

Bahrain

RISK & COMPLIANCE REPORT

DATE: September 2018

KNOWYOURCOUNTRY

| Executive Summary - Bahrain | |
|--|--|
| Sanctions: | None |
| FATF list of AML Deficient Countries | No |
| Higher Risk Areas: | Not on EU White list equivalent jurisdictions Offshore Finance Centre |
| Medium Risk Areas: | Non - Compliance with FATF 40 Recommendations US Dept of State Money Laundering Assessment Corruption Index (Transparency International & W.G.I.) World Governance Indicators (Average Score) Failed States Index (Political Issues) (Average Score) |
| <p>Major Investment Areas:</p> <p>Agriculture - products: fruit, vegetables; poultry, dairy products; shrimp, fish</p> <p>Industries: petroleum processing and refining, aluminum smelting, iron pelletization, fertilizers, Islamic and offshore banking, insurance, ship repairing, tourism</p> <p>Exports - commodities: petroleum and petroleum products, aluminum, textiles</p> <p>Exports - partners: Saudi Arabia 3%, India 2.2%, UAE 2%, South Korea 1.9% (2012)</p> <p>Imports - commodities: crude oil, machinery, chemicals</p> <p>Imports - partners: Saudi Arabia 26.8%, US 9.7%, China 9.6%, Japan 6.4%, India 4.9%, France 4.7% (2012)</p> | |
| Investment Restrictions: | |

The Government of Bahrain has a liberal approach to foreign investment and actively seeks to attract foreign investors and businesses.

The government has focused its efforts on the entry of new private firms, particularly in the information and communications technology, education and training services, tourism, financial services, business services, healthcare services and downstream industries.

Bahrain permits 100% foreign-ownership of new industrial entities and the establishment of representative offices or branches of foreign companies without local sponsors. Wholly foreign-owned companies may be set up for regional distribution services and may operate within the domestic market as long as they do not exclusively pursue domestic commercial sales. Private investment (foreign or Bahraini) in petroleum extraction is permitted only under a production-sharing agreement with BAPCO, the state-owned petroleum company.

Foreign firms and GCC nationals may own land in Bahrain. Non-GCC nationals may own high-rise commercial and residential properties, as well as property in tourism, banking, financial and health projects, and training centers, in specific geographic areas that are issued by an Edict from the Prime Minister's Cabinet.

Contents

| | |
|--|----|
| Section 1 - Background..... | 5 |
| Section 2 - Anti – Money Laundering / Terrorist Financing | 6 |
| FATF status..... | 6 |
| Compliance with FATF Recommendations..... | 6 |
| Key Findings from latest Mutual Evaluation Report (2007): | 6 |
| US Department of State Money Laundering assessment (INCSR) | 8 |
| Key Findings from other US State Department Reports:..... | 11 |
| International Sanctions..... | 15 |
| Bribery & Corruption..... | 16 |
| Section 3 - Economy..... | 18 |
| Banking..... | 18 |
| Section 4 - Investment Climate | 20 |
| Section 5 - Government..... | 35 |
| Section 6 - Tax..... | 37 |
| Methodology and Sources..... | 39 |

Section 1 - Background

In 1783, the Sunni Al-Khalifa family captured Bahrain from the Persians. In order to secure these holdings, it entered into a series of treaties with the UK during the 19th century that made Bahrain a British protectorate. The archipelago attained its independence in 1971. Facing declining oil reserves, Bahrain has turned to petroleum processing and refining and has become an international banking center. Bahrain's small size and central location among Persian Gulf countries require it to play a delicate balancing act in foreign affairs among its larger neighbours. The Sunni-led government has struggled to manage relations with its large Shia-majority population. In early 2011, amid Arab uprisings elsewhere in the region, the Bahraini Government confronted similar protests at home with police and military action. The aftermath led to modest reforms, though continued dissatisfaction by Bahraini oppositionists with the extent of the reforms, has led to a broader dialogue between government officials, political societies, and legislators.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Bahrain is not currently on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Bahrain was undertaken by the Financial Action Task Force (FATF) in 2018. According to that Evaluation, Bahrain was deemed Compliant for 8 and Largely Compliant for 26 of the FATF 40 Recommendations. It was deemed Highly effective for 0 and Substantially Effective for 3 of the Effectiveness & Technical Compliance ratings.

Key Findings from latest Mutual Evaluation Report (2018):

Key Findings

Overall, Bahrain has a moderate level of understanding of its money laundering and terrorist financing (ML/TF) risks, with the national risk assessment (NRA) process on going at the time of the onsite. The understanding of ML/TF risks is still evolving and will be further developed as the NRA process is concluded.

Domestic coordination, cooperation and information exchange at the operational level is strong and proactive. There have been a number of initiatives, policies and actions by authorities to address ML/TF risks. However, more generally, the objectives and activities of authorities will need to be strengthened and aligned with the identified ML/TF risks.

Financial intelligence and other information are accessed and used in investigations for ML/TF and associated offences. During 2012-2017, Bahrain initiated 43 investigations for ML, resulting in nine convictions, and a number of ongoing cases. However, the investigation and prosecution of ML, generally, do not appear to be fully in line with its ML risks.

Bahrain's terrorism offence (which is cross referenced in the TF offence) includes an exemption that is inconsistent with the TF Convention. This exemption significantly impacts Bahrain's compliance at the technical level, but has not yet had a discernible impact on effectiveness. TF activities are identified and investigated by LEAs, though TF is mostly identified as a result of terrorism investigations. Given the strong domestic coordination in Bahrain, information and intelligence is rapidly exchanged in TF cases.

Financial institutions in Bahrain immediately implement TFS (both PF and TF) without delay. However, the majority of the DNFBP sector does not implement TFS without delay, and the remaining DNFBPs (as well as all natural and legal persons in Bahrain) do not have legal obligations in relation to TFS.

Bahrain identified a subset of high risk NPOs for potential terrorism abuse. Yet, restrictive obligations are placed on all NPOs operating in Bahrain, regardless of their identified risk profile. While these measures may be effective at mitigating TF abuse of the NPO sector, they are not applied on a risk-basis and may unduly or inadvertently restrict NPO's ability to access resources, including financial resources, to carry out their legitimate activities.

In the financial sector, the application of proportionate mitigating measures by large financial institutions is robust. Progress still needs to be made regarding the understanding and implementation of beneficial ownership obligations. Implementation of preventive measures, including suspicious transaction reporting by the DNFBP sector needs improvements.

Bahrain has strong controls to prevent criminals from beneficially owning a significant or controlling interest or holding a management function in a financial institution. The CBB has strong elements of a risk based approach to supervision and requires remediation from institutions it supervises. It has imposed a range of sanctions and made referrals for prosecution, though there is scope to increase the use of sanctions as the level of onsite supervision increases.

International cooperation between Bahraini authorities and foreign counterparts is collaborative and provided upon request and spontaneously, with priority given to terrorism and TF. Mutual Legal Assistance (MLA) requests are mainly used as complementary tools, in addition to more informal cooperation channels.

Risks and General Situation

Bahrain is a regional financial and trading hub with a liberal business environment. Bahrain's economy has shown steady growth during in recent years despite the financial meltdown in 2008-2009. Bahrain's real GDP was USD 31.8 billion in 2016, and grew by around 3.3% from that in 2015. Oil comprises 75.6% of the country's budget revenues and 20% of its GDP. Bahrain enjoys a strong, diverse, and competitive economy which promotes business growth. The financial services sector accounted for 16.5% of the real GDP in 2016, and is the largest non-oil contributor to the GDP.

Bahrain is exposed to domestic ML/TF risks, and the ML/TF risks associated with cross-border customers and activity. Bahrain is currently undertaking its first formal and comprehensive National Money Laundering and Terrorist Financing Risk Assessment (NRA). The NRA process is organised and led by the National Policy Committee (NPC) and carried out by working groups representing relevant AML/CFT stakeholders in the country, including private sector.

As per the draft NRA as at the time of onsite, the most important ML threats are investment fraud, cash courier/cross-border violations including smuggling and immorality and prostitution. The banking sector is considered to be the most targeted sector for ML, with money changers, custodians and real estate being medium risk targets.

Bahrain is also exposed to geopolitical risks, most notably in relation to TF. According to the authorities, the risk of terrorism and TF is high. Though the understanding of risk is still being finalised, Bahrain identifies the most prevalent and high risk TF areas as: cash smuggling via land and sea (i.e. foreign funding); NPOs; and fundraising.

US Department of State Money Laundering assessment (INCSR)

Bahrain was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Bahrain is a leading financial center in the Gulf region. Bahrain has a primarily service-based economy, with the financial sector providing roughly 18 percent of GDP. It hosts a diverse group of financial institutions, including 113 licensed banks, 19 money changers, and several other investment institutions, including 151 insurance organizations. The greatest risk of money laundering stems from illicit proceeds of foreign origin that transit the country. Bahrain's vast banking network, along with its status as a transit point along the Gulf and into Southwest Asia, may attract money laundering activities. Bahrain does not have a significant black market for smuggled goods or known linkages to drug trafficking.

Khalifa bin Salman Port, Bahrain's major port, provides a free transit zone to facilitate the duty free import of equipment and machinery. Another free zone is located in the North Sitra Industrial Estate. Raw materials intended for processing in Bahrain and machinery imported by Bahraini-owned firms are also exempt from duty; the imported goods may be stored duty-free. These free zones are not a significant source for money laundering or terrorism financing.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: NO

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes
Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES

KYC covered entities: Banks, investment houses, insurance firms, money exchangers, securities brokers and dealers, real estate brokers, gold dealers, financial intermediaries, and attorneys

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 1,044 in 2015

Number of CTRs received and time frame: Not applicable

STR covered entities: Banks, investment houses, insurance firms, money exchangers, securities brokers and dealers, real estate brokers, gold dealers, car dealers, financial intermediaries, attorneys, auction houses, and galleries

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 3 in 2015

Convictions: 0 in 2015

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: YES

With other governments/jurisdictions: YES

Bahrain is a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

Awareness within the capital markets and designated non-financial businesses and professions (DNFBPs) regarding suspicious transaction reporting (STR) obligations is inconsistent. According to authorities, the informal and non-bank financial sectors are regulated and investigated. The Government of Bahrain is trying to increase its capacity to investigate irregularities among exchange houses. There is little awareness of trade-based money laundering.

There was a 20 percent increase in STRs filed in 2015 compared to 2014, according to the Interior Ministry's Financial Intelligence Directorate's annual report.

The Government of Bahrain strives to be a leader in the region on matters involving terrorist financing.

The Government of Bahrain passed legislation in 2013 to criminalize 14 major offenses per the international standards. However, the Government of Bahrain acknowledges that a lack of specialized prosecutors and judges makes convictions a challenge. Tipping off is not prohibited and should be criminalized.

EU Tax Blacklist

Bahrain was removed from the EU tax blacklist and placed on the EU tax grey list on 13 March 2018.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Bahrain does not conform with regard to the following government legislation: -

Criminalised Tipping Off - By law, disclosure of the reporting of suspicious or unusual activity to an individual who is the subject of such a report, or to a third party, is a criminal offense.

EU White list of Equivalent Jurisdictions

Bahrain is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Bahrain is considered to be an Offshore Financial Centre

Key Findings from other US State Department Reports:

Trafficking in Persons

Bahrain is classified a Tier 2 country - a country whose governments does not fully comply with the Trafficking Victims Protection Act's minimum standards, but are making significant efforts to bring themselves into compliance with those standards

Bahrain is a destination country for men and women subjected to forced labor and sex trafficking. Men and women from South, Central, Southeast, and East Asia; East and West Africa; the Middle East; and other countries migrate voluntarily to Bahrain to work as domestic workers or as laborers in the construction and service industries. In recent years, NGOs observed a greater influx of workers from parts of Africa. Some migrant workers face forced labor after arriving in Bahrain, experiencing unlawful withholding of passports, restrictions on movement, contract substitution, non-payment of wages, threats, and physical or sexual abuse. Withholding of workers' identity cards and passports and intimidation by employers prevents some workers from reporting abuse. "Free visa" holders, who work for an employer who is not their sponsor and are therefore working illegally, are particularly vulnerable to exploitation. Government and NGO officials report physical abuse and sexual assault of female domestic workers, who are often strictly confined to the household, are significant problems in Bahrain. NGOs report male Bangladeshi unskilled workers are in high demand and are considered by employers to be exploitable as they typically do not protest difficult work conditions or low pay. Domestic workers are highly vulnerable to forced labor and sexual exploitation because they are largely unprotected under the labor law. In recent years, reports of suicides among migrant workers have been associated with forced labor, debt bondage, and isolation. Migrant workers did not always have access to their employment contracts and many were unaware of their terms of employment. A large percentage of foreign workers borrowed money or sold property in their home countries to secure their jobs, increasing their vulnerability to debt bondage. Women from Asia, the Middle East, and Eastern European states are subjected to forced prostitution in Bahrain.

The Government of Bahrain does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. During the year, the government identified an increased number of trafficking victims; continued to refer victims to services, including to a newly established shelter; made modest efforts to prosecute and convict trafficking offenders, including a government official; launched a hotline to report migrant worker abuse; and continued awareness-raising efforts. The government provided anti-trafficking training for more than 120 officials, including prosecutors, immigration officials, labor officials, and police officers. However, among hundreds of reported labor violations in Bahrain, efforts to investigate and prosecute serious trafficking crimes or identify potential forced labor victims remained minimal. Corruption and official complicity, especially in facilitating the "free visa" scheme, remained a concern in the reporting period. Despite past commitments and pledges, the government did not abolish the sponsorship system, which contributed to forced labor and debt bondage in the country. The government continued to arrest, detain, and deport potential trafficking victims.

Terrorist Financing 2016:

Overview: During 2016, the Bahraini government continued to make gains in detecting, neutralizing, and containing terrorist threats from violent Shia militants and ISIS sympathizers. Shia militants remained a key threat to security services, and their attacks in 2016 resulted in the death of one police officer and one civilian. The government also continued implementing counterterrorism laws the legislature approved in 2013, including revoking the citizenship of suspected and convicted terrorists. Opposition-leaning activists asserted at least some of these revocations were politically motivated, however. The government also offered diplomatic support to the Global Coalition to Defeat ISIS, participating in the October Counter-ISIS conference in Washington and other working-level meetings – such as those of the Political Directors, Small Group, and Communications Committee – although Bahrain has not contributed substantively to coalition military efforts since 2014. Bahrain also indirectly supports coalition operations through hosting the Fifth Fleet and Naval Central Command.

In December, ISIS affiliates released a video in which the operatives called for attacks against the Bahraini government and U.S. interests in the region.

Legislation, Law Enforcement, and Border Security: The Antiterrorism Law of 2006, and amendments in 2013, as well as Articles 155 and 168 of the penal code, form the bulk of Bahrain's terrorism legislative framework. A 2004 legislative decree created a new division within the Public Prosecutor's Office that specializes in terrorism cases. In 2013, the government amended the Charity Fundraising Law of 1956 to tighten terrorist finance monitoring and penalties and strengthen the government's ability to monitor and impede the use of social media to promote terrorism.

Bahrain did not offer any significant adjustments to its legal regime in 2016, although in April it labeled 68 groups as terrorist entities, including three domestic Shia militant organizations and ISIS. Activists alleged that the government has used the 2013 amendments to the Antiterrorism Law, particularly portions related to citizenship revocations, to pursue politically motivated cases against the mainstream, nonviolent opposition and Shia Community.

The Ministry of the Interior is the lead government agency that detects and prevents terrorism, and arrests suspects in terrorism-related acts, with the Bahrain National Security Agency providing intelligence support. The Bahraini Coast Guard monitors and interdicts seaborne weapons and terrorists. The major deterrents to more effective law enforcement and border security are the lack of interagency coordination and limited training opportunities to develop requisite law enforcement skills. Police regularly plan and mobilize large-scale security operations to prepare for and enhance security during major events.

Bahrain has attempted to upgrade its border security and screening procedures at its two primary points of entry: the Bahrain International Airport and the King Fahd Causeway. Bahrain's third point of entry is the Khalifa bin Salman Port, where there is also appropriate screening. Bahrain cross-checks biographic information of incoming and outgoing travelers and can prevent individuals from entering or leaving the country. It is able to work with airlines for advance passenger information protocols, but usually not until incoming flights are airborne. Bahrain works with international organizations such as INTERPOL to identify and apprehend wanted persons; activists and NGOs have asserted that the government has

used the INTERPOL red notice system to pursue politically motivated cases against the mainstream opposition and Shia activists without a history of involvement in violent acts. In 2016, Bahrain and the United States enhanced their abilities to share terrorism screening information.

Bahrain has initiated and continued to pursue numerous high-profile terrorism cases related to Sunni and Shia violent extremists. In 2016, a court convicted 24 citizens, with 16 tried in absentia, of forming an ISIS cell and revoked their citizenships. Most citizenship revocations and other prosecutions based on terrorism charges involved Shia militant individuals and organizations. Notable examples included the cases of the "Imam Army" and "Basta" terrorist organizations, where suspects are accused of conspiring with Iran's Islamic Revolutionary Guard Corps–Qods Force and other terrorist entities to launch domestic attacks.

Countering the Financing of Terrorism: Bahrain is a member of the Middle East and North Africa Financial Action Task Force, a Financial Action Task Force (FATF)-style regional body. Its financial intelligence unit, the Anti-Money Laundering Unit, is a member of the Egmont Group of Financial Intelligence Units. Bahrain is also a member of the Coalition's Counter-ISIS Finance Group (CIFG) and hosted a U.S.-Gulf Cooperation Council (GCC) Counter-Hizballah Workshop in 2016. Bahrain participated in three CIFG meetings in 2016 with delegations from the Ministry of Foreign Affairs, Ministry of Interior, and Central Bank of Bahrain.

Bahrain did not pass any significant counterterrorist financing legislation in 2016, but the Public Prosecutor's Office (PPO) signed an MOU with counterparts in the United Kingdom to increase information sharing and capacity building. One of the end goals of the project is to develop a financial crimes division within the PPO, which the office aims to implement after several of its members complete training in London.

Bahrain criminalizes terrorist financing in accordance with international standards and has the ability to immediately freeze suspicious financial assets. The Central Bank has implemented regulations stipulating that financial institutions and other relevant authorities do not have any dealings with UN-sanctioned entities, and financial institutions must screen all account activity against the Office of Foreign Assets Control Specially Designated Nationals and Blocked Persons list as well as applicable UN Security Council resolutions. The government routinely distributes the UN Security Council lists of designated individuals and entities to financial institutions. The government also obliges non-profit organizations to file suspicious transaction reports and regulates and monitors them to prevent misuse and terrorist financing.

In Bahrain, the potential politicization of terrorist finance and money laundering issues threatens to conflate legitimate prosecutions of militants with politically-motivated actions against the mainstream, nonviolent opposition and Shia community, including Shia clerics. The lack of trust between the government and opposition after several years of political paralysis may continue to complicate any government efforts to prosecute legitimate financial crimes, including the financing of terrorism.

Bahrain is not currently subject to any International Sanctions

Arab League

On November 28, 2011, the Arab League (comprising 22 Arab member states), of which this country is a member, has approved imposing sanctions on Syria. These include: -

- * Cutting off transactions with the Syrian central bank
- * Halting funding by Arab governments for projects in Syria
- * A ban on senior Syrian officials travelling to other Arab countries
- * A freeze on assets related to President Bashar al-Assad's government

The declaration also calls on Arab central banks to monitor transfers to Syria, with the exception of remittances from Syrians abroad.

The Arab League (comprising 22 Arab member states), of which this country is a member, has boycotted Israel in a systematic effort to isolate Israel economically in support of the Palestinians, however, the implementation of the boycott has varied over time among member states.

There are three tiers to the boycott. The primary boycott prohibits the importation of Israeli-origin goods and services into boycotting countries. The secondary boycott prohibits individuals, as well as private and public sector firms and organizations, in member countries from engaging in business with any entity that does business in Israel. The Arab League maintains a blacklist of such firms. The tertiary boycott prohibits any entity in a member country from doing business with a company or individual that has business dealings with U.S. or other firms on the Arab League blacklist.

Bribery & Corruption

| Index | Rating (100-Good / 0-Bad) |
|--|---------------------------|
| Transparency International Corruption Index | 36 |
| World Governance Indicator – Control of Corruption | 56 |

Bahrain presents companies operating or planning to invest in the country with a moderate corruption risk. Petty corruption is not an obstacle for investors to carry out routine government actions, however high-level corruption is more likely to impede businesses. This is particularly the case of public procurement and the extractive industries, where political interference and patronage networks render licensing and contracting opaque. Bahrain has set up a legal anti-corruption framework and the Penal Code criminalizes most corruption offences in both the public and the private sector; including passive and active bribery and abuse of office. Nonetheless, enforcement is poor and officials have engaged in corruption with impunity. **Information provided by GAN Integrity.**

Corruption - US State Department:

According to U.S. firms, high-level corruption is sometimes an obstacle to foreign direct investment and contracting, particularly in the contract-bidding process and in operating notably successful investments. In the case of some high-value contracts, government-tendering procedures have not always been transparent and contracts have not always been decided on the basis of price and technical merit. Petty corruption is relatively rare in Bahrain. The bureaucracy is sometimes inefficient but it is generally honest. Giving or accepting a bribe is illegal, although the relevant laws are rarely enforced. Officials have been dismissed for blatant corruption, but it is never so stated officially; no one has been tried in court for corruption. The King and Crown Prince have come out publicly in favor of reducing corruption and some Ministries have initiated clean-up efforts to reduce the problem. The expatriate business community is cautiously optimistic that there is growing transparency in the government procurement process. A new law to thoroughly revamp government procurement procedures went into effect in January 2003. Bahrain signed and ratified the UN Anticorruption Convention in February 2005 and October 2010, respectively. Bahrain is not a signatory to the OECD Convention on Combating Bribery.

In 2005 Bahrain established the National Audit Bureau. The Bureau publishes annual reports which highlight fiscal irregularities within government ministries and entities. The reports enable legislators to exercise oversight and call for investigation of fiscal discrepancies in government accounts. In December 2013, the Crown Prince established an Investigation Committee to oversee the cases highlighted in the National Audit Report. In February 2014, the Minister of State for Follow-Up in the Cabinet Affairs stated that seven cases were transferred to the Public Prosecution.

In September 2007 the Crown Prince publicly launched an official campaign against corruption. As a result, several executives in state-owned companies were removed from their positions. In April 2008, Bahraini government officials and executives of Aluminum Bahrain (ALBA) were accused of accepting bribes from the American firm Alcoa. In 2008, ALBA sued Alcoa, alleging that Alcoa conspired to overcharge ALBA by hundreds of millions of dollars. The lawsuit was closed in 2011 after the U.S. Justice Department and U.K.'s Serious Fraud Office announced they were investigating the matter. Alcoa's former CEO and a London-based middleman have been charged in the UK case. In December 2011, ALBA filed an amended racketeering lawsuit against Alcoa. In October 2012, Alcoa reached a settlement with ALBA. It did not admit liability, but agreed to pay the company USD 85 million. ALBA filed similar lawsuits against Japanese company Sojitz Group, accusing it of paying bribes to gain discounts on aluminum prices.

As a result of the 2011 National Dialogue process, the Ministry of Interior established an Anti-Corruption Directorate. In 2011 the Ministry of the Interior signed a Memorandum of Understanding with the United Nations Development Program to enhance the Anti-Corruption Directorate's capabilities. In January 2014, the Crown Prince directed the Anti-Corruption Directorate in the Ministry of Interior to take a more active role in investigating allegations of corruption. Moreover the Crown Prince urged the public to play a more active role in combating corruption by utilizing the established hotline to report instances of corruption.

Section 3 - Economy

Low oil prices have generated a budget deficit of at least a \$4 billion deficit in 2015, 13% of GDP. Bahrain has few options for covering this deficit, with meager foreign assets and a constrained borrowing ability, stemming in part from a sovereign debt rating averaging just above “junk” status.

Oil comprises 86% of Bahraini budget revenues, despite past efforts to diversify its economy and to build communication and transport facilities for multinational firms with business in the Gulf. As part of its diversification plans, Bahrain implemented a Free Trade Agreement (FTA) with the US in August 2006, the first FTA between the US and a Gulf state.

Other major economic activities are production of aluminum - Bahrain's second biggest export after oil - finance, and construction. Bahrain continues to seek new natural gas supplies as feedstock to support its expanding petrochemical and aluminum industries.

In 2011 Bahrain experienced economic setbacks as a result of domestic unrest driven by the majority Shia population, however, the economy recovered in 2012-15, partly as a result of improved tourism. In addition to addressing its current fiscal woes, Bahraini authorities face the long-term challenge of boosting Bahrain's regional competitiveness—especially regarding industry, finance, and tourism—and reconciling revenue constraints with popular pressure to maintain generous state subsidies and a large public sector.

Agriculture - products:

fruit, vegetables; poultry, dairy products; shrimp, fish

Industries:

petroleum processing and refining, aluminum smelting, iron pelletization, fertilizers, Islamic and offshore banking, insurance, ship repairing, tourism

Exports - commodities:

petroleum and petroleum products, aluminum, textiles

Exports - partners:

Saudi Arabia 3.6%, UAE 2.4%, US 2.2% (2015)

Imports - commodities:

crude oil, machinery, chemicals

Imports - partners:

Saudi Arabia 29.1%, US 9.5%, China 7.6%, Japan 6.6%, Australia 5.1%, India 4.9% (2015)

Banking

Bahrain is a principal financial services hub in the Middle East. Legal, regulatory, and

accounting systems in the financial sector (onshore and offshore) are transparent and consistent with international norms. International financial institutions operate in Bahrain, both internationally and domestically, without impediments.

The Central Bank of Bahrain (CBB) regulates the banking sector under the provisions of the BMA law (Decree Law No. 23 of 1973). In May 2002, the Government of Bahrain announced that regulatory responsibility for the insurance sector and stock exchange would move to the CBB, formerly known as the Bahrain Monetary Authority (BMA.) This move was completed in late 2002.

The global financial crisis has limited the numbers of financial institutions registered by the CBB. The CBB's new policies and regulations are in line with Basel II. They created guidelines, workshops, and seminars to ensure that risk management and diversifying of investment portfolios are essential methods to overcome future financial turbulence. Many international banks are present in Bahrain.

In 2006, as part of an effort to maintain their position as a leading financial centre of the Middle East, the government of Bahrain implemented new regulations and licensing requirements to allow Offshore Banks (wholesale) to operate and invest locally. In the same year the government of Bahrain transformed the BMA to a Central Bank.

Stock Exchange

To enhance international and local investments, the Kingdom of Bahrain privatized the [Bahrain Stock Exchange](#) in January 2010; it was officially re-launched as Bahrain Bourse in January 2011. Regulatory responsibility for the stock exchange rests with The Central Bank of Bahrain.

Executive Summary

- The investment climate in Bahrain is generally good, and has remained relatively stable in the last year, despite the precipitous drop in global oil prices;
- Bahrain has a liberal approach to foreign investment and actively seeks to attract foreign investors and businesses;
- In an economy largely dominated by state-owned enterprises, the Government of Bahrain aims to foster a greater role for the private sector in economic growth. Government efforts focus on encouraging foreign direct investment in Bahrain, including in the manufacturing and logistics, information and communications technology (ICT), financial services and tourism sectors;
- The U.S.-Bahrain Bilateral Investment Treaty (BIT) entered into force in 2001. The BIT provides benefits and protection to U.S. investors in Bahrain, such as most-favored nation treatment and national treatment, the right to make financial transfers freely and without delay, international law standards for expropriation and compensation cases, and access to international arbitration;
- Bahrain permits 100 percent foreign-ownership of new industrial entities and the establishment of representative offices or branches of foreign companies without local sponsors;
- The U.S.-Bahrain Free Trade Agreement (FTA) entered into force in 2006. Under the FTA, Bahrain committed to world-class Intellectual Property Rights (IPR) protection;
- Despite the Government of Bahrain's transparent, rules-based government procurement system, U.S. companies sometimes report operating at a perceived disadvantage compared with other firms in certain government procurements;
- Some businesses report contracts are not always awarded solely based on price and technical merit;
- Many ministries require firms to pre-qualify prior to bidding on a tender, often rendering firms with little or no prior experience in Bahrain ineligible to bid on major tenders;
- A period of political and civil unrest began in Bahrain in February 2011. While the situation today is quite different and far more stable than in 2011, demonstrations continue to occur, occasionally developing into violent clashes against police;
- Violent clashes, when they occur, sometimes make travel in and around parts of Bahrain potentially dangerous. There are no indications that Westerners or U.S. citizens are being targeted directly, but there have been isolated incidents in which protesters voiced anti-U.S. sentiments and burned U.S. flags. The unrest has had a limited impact on American businesses in Bahrain;

- Bahrain's Ministry of Industry, Commerce and Tourism (MoICT) made several changes to the commercial registration process in 2015 in an effort to enhance efficiency and transparency. The new Business Licensing Integrated System (BLIS) allows GCC companies and individuals to apply, track and get a "primary approval" for a new commercial registration online within two working days;
- American citizens and companies, however, are still required to appear in person at the Bahrain Investor's Center (BIC) to file their applications.

Table 1

| Measure | Year | Index or Rank | Website Address |
|---|------|---------------|--|
| TI Corruption Perceptions index | 2014 | 55 of 175 | transparency.org/cpi2014/results |
| World Bank's Doing Business Report "Ease of Doing Business" | 2015 | 65 of 189 | doingbusiness.org/rankings |
| Global Innovation Index | 2015 | 59 of 143 | globalinnovationindex.org/content/page/data-analysis |
| U.S. FDI in partner country (\$M USD, stock positions) | 2015 | 765 M | BEA |
| World Bank GNI per capita | 2010 | \$21,060 | data.worldbank.org/indicator/NY.GNP.PCAP.CD |

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The Government of Bahrain (GOB) has a liberal approach to foreign investment and actively seeks to attract foreign investors and businesses. Increasing foreign direct investment (FDI) is one of the government's top priorities. The GOB permits 100 percent foreign ownership of a business or branch office, without the need for a local partner; no other Gulf state allows this. The GOB does not tax corporate income, personal income, wealth, capital gains, withholding or death/inheritance. There are no restrictions on repatriation of capital, profits or dividends. Bahrain's Ministry of Industry, Commerce and Tourism (MoICT) operates the Bahrain International Investment Park (BIIP), a 2.5 million square meter tax free zone located minutes from Bahrain's main Khalifa bin Salman port. Only 5 percent of the land in the park remains available for new enterprises, though BIIP officials are confident they will attain new land to expand the park. In 2015 MoICT issued a decree doubling rental fees for industrial land. Despite this increase, however, industrial land in Bahrain is still less expensive than it is in other GCC countries. Bahrain is particularly keen on attracting investment from the United

States. A Bilateral Investment Treaty with the U.S. entered into force in 2001 and the U.S.-Bahrain Free Trade Agreement commenced in 2006.

Other Investment Policy Reviews

The World Trade Organization (WTO) conducted a formal Trade Policy Review of Bahrain in 2014. Here is a link to the WTO site, where the report can be accessed:

http://www.wto.org/english/tratop_e/tpr_e/tpr_e.htm

Laws/Regulations on Foreign Direct Investment

The U.S.-Bahrain Bilateral Investment Treaty (BIT) provides benefits and protection to U.S. investors in Bahrain, such as most-favored nation and national treatment, the right to make financial transfers freely and without delay, the application of international legal standards for expropriation and compensation cases, and access to international arbitration. The BIT guarantees national treatment for U.S. investments across all sectors, with exceptions only for ownership of television, radio or other media, fisheries, and privatization of oil dredging or exploration. Bahrain also provides most-favored nation or national treatment status to U.S. investments in air transportation, the purchase or ownership of land, and the purchase or ownership of shares traded on the Bahrain Bourse.

The national treatment clause in the BIT ensures American firms interested in selling products exclusively in Bahrain are no longer required to appoint a commercial agent, though they may opt to do so anyway. A commercial agent is any Bahraini party appointed by a foreign party to represent the foreign party's product or service in Bahrain.

Bahrain permits 100 percent foreign-ownership of new industrial entities and the establishment of representative offices or branches of foreign companies without local sponsors. Wholly foreign-owned companies may be set up for regional distribution services and may operate within the domestic market as long as they do not exclusively pursue domestic commercial sales. Private investment (foreign or Bahraini) in petroleum extraction is permitted only under a production-sharing agreement with BAPCO, the state-owned petroleum company.

Expatriates may own land in Bahrain. Non-GCC nationals, including Americans, may own high-rise commercial and residential properties, as well as properties used for tourism, banking, financial and health projects and training centers. Expatriates may only own land in specific geographic areas designated via edict from the Prime Minister's Cabinet.

Business Registration

MoICT made several changes to the commercial registration process in 2015 in an effort to enhance efficiency and transparency. The new Business Licensing Integrated System (BLIS) allows GCC companies and individuals to apply, track and get a "primary approval" for a new commercial registration online within two working days. American citizens and companies, however, are still required to appear in person at the Bahrain Investor's Center (BIC) to file their applications. For more information on company registration, please visit the following GOB website: <https://www.business.gov.bh/>

Industrial Promotion

The GOB's Economic Development Board (EDB), which is chaired by the Crown Prince, is tasked with marketing Bahrain as an investment hub, and helping companies establish a physical presence in Bahrain. The EDB targets FDI in the following sectors: manufacturing and logistics, financial services, information and communication technology (ICT), and tourism, including by publishing information on each of these sectors online and in its quarterly print magazine. EDB also has several offices overseas, including one in Washington, DC, from which staff travel throughout the United States to promote investment in these sectors.

The GOB also has several programs designed to support small businesses (companies with fewer than 5 employees). The Bahrain Development Bank, for example, offers low interest loans to support small businesses, while Tamkeen (the GOB's private sector support fund) offers technical assistance, training, and grants. Would be entrepreneurs also can apply for a loan from Family Bank, which offers credit worth up to BD 8,000 (roughly USD 21,000).

Limits on Foreign Control and Right to Private Ownership and Establishment

The Kingdom of Bahrain imposes minimal limits in foreign control, and the right of ownership and establishment of a business. The Ministry of Commerce, Industry and Tourism maintains a small list of businesses that are restricted to Bahrain ownership, including press and publications, Islamic Pilgrimage, clearance offices, and workforce agencies,

U.S citizens may own and operate companies in Bahrain, though many such individuals choose to integrate influential local partners into the ownership structure to resolve bureaucratic issues such as labor permits, issuance of foreign visas, and access to industrial zones. The most common challenges faced by U.S firms are those related to bureaucratic government processes, lack of market information, and customs clearance.

Privatization Program

Bahrain's Crown Prince is an outspoken proponent of privatization, and he advocates increased foreign investment as a means of driving private sector growth. To promote this goal, he endorsed the establishment of a "one-stop-shop" for potential investors. Bahrain's Economic Development Board works with Bahrain's ministries to attract FDI by highlighting the business-friendly environment Bahrain offers to foreign companies. In April 2014, the Crown Prince appointed a new board of directors for the EDB, significantly increasing the number of private sector representatives on the board. In February 2015 the Crown Prince appointed a new CEO with a strong private sector background.

Screening of FDI

Bahrain does not designate a single entity to screen and/or approve FDI. In recent years, however, it is apparent the Government of Bahrain has become more selective in supporting and approving foreign investment projects. Decisions to approve or reject FDI appear to be primarily based on concerns over land scarcity and national security. The government also seeks to prioritize FDI that will generate the maximum number of jobs for Bahraini nationals.

Competition Law

There is no formal competition law in Bahrain, nor is there a specific agency that monitors competition-related issues. There are general restrictions on FDI in some sectors, including the oil and gas and petrochemicals sectors, in which all companies are government-owned.

2. Conversion and Transfer Policies

Foreign Exchange

Bahrain has no restrictions on the repatriation of profits or capital and no exchange controls. Bahrain's currency, the Bahraini Dinar (BD), is fully and freely convertible at the fixed rate of USD 1.00 = BD 0.377 (1 BD = USD 2.659). There is no black market or parallel exchange rate.

There are no restrictions on converting or transferring funds, whether or not associated with an investment.

Remittance Policies

The Central bank of Bahrain is responsible for regulating remittances, and its regulations are based on the Central Bank Law ratified in 2006. The majority of the workforce in the Kingdom of Bahrain is comprised of foreign workers, many of whom remit large amounts of money to their countries of origin. Commercial banks and currency exchange houses are licensed to provide remittances services.

The commercial banks and currency exchange houses require two forms of identification before processing a routine remittance request, and any transaction exceeding USD 10,000 must include a documented source of the income.

The Kingdom of Bahrain is a member of the Gulf Cooperation Council (GCC), and the GCC is a member of the Financial Action Task Force (FATF). Additionally, the Kingdom of Bahrain is a member of MENAFATF and the MENAFATF headquarters is located in the Kingdom of Bahrain.

3. Expropriation and Compensation

There have been no expropriations in recent years, and there are no cases in contention. The U.S.-Bahrain Bilateral Investment Treaty (BIT) protects U.S. investments by banning all expropriations (including "creeping" and "measures tantamount to") except those for a public purpose. Such transactions must be carried out in a non-discriminatory manner, with due process, and prompt, adequate, effective compensation.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Bahrain has a long-established framework of commercial law. English is widely used, and well-known international (including U.S.) law firms, working in association with local partners, provide expert legal services both nationally and regionally. Fees are charged according to internationally accepted practices. Although only a Bahraini lawyer can argue in a Bahraini court of law, lawyers of other nationalities can and do work on cases. In April 2007, the government permitted international law firms to be established in Bahrain; these firms provide services such as commercial and financial consultancy in legal matters.

Entrenched local business interests with government influence can sometimes cause problems for foreign companies. Interpretation and application of the law sometimes varies by Ministry, and may be dependent on the stature and connections of an investor's local partner. These departures from the consistent, transparent application of regulations and the law are not common, and investors report general satisfaction with government cooperation and support.

The GOB is eager to develop their legal framework further. The U.S. Department of Commerce's Commercial Law Development Program initiated a training program for judges in September 2015, in cooperation with the Ministry of Justice, Higher Supreme Council for Judges, and the Judicial and Legal Studies Institute.

Bankruptcy

The GOB enacted its bankruptcy and insolvency law in 1987. Chapter 3 of the law states that if a business is facing financial difficulties, failing to make consistent financial payments, or failing to pay commercial transactions within a 30 day timeframe, either the company or debt collectors may declare bankruptcy or ask that the company be liquidated. Chapter 7 of the law specifies that the Supreme Court specializes in bankruptcy and liquidation cases. Chapter 2 briefly describes the procedures for managing insolvency: the Supreme Court designates a firm to represent the business in all legal and business procedures. The representative will be involved in managing the firm's funds, making payments, and other administrative procedures.

CLDP attorneys have been working with the GOB for the last several years to help draft and ratify a new bankruptcy law.

Investment Disputes

The U.S.-Bahraini BIT provides for three dispute settlement options:

1. Submitting the dispute to a local court;
2. Invoking dispute-resolution procedures previously agreed upon by the national or company and the host country government;
3. Submitting the dispute for binding arbitration to the International Center for Settlement of Investment Disputes (ICSID) or any other arbitral institution agreed upon by both parties.

In November 2009, the Ministry of Justice established the Bahrain Chamber for Dispute Resolution (BCDR). In partnership with the American Arbitration Association, the BCDR specializes in alternative dispute resolution services. Since 2010, the (BCDR) has reviewed 86 commercial cases worth USD 1.582 billion. Most of the companies' cases involved family-owned companies in the GCC region.

Bahrain Chamber for Dispute Resolution
Suite 301, Park Plaza
Bldg 247, Road 1704
P.O. Box 20006
Manama, Kingdom of Bahrain

Tel: + (973) 17-511-311
Website: www.bcdr-aaa.org

International Arbitration

Arbitration procedures are largely a contractual matter in Bahrain. Disputes are historically referred to an arbitration body as specified in the contract, or to the local courts. In dealings with both local and foreign firms, Bahraini companies have increasingly included arbitration procedures in their contracts. Most commercial disputes are resolved privately without recourse to the courts or formal arbitration. Bahraini law is generally specified in all contracts for the settlement of disputes that reach the stage of formal resolution, but is optional in those designating the BCDR. Bahrain's court system has adequately handled occasional lawsuits against individuals or companies for nonpayment of debts.

The GCC Commercial Arbitration Center, established in 1995, serves as a regional specialized body providing arbitration services. It assists in resolving disputes among GCC countries or between other parties and GCC countries. The Center implements rules and regulations in line with accepted international practice. Thus far, few cases have been brought to arbitration. The Center conducts seminars, symposia, and workshops to help educate and update its members of any new arbitration related matters.

GCC Commercial Arbitration Center
P.O. Box 2338
Manama, Kingdom of Bahrain
Arbitration Boards' Secretariat
Tel: + (973) 17278006
Email: case@gcccac.org
Website: <http://www.gcccac.org/en/>

ICSID Convention and New York Convention

The Kingdom of Bahrain uses multiple international and regional conventions to enhance its commercial arbitration legal framework. Bahrain is a party to the UNCIRAL Model Law on International Commercial Arbitration, the New York Convention, the Washington Convention (ICSID), and the GCC Convention for Execution of Judgments, among others. These conventions and international agreements established the foundation for the GCC Arbitration body, and the Bahrain Chamber for Disputes & Resolution (BCDR). Bahrain's Constitution stipulates international conventions and treaties have the power of law.

Duration of Dispute Resolution – Local Courts

The Kingdom of Bahrain has no specialized commercial courts, and commercial cases can sometimes take a long time to resolve in the court system. Disputes referred to the BCDR usually are resolved within six months. Local Bahraini companies usually will only use the Bahraini court system as a last resort if a dispute cannot be resolved. After a court has reached its verdict, companies sometimes report difficulty ensuring that awards and/or fines are paid.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Bahrain has been a WTO member since 1995. The Government of Bahrain implements policies in a manner consistent with WTO/TRIMS.

Investment Incentives

The GOB offers a variety of incentives to attract FDI. The Bahrain Logistics Zone, Economic Development Board (EDB), Bahrain Development Bank (BDB), Bahrain International Investment Park (BIIP) and Tamkeen all offer incentives to encourage FDI. Some examples of incentives include: assistance in registering and opening business operations, financial grants, exemption from import duties on raw materials and equipment, and duty free access to other GCC markets.

Research and Development

U.S. and/or other foreign firms are able to participate in government/authority financed and/or subsidized research and development programs.

Performance Requirements

There are no special performance requirements imposed on foreign investors. The U.S.-Bahraini BIT forbids mandated performance requirements as a condition for the establishment, acquisition, expansion, management, conduct, or operation of a covered investment. Foreign and Bahraini-owned companies must meet the same requirements and comply with the same environmental, safety, health, and labor requirements. Officials at the Ministry of Labor, Labor Market Regulatory Authority and the Ministry of Industry, Commerce and Tourism supervise companies operating in Bahrain on a non-discriminatory basis.

The Central Bank of Bahrain regulates financial institutions and foreign exchange offices. Foreign and locally owned companies must comply with the same rules, policies, and regulations.

Data Storage

N/A

6. Protection of Property Rights

Real Property

In principle, private entities may freely establish, acquire, and dispose of interests in business enterprises, subject to the limitations noted in this chapter.

The U.S.-Bahrain FTA entered into force in January 2006. The agreement significantly expanded the scope of economic, commercial, and trade relations between the two countries. The FTA does not have a separate investment chapter and investment protections are covered in the U.S.-Bahrain BIT.

The BIT provides benefits and protection to U.S. investors in Bahrain, such as most-favored-nation treatment and national treatment, the right to make financial transfers freely and without delay, international law standards for expropriation and compensation cases, and

access to international arbitration. The BIT guarantees national treatment for U.S. investments across all sectors, with exceptions for ownership of television, radio or other media, fisheries, and privatization of oil dredging or exploration. Bahrain also provides most-favored nation or national treatment status to U.S. investments in air transportation, the buying or ownership of land, and the buying or ownership of shares traded on the Bahrain Bourse.

Because of the national treatment offered American firms in the BIT, American firms interested in selling products exclusively in Bahrain are no longer required to appoint a commercial agent, though they may opt to do so anyway. A commercial agent is any Bahraini party appointed by a foreign party to represent the foreign party's product or service in Bahrain.

Bahrain permits 100 percent foreign-ownership of new industrial entities and the establishment of representative offices or branches of foreign companies without local sponsors. Wholly foreign-owned companies may be set up for regional distribution services and may operate within the domestic market as long as they do not exclusively pursue domestic commercial sales. Private investment (foreign or Bahraini) in petroleum extraction is permitted only under a production-sharing agreement with BAPCO, the state-owned petroleum company.

Foreign firms and GCC nationals may own land in Bahrain. Non-GCC nationals may own high-rise commercial and residential properties, as well as property in tourism, banking, financial and health projects, and training centers, in specific geographic areas that are designated by an edict issued from the Prime Minister's Cabinet.

The government ratified Law Number (28) of 2014 regarding Real Estate Development to regulate licensing for major projects to prevent failures that occurred previously. The Law protects the foreign & local investors in initiated projects. Moreover the Decree By Law (66) for 2014 to revive the collapsed real estate projects that were mostly owned by foreign companies. The government intervened to resolve financial issues, and other legal difficulties to keep the projects from failing.

Intellectual Property Rights

Under the U.S.-Bahrain FTA, Bahrain committed to enforce world-class Intellectual Property Rights (IPR) protections. Bahrain signed the Berne Convention for the Protection of Literary and Artistic Works and the Paris Convention for the Protection of Industrial Property in 1996. Revised legislation to implement Bahrain's obligations under the WTO/TRIPS Agreement was ratified in May 2006. Bahrain joined the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. In May 2006, Bahrain passed laws related to intellectual property to bring Bahrain's local laws into compliance with its current Paris Convention commitment and to position it to join the Nice Agreement, Vienna Agreement, Patent Cooperation Treaty, Trademark Law Treaty, Madrid Agreement, Budapest Treaty, and the Rome Convention.

The government has made progress in reducing copyright piracy, and there are no reports of significant violations of U.S. patents and trademarks in Bahrain. The government's copyright enforcement campaign began in late 1997 and was based on inspections, closures, and improved public awareness. The campaign targeted the video, audio, and software industries with impressive results. Commercially-pirated video and audio markets mostly have

been eliminated. However, audio, video, and software piracy by end-users remain problematic.

There are no technology transfer requirements that force firms to share or divulge technology through compulsory licensing to a domestic partner, nor are firms required to undertake research and development activities in Bahrain.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

The Embassy's webpage also offers a link to local lawyers, some of whom specialize in IPR and/or patent law. <http://bahrain.usembassy.gov/attorneys.html>

Resources for Rights Holders

Aisha Y. Salem
Intellectual Property Attaché for the Middle East & North Africa
U.S. Embassy Kuwait City, Kuwait
U.S. Patent & Trademark Office
Tel: +965 2259 1455
Aisha.Salem@trade.gov

Embassy Attorney List: <http://bahrain.usembassy.gov/attorneys.html>

7. Transparency of the Regulatory System

In 2002, Bahrain implemented a government procurement law to establish the basic framework for a transparent, rules-based government procurement system. The law requires certain procurements to be conducted as international public tenders open to foreign suppliers. The law established a tender board to oversee all government tenders and purchases. In the past, government-tendering procedures for large projects were not highly transparent. U.S. companies sometimes reported operating at a disadvantage compared with other international firms. Some businesses reported contracts were not always decided solely based on price and technical merit. In some instances, only select, pre-qualified firms were occasionally invited to bid on major government tenders.

Since January 2003, however, the Bahrain Tender Board has processed all tender decisions valued at USD 26,525 (BD 10,000) or higher. U.S. firms report that the process greatly improved but challenges remain. A local representative with strong connections may still be important in the bidding process. Open tenders are listed on the Tender Board's website: <http://www.tenderboard.gov.bh/>.

Entrenched local business interests with government influence can sometimes cause problems for foreign companies. Interpretation and application of the law sometimes varies by ministry, and may be dependent on the stature and connections of an investor's local partner. These departures from the consistent, transparent application of regulations and the law remain rare, and investors report general satisfaction with government cooperation and support.

8. Efficient Capital Markets and Portfolio Investment

Consistent with the Government of Bahrain's liberal approach to foreign investment, government policies facilitate the free flow of financial resources. Foreigners and Bahrainis alike have ready access to credit on market terms. Generally, credit terms are variable, but often are limited to 10 years for loans under USD 50 million. For major infrastructure investments, banks often offer to assume a part of the risk, and Bahrain's wholesale and retail banks have shown extensive cooperation in syndicating loans for larger risks.

Money and Banking System, Hostile Takeovers

Bahrain has an effective regulatory system that encourages portfolio investment, and the CBB has fully implemented Basel II standards, while attempting to bring Bahraini banks into compliance with Basel III standards. Bahrain's banking sector includes 23 retail banks, 69 wholesale banks, and 36 representative offices; 24 of these banks are Islamic banks.

There are no restrictions for foreigners in opening bank accounts, nor corporate accounts. The Kingdom of Bahrain is home to prominent financial institutions such as Citi Bank, American Express, JP Morgan, and Standard Chartered Bank.

9. Competition from State-Owned Enterprises

Bahrain's major parastatals are the Bahrain Petroleum Company (BAPCO), Aluminum Bahrain (ALBA), Gulf Petrochemicals Industries Company (GPIC), Gulf Air, Bahrain Telecommunications Company (BATELCO), the National Bank of Bahrain (NBB) and the Arab Shipbuilding & Repair Yard (ASRY). While the GOB maintains full ownership of oil production, refineries, and heavy industries, it allows investment in ALBA, BATELCO, and ASRY, and encourages private sector competition in the banking, manufacturing, telecommunications, shipyard repair, and real estate sectors.

Bahrain is not a party to the WTO Government Procurement Agreement (GPA), however in 2008 Bahrain was granted "observer" status in the GPA committee.

Private enterprises can, in theory, compete with SOEs under the same terms and conditions with respect to market share, products/services, and incentives. In practice, however, given the relatively small size of Bahrain's economy, large SOEs like ALBA, BAPCO, GPIC and ASRY have an outsized influence in the market.

OECD Guidelines on Corporate Governance of SOEs

In 2002 the GOB instituted guidelines to ensure its State Owned Enterprises (SOEs) were in line with OECD policies on corporate governance. SOEs produce quarterly reports and are divided into two categories. Oil production, refineries, and petrochemical companies fall under the National Oil & Gas Authority (NOGA Holding), while the banking, telecommunications, shipyard, and real estate companies fall under Mumtalakat, Bahrain's sovereign wealth fund. The National Audit Bureau monitors all SOEs and annually reports any irregularities, mismanagement, and corruption.

To enhance transparency and accountability the government appointed the Minister of Industry, Commerce and Tourism to be responsible for Mumtalakat. The Minister of Energy is responsible for NOGA Holding, and all the companies under its umbrella.

All Bahraini SMEs have an independent board of Trustees with well-structured management. The Mumtalakat Holding Company is represented by a Board of Trustees appointed by the Crown Prince, while NOGA Holding's Board of Trustees is appointed by a Royal Decree. Each holding company then appoints the Board of Trustees for the SOEs under its authority. In some cases the appointment of the Board of Trustees is politically driven.

Sovereign Wealth Funds

The Kingdom of Bahrain established Mumtalakat, its sovereign wealth fund, in 2006. Mumtalakat conducts its business transparently, including by issuing an annual report online. The issuance of the annual report follows international financial reporting standards; it has been audited by external, internationally-recognized auditing firms since its inception. By law, SOEs under Mumtalakat are audited and monitored by the National Audit Bureau. In February 2015, Mumtalakat was ranked first by the Linaburg-Maduell Transparency Index, which specializes in ranking the transparency of sovereign wealth funds.

Mumtalakat often acts more as an asset management company than a sovereign wealth fund, including by taking an active role in managing companies and assets. Most notably, Mumtalakat has been instrumental in helping Gulf Air, Bahrain's flagship air carrier, minimize its losses.

Mumtalakat's does not directly contribute to the National Budget. Its contribution to the economy, however, is significant, as the companies it manages are major employers, and their production feeds development in downstream industries.

10. Responsible Business Conduct

The concept of responsible business conduct (RBC) is relatively new in Bahrain, and there is neither any law nor are there established guidelines issued by the GOB to promote RBC. Each state owned company must create its own strategy for addressing environmental and social issues. Some companies have a wide range of programs and initiatives, and some focus on charity work.

The GOB recently amended its Corporate Governance Law to enhance transparency and ethical business conduct standards. Among the changes, the GOB urged companies in Decrees By law 27 and 28 to submit audited ratified accounts to the Ministry of Industry, Commerce and Tourism.

11. Political Violence

Historically, Bahrain has been an open, politically moderate, economically liberal Gulf state that enjoys close ties to the United States, although it has experienced cyclical periods of political violence that have traditionally come from its Shi'a majority population. In the 1980s and 1990s, the country suffered from low-but-sustained levels of violent protest, although these largely went away when King Hamad took the throne in 1999 and instituted a reform program aimed at reconciliation with the country's restive Shi'a majority. However, beginning in 2011, the country entered into what would become another sustained period of unrest, including mass protests calling for political reform. Between February and October 2011, at least 72 persons, including police, died as a result. In response, the government launched several dialogue initiatives with the opposition aimed at political reconciliation,

which culminated with several recommended reforms being codified in the Constitution and across government agencies, including the security services. However, opposition groups have largely rejected the changes as insufficient and boycotted the most recent legislative election in November 2014 to protest what they consider to be the continuing marginalization of the Shi'a. The government's arrests of several peaceful, high-profile opposition leaders since the opposition boycott and increasingly intolerant stance on political speech have prolonged tensions.

Periodic political unrest in outlying, predominantly Shi'a villages—and at significantly reduced levels—has continued since the events of 2011. Grievances from the Shi'a community have included housing shortages, unemployment, and allegations of sectarian discrimination, especially in the public sector and security services. In some instances, a violent minority of the opposition have used unrest to target security forces with improvised explosive devices, resulting in the deaths of three policemen in 2015. However, in late 2015, the seizure of several large weapons caches—combined with the arrests of dozens of Shi'a militant leaders—severely degraded their capabilities. During periods of heightened protests—such as the February 14 anniversary of Arab Spring demonstrations—security services cordon off outlying villages to keep protest activity away from the capital and other key commercial areas.

Neither demonstrators nor violent extremists have targeted Americans or Western expatriates. American citizens visiting Bahrain and companies interested in investing in Bahrain should visit the Embassy's website to receive the most up-to-date information about the security situation and register with the Embassy's consular section.

12. Corruption

The King and Crown Prince have advocated publicly in favor of reducing corruption and some Ministries have initiated clean-up efforts. A law to thoroughly revamp government procurement procedures went into effect in 2003. Bahrain signed and ratified the UN Anticorruption Convention in 2005 and 2010, respectively. Bahrain, however, is not a signatory to the OECD Convention on Combating Bribery.

According to U.S. firms, high-level influence is sometimes an obstacle to foreign direct investment and contracting, particularly in the contract bidding process. Government tendering procedures are not always entirely transparent and contracts are not always awarded based solely on price and technical merit. The bureaucracy is sometimes inefficient but generally honest. Giving or accepting a bribe is illegal, although the relevant laws are rarely enforced. Officials have been dismissed for blatant corruption, but the grounds for dismissal are rarely tied to corruption. In 2015, the Government transferred a number of petty corruption cases to the Ministry of Interior for investigation, and later prosecution.

In 2005 Bahrain established the National Audit Bureau. The Bureau publishes annual reports, which highlight fiscal irregularities within government ministries and entities. The reports enable legislators to exercise oversight and call for investigations of fiscal discrepancies in government accounts. In 2013, the Crown Prince established an Investigation Committee to oversee the cases highlighted within the National Audit Bureau's annual report. In 2014, the Minister of State for Follow-up Affairs announced that seven cases had been transferred for public prosecution. To date, there have been no convictions in any of the cases. In

November 2015 the Prime Ministerial cabinet designated the Minister of Follow-Up Affairs to be in charge of resolving recommendations made by the National Audit Report. At the same time, the Crown prince urged all government entities and the Council of Representatives to work closely to implement the recommendations made in the report.

As a result of the 2011 National Dialogue process, the Ministry of Interior established an Anti-Corruption Directorate. In 2011 the Ministry of Interior signed a Memorandum of Understanding with the United Nations Development Program to enhance the Anti-Corruption Directorate's capabilities.

Resources to Report Corruption

General Directorate of Anti- Corruption & Economic & Electronic Security
Ministry of Interior
P. O. Box 26698, Manama, Bahrain
Hotline: 992

13. Bilateral Investment Agreements

Bilateral Taxation Treaties

Bahrain and the U.S. signed a bilateral investment treaty (BIT) in September 1999, the first BIT between the United States and a GCC state. The agreement entered into force in May 2001. The U.S.-Bahrain FTA does not include a separate investment chapter.

According to UNCTAD, Bahrain has bilateral investment protection agreements in place with Algeria, Belarus, Brunei, Bulgaria, the Czech Republic, China, Egypt, France, Germany, India, Italy, Iran, Jordan, Lebanon, Malaysia, Mexico, Morocco, Netherlands, Singapore, Spain, Sudan, Syria, Thailand, Turkey, Turkmenistan, United Kingdom, United States of America, Uzbekistan and Yemen.

Bahrain does not have a Bilateral Taxation Treaty with the United States.

14. Foreign Trade Zones/Free Ports/Trade Facilitation

Khalifa bin Salman Port, Bahrain's primary commercial seaport, provides a free transit zone to facilitate the duty-free import of equipment and machinery. The Kingdom of Bahrain has developed two main industrial zones, one to the north of Sitra and the other in Hidd. The Hidd location includes a logistics zone. Foreign-owned firms have the same investment opportunities in these zones as Bahraini companies.

A 1999 law requires that investors in industrial or industry-related zones launch a project within one year from the date of receiving the land, and development must conform to the specifications, terms, and drawings submitted with the application. Changes are not permitted without approval from the Ministry of Industry, Commerce and Tourism.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

| | Host Country Statistical source | | USG or international statistical source | | USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other |
|--|---------------------------------|-----------|---|-----------|---|
| Economic Data | Year | Amount | Year | Amount | |
| Host Country Gross Domestic Product (GDP) (\$M USD) | 2014 | \$33.85 B | 2014 | \$33.85 B | www.worldbank.org/en/country |
| Foreign Direct Investment | Host Country Statistical source | | USG or international statistical source | | USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other |
| U.S. FDI in partner country (\$M USD, stock positions) | 2014 | N/A | 2014 | \$765 M | BEA data available at http://bea.gov/international/di1usdbal.htm |
| Host country's FDI in the United States (\$M USD, stock positions) | 2014 | N/A | 2014 | \$541 M | BEA data available at http://bea.gov/international/di1fdibal.htm |
| Total inbound stock of FDI as % host GDP | 2014 | N/A | 2014 | 2.2% | N/A |

Table 3: Sources and Destination of FDI

| Direct Investment from/in Counterpart Economy Data (2014) | | | | | | |
|---|--------|------|---------------|---------------------------|------|-----|
| From Top Five Sources/To Top Five Destinations (US Dollars, Millions) | | | | | | |
| Inward Direct Investment | | | | Outward Direct Investment | | |
| Total Inward | 16,104 | 100% | Total Outward | Amount | 100% | |
| Kuwait | 5,401 | 34% | N/A | N/A | N/A | N/A |
| Saudi Arabia | 3,920 | 24% | N/A | N/A | N/A | N/A |
| Libya | 2,858 | 18% | N/A | N/A | N/A | N/A |
| UAE | 1,022 | 6% | N/A | N/A | N/A | N/A |

| | | | | | |
|-------|-------|----|-----|-----|-----|
| India | 1,022 | 6% | N/A | N/A | N/A |
|-------|-------|----|-----|-----|-----|

"0" reflects amounts rounded to +/- USD 500,000.

Table 4: Sources of Portfolio Investment

| Portfolio Investment Assets (2014) | | | | | | | | |
|--|--------|------|-------------------|-------|------|-----------------------|--------|------|
| Top Five Partners (Millions, US Dollars) | | | | | | | | |
| Total | | | Equity Securities | | | Total Debt Securities | | |
| All Countries | 35,416 | 100% | All Countries | 5,835 | 100% | All Countries | 29,581 | 100% |
| Turkey | 5,947 | 17% | Cayman Islands | 1,113 | 19% | Turkey | 5,905 | 20% |
| UAE | 3,752 | 11% | USA | 668 | 11% | UAE | 3,423 | 12% |
| Qatar | 2,797 | 8% | Luxembourg | 519 | 9% | Qatar | 2,603 | 9% |
| USA | 2,672 | 8% | KSA | 495 | 8% | USA | 2,004 | 7% |
| Cayman Islands | 1,828 | 5% | UAE | 329 | 6% | Brazil | 1,293 | 4% |

Section 5 - Government

For the current list of Chiefs of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

Mixed legal system of Islamic law, English common law, Egyptian civil, criminal, and commercial codes; customary law

International organization participation:

ABEDA, AFESD, AMF, CAEU, CICA, FAO, G-77, GCC, IAEA, IBRD, ICAO, ICC (national committees), ICRM, IDA, IDB, IFC, IFRC, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM

(observer), IPU, ISO, ITS0, ITU, ITUC (NGOs), LAS, MIGA, NAM, OAPEC, OIC, OPCW, PCA, UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

















Section 6 - Tax

No form of personal, corporate, withholding or value added tax is applicable in Bahrain. There is no personal tax except municipal tax of 10% on the monthly rental of residential and business property. In addition, a 5% government levy on gross turnover is imposed on hotel services and entertainment.

Customs (import) duties are generally levied at a rate of 5% but there are many items such as medicines, most food products, capital goods and raw material for industries which are exempt from duty. After implementation of the new uniform customs tariff which became effective on 1 January 2003, all non-Gulf Co-operation Council (GCC) products, except for those exempted, are subject to 5% customs duty. However, the products of the GCC countries shall enter into each others' markets free of customs duties.

Products are considered as originating in a GCC country if the value added to such product in the said country is more than 40% of the value of the product in question and if the factory that manufactured the product is at least 51% owned by GCC nationals. In the event of re-export to non-GCC countries, a customs deposit has to be made and this will be refunded when proof of re-export is given to the authorities. In the event of re-export to GCC countries, customs duty at 5% will be levied at the first point of entry. The provisions of the GCC Customs Union, which was implemented from 1 January 2003, will be applicable.

Bahrain has signed **42 agreements (32 DTC and 10 TIEA agreements)** providing for the exchange of information.

| Jurisdiction | Type of EOI Arrangement | Date Signed | Date entered into Force | Meets standard | Contains paras 4 and 5 | |
|-------------------|-------------------------|-------------|-------------------------|----------------|------------------------|---|
| Algeria | DTC | 11 Jun 2000 | 29 Sep 2003 | No | No |  |
| Australia | TIEA | 15 Dec 2011 | 15 Dec 2012 | Yes | Yes |  |
| Austria | DTC | 2 Jul 2009 | 1 Feb 2011 | Yes | Yes |  |
| Barbados | DTC | 3 Dec 2012 | 16 Jul 2013 | Yes | Yes |  |
| Belarus | DTC | 27 Oct 2002 | 16 Apr 2008 | Unreviewed | No |  |
| Belgium | DTC | 4 Nov 2007 | not yet in force | Yes | No |  |
| Belgium | DTC Protocol | 23 Nov 2009 | not yet in force | Yes | Yes |  |
| Bermuda | DTC | 22 Apr 2010 | 29 Jan 2012 | Yes | Yes |  |
| Brunei Darussalam | DTC | 14 Jan 2008 | 18 Jul 2009 | No | No |  |
| Brunei Darussalam | DTC Protocol | 18 Dec 2012 | not yet in force | Unreviewed | Yes |  |
| Bulgaria | DTC | 26 Jun 2009 | 9 Nov 2010 | Unreviewed | Yes |  |
| Canada | TIEA | 4 Jun 2013 | not yet in force | Yes | Yes |  |
| China | DTC | 16 May 2002 | 15 Aug 2002 | Yes | No |  |
| China | DTC Protocol | 16 Sep 2013 | not yet in force | Unreviewed | Yes |  |
| Czech Republic | DTC | 24 May 2011 | 10 Apr 2012 | Yes | Yes |  |
| Denmark | TIEA | 14 Oct 2011 | 5 Sep 2012 | Yes | Yes |  |

| Jurisdiction | Type of EOI Arrangement | Date Signed | Date entered into Force | Meets standard | Contains paras 4 and 5 | |
|--------------------|-------------------------|-------------|-------------------------|----------------|------------------------|---|
| Estonia | DTC | 12 Oct 2012 | not yet in force | Yes | Yes |  |
| Faroe Islands | TIEA | 14 Oct 2011 | 23 Jul 2013 | Unreviewed | Yes |  |
| Finland | TIEA | 14 Oct 2011 | 11 Jul 2012 | Yes | Yes |  |
| France | DTC | 10 May 1993 | 10 Aug 1994 | Yes | Yes |  |
| Georgia | DTC | 18 Jul 2011 | 1 Aug 2012 | Unreviewed | Yes |  |
| Greenland | TIEA | 14 Oct 2011 | 4 Jul 2012 | Unreviewed | Yes |  |
| Iceland | TIEA | 14 Oct 2011 | 15 Aug 2012 | Yes | Yes |  |
| India | TIEA | 31 May 2012 | 11 Apr 2013 | Yes | Yes |  |
| Iran | DTC | 19 Oct 2002 | 17 Nov 2007 | Unreviewed | No |  |
| Ireland | DTC | 29 Oct 2009 | 9 Nov 2010 | Yes | Yes |  |
| Isle of Man | DTC | 3 Feb 2011 | 8 Mar 2012 | Yes | Yes |  |
| Korea, Republic of | DTC | 1 May 2012 | 26 Apr 2013 | Yes | Yes |  |
| Lebanon | DTC | 7 Aug 2003 | 13 Sep 2005 | No | No |  |
| Luxembourg | DTC | 6 May 2009 | 10 Nov 2010 | Yes | Yes |  |
| Malaysia | DTC | 14 Jun 1999 | 31 Jul 2000 | Yes | Yes |  |
| Malta | DTC | 12 Apr 2010 | 28 Feb 2012 | Yes | Yes |  |
| Mexico | DTC | 10 Oct 2010 | 22 Feb 2012 | Yes | Yes |  |
| Netherlands | DTC | 16 Apr 2008 | 24 Nov 2009 | Yes | Yes |  |
| Norway | TIEA | 14 Oct 2011 | 12 Jul 2012 | Yes | Yes |  |
| Pakistan | DTC | 27 Jun 2005 | 27 Oct 2009 | Unreviewed | No |  |
| Philippines | DTC | 7 Nov 2001 | 14 Oct 2003 | Yes | No |  |
| Seychelles | DTC | 24 Apr 2010 | 3 Feb 2012 | Yes | Yes |  |
| Singapore | DTC | 18 Feb 2004 | 13 Dec 2004 | Yes | Yes |  |
| Sri Lanka | DTC | 24 Jul 2011 | not yet in force | Unreviewed | Yes |  |
| Sweden | TIEA | 14 Oct 2011 | not yet in force | Yes | Yes |  |
| Turkey | DTC | 14 Nov 2005 | 2 Sep 2007 | Yes | Yes |  |
| Turkmenistan | DTC | 9 Feb 2011 | 13 May 2012 | Unreviewed | Yes |  |
| United Kingdom | DTC | 10 Mar 2010 | 19 Dec 2012 | Yes | Yes |  |
| Uzbekistan | DTC | 5 Jun 2009 | 12 Jan 2011 | Unreviewed | Yes |  |

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

| | Lower Risk | Medium Risk | Higher Risk |
|---|-----------------------------------|---------------------------------------|-----------------------------------|
| FATF List of Countries identified with strategic AML deficiencies | Not Listed | AML Deficient but Committed | High Risk |
| Compliance with FATF 40 + 9 recommendations | >69% Compliant or Fully Compliant | 35 – 69% Compliant or Fully Compliant | <35% Compliant or Fully Compliant |
| US Dept of State Money Laundering assessment (INCSR) | Monitored | Concern | Primary Concern |
| INCSR - Weakness in Government Legislation | <2 | 2-4 | 5-20 |
| US Sec of State supporter of / Safe Haven for International Terrorism | No | Safe Haven for Terrorism | State Supporter of Terrorism |
| EU White list equivalent jurisdictions | Yes | | No |
| International Sanctions UN Sanctions / US Sanctions / EU Sanctions | None | Arab League / Other | UN , EU or US |
| Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network | >69% | 35 – 69% | <35% |
| World government Indicators (Average) | >69% | 35 – 69% | <35% |
| Failed States Index (Average) | >69% | 35 – 69% | <35% |
| Offshore Finance Centre | No | | Yes |

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD](#) [PKF International](#))

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