

TRADE POLICY REVIEW

Report by the Secretariat

UNITED ARAB EMIRATES

Revision

This report, prepared for the second Trade Policy Review of the United Arab Emirates, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the United Arab Emirates on its trade policies and practices.

Any technical questions arising from this report may be addressed to Mr. Angelo Silvy (tel: 022 739 5249), Mrs. Eugenia Lizano (tel: 022 739 6578), and Mrs. Mena Hassan (tel: 022 739 6522).

Document WT/TPR/G/262 contains the policy statement submitted by the United Arab Emirates.

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SUMMARY

1. The UAE's trade regime is open, with low tariffs and few non-tariff barriers to trade. The UAE's openness was instrumental in achieving the solid growth registered prior to the global crisis and has facilitated the diversification of economic activity. The investment regime remains considerably more restrictive than the trade regime, as foreign participation in any domestic company or activity is limited to 49% of the capital; however, 100% foreign ownership is allowed in any of the UAE's free zones.

2. The global financial crisis brought an end to a period of rapid growth. The economy contracted in 2009, and grew by just 1.4% (total real GDP) in 2010. In the aftermath of the crisis, GDP growth was affected by lower oil prices, turmoil in the financial markets, particularly in Dubai's financial sector, and a price correction in the Dubai property market. As a response to the crisis, the authorities supported banks by providing liquidity and deposit guarantees, and through recapitalization.

(1) ECONOMIC ENVIRONMENT

3. The UAE's economic performance was very strong over the period 2005-08, achieving an annual average growth rate of 5.5%. Growth was based to a large extent on a successful strategy of diversification, into services, real estate, and manufacturing. Non-hydrocarbon GDP growth was particularly high and made possible by a policy to promote investment. The global financial crisis combined with lower oil prices and the price correction in the Dubai real estate market brought an end to this period of high growth, and the economy of the UAE contracted by 1.6% in 2009. The crisis led to an increase in debt, particularly of Dubai's government-related enterprises (GREs).

4. Reacting to the crisis, the Federal Government applied strong countercyclical monetary and fiscal policies and adopted rescue packages for GREs, including an important debt restructuring. The UAE economy started to emerge from the crisis in 2010, with real GDP growing by 1.4%. The global crisis had the effect of cooling off the economy, stopping the acceleration in price increases observed in the 2005-08 period. However, as growth resumes, inflation is forecast to accelerate somewhat, although to below the pre-crisis levels.

5. Departing from a situation of traditional surplus, as a result of the crisis and of the expansionary fiscal policy adopted, the Federal Government ran fiscal deficits in 2009 and 2010. The authorities have been taking steps to reduce this deficit by containing the growth of spending, and reducing producer subsidies and transfers. However, stronger efforts might be needed to achieve fiscal consolidation.

6. Exports of goods increased rapidly throughout 2006-08, but declined by some 17% in 2009, reflecting lower oil prices and the global economic crisis. Imports followed a similar pattern, but both exports and imports started to recover in 2010 as growth picked up. The UAE runs a structural trade balance surplus, which peaked at US\$62.9 billion in 2008, declined in 2009 as a consequence of a considerable drop in oil exports and despite a reduction in imports, and increased again in 2010 and 2011, mainly due to higher non-hydrocarbon exports and re-exports. The surplus in the current account balance reached 3.8% of GDP in 2010.

(2) TRADE POLICY REGIME: FRAMEWORK AND OBJECTIVES

7. The UAE has a liberal trade regime, although a number of limitations and conditions are set on foreign investment. Improved market access for its products through multilateral trade liberalization and bilateral and regional trade agreements is a main trade policy objective. Policy formulation and implementation in the UAE takes place both at the federal and the emirate level; the emirates have a relatively high degree of independence.

8. The UAE has been an active player in the Doha Development Agenda, presenting proposals to eliminate tariffs and non-tariff barriers (NTBs) on raw materials and submitting an initial offer in trade in services. The UAE has not been involved in any dispute settlement case during the period under review.

9. The UAE attaches great importance to regional trade agreements as a valuable complement to, though not a substitute for, a rule-based and non-discriminatory multilateral trade system. The UAE is a founding member of the Gulf Cooperation Council (GCC). During the period under review, the UAE has advanced in the process of regional integration, through its participation in the GCC. However, the full consolidation of the GCC's customs union was still pending in mid-2011, and was expected for the end of the year. Free-trade agreements between the GCC and EFTA, and the GCC and Singapore have been signed, but in late 2011, were still awaiting implementation. The UAE is also a member of the Pan Arab Free Trade Agreement (PAFTA).

10. The UAE's open trade regime contrasts with its relatively more closed investment regime. An important development during the period under review, has been the initiation of drafting of a new Investment Law to expand foreign participation and foster foreign investment and transfer of know-how. However, foreign investment continues to be subject to limitations, and all investment projects must have 51% domestic capital. In addition, the use of local agents to conduct business continues to be mandatory, and although legislation to enforce agency contracts was amended during the review period, it is still skewed in favour of the agent, as the termination of a contract by the investor is difficult.

(3) TRADE POLICIES AND PRACTICES BY MEASURE

11. Since its previous Review in 2006, the United Arab Emirates has streamlined procedures to process documents and reduced the time required to clear Customs, mainly by introducing totally electronic clearance procedures and a risk assessment system. Nevertheless, the UAE still requires that imports be processed by a designated trade agent, and nationality restrictions are applied in this respect. A trade agent requires a trading licence, granted only to UAE nationals and to companies that are at least 51% owned by UAE nationals.

12. The UAE has applied the Gulf Cooperation Council's (GCC) Common External Tariff since 2003. The tariff structure comprises four *ad valorem* tariff rates: zero, 5%, which is the general tariff rate, and 50% and 100%, applied on alcohol and tobacco, respectively. Some 97% of all tariff lines are *ad valorem*; duties are levied on the c.i.f. value of imports. Alternate or specific duties apply to 0.3% of all tariff lines. Since the last Review of the UAE, the average tariff rate has fallen slightly, from 5.1%, to 4.9%. The UAE has bound all tariff lines. Bound rates are in general considerably higher than applied rates, ranging from zero to 200%, giving scope for reduction. The UAE does not apply other duties and charges on imports.

13. Import prohibitions are in place on some 30 HS tariff lines, and another 244 lines at the HS 8-digit level are considered restricted goods. Restrictions and prohibitions are mostly applied on safety, religious or moral grounds. No import licensing regime is in place, and the transaction value of goods is generally used for valuation purposes.

14. In 2005 the UAE issued national legislation to adopt and implement the provisions on anti-dumping, countervailing, and safeguards measures contained in the GCC Treaty. No anti-dumping or countervailing measures were taken during the period under review; no investigations were initiated.

15. The Emirates Standardization and Metrology Authority (ESMA) develops and adopts standards, which are prepared by its technical committees at the request of the Government, industry, or consumers. In general, standards are developed according to existing international and regional standards. Drafts are circulated to the relevant bodies for comments. There is no central body in charge of preparing technical regulations in the UAE. These may be developed by the ESMA, initially in the form of a standard and then made mandatory, or may be devised directly by a Ministry; all technical regulations are approved by Cabinet decision for legal implementation. The ESMA monitors the application of standards and technical regulations. During the period under review, the UAE made over 90 notifications to the TBT Committee.

16. The UAE has an extensive body of national legislation to regulate SPS measures; most of the laws are based on GCC standards. SPS measures are enforced at the federal and the emirate level. All plants and plant products entering the UAE are subject to quarantine, and require a phytosanitary certificate. Similarly all animals and animal products are subject to quarantine and require a sanitary certificate. All shipments of food are inspected to ensure compliance with labelling and shelf-life regulations.

17. The UAE does not apply export taxes, charges, and levies, other than a tax on steel scrap exports. Exports of dual-use goods require a licence. The UAE applies a number of programmes to promote exports, including a Free Trade Zones (FTZ) programme. Foreign ownership in firms established in FTZs may be up to 100% and investors are exempt from paying personal income taxes and corporate taxes for 15 years, renewable for an additional 15 years. Additionally, goods may be imported into an FTZ duty free. Companies located in the FTZs are exempted from agency/distributorship, sponsorship, and national ownership requirements. FTZs produce both goods and provide services.

18. There is no competition policy legislation in the UAE, but a draft competition law, including restrictive agreements, abuse of a dominant position, and mergers and acquisitions, is under consideration by the Ministerial Cabinet. The economy would benefit from the adoption of a competition law given the relative concentration of producers/suppliers in some sectors.

19. The UAE is not a party or an observer to the WTO Plurilateral Agreement on Government Procurement. Government procurement continues to give preference to local companies and suppliers, as foreign participation is limited by nationality requirements. However, there is a strong reliance on foreign companies, particularly for major projects for which local expertise is not always available. An offset programme is in place for defence contracts. Given the federal nature of the UAE, the majority of procurement (by value) is at the emirate level.

20. All main intellectual property laws provide for measures aimed at preventing violation of intellectual property rights, including preventive seizure, confiscation, removal or destruction of products and equipment, as well as elimination of the effects of the illegal acts, and compensation, and imprisonment in certain instances. In recent years, the UAE has implemented programmes to increase awareness regarding intellectual property protection. The goal is to establish an environment that promotes innovation, to attract investment in intellectual-property-related areas in the UAE.

(4) TRADE POLICIES BY SECTOR

21. The oil sector and connected industries continue to play a major role in the UAE economy. However, attempts are under way to diversify the economy, particularly into services and manufacturing. The petroleum sector accounted for 29% of GDP, 69% of government income, and 85% of export revenues in 2009. The UAE's estimates of proven crude oil reserves are 97.8 billion barrels, equivalent to almost 8.5% of the world's reserves, while production reached 2.32 million barrels/per day in 2010. Some 95% of all petroleum production is in the emirate of Abu Dhabi.

22. In accordance with the Constitution, management of natural resources in the UAE is vested in each individual emirate and not with the Federal Government. Foreign equity in projects is determined by the competent authorities of the local government of the emirate where the natural resource is located.

23. Agriculture represents a small share of the UAE's economy, accounting for just 1% of GDP. Total cultivated land has decreased in recent years, and the UAE remains a major net food importer. Foreigners, other than GCC nationals, are not allowed to own agricultural land in the UAE, but may own up to a 49% stake in agri-business companies. Fishing is restricted to UAE and GCC nationals. Notifications to the WTO on agriculture remained pending in December 2011.

24. In its quest to diversify the economy away from oil, during the period under review, the UAE has continued to develop its manufacturing sector. However, some of the main manufacturing industries, such as petrochemicals, remain linked to the oil industry. Nevertheless, there have been important developments in aluminium production and pharmaceutical products. Most manufactured imports face a 5% tariff. However, all materials that are used in the production of a licensed industrial project enter the UAE duty free.

25. The services sector is growing rapidly, particularly in air and maritime transport, telecommunications, and tourism. However, developments in the sector would benefit in general from some flexibility of the foreign investment ownership limitations currently in place.

26. In financial services, the emirate of Dubai was particularly affected by the global financial and economic crisis. There was a sharp contraction in equity markets in 2008 and 2009; market capitalization, and the general share price index continued falling in 2010. The authorities responded to the crisis by stepping up regulation, including raising minimum capital adequacy ratios for banks, which were raised from 10% to 12% in 2010, and by pumping liquidity into the system and recapitalizing banks. Other measures adopted to counter the financial crisis included a moratorium on new licences for commercial banks and placing a limit on the number of branches permitted to licensed foreign banks. Currently, locally incorporated banks in the UAE are well capitalized, with a minimum capital-adequacy ratio well above the legal requirement, at an average of 21.2% at end-September 2011.

27. Foreign banks must open branches in the UAE to provide services there; since 2010, the number of branches they may open has been limited to a maximum of eight branches in the UAE. Subsidiaries of foreign banks are prohibited. Foreign banks are granted national treatment for paid-up capital requirements, but not with respect to the taxation of profits: foreign banks are subject to a 20% tax on profits, but this is not applied to national banks.

28. National and foreign insurance companies wishing to establish in an emirate must apply to the Insurance Authority for an establishment procedure, then for licensing. Conditions for the granting of licences include economic needs criteria and the appointment of a minimum number of UAE nationals as staff. Eligible foreign insurance companies may open a branch, appoint a local insurance agent and/or enter into an agency contract with a local insurance agent representing them.

29. A major development in the telecommunications sector during the review period was the termination of the monopoly in telephony services. However, competition in the sector remains low; there is a duopoly in mobile telephony, which result in relatively high prices. The market could benefit from increased competition in the sector.

30. The UAE has one of the largest air transport industries in the world. It has five airlines, two of which are major international carriers, and two major airports, one of which is one of the busiest in the world (Dubai). The airline industry in the UAE benefits from the country's "open skies" policy, good civil aviation infrastructure, and competition between the different emirates. The authorities are expecting the sector to continue to grow rapidly in the near future. For this expansion, both main airports and airlines need to exploit their roles as hubs and transfer carriers, due to the UAE's relatively small domestic market.

31. There are plans to increase the capacity and activities of ports. However, despite the policy of granting concessions to private service providers in some areas, port management remains a prerogative of the different emirates. Like in other service areas, despite coordination to some extent at the federal level, the fact that each emirate has policies in the same area could lead to overcapacity. Further coordination among emirates could ensure that investment projects are complementary and lead to a more integrated development policy approach.

32. Prior to the 2008-09 global financial crisis, the UAE underwent a construction boom, which helped sustain the emergence of conglomerates in this sector. However, in the aftermath of the crisis, the construction sector suffered a major downturn, with prices falling by 50% in Dubai and 40% in Abu Dhabi. The impact of the crisis was exacerbated by the large number of new units on the market resulting from the boom.

33. Tourism is of growing importance in the UAE, in particular considering efforts displayed to build infrastructure and the various developments in the area. In 2008, the National Council for Tourism and Antiquities (NCTA) was established to help align UAE tourism-related policies at the federal level. However, each emirate issues tourism licences. The creation of the NCTA is expected to give further impetus to the promotion of tourism.

