# A GUIDE TO FREE ZONES AND SPECIAL ECONOMIC ZONES IN OMAN

## I. MANDATE

We understand that you are desirous of establishing a holding company in a free zone in Oman and as such, require clarity on the various incentives and advantages offered by various free zones/special economic zones in Oman, and our recommendations on where it may be preferable for you to set up operations.

## II. GENERAL

In 2019 the Sultanate of Oman has set Oman Vision 2040 as its development roadmap to guide the economy away from dependence on oil and gas and develop non-oil sectors as major engines of growth. Trade and investment are the central pillars to realize Oman Vision 2040 and, therefore, Oman included economy and development as one of the three key themes in the Vision, supported by a list of national priorities covering the entire spectrum of the economy and society. In tuning with the above, Oman has been proactively providing a pro-foreign investment environment and streamlined the existing state mechanism including free zones and special economic zones to this end and also continue to provide the required infrastructure and various incentives for attracting FDI in the country.

We have set out below a brief summary of the legislative framework applicable to free zones and special economic zones in Oman that may be relevant to your requirements, the incentives and the types of business activities permitted for companies that are set up within each free zone and special economic zones available in Oman.

## III. RELEVANT FREE ZONES AND SPECIAL ECONOMIC ZONES

The Free Zones Law promulgated by Royal Decree 56/2002 (the "FZ Law") is the law enabling establishment of free zones in Oman. The FZ Law specifies that each of the free zones shall be established by a Royal Decree which will specify its location, boundaries and the incentives and privileges granted to the operator of such free zones and the operating companies.

Moreover, the Public Authority for Special Economic Zones and Free Zones ("OPAZ") was established in August 2020 to oversee all special economic zones and free zones in Oman. OPAZ also oversees the Public Establishment for Industrial Estates ("Madayn") since June 2022.

Oman presently has three free zones namely, Salalah Free Zone, Sohar Free Zone, and Al Mazunah Free Zone. In addition, Oman has two special economic zones namely special economic zone at Duqm and Knowledge Oasis Muscat (the latter being a hub for technology based businesses). All these free zones and special economic zones are established pursuant to Royal Decrees and are operated in accordance with the relevant executive regulations / decisions / circulars approved by the respective zone committees.

**Salalah Free Zone**

Salalah free zone was established in 2006 by Royal Decree No. 62/2006 issued on 20 June 2006. The city of Salalah, situated in the south of Oman, is strategically located in the only part of the Arabian Peninsula touched by the Indian Ocean which enables it to be a major regional and global port in trade and logistics sectors.
Salalah free zone enjoys many key potentials that qualify it to compete on a global level. It has been established to attract investors involved in industrial estate, logistics, tourism and other mixed use-developments. The Salalah free zone allows for 100% foreign ownership of companies as well as a reduced Omanisation rate of 10%, a 30-year tax-holiday and no custom duties. Additionally, investors do not need to meet a minimum share capital requirement in order to incorporate there. In addition, the companies

operating in Salalah free zone are exempted from fees related to municipalities, real estate and lands, with the exception of fees paid through the one-stop shop.

*In snapshot, the Salalah free zone offers the following incentives and benefits –*

- A global centre for industries and logistic services on the Arabian Sea
- 100% foreign company ownership
- No customs duties on imports and exports
- No minimum capital investment requirement
- No taxes on profits or dividends for 30 years
- No tax on personal incomes
- No restrictions on repatriation of capital, profits and investments
- Flexible customs procedures
- One-Stop-Shop services
- Excellent utility supply
- Best located port in the Middle East with world-class infrastructure
- Free trade agreements with US and Singapore

**Sohar Free Zone**

Sohar free zone was established in 2010 by Royal Decree no 123/2010, on an approximate area of 45 sq km. It benefits from a profitable outreach to both regional and global markets and has access to global shipping routes and major ports all within proximity. Sohar offers swift access to the growing Middle East, Indian and East-African markets.

This free zone is near to the port of Sohar. It has been established to encourage investors in steel and metal, logistics and food sectors mainly. However, it also allows investors interested in incorporating companies with other trade activities to set up their business.

Companies incorporated under the Sohar free zone are able to benefit from full exemptions from custom duties on imports and also are not subject to minimum share capital requirements. The Omanisation requirement is reduced to 15%, and Sohar Free Zone companies can enjoy up to 25-year tax holiday.

*In snapshot, the Sohar free zone offers the following incentives and benefits –*

- Export opportunities through Sohar Port
- 100% foreign ownership
- Corporate tax holiday of up to 25 years
- One-Stop-Shop for all relevant clearance
- 0% import or re-export duties
- 0% personal income tax
- Low capital requirement
- Relaxed level of Omanisation
- Free trade agreements with US and Singapore

**Al Mazunah Free Zone**

Al Mazunah free zone was established on 24 November 1999 as the first free zone of its kind in the Sultanate of Oman. The total area of the zone is approximately 14.5 sq km. Royal Decree No. 103/2005 assigned the Public Establishment for Industrial Estates (Madayn) to be the operating body of Al Mazunah Free Zone. The Free Zones Law no. (56/2002) grants incentives, benefits and the other related facilities to Al Mazunah Free Zone. Al Mazunah Free Zone bylaws were issued in accordance with Ministerial Decision No. (22/2010), which also clarified the incentives, benefits and requirements for operating the zone.

Al Mazunah free zone is in the south of Oman, next to Yemen. It seeks to encourage investors in the warehousing, food processing and industrial sectors. Similar to the Sohar free zone, companies incorporated in Al Mazunah free zone are exempt from custom duties on imports and no minimum capital requirements. Investors may also enjoy a 30-year tax holiday and relaxed Omanisation rates of 10%. Yemeni nationals are able to work in this Free zone without having to obtain a visa or work permit.

*In snapshot, the Mazunah free zone offers the following incentives and benefits –*

- Gulf gateway or transship to Yemen and East Africa
- Exemption of profits from income tax for 30 years without the need to provide income declaration
- Flexibility in the transaction process for remittance and dealing of foreign exchange
- Exemption from the law of commercial agencies
- Exemption from customs duties
- Permission to import all eligible goods into the Sultanate of Oman
- Exemption from the requirement of a minimum investment
- 100% foreign ownership
- Allowing Yemeni workforce to work in the free zone without entry visa or permanent residence permit in Oman
- Omanisation percentage for the operating company stands at 20%
- Granting the factories operating in the free zone a national certificate of origin
- Facilitating residence visas for non-Omani investors
- Availability of Omani and Yemeni products at affordable prices through a single common market
- Adoption of the Yemeni customs data for goods received from Yemen
- Allowing the establishment of a representative office within the customs territory of Oman

**Special Economic Zone at Duqm**

Established in 2011, the 2,000 sq km Special Economic Zone at Duqm (SEZD) enjoys many advantages, making it among the most prominent investment destinations at regional and international levels. Given its prime geographical location overlooking the Arabian Sea and the Indian Ocean beyond, coupled with its proximity to global shipping lanes, Duqm has attracted the attention of many companies worldwide as the perfect destination for their investment.

Al-Duqm Special Economic Zone Authority was established by Royal Decree No. Decree No. 119/2011 with a view to supervise the implementation of the development project of Wilayat Al-Duqm and administering, improving and developing SEZD while adhering to the regulations of the zone in order to contribute to the achievement of comprehensive economic and social development.

SEZD is characterized by its ability to embrace projects, in not only the industrial sector, but in tourism, trade, logistics and real estate development too. In addition, SEZAD is capable of providing areas needed by investors to build their projects. Duqm is an internationally renowned key hub and a gateway for the Middle East, South Asia, and North and East Africa. It has a port and dry dock as well as a fishing port, fisheries industries, industrial estates, logistics, tourism and other mixed-used developments. Investors can enjoy relaxed Omanisation rate of 25%. Additionally, there are no minimum share capital requirements or custom duties, and investors can enjoy a 30-year income tax exemption. Investors are also offered competitive land lease rates in the Duqm Special Economic Zone.

*In snapshot, SEZD offers the following incentives and benefits –*

- One of the largest special economic zones in the Middle East and North Africa
- 100% foreign ownership
- No currency restrictions
- No minimum capital requirement
- Tax exemption up to 30 years from the date of commencement of operations; renewable for a further 30 years
- 100% repatriation of capital and profit is permitted
- Usufruct agreements up to 50 years; renewable for similar periods

## IV. CONCLUSION

In terms of incentives/advantages provided by free zones/special economic zones, all of these provide similar incentives/advantages including 20/30 year income tax holidays, exemption from customs duties, lower threshold of Omanisation, one stop shop for legal/administrative/regulatory procedures (thereby doing away with the need to liaise with different authorities/departments) etc. Further, all of these zones are located next to ports, which provides a major logistical advantage (however, this may not be relevant in the context of mainly holding/investment activities). As such, there is no particular advantage of one free zone/special economic zone over the other – if distance from the capital city (Muscat) is a factor, Sohar is the closest and Salalah would be the farthest. From our experience, we reckon that Salalah free zone and Sohar free zone would be the most preferable given that these have been in operation for more than a decade and boast a level of infrastructure/customer service that is slightly ahead of the other options.

Having said the above, so far as establishing a pure holding company in the free zones/special economic zones is concerned, this is not presently possible in Oman given the extant legal framework. This is because the permitted activities in the free zones/special economic zones include only commercial, industrial, services, real estate, tourism and any other activity required by the nature of work in the free zones/special economic zones. As it is evident, holding/investment activities are not included in the permitted activities list in free zones/special economic zones.

One potential alternative may be to establish a holding company in the mainland (however, this would mean losing out on incentives available to free zone/special economic zone companies such as 20/30 year income tax holidays, exemption from customs duties, lower threshold of Omanisation, one stop shop for legal/administrative/regulatory procedures etc.). Assuming that this alternative is taken up (i.e. establishing a pure holding company in the mainland), such company would need to take the form of a closed joint stock company and need to maintain a minimum share capital of OMR 2,000,000. In addition, please note that the scope of activity of a holding company is limited to the following objectives as per the Commercial Companies Law promulgated by Royal Decree No. 18 of 2019 ("**CCL**"):

1. manage its subsidiary companies or to participate in the management of the other companies in which it is a shareholder.
2. participate in the establishment of joint stock companies or limited liability companies.
3. provide guarantees, loans and finance to its subsidiary companies.
4. invest its funds in shares, bonds and other securities.
5. acquire the movable and immovable properties necessary for carrying out its activity within the limits permitted by law.
6. 6. acquire patents, trademarks, concessions and other intangible rights and to utilize and license them to its subsidiary companies and to others.

Further, please note that a closed joint stock company must be incorporated with at least three founders (shareholders) and must have a board of directors (which must comprise at least 3 members) which would oversee the management/operation of such company and meet at least 4 times a year. Moreover, it would be necessary to have an audit committee as a sub-committee of the board to look into financial matters and provide its recommendations to the board. In addition, a closed joint stock company must have at least 1 authorized signatory that would be registered in its commercial registration/trade license. Therefore, as you can see, the level of governance associated with a closed joint stock company is greater than what is applicable to a limited liability company.

In view of the above, our recommendation would be to establish a free zone/special economic zone company (as a limited liability company) which carries out some commercial activity (eg. trading) in addition to holding/investment activities – this would enable such company to be incorporated within the free zones/special economic zone and also avail of incentives available to free zone/special economic zone companies. This is for the reason that when pure holding/investment functions are proposed to be carried out, free zones/special economic zones are ruled out as they do not accommodate such activity and incorporation in the mainland envisages a joint stock company structure and onerous capital/governance requirements. On the other hand, when investment/holding activities are carried out in addition to some other commercial activity, the company engaging in the same is not considered a pure holding company (leading to it not having to be a joint stock company) and furthermore, the free zones/special economic zones would then be able to accommodate such an entity.