.7% of total workforce. Suitable training remained, in 2003, an integral part of operations.

A third train is expected to increase production capacity by 50% when it comes on line in 2005-2006. Qalhat LNG (SAOC)⁹⁸ was incorporated in September 2003, following the

⁹⁴ <http://www.oman-oil.com/projectsinoperation.asp>.

⁹⁵ Shareholders of this company are the government of Oman (51 %), Shell (30 %), Total (5.54 %), Korea LNG (5 %), Partex (2 %), Mitsui (2.77 %), Mitsubishi (2.77%), and Itochu (0.92 %), <http://www.omanlng.com/html/about/shareholders.asp>.

⁹⁶ *Oman Economic Review*, http://www.oeronline.com/php/2005_jan/cover2.php.

⁹⁷ <http://www.internationalspecialreports.com/middleeast/99/oman/16.html>.

⁹⁸ The closed joint stock company is owned by the Sultanate's government (55.84%), Oman LNG LLC (36.8%) and Union Fenosa Gas (7.36%).

Sultanate's decision to build a third LNG train adjacent to the Oman LNG second train facility at Qalhat, allowing it to share Oman LNG storage, loading, and other facilities. The production from the third train will be shipped to Spain and Japan in 2006. Fifty per cent of the new train's production was sold to Union Fenosa Gas on long-term agreement and the remaining to Osaka Gas, Mitsubishi Corporation, and Itochu Corporation⁹⁹. There have been preliminary discussions with India over the possibility of that country taking an equity stake in a possible fourth train. At present, the two Qalhat trains are operating almost at the limits of their capacity, and Union Fenosa has already signed a 20-year contract for a half of the third train's output once it comes on line¹⁰⁰.

Exports of LNG started in April 2000, and by the end of 2000, about 2.3 million tons of LNG worth RO 174.6 million had been exported to Korea, Japan, India, USA, and Spain. The company also exported 53,000 tons of condensates worth RO 4.5 million in 2000. In 2002, Oman's total LNG production was 6.6 million tons, of which 6.5 million tons were exported. In 2003 Oman's total LNG production was 324 Bcf¹⁰¹ and over 350 cargoes of LNG have been exported¹⁰², thus the total export of LNG reached the value of RO 535.9 Mn¹⁰³.

Oman is investing in ships to transport LNG to markets around the world. Developing the shipping industry is another important goal for the Omani government, which established the Oman Shipping Company. The naming ceremony of the first LNG tanker *Sohar*¹⁰⁴ in the spring of 2003 marks the start

⁹⁹ 16 September 2004, <http://www.oman-oil.com/newsdetails.asp?id=73>.

¹⁰⁰ <http://www.eia.doc.gov/erneu/cabs/oman.html>.

¹⁰¹ *Ibidem*.

¹⁰² LNG exports amounted to 6.7 million tons, <http://www.omanlng.com/annualreport-2003/welcome.asp>.

¹⁰³ Ministry of National Economy, Statistical Yearbook 2003.

¹⁰⁴ Several agreements on re-scheduling finance and re-structuring the administration of *Sohar* LNG tanker and establishing a new gas transport company were signed at the Finance Ministry on 10th November 2004. A new company will be established under the

of the establishment of an Omani fleet to transport gas. In July 2002, another joint venture ship ownership program called Muscat LNG was formed¹⁰⁵. This second LNG tanker *Muscat* started its services in 2004. Mitsui O.S.K. Lines, Ltd. (MOL) has signed contracts for joint ownership of four additional new LNG carriers, named *The Ibra*, *The Ibri*, *The Nizwa* and *The Salalah*, with Oman Shipping Company(OSC). The four new LNG tankers will transport LNG produced by Qalhat LNG, mainly to Japan and Korea. Training of Omani crewmembers has already commenced¹⁰⁶. The new tankers' LNG output will be 3.3 million tonnes per annum when production starts in early 2006 and is expected to increase to 3.7 million tonnes per annum¹⁰⁷.

Gulf Energy Maritime (GEM)¹⁰⁸, headquartered in Dubai is a new joint venture shipping company, launched in 2004. With an initial fleet of two Double Hull Panamax vessels and four new Panamax-size in construction, to be delivered by 2005, the company is set to fill an expanding global niche for independent clean petroleum transportation, as global shipping laws outlaw existing single-hulled ships. GEM will initially transport "clean petroleum products and easy chemicals", including naphtha, kerosene, MTB, methanol, jet fuel, MOGAS, and other hydrocarbons¹⁰⁹.

name Energy Spring to transport LNG. Ownership of Sohar LNG Tanker will be transferred from Greenfield Maritime Transport to the new company registered in Panama. Oman Maritime Transport Company owns 50% of Sohar LNG Tanker and Mitsui Company owns the remaining 50%. The Gulf International Bank has offered loans valued at USD 155 million to finance the project. *Oman Observer*, 11th November 2004, http://www.newsbriefsoman.info/1104/archive_121104.htm.

¹⁰⁵ <http://www2.molpower.com/html/news/2004071201.htm>.

¹⁰⁶ *Times of Oman* – 24/12/2003, http://www.menafn.com/qn_news_story_s.asp?StoryId=37284.

¹⁰⁷ 16th September 2004, <http://www.oman-oil.com/newsdetails.asp?id=73>.

¹⁰⁸ GEM is 30% owned by Oman Oil Company, 35% by Emirates National Oil Company (ENOC), 30% by Abu Dhabi-based IPIC and 5% by Thales of France, under the UAE off-set scheme.

¹⁰⁹ <http://www.oman-oil.com/projectsinoperation.asp>.

Oman Oil Company entered into a gas sales agreement with Dolphin Energy Limited (DEL)¹¹⁰ to provide a 42-month supply of gas to DEL for use in its new Power and Desalination plant in Fujairah, which is GCC's first cross border gas sales deal. The first gas sales took place in January 2004¹¹¹. Plans call for the pipeline to reverse direction eventually, supplying natural gas from Qatar to petrochemical and fertilizer plants in Oman – once Dolphin begins to receive its own substantial quantities of gas from Qatar in 2006¹¹².

The government's program emphasizes the industrial sector, based on heavily subsidized industrial clusters, although some traditional handicraft industries remain. Silversmiths practice their trade, and artisans work with clay at Bahla, just west of Adam, an important centre for the production of household pottery. Goldsmiths follow their trade in the Muscat metropolitan area and its environs. The coastal towns remain boat-building centres. With plans to develop gas-intensive industries including a petrochemical complex, fertilizer plants, an aluminium smelter and a steel mill in Sohar, the manufacturing sector is expected to begin making much larger contribution to GDP.

The first industrial estate, at Rusayl, 15 kilometres from Seeb International Airport, was developed in the mid-1980s and housed about sixty enterprises, including manufacturers of chemicals, electric and building materials, paints, textiles and garments, computer stationery, aluminium products, car batteries, steel structures, and poly products to name a few¹¹³. The sultanate's second industrial estate, at Raysut, was developed in the early 1990s. The sultanate's third industrial park is at So-

¹¹⁰ Dolphin Energy Limited (DEL), is a joint-venture between the UAE government, Total, and Occidental Petroleum. The goal is to link the gas networks of Qatar, the UAE, and Oman as well as to help supply the south-Asian subcontinent eventually.

¹¹¹ <http://www.oman-oil.com/projectsinoperation.asp>.

¹¹² 13 May 2003, <http://www.oman-oil.com/newsdetails.asp?id=35>.

¹¹³ At present there are 138 companies located at Rusayl, <http://www.industries-oman.com/rusayl.htm>.

har¹¹⁴. Others are planned at Nizwa¹¹⁵, Sur, Khasab, and al-Buraymi Oasis. Raysut Industrial Estate is one of the most significant industrial parks in Oman, because it is ideally located close to southern city of Salalah. Industries at Raysut estate are zoned so that highly polluting industries are kept far away from other clean and foodstuff factories. Raysut Industrial Estate is home to manufacturers producing a wide range of products including school stationery, box files, ice, processed fish, frozen chickens, PVC pipes, steel products, medical supplies, solar heaters, flour, fertilizer, textiles, and vegetable oil. With plans to establish a free zone adjacent to the nearby port, there is a huge potential to make Salalah a major air-sea cargo hub and centre for industrial development. Indeed, given the Port's development, as well as plans to initiate a free zone, Raysut Industrial Estate's popularity with international investors has seen a marked increase. As a result of this, the government is expanding the Estate and has begun to supply it with subsidized natural gas¹¹⁶. Nizwa Industrial Estate was inaugurated at the end of 1994. Products to be manufactured are ceramic tiles, leather suitcases, novelties, military badges, medical drugs, chemicals, disinfectants, and surgical gloves. Sohar Industrial Estate had 21 industries in production in its beginning. Next projects are expected to be productive soon, making Sohar a very rapidly growing estate¹¹⁷. In the past months, Sohar Industrial Port Company (SIPC)¹¹⁸ has signed major agreements in the petrochemical, power and the logistic clusters. Construction is underway for four very large industrial plants. The volume of in-

¹¹⁴ 35 industrial and commercial entities have settled in Sohar, <http://www.industries-oman.com/sohar.htm>.

¹¹⁵ There are already 12 enterprises registered in Nizwa, <http://www.industries-oman.com/nizwa.htm>.

¹¹⁶ http://www.peic.com/raysut_estates.asp.

¹¹⁷ http://www.internationalreports.com/middleeast/99/oman/energy_mining/.

¹¹⁸ SIPC, a 50:50 joint venture between the government of Oman and the Port of Rotterdam, plays a crucial role in promoting, coordinating and facilitating the requirements of investors proposing to establish heavy industries in the Sohar Industrial Estate.

vestments at Sohar Industrial Port would come up to USD 9.5 billion at the end of 2008¹¹⁹.

Industry in Oman received a boost with the setup of the Public Establishment for Industrial Estates (PEIE) in 1993 with responsibilities of developing and administering industrial parks as well as encouraging the private sector to contribute to the industrialization drive in Oman. The PEIE was established after the decade-long success of the Rusayl Industrial Estate Authority (RIEA). In July 2003, the PEIE has signed a 10-year agreement with the Singapore-based Ascendas Services for the management of their six industrial parks in Rusayl, Sohar, Raysut, Sur, Buraymi, and Nizwa as well as the first technology park in Oman; "Knowledge Oasis Muscat" (KOM). The latter was set up on the Rusayl Industrial Estate in response to a study conducted by the United Nations Industrial Development Organisation (UNIDO). KOM was designed to the latest international standards and aims to offer a one-stop-solution for conducting business activity. It includes a high technology business centre (which will include an incubator facility for companies wishing to start an office immediately before moving to a bigger space for full-scale operations), a college of IT sciences to train nationals, and a customer service centre. Microsoft will provide services and e-commerce infrastructure at the Internet Data Centre (IDC) launched jointly with the Oman Telecommunications Company (Omantel). Additionally, Omantel and the German telecommunications company, Siemens, are together establishing a Development Centre to test new generation products at the site¹²⁰. Oman's Internet economy continues to grow robustly, with both new and established companies reaping profits online. E-commerce still has huge potential. Its effect on the economy may be as significant as the shift from the agri-

¹¹⁹ <http://news.tradingcharts.com/futures/1/2/62901721.html>.

¹²⁰ <http://www.omantel.om/english/oman2004/KEY%20INDUSTRIES.asp>.

cultural economy of the 17th century¹²¹. Oman became the first Arab country to introduce a machine-read smart card with stored thumbprint when the country's first ID card, belonging to His Majesty Sultan Qaboos Sa'id, was issued in January 2005.

Taking advantage of its energy resources, solid infrastructure and proximity to export markets, the country develops its steel industry, which began with the construction of Oman's first steel billeting plant at Rusayl in 2000. Annual production, at 76,000 tonnes of billeted steel, may be modest by world standards, but the plant's significance to a potential steel industry in the Sultanate cannot be underestimated, especially as Oman embarks on a path of economic diversification. Annual steel consumption in the Sultanate is projected to rise to 810,000 metric tonnes by 2005, further climbing to 1,100,000 tonnes by 2010. In contrast, demand in 1996 was pegged at around 600,000 tonnes, with steel bars and rods making up roughly 60% of all steel imports and steel pipes accounting for about 30% of these imports¹²². In 1995, the Sohar Steel Mill was established as a rolling mill for rolling deformed bars from imported billets. The plant came into stream in October 1996. The initial capacity was 80,000 tons per year, but within one year of its establishment, it was decided to go for increased production to meet the entire demand of Oman of 180,000 tonnes per year and to produce steel bars as per British as well as American Standards through "temperit" process, a state of the art technology¹²³. Oman's second Steel Rolling, located at Rusayl Industrial Estate¹²⁴, started commercial production during April 2003 with production capacity above 70,000 tons/year and presently producing above 3.500 tons per month.

¹²¹ http://www.kom.om/news_09122003.asp.

¹²² http://www.oeronline.com/php/2000_september_october/main1.php.

¹²³ <http://soharsteel.com/>.

¹²⁴ 11th September 2004, <http://www.mesteel.com/cgi-bin/w3-msql/goto.htm?url=http://www.mesteel.com/countries/oman/steelnews.htm>.

January 2005 marked the beginning of a new era of Oman's non-oil industrial development: three long-term agreements to set up in the Sohar Industrial Port the nation's first, and the most modern in the world, iron and steel plant¹²⁵ were signed. In three phases, the project will entail a total cost of USD 750 million. The plant, which is coming up in technical collaboration with Midrex Technologies of the US and VAI Fuchs of Germany will be the third iron and steel plant in the Gulf. A local company, Shaded Iron and Steel LLC, has already been established. The first phase of the project will produce 720,000 metric tonnes of hot bricketted iron and steel billets per year. In the second phase, the capacity will touch one million metric tonnes per year to reach four million metric tonnes per year at the end of the third phase (2009-2010)¹²⁶. The plant is expected to export iron and steel products to neighbouring markets including the UAE, India, China, etc.

Oman Oil Company (OOC), Abu Dhabi Water and Electricity Authority (ADWEA) and Alcan Inc. are evaluating the development of the Sohar Aluminium Smelter Project including a dedicated power plant in the Sohar Industrial Area. The project will use the best available technology to produce high grade aluminium products. The agreement provides that Alcan would license its AP30 smelter technology and take a substantial role in the construction and operation of the smelter. Construction is expected to commence in the latter half of 2005 and will result in first metal production by the end of 2007¹²⁷. The planned smelter will have a capacity of 500,000 tonnes per year, and a 1,100 megawatt power plant¹²⁸.

Mining and Quarrying sector has played an important role in Oman's economy since ancient times. To enhance its

¹²⁵ <http://www.timesofoman.com/newsdetails.asp?newsid=9715&pn=business>.

¹²⁶ *Ibidem*.

¹²⁷ The venture is 40% owned by OOC, 40% by ADWEA and 20% by Alcan, *Gulf Daily News*, 7 July 2004, <http://www.oman-oil.com/projectsunderimpls.asp>.

¹²⁸ <http://www.adwea.com/en/news/13-12-2004.htm>.

role, the government has embarked on an intense programme of geological research and exploration in order to develop the country's mineral resources. Government statistics show Oman earned 33 million rials in 2000 from minerals. However, the mineral earning for 2003 dropped to RO 25.2 million¹²⁹. Surveys have indicated deposits of copper, chromite, nickel, gold, silver, and numerous other materials including asbestos, coal, iron ore, lead, manganese, and zinc. Large deposits of metal ores are located at the Sayh Hatat area (northeast of Izki) and al-Jabal al-Akhdar area. Substantial deposits of zinc and lead are known to exist in Dhofar, Jaalan, and Hawshi Huqf (southwest of al-Ghabah). In 2000, Japan's Metal Mining Agency and the local National Mining Company (NMC)¹³⁰ discovered 2.5 million tonnes of gold and copper at Shinas and Wadi Hatta, near the border with the United Arab Emirates, north of previously mined deposits in Sohar. Preliminary estimates show the deposits to be worth USD 100 million and it is believed there are plenty more to be found. There could be as much as 30 million tonnes of gold and copper deposits. Gold is associated with copper, and national gold reserves stand at 400,000 tonnes, yielding 5 g/t. Estimated reserves would appear to justify open pit mining and transport to the Oman Mining Company (OMC) treatment facility and copper smelter at Lasail near Sohar. This will produce approximately 22,000 t of copper and 8,000 oz of gold annually which could generate annual revenues of USD 38 million from concentrate sales. Recent discoveries have raised hopes of a revival of mining industry which centuries ago supplied the metals used to adorn the fabled golden courts of the Queen of Sheba. Archaeological digs in the northern city of Sohar have revealed mines dating back to the 10th century BC, and which produced around one million tonnes of gold and copper. The region was mined well into the 20th century and the

¹²⁹ Ministry of National Economy, Statistical Yearbook 2003, 32 issue.

¹³⁰ A privately owned subsidiary of the MB Petroleum Group.

Oman Mining Company (OMC) exported 20 million tonnes of minerals, including chromite, copper, cobalt, silver, lead and nickel from 1983 to 1994 before the sites were depleted. The Sultanate's gold and silver production in 2003 from Yankul and Sohar mines stood only at 100 and 30 kilo respectively. The entire gold and silver production was exported to the UK.

The production of chromite by the Oman Mining Company also began in 1983 in the Sohar area. In July 1991, the government established the Oman Chrome Company (OCC). The OCC was created to develop the country's chromite reserves estimated at 2 million tons of chromite at 600 sites throughout the country. The Sultanate's production of Chromite went up considerably from 18,000 metric tons in 1997 to 30,150 metric tons in 2001, and dropped to 13,800 metric tons in 2003. The entire production of chromite is exported. The main importers are Japan, the UK, Germany and other EU countries¹³¹.

In addition, Oman possesses vast and varied deposits of industrial rocks and many non-metallic minerals including over 700 million tonnes of industrial quality gypsum, used to make cement, 15 million tonnes of dolomite¹³², used to manufacture glass, more than 200 million tonnes of limestone, around 50 million tonnes of marble, 15 million tonnes of silica sand, over four million tonnes of kaolin used to manufacture ceramics¹³³, as well as salt, silica sand/quartzite, and attapulgit. However, the scope for utilising the mineral wealth potential is still wide open for mineral-based industries. Huge limestone deposits of various characteristics occur all over Oman. Rakoob limestone

¹³¹ Central Bank of Oman Annual Report, 2003, http://www.cbo-oman.org/annual/chapt3_en_03.pdf.

¹³² According to other sources the dolomite deposits in Oman are estimated at more than 500 million tones. Since dolomite is inter-bedded with gypsum at Shuwaymiyah, mining of the latter will result in the mining of the dolomite as well. A fair number of foreign companies have shown keen interest in Omani dolomite deposits for the production of magnesium, magnesia and for glass and steel manufacture, http://www.newsbriefsoman.info/features/mineral_opportunities.htm.

¹³³ <http://www.omanet.om/english/oman2004/KEY%20INDUSTRIES.asp>.

deposit is one of the best limestone deposits in the country as it is suitable for almost every industry. India requires about 4 to 5 million tonnes of limestone every year for their steel plants. Currently Oman has four companies in limestone quarries. Limestone and gypsum for cement production are mined in both the northern and the southern areas to supply the Oman Cement Company's plant in the Rusayl Industrial Estate and the Raysut Cement Corporation's plant. High quality marble is also quarried and sold both in the domestic and international markets. Marble production in 2003 amounted to 146,600 tonnes, valued RO 2,425,900. Oman exports marble to 23 countries with 70% of the production being exported. The feasibility of exploiting coal reserves at al-Kamil, near Sur, to replace oil in electric power generation, is being studied, since over 122 million tons of coal deposits have been discovered in the Wadi Muswa and Wadi Fisaw areas near the city of Sur. The coal could be used to provide 40 years of power for a 300 megawatt (MW) generator¹³⁴. Oman has also huge reserves of aggregate, a construction material. Aggregate deposits close to the coast become very attractive for exports. Aggregate deposits are estimated at 12 billion tonnes in Buraymi region alone. Considering a low price of USD 3 a tonne, the total value of aggregate in Buraymi alone stands at USD 36 billion. Armour rock required in offshore construction work is also abundant¹³⁵. Kaolin occurs in Oman at four locations in central Oman. Oman's Kaolin is high in iron and titanium therefore it can be used mainly in the production of ceramic tiles and can substitute bauxite in cement production. As an example, al-Anwar Ceramic Tiles factory is a success story, using 100% locally available raw material and operating profitably for the past two years. Attapulgit, an absorbent clay, which is used for household animals under the trade name of pet litter and therefore holds out vast market in Europe and Amer-

¹³⁴ <http://www.eia.doe.gov/emeu/cabs/oman.html>.

¹³⁵ http://www.newsbriefsoman.info/features/mineral_opportunities.htm.

ica, with total reserves estimated at more than 300 million tonnes to-date, is awaiting exploitation.

One of the Oman's most significant industry besides that of oil, gas and minerals is the production of cement, which began in 1983 when the Oman Cement Company SAOG (OCC) opened the country's first cement plant. OCC was established in 1977 to supply mainly northern Omani market. Basic raw material quarries representing 98% of the raw mix viz. limestone and silica deposits, are in abundance to last over 100 years, in the plant's vicinity. The production capacity is 1.25 million tonnes of cement per year. The government and housing sector consume approximately 80% of its cement production. Private sector projects account for the remaining 20%. The equity capital of OCC was increased to RO 33 million in a public subscription in 1994, after which shares were listed on the Muscat Securities Market¹³⁶.

In 1984, the Raysut Cement Company SAOG, which was established in 1981, started the country's second plant, near Salalah with a 210,000 ton capacity. Today the plant is equipped with the latest state-of-the-art equipment and machinery supplied by Kloeckner Humboldt Deutz (KHD) and Humboldt Wedag Inc., USA¹³⁷. The plant expanded its production capacity to 1.5 million tonnes and operates two special bulk cement carrying ships. The plant is in the process of expanding its production capacity by another 1.2 million tonnes. Works on the projects have already been commenced, and the first consignment of machinery was expected to arrive by January 2005. As of end of September 2004, the money deployed on the expansion project from the company's internal cash sources stood at RO 3.2 million, representing 16% of the project cost¹³⁸. The company's shares are listed in Muscat Securities market. Within

¹³⁶ http://www.oeronline.com/php/2000_march_april/main1.php.

¹³⁷ <http://www.raysutcement.com/index1.htm>.

¹³⁸ <http://www.oeronline.com/php/marketwatch/stoppress.php>.

two years the sultanate's total cement production would double to 4 million tonnes per year¹³⁹.

The Omani government is committed to protecting the environment from pollution from industrial and development projects, particularly pollution of groundwater, surface water and air by mining operations. A study by the Japanese International Co-operation Agency (JICA) was undertaken in 2001 to look at mining areas in Sohar with a view to identifying the risk of pollution. Regular and super lead-free petrol is produced and marketed throughout Oman, which is a response to a GCC decision designating 2002 as the year of regional switch to lead-free petrol.

A major environmental problem has been caused recently by swarms of jellyfish which blocked seawater cooling intakes at the Ghubrah Desalination Plant and Birka Power and Desalination Plant. This badly affected water supply to Muscat city in mid-March 2003. In the case of Ghubrah Desalination Plant, 300 tonnes of jellyfish damaged intake screens causing a 50% reduction in output. In 2002, a large number of jellyfish blocked Oman LNG's seawater cooling system intake. If jellyfish cause a shutdown of Oman LNG, it could cost the company about USD 7 million a day¹⁴⁰. These jellyfish also pose a danger to the offshore oilfields. Marine environmentalists fear that the menace could spread to other parts of the region, including Iran and the UAE.

Together with the numerous projects that are undertaken in the various sectors of the economy, the Sultanate is also progressive in its promotion of the tourist industry. Tourism has become a major focus in the development endeavour of the Sultanate since the mid-1990s when the vision for Oman's Economy (Oman 2020) was adopted as the long-term development strategy for the country. The government promotes tour-

¹³⁹ <http://www.ameinfo.com/news/Detailed/49335.html>.

¹⁴⁰ <http://www.gulf-news.com/Articles/news.asp?ArticleID=86624,06-05-2003>.

ism, consistent with its policy of economic diversification, with emphasis on the Muscat metropolitan area and coastal towns where principal hotels are located. The Ministry of National Heritage and Culture is restoring historical sites at Muscat and in the coastal towns¹⁴¹.

Tourism is one of the Sultanate's fastest-growing cities, a fact well manifested in the improvement of the development indicators related to the sector. The added value (GDP of the sector) increased from RO 53.6 million in 1999 to RO 60.5 million in 2003, showing an average annual growth rate of 3.1%, but still stands for less than 1% of GDP¹⁴². The number of hotels increased to 133 in 2003 as compared to 102 in 1999, whereas the number of beds increased from 7,573 to 9,778 marking an annual average growth rate of 6.6% during the same period¹⁴³. These developments, along with less restrictive visa procedures¹⁴⁴, have raised the number of tourists visiting the Sultanate to over a million at present. With the serious investments in the tourist sector in mind, one can expect this trend to continue in 2005 and beyond.

This is an optimistic outlook in view of the Sultanate's diversified tourism potential which includes beaches, mountains, vast deserts, caves, waddis, and historical monuments. Rugged mountainous beauty and crystal clear blue sea running along its 1,700-kilometre-long coastline makes Oman a major tourist attraction. Jiddat al-Harasis is home to Arabian Oryx herds re-introduced to the wild. UNESCO added the site to its World Natural and Cultural Heritage Register in 1994, and the site is being extended to house growing numbers of indigenous

¹⁴¹ A project for restoration of 22 forts has begun, with the process including finding an appropriate theme for each site to enhance its cultural and social history.

¹⁴² Ministry of National Economy, Statistical Yearbook 2003.

¹⁴³ http://www.oeronline.com/php/2005_jan/cover2.php.

¹⁴⁴ Only last year, the authorities eased entry rules to attract visitors. Visitors from 68 countries on a month's visit can now buy a single-entry visa on arrival for USD 16. The authorities particularly want to attract visitors to the southern region of Salalah.

Arabian antelopes¹⁴⁵. Saleel Park is a new nature reserve in al-Kamil and al-Wafi, inhabited by gazelles and other animals as well as flora, including the rare samr (*Acacia tortilis*) and ghaf (*Prosopis cineraria*) trees. Wadi al-Sarin is one of Oman's oldest nature reserves, and is administered by the Divan of the Royal Court. It is home to the Arabian *tahr*, a mountain goat found only in Oman¹⁴⁶. These assets would provide the Sultanate with great opportunities to develop a variety of tourist products such as eco-tourism, adventure, golf tourism, desert tourism, nature tourism, and cultural tourism.

Recently, two studies have been carried out on the long-term development of this sector in order to make Oman a competitive tourist destination: A detailed Master Tourism Plan, known as Priority Action Plan and Tourism Marketing Strategy, presents a new, clear, and distinct national brand "Oman – the Essence of Arabia"¹⁴⁷. International Development Ireland Ltd (IDI) has been engaged as a management support team for developing the tourist sector. Based on the above studies, attention is now focused on eco-tourism, adventure tourism, culture and heritage attractions, water sports, coastal and leisure retreat resorts. The private sector is seen as the engine of the tourist sector. However, public investment in the tourist sector in the current and certainly in the Seventh Five-Year Development Plans would strengthen existing infrastructure, promoting the incentive packages directed to the private sector, both domestic and foreign.

There are many projects which will certainly have a positive impact on the overall growth and development of the national economy at large. Barr al-Jissah is an example. It is a fully integrated resort, spread over an area of 50 hectares situated in the capital (20 km from Muscat city centre). This project

¹⁴⁵ <http://www.ain-al-yaqeen.com/issues/20041001/feat9en.htm>.

¹⁴⁶ *Ibidem*.

¹⁴⁷ <http://www.omagnet.om/english/oman2004/KEY%20INDUSTRIES.asp>.

includes: three deluxe hotels with modern facilities, exclusive villas and serviced apartments; recreation and entertainment facilities, a commercial centre and a small marina. The project is a 40:60 joint-venture between the government and the leading private sector business Shangri-la group. The resort is proposed to be ready by July 2006. Another project and another joint-venture enterprise is "The Wave" 5 km north of Seeb airport. An entire coastal ribbon of approximately 6.5 km in length and a total area of 283 hectares, of which 118 hectares will be reclaimed from the sea, will be developed. The project includes a golf course, three hotels, commercial and entertain centres, marina (for 250 boats and yachts), diving and water sport centre and residential areas. Work is already underway. Other large-scale projects include al-Sawadi Tourism Development Project in al-Batina Region, which is an integrated resort comprising accommodation, entertainment and sport facilities, the golf project in Muscat and the development of Misfat al-Abriyyeen as a heritage destination. Dimaniyat, an archipelago of nine islands in al-Batina region, is one of the major attractions for tourists from all over the world, especially for diving enthusiasts as its rich coral reefs give them an ideal opportunity to indulge in deep sea diving amid rich flora and fauna. Rocks and sea surround the Dimaniyat Islands' Nature Reserve, which lies only 16 to 18 kilometres from the coast and can be reached by boat. The reserve is both nationally and internationally an important conservation area, rich in diversity, both in marine and terrestrial wildlife. A large number of hawksbill turtles visit this group of islands to nest and lay eggs. Green turtles also visit the islands in summer. Entry is restricted during the breeding season from May to October, and the authorities are taking steps to protect the coral reefs from unofficial diving¹⁴⁸. Another tourism initiatives include inviting bids to construct hotel resorts on Masirah Island (the Gulf of Masira has the most beautiful coral

¹⁴⁸ <http://www.ain-al-yaqeen.com/issues/20041001/feat9en.htm>

reefs in Oman) and in the Omani enclave of Dibba, located on the east coast of the UAE. The two projects are expected to be opened in March 2005¹⁴⁹. Worth mentioning is Ra's al-Hadd project in the al-Sharqiyya region. The area is famous for its turtle breeding beaches and for eco-tourism. The project calls for the construction of a hotel complex and an adjoining scientific research building. The development of the infrastructure also includes an airport. The site has been selected for its strategic location, being close to the isolated Ra's al-Jinz turtle reserve that plays host to the annual visit of thousands of endangered green turtles laying eggs during early summer. There are plans to extend turtle protection schemes to other areas and to train Omanis as rangers to patrol beaches during the egg-laying season. Turtles are becoming a major eco-tourism attraction, and government has taken steps to limit visitor numbers¹⁵⁰. Steps to designate the Halaniyaat five islands a nature reserve to preserve their natural beauty and protect their pristine reefs are being taken. Populated by a small fishing community, the islands are a breeding ground for turtles¹⁵¹.

Apart from the above-mentioned projects, a Feasibility Study to develop Oman's caves for tourism has been completed in collaboration with the Museum of National Heritage of Austria. An agreement is expected shortly to develop al-Hutta Cave in the wilayat of al-Hamra at a cost of RO 2 million. The complex was expected to open in December 2004. Services will be built at the hot springs of al-Ansab in Bausher, and at al-Kasfa in Rustaq and at Wadi Bani Khalid and Wadi Shab¹⁵².

Several multi-million-dollar tourism projects are being completed in different regions of the country as part of an am-

¹⁴⁹ *Oman Observer*, 6 December 2003, http://www.newsbriefsoman.info/1203/archive_121203.htm.

¹⁵⁰ <http://www.ain-al-yaqeen.com/issues/20041001/feat9en.htm>.

¹⁵¹ *Ibid.*

¹⁵² *Oman Observer*, December 2003, http://www.newsbriefsoman.info/1203/archive_121203.htm.

bitious master plan, which include: Salalah Theatre Project, opened in the latter half of 2004, 4-star Khasab Hotel opened in December 2003, managed by the Dutch Golden Tulip chain and located in one of the most spectacular natures in the Middle East and the world, Khasab – capital of Musandam. Khasab Hotel and Resort offers guest rooms and suites and a scuba diving centre, to let visitors discover the wonders of the Norway of Arabia sea, and a number of youth hostels and small hotels in various areas of the Sultanate.

Besides, Oman Tourism and Hospitality Academy has been established in collaboration with the Salzburg Tourism School and IMC University of Austria with the aim of providing specific training for the tourist sector. Students may continue their studies in order to obtain BA degrees from universities outside the Sultanate that have signed suitable contractual arrangements. The Academy's first students enrolled for the 2001/2002 academic year, and their total number is now 353.

Visa procedures have been simplified over the past year for tourists. Citizens of 68 countries are now eligible to obtain single entry visas on arrival at all land, sea and air points. Entry visas for those arriving on cruise ships are free if the visiting period is less than 24 hours. Other measures include issuing of a joint visa with Qatar and the freedom of movement of tourists between Oman and the UAE¹⁵³.

The sector is expected to generate considerable employment opportunities in the future. Moreover, unlike other business activities, employment in the tourist sector is more secure and less affected by the fast technological changes and advancements. Spearheading Oman's ambitions is the newly created Ministry of Tourism, set up to oversee the growth of the industry from its current 0.9% of GDP to 3% by 2020¹⁵⁴. The

¹⁵³[http://www.ey.com/global/download.nsf/Middle_East/Oman_Tax_Update/\\$file/Commentary%20on%20the%20changes%20made%20to%20Omani%20Tax%20laws.pdf](http://www.ey.com/global/download.nsf/Middle_East/Oman_Tax_Update/$file/Commentary%20on%20the%20changes%20made%20to%20Omani%20Tax%20laws.pdf).

¹⁵⁴ <http://www.ameinfo.com/news/Detailed/46451.html>.

Sultanate has recently become the first country in the GCC to have a full-fledged ministry with a woman at its helm to look after tourism: a top priority in Oman's development plans.

In general, Omani economic development may be divided into four phases: a period of rapid infrastructure expansion from 1970 to 1986; economic retrenchment and rationalization from 1986 to 1989 as a result of the 1985-86 oil price collapse; stabilized growth since 1990 and industrial expansion which marked the beginning of the new millennium. Despite the late discovery of oil, as compared to neighboring gulf emirates as Kuwait and the UAE, financial constraints, and political instability in the first half of the 1970s, Oman emerged as a middle-income country by the latter half of the 1980s, after entering the development process as one of the poorest Arab states. Per capita income rose from USD 360 in 1970 to USD 3,140 in 1980 and to USD 7,000 in 1991, and reached nearly USD 9,000 in 2003¹⁵⁵.

Well developed banking sector is a cornerstone of Omani economy. The Central Bank of Oman¹⁵⁶ (CBO) plays a pivotal role in it, maintaining the stability of the Omani Rial at home and abroad. Its net worth (total capital: general reserves and others) rose from RO 7.5 million at the end of 1975 to RO 705.6 million at the end of July 2004¹⁵⁷. At the end of 2003 there were 14 commercial banks in the Sultanate; 5 national banks and 9 branches of foreign banks, operating through a nationwide network of 327 branches. Three specialised

¹⁵⁵ Ministry of National Economy, Statistical Yearbook 2003, 32 issue, <http://www.mone-oman.gov.om/mone/communicat.htm>.

¹⁵⁶ CBO was established in December 1974 under Banking Law 7/74. The Banking Law was amended in 2000. CBO has branches in Salalah and in Sohar. CBO was established with an initial capital of RO 1 million, increased to RO 300 million by April 2002. Omanisation of the CBO's staff stood at 84.3% in middle and upper management, 99.4% in clerical positions and 100% in non-clerical positions. Oman 2003-2004, Ministry of Information, Oman, p. 111.

¹⁵⁷ *Times Of Oman*, <http://www.timesofoman.com/newsdetails.asp?newsid=5141&pn=local>.

banks¹⁵⁸ operated a further 26 branches¹⁵⁹. Up to the end of 2003 the value of combined assets/liabilities for commercial banks operating in Oman rose by 3.5% to a total of RO 4,516.9 million compared with RO 4,362.7 million in the previous year. Commercial banks' deposits rose to RO 2,853.6 million in 2003 (by 2.8%) on RO 2,777.2 million in 2002, with private sector deposits making up 83.7 % of the total¹⁶⁰. Commercial banks' core capital and reserves stood at RO 432.8 million at the end of 2002.

A highlight of Oman's economy in the year 2003 was the performance of the Muscat Securities Market (MSM). The MSM general index gained by an impressive 42% following a growth of nearly 26% in 2002. Confidence in the economy, prudent macro economic policies and management, rise in oil prices all contributed to the feel good factor. Volume of trade increased even more spectacularly by 156% in 2003 to total RO 592.8 million compared to RO 231.3 million at the end of 2002. Muscat Securities Market's general price index is based on the performance of a basket of 30 companies which, taken together, constitute 80% of the market value of all 111 companies listed on the stock market¹⁶¹. The stock market has been supervised by the Capital Market Authority (CMA) since 1988.

Oman applied to join the World Trade Organization (WTO) in March 1996, and signed the accession protocol for WTO membership in October 2000, a move that will further integrate the Sultanate into the world economy¹⁶². Oman is

¹⁵⁸ In the 1970s, the government set up specialised banks to support development in sectors such as housing, industry, agriculture and fisheries. Oman Housing Bank – established in 1977, Oman Development Bank (ODB – established as an Omani joint stock company in 1997), and Alliance Housing Bank – incorporated in 1997. Oman 2003-2004, Ministry of Information, Oman, p. 112.

¹⁵⁹ *Ibidem*, p. 113.

¹⁶⁰ *Ibidem*, p. 120.

¹⁶¹ *Ibidem*, p. 124.

¹⁶² Ministry of Information, Oman 2002/2003, <http://www.omanet.om/english/oman2002/eco.asp?cat=om02>.

a member of the Economic and Social Committee for West Asia (ESCWA). The Sultanate became also a founding member of the Indian Ocean Rim Association (IORA) in March 1997, and actively develops its co-operation with Asian countries. The sultanate aims to extend economic co-operation within the Gulf Cooperation Council (GCC) states, a trading bloc comprising Oman, Saudi Arabia, Kuwait, the UAE, Qatar, and Bahrain. The Arab free trade zone came into effect on 1st January 2005, with the elimination of customs duties on inter-Arab trade in a bid to stimulate the region's economy¹⁶³. The Arab free trade zone currently includes 17 member states whose trade represents 94% of all Arab trade. Mauritania, Somalia, Djibouti, and the Union of the Comoros are expected to join the free trade zone soon. Oman will sign a free trade-agreement with the United States in July 2005, which will become effective in 2006 if it is approved by US Congress. The accord is likely to cause friction with Saudi Arabia, which is opposed to fellow member states of the Gulf Cooperation Council making bilateral agreements with the US. Last year, Bahrain signed a free-trade agreement with the United States. Saudi Arabia complained that such accords weakened the collective bargaining power of the Gulf Cooperation Council¹⁶⁴.

Despite the vagaries of international oil markets and sharp fluctuations in oil prices, Oman has succeeded in maintaining a surplus on its merchandise trade account, except in 1986. Petroleum exports constituted 98% of foreign merchandise earnings in 1985. Exports declined in 1986 but have steadily risen since then as a result of further increases in the volume of oil shipped and higher oil prices. In 1990, total exports rose to RO 2,116.4 million, of which oil exports were just under RO 1,895.9 million. Non-oil exports accounted for only 3.3% of

¹⁶³ *Times of Oman*, 1st January 2005, <http://www.timesofoman.com/newsdetails.asp?newsid=8925>.

¹⁶⁴ <http://www.oeronline.com/php/marketwatch/stoppress.php>.

total exports in 1990, up from 2% in 1986. In spite of the fall in crude oil production and the fluctuations of oil prices, total exports remained stable at about RO 4.3 – 4.5 billion during the past few years, thanks to the increased LNG and non-oil exports proceeds. The bulk of non-oil exports included livestock and some metals. Oman also made considerable strides in increasing textile and mineral exports during the early 1990s, which in 2003 accounted for 8% and 5% of total non-oil export, respectively. Most exports go to other Middle Eastern countries (mainly to UAE), followed by Japan and other Asian countries.

Domestic government expenditures and rising incomes have stimulated a steady increase in merchandise imports. Total imports rose from approx. RO 300 million in 1975 to RO 1,161.9 million in 1985 before economic retrenchment and weaker domestic economic conditions caused a slight reduction in foreign purchases. After falling below RO 755.7 million in 1987, the improved oil revenue situation raised imports to RO 1,075.9 million in 1990, to RO 1,972.8 million in 2000, and to 2,615 million in 2003. Development goods, especially machinery and transportation equipment, and defence commodities dominated the imports profile. In 2003, machinery and transportation items constituted 43% of the total import bill, and other manufactured goods made up 40%. Oman's food imports in 2003 accounted for 17% of total recorded imports by value. Imports came mostly from Japan, UAE, the United Kingdom, and the USA. Ukraine dominated the Eastern European exports to Oman¹⁶⁵.

Exports and imports in 2004 are expected to register 14.2 per cent and 20 per cent growth, respectively. The trade balance surplus is expected to increase by 6.1 per cent. The statistical bulletin issued by the National Economy Ministry has shown that the Sultanate's foreign trade witnessed a 5.7% rise in the total value of commodity exports during the first four

¹⁶⁵ Ministry of National Economy, Statistical Yearbook 2003, 32nd issue.

months of 2004, compared to that of the same period in 2003. The total value of commodity exports amounted to RO 1,577.6 million as of the end of April 2004, against RO 1,491.9 million during the corresponding period in 2003. This rise was attributed to a 2.9% increase in oil and gas exports which amounted to RO 1,252.6 million at the end of April 2004, compared to RO 1,217.6 million as at the end of April 2003. Non-oil commodity exports also rose by 64.4% during the same period to RO140.6 million, compared to RO 85.5 million at the end of April 2003. Re-export trade fell by 2.3% as of the end of April 2004 to RO 184.4 million, compared to RO 188.8 million during the corresponding period in 2003, according to the same bulletin¹⁶⁶.

The government is moving ahead with privatization of its utilities, development of commercial law to attract foreign investment, particularly in light industry, tourism, and electric power generation. Foreign investment incentives include a 5-year tax holiday for companies in certain industries, an income tax reduction for publicly held companies with at least 51% Omani ownership, and soft loans to finance new and existing projects. Oman is resisting the International Monetary Fund's wishes by keeping taxes low as an economic stimulus measure. This is forcing Oman to withdraw money from its strategic reserve, which was designed to hold funds to soften the blow when Oman ceases to be a major oil producer.

Oman's macroeconomic environment is strong. The performance of the economy in the past few years is a source of pride for Oman. Among GCC countries Oman was within the top three, in terms of total government gross debt as a percentage of GDP, and in real non-hydrocarbon GDP growth, during the period 1998-2002. Economic performance improved significantly in 2000 due largely to the upturn in oil prices. GDP in 2000 was RO 7,639.2 million, an increase of 26.5% over 1999,

¹⁶⁶ *Times of Oman*, <http://www.timesofoman.com/newsdetails.asp?newsid=4168&pn=business>.

a direct result of higher world oil prices¹⁶⁷. The manufacturing sector contributed around 5.4% to GDP in 2000 and saw substantial growth over the preceding years. This sector increased by 56% in 2000 over 1999 mainly due to commencement of LNG production in April 2000¹⁶⁸. The Sixth Plan (2001-2005) forecasts that the share of the non-oil sector in the GDP will rise to about 65.3% in 2005 compared with 51.2% in 2000. The Plan carries forward and accelerates efforts for economic diversification. In fact, economic diversification will continue to occupy the centre-stage in the Seventh Plan and in future¹⁶⁹. In 2001, the economy grew by 3.3%, more or less in line with the current five-year plan. GDP growth improved in 2001 despite the global slowdown and then fell back to 3.0% in 2002. Government spending on investment increased significantly in 2002. New services and projects included 1,000 new homes, 600 km of new paved roads, port, power and water development and tourism promotion schemes.

Consumer price levels in Oman have remained essentially flat for a number of years. Capital formation as a percentage of GDP has been volatile ranging from 18% in 1997 to 24% in 1998 before falling off to less than 15% in 1999, but much of this variability is due to the large LNG-related investments made in late 1990s. With expenditures rising and oil prices stabilizing at high levels in 2002, the fiscal deficit is continuing to decline. Inflation is estimated at only 0.1% for 2003¹⁷⁰ and only 0.8% for 2004¹⁷¹.

Oman's current account balance swings from deficit to surplus and back as world oil prices rise and fall. The structure of the current account is that the merchandise trade balance is

¹⁶⁷ Ministry of National Economy, Statistical Yearbook 2003, 32 issue.

¹⁶⁸ Central Bank of Oman Annual Report, 2003, http://www.cbo-oman.org/annual/chap3_en_03.pdf.

¹⁶⁹ *Times of Oman*, 24/12/2003, http://www.menafn.com/qn_news_story_s.asp?StoryId=37284.

¹⁷⁰ Energy Information Administration – www.eia.doe.gov.

¹⁷¹ <http://www.eia.doe.gov/emeu/cabs/oman.html>.

consistently in surplus, reflecting the impact of oil exports which exceed the goods import requirements of the country, even in years like 1998 when oil prices were at cyclical lows and imports of capital goods destined for the LNG investments were at their peak. In the capital account, the government's decision to allow full foreign ownership of Omani companies in most industries is likely to strengthen capital inflows, which have typically been quite modest. Foreign direct investment up until now has been particularly small, generally in the range of USD 50 to 100 million annually, but the new rules may well change that.

The state general budget for 2004 provided further impetus to economic growth. The process of privatizing some state-owned industries is to be accelerated under a decree issued in July 2004, which will allow foreign ownership up to 100% in power generation and water. The important developments in privatization initiatives in the past two years included also wastewater projects, postal services, and surface transport. The budgeted deficit was set to RO 500 million based on a budgeted average oil price of USD 21 per barrel and mainly due to an expected decline in oil production estimated at an average 710,000 bbl/d in 2004. Estimated revenue was RO 2,925 million and expenditure RO 3,425 million. Investment expenditure has been projected to increase by RO 287 million to a total of RO 912 million in 2004, up by 46% over last year¹⁷². However, oil revenues recorded an increase of RO 1.252 billion in 2004, wiping out the entire budget deficit for the year 2004¹⁷³. The record revenues achieved in 2004 due to further increase in oil prices helped the government continue its ongoing economic reform programmes and other development initiatives. During the year, substantial rise in oil prices boosted revenues and ex-

¹⁷²[http://www.ey.com/global/download.nsf/Middle_East/Oman_Tax_Update/\\$file/Commentary%20on%20the%20changes%20made%20to%20Omani%20Tax%20laws.pdf](http://www.ey.com/global/download.nsf/Middle_East/Oman_Tax_Update/$file/Commentary%20on%20the%20changes%20made%20to%20Omani%20Tax%20laws.pdf).

¹⁷³ <http://www.ain-al-yaqeen.com/issues/20050107/feat9en.htm>.

penditure. Oman's external debt position comfortably stands at RO 1.3 billion at the end of 2004 as against staggering debts of many other countries in the region. Despite a negative GDP growth projected for the year 2004, it grew by 12.5% as against 6.9% in 2003, (to more than RO 9.385 billion as against RO 8.343 billion in 2003)¹⁷⁴. The excess of planned aggregate expenditure of RO 3,680 million over budgeted revenue receipts of RO 3,140 million leaves a deficit of RO 540 million for 2005. The deficit represents 17% of total revenues and 6% of GDP¹⁷⁵. The total allocations for implementation of projects in 2004 amounted to RO 616.8 million. Major sectors that received these allocations as of the end of December 2004 were roads, ports, power, water, housing, health, education and youth centres¹⁷⁶. The increase in oil prices ensured record revenues and exports for most Arab Gulf Cooperation Council states in the previous year. Record oil prices pushed up by geo-political compulsions and attacks on oil facilities in Iraq are believed to be promising another buoyant period in 2005 for most oil producers in the region.

The year 2005 is the last year of the current, Sixth Five-Year Plan (2001-2005). The budget for 2005 covers the essential commitments and developments in the field of science, health service, roads, sewage network, and water network extension. The budget proves the government's commitment to the process of economic and structural policy reforms. The budget for 2005 is expected to give fresh boost to agriculture, industry, and social and physical infrastructure. It is based on an average price of USD 23 a barrel for Oman crude. Oman is targeting a lower oil output of about 750,000 barrels a day for the year 2005 as against 909,000 bbl/d estimated in the Five-Year Plan, so the oil revenue budgeted for the current year ac-

¹⁷⁴ <http://www.timesofoman.com/newsdetails.asp?newsid=9053>

¹⁷⁵ <http://www.timesofoman.com/newsdetails.asp?newsid=9036>

¹⁷⁶ *Ibidem*.

counts for 65% of total revenues. The plan had projected an average annual growth rate of 4% at constant prices. It is expected that the target would be comfortably met during the current plan. The price for Oman crude (February delivery) is quoted at USD 35.59, a barrel in the international oil market. Gas revenue and current and capital revenues constitute 9% and 26%, respectively. The 2005 budget shows a 7.4% increase in expenditure and 7.3% increase in revenues. The government has allocated RO 1.148 billion for defence and national security, accounting for 31% of total expenditure and over 36% of total revenues. It has allocated RO 1.356 billion for civil ministries' expenditure. For oil and gas production RO 168 million has been allocated. As in the past, the budget has given much importance to educational and health sectors as it allocates RO 627 million for them. The current year's budget allocations include RO 546 million for human resources development, representing 15% of the total expenditure. As far as the government's support to the private sector, the budget allocates soft loan of RO 66 million, for sectors such as agriculture and fisheries, industry, tourism and education. Further, necessary support has also been provided to Oman Housing Bank and Oman Development Bank to finance sewage projects in Muscat and Salalah. The current year's budget deficit is to be financed through foreign borrowings of RO 150 million and RO 390 million from the State General Reserve Fund. Significant amount of allocations for building roads have been among major highlights of the current plan. Allocations for new projects during 2005 amounted to RO 238 million. Sumail hospital, Nizwa/Thamrait road, sewage networks in nine towns, water network extension at al-Khoudh/al-Hail, schools, Bausher/al-Amerat road, al-Ashqara/Shana road and road network in Masirah are the new projects expected to be completed during this year.

The current high oil prices, which are expected to remain firm during the short to medium term, moderation in the decline of oil production in Oman, the mounting importance of

the gas sector, the strong demand due to increased oil receipts, and the strong growth of the non-hydrocarbon sector are the reasons for the optimistic outlook for the Omani economy at least for the year 2005. It is expected that the non-oil sector should realise a real growth rate of about 5% in 2005, bringing the average real growth of the economy to about 5% in the coming three years. The economy is expected to realise a growth rate of the GDP of more than 9% in nominal terms, and in the subsequent years, albeit certain difficulties associated with the decline in oil output in recent years and the volatile nature of the oil market¹⁷⁷.

Oman enjoys a stable political, economic, and social system, which is enhanced by the excellent relationships between the Sultanate and neighbouring countries. Furthermore, Oman enjoys a recognisable international rating in risk, and is well known for its creditworthiness and ability to meet its financial obligations. As per the global Index of Economic Freedom, the Sultanate of Oman is placed second amongst Arab countries and globally as 18th the most economically free country. The index ranks countries on a scale of 1 to 10 on the basis of various parameters used to evaluate economic freedom. The overall score index of Oman was 7.4. The International Monetary Fund noted that the macroeconomic performance of the country was steady and attributed this position to the relatively high crude oil prices, rising government consumption and investment, LNG development and an improved business climate in the country. The IMF also appreciated the broadening of the privatization measures adopted by the government. The privatization of the power sector and the liberalization of services, in line with the country's commitment to the WTO, further contributed to enhancing the growth prospects of Oman. However, concern was expressed over the decreasing oil production and the effect it

¹⁷⁷ http://www.oeronline.com/php/2005_jan/cover2.php

could have on the fiscal position of the economy¹⁷⁸. The fall in the value of the dollar has had negative impacts on Oman's oil export earnings and revenues. The effects of dollar decline leads to costlier imports of food, pharmaceuticals, machinery, etc. from Europe and other non-US economies. As the Omani rial is pegged to the dollar, any fall in the value of dollar will have its corresponding impact on rial.

There is no doubt that last 35 years since have contributed significantly to the prosperity of the country in terms of economic and social developments. These will help the country to meet the challenges of the future by diversifying sources of income. By 2020, it is expected that the economy will not be reliant on oil, but rather, will have diversified into non-oil sectors, raising higher levels of savings and investments. The crude oil sector's share of GDP is estimated to drop to 9% in 2020, compared to 41% in 1996. The gas sector is expected to contribute around 10% to GDP, compared with less than 1% in 1996 and the non-oil industrial sector's contribution is expected to increase from 7.5% to 29%. GDP per capita is expected to be rising at 3.8% a year as compared to 1% rise achieved during 1996-2000. Omanisation in public and private sectors should reach the level of 95% and 75% respectively¹⁷⁹.

¹⁷⁸ Ernst&Young report, [http://www.ey.com/global/download.nsf/Middle_East/Oman_Tax_Update/\\$file/Commentary%20on%20the%20changes%20made%20to%20Omani%20Tax%20laws.pdf](http://www.ey.com/global/download.nsf/Middle_East/Oman_Tax_Update/$file/Commentary%20on%20the%20changes%20made%20to%20Omani%20Tax%20laws.pdf).

¹⁷⁹ Ministry of National Economy, Oman, <http://www.moneoman.gov.om/mone/communicat.htm>.