DOING BUSINESS IN YEMEN

1. Introduction

Yemen lies at the southern end of the Arabian Peninsula and has frontiers with Saudi Arabia and Oman and controls the strategic straits at the Southern entrance to the Red Sea (Bab al Mendab). The north of the country has three well-defined areas: a coastal strip along the Red Sea, the highlands inland and a desert area to the east. The south consists largely of mountains and desert. The population is poor and largely rural, but there has been large-scale urbanisation in the last decade and almost half of the population now live in towns.

Strengths of the market

- Investment incentives in any large investment projects in the country.
- Freedom of transfer hard currency to and from Yemen
- No nationalisation, reservation or seizure of investment projects
- The Yemeni government encourages foreign investment across all sectors and projects are exempted from profit tax for a period of 7 years expandable to 16 years.

Opportunities in Yemen

Yemen is not a rich country, but the presence of oil, gas and mineral deposits, the amount of development aid flowing into the country and the unequal distribution of wealth amongst the population mean that commercial opportunities exist.

Priority sectors include:

- Power Generation and Transmission – Yemen plans to add 2000 MW of power immediately and 10,000 MW in the distant future
- Oil and gas machinery - opportunities through the Yemen LNG project
- EPC Contracts
- Pharmaceuticals - Yemen has over 2,000 pharmacies.
- Agricultural equipment - demand for irrigation and bee-keeping equipment
- Food processing and equipment - especially fish
- General Trading

2. Exporting to Yemen

Rather than opening an office or subsidiary in Yemen, Indian companies may wish to appoint an agent or distributor to look after their interests. However, there is no requirement that a foreign seller appoints a commercial agent, and they can sell direct.

The appointment of a local partner or representative will only be the first step. Yemen is a market in which family structures predominate in the business environment, and where personal relationships therefore are important.
Regular visits to the market, especially during the early phase, are an important part of a successful interaction with the agent /distributor.

3. How to do business in Yemen

What companies should consider when doing business?

Although the business climate in Yemen is improving all the time, obstacles remain. The Yemeni Government encourages foreign investment and the General Investment Authority (GIA) is the Government agency concerned with the review of all investment applications. GIA is the main government organization tasked with attracting foreign investment to Yemen. They have recently gone through a major re-organization, and are now more customer-focussed. As part of their drive to make life easier for the new investor, they opened a “One Stop Shop” within their premises. Representatives of nearly all the relevant Ministries will have their offices attached, and the plan is that a potential investor will be able to complete all the necessary paperwork at one visit, and permissions granted within a few days. For further information please see http://www.giay.org

Key areas for Business

Sana’a is considered the main city for most of the businesses in Yemen. Aden, Taiz and Hodeidah are potential cities for businesses and several manufacturing plants are based there.

Market entry and start up Considerations

There are many ways to establish a business in Yemen. The market is import-oriented, highly competitive and prefers to deal through agents. The success of a product, to a great extent depends on the agent. Several major end-users encourage vendors to have a registered local agent.

There is no standard format for agency agreements; however it is recommended that if necessary, representational or selling arrangements are tested out over a trial period before being formalised. Such arrangements can become difficult to get out of once firmly in place.

The appointment of a local partner/representative will only be the first step. Yemen is a market in which family structures predominate in the business environment, and where personal relationships therefore are important. This requires an investment primarily of time and personal presence.

Customs and Regulations

Customs Duties are charged according to the value of the goods that are being imported, with such value being derived from the ex-works price, shipment charges and insurance. Import duties are generally levied at rates varying from 5% on essential goods to 25% on luxury items; medical and agricultural items are duty-free, while tobacco is dutiable at 145%. The Yemeni government has brought in several laws to attract more foreign investment, including amendments to the investment law, which offers tax exemptions to foreign investors, and allows export of foreign capital, in addition to the freedom of exporting the profits resulting from the investment. The law offers the exemption from profit tax for 7 years and the investment and the investment projects shall be exempted form profit tax for 7 years.

Legislation and Local Regulations

Companies are always advised to seek legal/taxation advice before entering into a joint venture or an
agency agreement. It is recommended that companies do not enter into an exclusive agreement with local companies because the legal system is slow and complex in the case of revoking agreements.

**Import Regulations**

The import regulations provide that goods may be freely imported and exported provided they are not on the prohibited list and the relevant duty is paid. The Yemeni law requires that an importer who wishes to import goods for the purpose of trade must be registered in the Register of Importers and the law also requires a number of other conditions such as registration, including conditions relating to minimum capital and etc.

**Taxes**

The current income tax law includes corporate profits, personal income tax, and real estate tax. The tax year is the calendar year, unless otherwise stated. Corporate tax is levied at a unified rate of 35%. Companies are eligible for registration under the investment law for investment projects are exempt from corporate tax for a period of seven years. The Yemeni government has approved Sales Taxes or VAT and the sales tax is 10%. **India and Yemen are discussing signing the Double Taxation Avoidance Agreement (DTAA).**

**Recruiting and Retaining Staffing**

The local recruitment industry in Yemen is not well developed and companies need to do more research to find the required skilled personnel. There are not any professional recruitment agencies in Yemen and the most effective way for recruiting is through advertisements on Arabic and English newspapers.

**Documentation**

The normal commercial documents with the export (e.g. invoices, packing lists and certificate of origin) are needed for any export transaction to Yemen. Import documentation and requirements are available from the Ministry of Industry and Trade and/or the relevant ministry governing a company’s activities. A health certificate must be obtained to export animal and fisheries products. The government eliminated import licensing in 1996, except on controlled products and materials such as alcohol and explosives.

The following documents are required:

- **Commercial Invoice**

Three copies of the ordinary commercial invoice should accompany shipments. The invoice should contain a full and accurate description of the goods, the marks and numbers, value of the merchandise, country of origin and net and gross weight.

- **Certificate of Origin**

A separate certificate of origin is required for shipments to Yemen. The general form sold by commercial stationers is acceptable.
- **Bill of Lading**

There are no regulations specifying the form or number of bills of lading required for any particular shipment. A bill of lading customarily shows the name of the shipper, the name and address of the consignee, port of destination, description of the goods, the listing of the freight and other charges, the number of bills of lading in the full set, and the date and signature of the carrier’s official acknowledging receipt on board of the goods for shipment.

- **Health Certificate**

A health certificate is required for shipments to Yemen of animal stock, food, and agricultural products.

- **Free Sale certificate**

Imports of pharmaceuticals require a free sale certificate stating that the commodities in question are in free circulation in the country of export.

In a dispute between the CA and the shipment’s owner, it shall be referred to two experts, one appointed by the authority and the other by the goods owner, within 8 days.

If both experts agree, their opinion shall be final. If not, an arbitration committee, consisting of a permanent representative of the Minister of Finance or two CA and Yemen Standardization, YSMO, and Metrology Organization representatives, shall make a final and binding decision, and the losing party shall incur the arbitration expenses.

**All documents need to be legalized from the Yemeni Embassy in New Delhi or the Yemeni Consulate in Mumbai and Chambers of Commerce in India.**

- **Labelling & Marking Requirements**

Yemen observes a few clear labelling requirements: the country of origin must be clearly marked in English on all imported goods, foodstuffs or pharmaceutical products entering Yemen and production and expiration dates must be clearly printed on the package. Otherwise, GCC and international standards are followed.

The government prohibits or restricts the importation of some items such as pork and pork products, coffee, alcohol, narcotics, a limited list of fresh fruits and vegetables during their local production seasons, weapons, explosives and the endangered rhinoceros horn.

To view the list of prohibited items, please double click on the Ministry of Trade and Industry’s website at: [http://www.most.org.ye/](http://www.most.org.ye/), then, click on “Prohibited Goods.”

**Getting your Goods to the Market**

The main options for Yemen are airfreight and sea-freight and it is often easier to use freight forwarder that knows the procedures for exporting to Yemen. The freight Forwarders will prepare all the documents required for exporting to Yemen which will make the delivery of the goods easier and faster.
4. Business Etiquette, Language and Culture

Language

Most private businesses will have at least one member of staff who can speak in English and act as an interpreter during meetings if necessary. In government ministries and agencies, knowledge of English is less widespread and it may be necessary to take your own interpreter to meetings.

Negotiations

As in other countries, more than anything it is important to target the right person in your contacts, the decision-maker. It is also preferable to establish new business contact via an introduction by mutual contact, someone the company already knows and trusts. Yemeni normally prefers to have face-to-face meetings, than keep to contacts by phone or email, which are seen as more impersonal.

Getting Paid - Terms of Payment

Most Indian banks can provide advice on payment. Generally speaking any of the customary methods of payment used in international commercial transactions can be used when doing business with Yemeni companies. Irrevocable Letter of Credits (L.C) and cash against documents (CAD) terms are the most common methods of payment. In order to minimise the risk of accruing bad debts; exporters should take up credit references on Yemeni importers with whom they do business. Legal action can be both costly and lengthy and may not be worthwhile for relatively small debts.

5. Standards

Standardization, Metrology and Quality Control law 44 of 1999 established the Yemen Standardization, Metrology, and Quality Control Organization (YSMQCO) in order to protect human, animal and plant health and environmental safety. YSMQCO works in association with customs staff on all the major land, coastal, and air ports of entry. A relatively young institution still negotiating its mandate and authority in the panoply of government agencies, YSMQCO has limited capabilities, with only one central laboratory and a limited number of modest laboratories.

A government decree imposes the GCC standards and specifications on local and imported products. Yemen is a member in the International Standardization Organization (ISO9000), World Meteorological Organization and the Arab Standards Organization.

6. Trade Agreements

Yemen has entered into major trade agreements with Saudi Arabia and has applied for World Trade Organization (WTO) accession. Provisions of the 1934 Taif Treaty with Saudi Arabia call for establishment of open markets, a single customs system for both countries, reciprocal most favoured nation trading status, and unimpeded transit rights through both nations. The treaty was reaffirmed in the June 2000 Saudi-Yemeni border treaty, also called the “Jeddah Treaty.” Yemen is also a founding member of the Indian Ocean Rim Association, has applied for membership in the British Commonwealth, and was granted observer status at the WTO in 1999. In 2000, the General Council of the WTO accepted Yemen’s application for accession. Yemen presented a memorandum of foreign trade regime to the WTO in 2002 and had its first working party meeting in November, 2004. In 2005,
Yemen’s request to join the WTO discussion was considered and a delegation from the Ministry of Industry and Trade attended its first meeting in Geneva, Switzerland. Discussions and negotiations between WTO and Yemen is ongoing but Yemen still has a considerable ground to cover in order to comply with WTO standards.

The Yemeni government passed a Free Trade Zone Law (Law 4 of 1993) and designated 170 square kilometres of land in Aden as the country’s first free trade zone. For more information about the Aden Free Zone and/or the Aden Container Terminal, please visit: http://www.aden-freezone.com/

7. How to Invest in Yemen

In order to encourage investment in Yemen, the Yemeni Investment Law offers certain incentives for foreign investors who carry out commercial activities in Yemen in accordance with its provision. These include reduced custom duties, guarantees against expropriation and sequestration.

The General Investment Authority (GIA) is the main government organisation tasked with attracting foreign investment to Yemen. They have recently gone through a major re-organisation, and are now more customer-focussed.

As part of their drive to make life easier for the new investor, they opened a “One Stop Shop”. Representatives of nearly all the relevant Ministries will have their offices attached, and the plan is that a potential investor will be able to complete all the necessary paperwork at one visit, and permissions granted within a few days. Foreign investment in the exploration for and production of oil, gas, and minerals is subject to production-sharing agreements. Foreign investment is not permitted in the arms and explosive materials industries, or in industries that could cause environmental disasters, or wholesale and retail imports. Though political unrest and civil violence are deterrents, Yemen appears to have attracted some regional investment enthusiasm and political support since its presidential election in late 2006. Foreign exchange accounts are permitted. There are no restrictions on payments and transfers, and capital transactions are subject to few restrictions. However corruption is significant.

India and Yemen have signed the Bilateral Investment Promotion and Protection Agreement.