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U.S. TRADE COMPETITIVENESS

Our Position

The Middle East Council of American Chambers of Commerce (MECACC), representing U.S. AmChams in Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, Bahrain and Oman, supports initiatives to help U.S. companies and individuals compete effectively in exporting, investing and working overseas, including tax reduction and reform, elimination of burdensome regulations and reliable and affordable export finance. MECACC represents the more than 700 American companies doing business in the Gulf, where it fosters American business activities and actively encourages U.S. Government policies that promote America's commercial interests in the region.

Pro-Growth Tax Reform

For our economy to grow and thrive by effectively serving the 95% of potential consumers living outside the U.S., where American goods, capital, management and intellectual property are highly valued, U.S. companies and workers should be allowed and encouraged to compete on equal terms.

To assure prosperity, growth and full employment, we support efforts to maximize GDP growth by establishing a globally competitive corporate tax rate, taxing corporations **and individuals** based on residence not citizenship (as our major trade competitors all do), reducing excessive regulation, boosting domestic energy production and expanding and deepening trade relationships in ways that benefit U.S. companies and workers.

While the Tax Cuts and Jobs Act (TCJA)[1] advanced these goals, American businesses continue to face competitive disadvantages abroad, where American individuals in particular face uniquely onerous tax burdens.

Repatriation of Stranded Profits

In addition to reducing the corporate tax rate from 35% to 21%, TCJA also moved to territorial tax for corporations, thereby ending an anachronistic, trade-damaging system of double taxation of profits earned and already taxed overseas.[2]

The TCJA also imposed a one-time 8% repatriation tax on profits from overseas subsidiaries, and 15.5% for cash. While this has to some degree facilitated repatriation of stranded profits by U.S. businesses with foreign subsidiaries, much of the $2.5 - 3 trillion remains outside the U.S.[3] Foreign profits should be spared U.S. tax altogether, not only to remove our current competitive disadvantage, but most importantly to stimulate our own economy.

[1] Signed into law by President Donald Trump on December 22, 2017.
[2] According to the Tax Foundation, only five countries still tax corporations on global income.
[3] Even an 8% tax on the aggregate would mean a loss of $240 billion.

Corporate Tax

The U.S.'s pre-TCJA 35% corporate tax rate was the highest of any Organization for Economic Cooperation and Development (OECD) country. At 21% our current rate remains among the highest,[4] thereby discouraging companies from investing in the U.S.. We support the original plan to lower the corporate tax rate to 15%, to attract investment and create American jobs.

While the corporate tax formerly generated some 30% of federal revenue, even pre-TCJA this had fallen below 9%:

> "Corporations spend hundreds of millions devising ways to avoid the income tax. If we eliminate the tax, the firms could spend that money for capital investment and job creation."[5]

Further, at 21% we remain on the high end of OECD rates, driving Caterpillar for example to shift spare parts profits to Switzerland with its 6% rate.

Individual Tax

To realize our export potential to Gulf Cooperation Council (GCC) and other foreign markets, our taxes must be competitive. While welcoming the TCJA's pro-business reforms, MECACC supports additional pro-growth measures, including a territorial-based tax system not only for corporations, but **for individuals** as well, with wages taxed only where earned.[6] Under the current *citizenship-based* tax regime, to provide the same after-tax income employers must pay American workers some *30% more* than their British or German counterparts in countries like Saudi Arabia and its GCC neighbors.

A territorial-based tax system for individuals will boost the American economy as follows:

- Since every American who leaves the U.S. leaves his or her job open for others, in addition to creating jobs for Americans *overseas*[7] it would also create jobs for Americans *back home*.
- More Americans in decision-making positions overseas means more orders for American companies, as Americans in developing supply chains for their employers naturally favour U.S. suppliers of goods and services.
- Americans abroad promote American culture, management style, entertainment and social and political values for host nationals, building "soft power" and influence in regions like the GCC, that as oases in a much troubled region remain not only critical to our energy security and global peace, but strong advocates and consumers of many things American.

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[4] E.g. the United Kingdom (20%), Germany (16%), Canada (15%), Ireland (13%), and many others.

[5] "Don't just cut the corporate tax rate. Eliminate it," T.R. Reid, *Washington Post* (November 15, 2017) (available at https://www.washingtonpost.com/opinions/republicans-want-to-cut-the-corporate-tax-rate-how-about-we-eliminate-it/2017/11/15/758331fe-c956-11e7-aa96-54417592cf72_story.html?utm_term=.3b569a47e88e).

[6] https://www.nbcnews.com/think/opinion/american-expats-are-left-high-dry-trump-s-tax-reform-ncna838006.

[7] Who, in many cases, repatriate their earnings back to U.S. banks.

Trade Reform

As strong believers in the benefits of comparative advantage and free trade, we support initiatives to restore the proper constitutional role of Congress in tariff policy by requiring Congressional approval of tariffs designated under Section 232 of the Trade Expansion Act of 1962, along the lines of the "Bicameral Congressional Trade Authority Act of 2019." As the U.S. Chamber of Commerce has written,

> "The Chamber is deeply concerned by the unrestricted use of Section 232 to impose new tariffs. Tariffs on steel and aluminum imports have harmed U.S. industry and elicited retaliatory tariffs from our closest allies, inflicting serious harm on U.S. workers, farmers, and small businesses, and undermine U.S. efforts to build an international coalition of like-minded countries to combat the use of unfair trade practices."

The letter reiterated the Chamber's opposition to the "Reciprocal Trade Act (RTA)," granting the President unilateral authority to increase U.S. tariffs on imports from any foreign country without meaningful congressional oversight. In introducing the Senate version of the bill,[8] Sen. Pat Toomey stated:

> "Tariffs on steel and aluminum imported into the United States are taxes paid by American consumers. The imposition of these taxes, under the false pretense of national security (Section 232), is weakening our economy, threatening American jobs, and eroding our credibility with other nations. I've seen, first-hand, the damage these taxes are causing across Pennsylvania. Over recent decades, Congress has ceded its constitutional responsibility to establish tariffs to the executive branch. This measure reasserts Congress's responsibility in determining whether or not to impose national security based tariffs. I urge all of my colleagues to join this bipartisan effort."

Conclusion

Our quickest and most effective option to materially improve our economy is to simplify the U.S. corporate tax code and align tax rates with global norms.[9] Despite TCJA rate reductions the U.S corporate tax remains the highest in the OECD,[10] and significant stranded profits remain overseas to the detriment of shareholders, local authorities and the Treasury, and American workers.

We support a tax system that levels the playing field in global markets not only for U.S. companies but also for individuals, by taxing overseas profits and salaries only where they are earned.

In The Wealth of Nations, Adam Smith laid out four principles for effective and fair tax systems: (1) equality, (2) clear and plain rules, (3) convenience and (4) efficiency, none of which the U.S. system satisfies, being neither equal, clear, plain, convenient or efficient.

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[8] Introduced by Senators Pat Toomey (R-PA), Mark Warner (D-VA), Ben Sasse (R-NE), and Maggie Hassan (D-NH). Additional Senate cosponsors include Lamar Alexander (R-TN), Ron Johnson (R-WI), Angus King (I-ME), James Lankford (R-OK), Jerry Moran (R-KS), Brian Schatz (D-HI), and Jeanne Shaheen (D-NH).

[9] Survey of U.S. Competitiveness, http://www.hbs.edu/competitiveness/research/Pages/research-details.aspx?rid=2).

[10] Even though U.S. revenue collection per capita was only 19th in 2014.

Repeal FATCA

In 2010 Congress, claiming annual tax losses of $100 billion on foreign assets owned by U.S. taxpayers, passed the Foreign Account Tax Compliance Act (FATCA),[11] requiring U.S. citizens with $50,000+ in offshore financial assets to report assets held at foreign financial institutions (FFIs), and imposing a punitive 30% tax on FFIs for reporting failures.

At a time when economic growth and job creation critically depends on encouraging, not penalizing, inbound business and investment, the resulting expense and administrative burdens have driven FFIs to avoid the U.S.. FATCA has already cost FFIs countless millions of dollars in compliance costs, far in excess of any tax receipts.

FATCA treats law-abiding Americans living overseas as criminals, through an IRS enforcement-oriented regime that presumes international taxpayers to be guilty of fraud unless proven otherwise, despite a record of generally faithful tax compliance by citizens abroad.

The IRS's FATCA program has been "unsystematic, unjustified, and unsuccessful," requiring Americans to report overseas holdings even where no taxes are owed, subject to crushing fines, while FFIs withholding financial information on their American clients face a 30% withholding penalty on any U.S.-source deposits, leading many to redline Americans as bank customers.

While we support reasonable tax enforcement against overseas taxpayers, ideally through multilateral rather than unilateral initiatives, FATCA is not the answer; for all these reasons, we support the "Campaign to Repeal FATCA" initiative, as causing more harm than good.[12]

FATCA has been criticized for violating Americans' Fourth Amendment protections against search and seizure, resulting in government's warrantless seizure of personal financial information without reasonable suspicion or probable cause. Americans overseas should enjoy the same rights as Americans remaining at home. By requiring foreign banks to provide detailed information to the IRS on American account holders, many Americans are now barred from convenient banking services.

FATCA has offended our allies, penalized FFIs, disadvantaged and alienated American taxpayers, and seriously handicapped American companies and individuals overseas; for these reasons, we call for its repeal.

[11] Ironically given its negative impact on Americans living and working abroad, it was included as an amendment to the Hiring Incentives to Restore Employment (**HIRE**) Act.

[12] Promoted by Nigel Green of the deVere Group, an international financial consulting firm.

Ex-Im Bank

In competition with some 85 other export credit agencies (ECAs), the Export Import Bank (Ex-Im) helps U.S. companies compete overseas, with $14.6 billion in loans and guarantees to GCC countries creating tens of thousands of U.S. jobs, including Alcoa's $13.2 billion joint venture with *Ma'adan* and Dow Chemical's $20 billion joint venture with Aramco.

Providing trade financing and loan guarantees where commercial banks cannot, Ex-Im is especially important in helping small businesses turn export opportunities into real sales abroad that support good jobs here at home.

While most U.S. exports are financed by commercial banks or the companies involved, Ex-Im is sometimes indispensable, since ECA support is often required *even to bid* on many foreign business opportunities.

In addition, aircraft, turbines, and locomotives are typically sold worldwide with strong government credit backing, which can often make or break a sale.

Far from burdening taxpayers or subsidizing business, Ex-Im fees have generated $7 billion in revenue for the U.S. Treasury over the past 25 years, over and above amounts appropriated.

Conclusion

Competitive corporate and individual tax rates, easier repatriation of foreign earnings, a pro-business regulatory environment, expanded domestic energy production and trade deals that promote U.S. exports all play critical roles in creating U.S. jobs, accelerating our national economic growth and in restoring American prosperity, and deserve the support of Congress.

U.S.-GCC TRADE

The Middle East Council of American Chambers of Commerce (MECACC), an association of regional AmChams affiliated with the U.S. Chamber of Commerce, is committed to expanding trade and investment between the United States and Gulf Cooperation Council (GCC) member states,[13] as key strategic and economic partners.

Key Strategic and Economic Partner

Since the United States and Saudi Arabia first established diplomatic relations in 1933,[14] the U.S. government and business communities have contributed meaningfully to the Gulf's economic and social development. Our partnership by 2012 evolved to a multilateral U.S. / GCC partnership, built on shared geopolitical, security, anti-terrorism, energy, economic, and commercial interests.[15]

Standing between East and West and endowed with vast oil and gas reserves and sovereign wealth, the GCC remains strategically vital to U.S. and global prosperity. Islands of stability amidst an expanding sea of struggling and failed states,[16] to which most recently Afghanistan can now sadly be added, GCC members have proven themselves as reliable political and economic partners on a wide range of vital issues.

The GCC countries, with significant security requirements and major infrastructure projects, continue to drive American exports to the region. U.S. sales to those six nations climbed from $45.0 billion in 2018 to $47.3 billion in 2019, representing steady 5% growth. Expo 2020 in Dubai and the 2022 FIFA World Cup in Doha reflect the region's coming of age as a major player in world markets, with significant opportunities for American companies.

The United Arab Emirates ($20.0 billion) and the Kingdom of Saudi Arabia ($14.3 billion) continued to be the two largest destinations by far for U.S. goods in the Arab world. Together, these two countries accounted for 55% of total U.S. goods exported to the MENA region in 2019. In Qatar, U.S. exports increased by 47.7% from 2018 to 2019. In November of 2019 Wilbur Ross, Former United States Secretary of Commerce was quoted, "American companies are an exceptional and indispensable asset to Qatar and the benefits flow both ways. The US-Qatar trade relationship is responsible for more than 20,000 jobs in the United States." It also stated in the press release that over 100 U.S. companies operate in Qatar.

The six countries constituting the Gulf Cooperation Council (GCC) nations accounted for three-quarters of U.S. goods exported to the Arab world in 2019, totaling $47.3 billion in sales. Top imports included transportation equipment (36.2%), non-electrical machinery (11.9%) and chemicals (9.8%).

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13 Saudi Arabia, the United Arab Emirates, Qatar, Kuwait, Oman, and Bahrain.

14 Provisional Agreement between the United States of America and the Kingdom of Saudi Arabia in regard to Diplomatic and Consular Representation, Juridical Protection, Commerce and Navigation, November 7, 1933, https://ustr.gov/sites/default/files/uploads/agreements/tifa/asset_upload_file304_7740.pdf.

15 Framework Agreement for Trade, Economic Investment and Technical Cooperation between the Cooperation Council for the Arab States of the Gulf and the Government of the United States of America: https://ustr.gov/sites/default/files/uploads/agreements/Trade%20Investment/U.S.-GCC%20TIFA%20Final%20Text%20--%20English%209-25-12.pdf.

16 U.S. exports to the MENA region grew by 4% in 2019, while falling in other traditional regional and global markets.

Exports from Saudi Arabia to the U.S. fell 44% to $13.4 billion, led by a halving of oil and gas exports, which represent 83.4% of the Kingdom's total exports to the U.S.

Looking ahead, Expo 2020 in Dubai and the 2022 FIFA World Cup in Doha will offer major business opportunities.

Qatar has revamped its regulations on foreign direct investment to permit foreign investors to own up to 100% of their company's capital and passed new regulations permitting foreign ownership of up to 100% in listed companies on the Qatar Stock Exchange. In 2020, Qatar also passed the new public-private partnership (PPP) law, which permits, within certain parameters, ownership of the PPP project by the foreign investor. Qatar has also implemented significant labor reforms including minimum wage protection rights, and improved protection for the labor workforce.

Saudi Arabia's Vision 2030 economic and social reforms offer market-opening initiatives focused on energy, defense, transportation and infrastructure, as well as entertainment, sports, advanced manufacturing, artificial intelligence, cloud computing and other emerging industries. Vision 2030 seeks to diversify Saudi Arabia's economy from hydrocarbons towards a knowledge-based economy, by reaffirming Saudi Arabia as the "heart of the Arab and Islamic worlds," establishing the Kingdom as a global investment powerhouse, and building a hub for Asia, Europe, and Africa.

Among other major new developments,[17] NEOM promises a futuristic 10,000 square mile $500 billion free zone the size of Belgium straddling Saudi Arabia, Jordan, and Egypt. The Kingdom has sold shares in Saudi ARAMCO through an Initial Public Offering (IPO), and plans to sell more.

At the same time, U.S. strategic, political and/or economic regional retrenchment has provoked confusion and unease, as Afghanistan experiences existential collapse as a functioning member of the world community of states while the Iranian threat continues to loom large. Our GCC strategic and economic relationship can and should be revitalized and strengthened, with GCC states as key assets in resuming our traditional role as guarantors of regional peace and security in this volatile though strategically and economically vital region.

As the U.S. pivots albeit often fitfully towards Asia, the GCC has itself pivoted towards China and other points East towards rising consumers of oil and other exports. A long-planned GCC free trade agreement with China could substantially increase Chinese presence and influence in the region, to the detriment of our interests and traditionally privileged position.

Energy

Even if the U.S. achieves energy independence through shale oil and gas,[18] the GCC will continue its leadership in world energy markets, and replays of 1973 and 1979 energy disruptions would severely shake our global economic interests.

[17] Other major new projects include the Qiddiya Entertainment City southwest of Riyadh, a Red Sea coastal resort park and a historical and cultural development around Al-Ula and Madein Saleh north of Madina in Hejaz Province.
[18] U.S. Energy Information Agency, http://www.eia.gov/outlooks/aeo/pdf/0383(2017).pdf, at 16.

As GCC states emerge from covid-19 cuts in government spending and subsidies in the wake of declines in oil export revenues, new opportunities include renewable and nuclear energy,[19] in both of which U.S. companies are competitive.

U.S. - GCC Trade Agreements

The GCC continues to offer excellent opportunities for U.S. firms to market American products and services. The United States has concluded multilateral and bilateral trade agreements with both the GCC and its member states,[20] thereby providing a framework to expand bilateral and multilateral trade, identify and rectify barriers to trade and resolve differences.

In 1990, Trade Representative Carla Hills, seeking to drive tough bargains with countries considered to apply unfairly protectionist trade policies, threatened to open foreign markets with a "crowbar," sometimes necessary in negotiating with often protectionist trading partners.[21]

MECACC urges the USTR and Congress to promote trade and investment access, intellectual property protection and bilateral investment treaties,[22] and to hold Saudi Arabia and others to their WTO accession commitments.[23]

Major Opportunities

MECACC encourages both the Administration and Congress to adopt strong and practical measures to expand U.S. trade and investment relations with GCC member states, and to extend the Bahrain and Oman Free Trade Agreements to embrace other GCC nations and ideally the GCC itself.

Acting in concert with the U.S. Chamber of Commerce, we look forward to working together with our friends in the Administration and Congress in developing common positions in preparation for future TIFA meetings, and in helping the GCC and its member states in modernizing and opening their economies to trade and investment with American companies.

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[19] There are also a host of opportunities for U.S. businesses in the areas of infrastructure development and service-oriented sectors, such as: education, training, and health care, which continue to be high priority areas throughout the region.

[20] Including bilateral Trade and Investment Framework Agreements (TIFAs)with both the GCC and each member state, as well as Free Trade Agreements with Bahrain and Oman.

[21] https://en.wikipedia.org/wiki/Carla_Anderson_Hills.

[22] Ideally including neutral offshore arbitration of claims against governments.

[23] Including ratification of the WTO Protocol on Government Procurement.

U.S.-GCC STRATEGIC PARTNERSHIP

The U.S. strategic partnership with the Arab nations of the Arabian Gulf traces its origins from commercial cooperation in the 1930's between leading American energy companies and oil-rich Arab nations, a geopolitical common interest recognized by President Roosevelt in meeting with Saudi King Abdulaziz aboard the USS Quincy in February, 1945, continuing importance over more recent decades of Gulf stability and energy exports for global economic prosperity, through the emergence of Gulf emirates and more recently Saudi Arabia as key players not only in international energy but also geopolitical, financial and political cooperation, including important roles as members of the G20, the Abraham Accords and ever-expanding bilateral trade and investment.

The Middle East Council of American Chambers of Commerce (MECACC) is an association of U.S. Chamber of Commerce-affiliated American AmChams based in commercial centers throughout the Gulf Cooperation Council (GCC), which includes Saudi Arabia, the UAE, Qatar, Kuwait, Bahrain and Oman.[24] Based on our long history in the region, we understand how our relationships with these countries promote U.S. national interests, based on resources, histories, longstanding support for U.S. interests and location in a strategically important region.

Peace and Security

As the political, economic and other principles embodied in the United Nations Charter and other international institutions have been threatened by religious fundamentalism, advancing key geopolitical, economic and other interests depends increasingly on sustained positive engagement.

We believe that the U.S. should strengthen ties with our GCC partners by building on common interests, and reaffirming traditional U.S. support for these partners' legitimate aspirations.

Beginning in 1992, Qatar has built intimate military ties with the United States, and is currently the location of U.S. Central Command's Forward Headquarters and the Combined Air Operations Center. Two American bases exist Al Udeid Air Base and As Sayliyah Army Base and host over 11,000 U.S. and U.S.-led coalition forces and over 100 operational aircraft.

Trade and Diplomacy

Middle East trade and transit are pivotal to international trade, and GCC energy resources remain vital to global prosperity.

Our vision for the Middle East should highlight reliability and credibility, coherent and consistent policies and objectives, and promote our security, economy and values.

International partnerships with GCC countries have endured and prospered since 1945 based on real and compelling common interests in energy security, defense cooperation, mutually beneficial trade and investment and regional balance of power. These relationships have survived many crises

[24] Technically the Cooperation Council for the Arab States of the Gulf, originally known as the "Gulf Cooperation Council," hence the colloquial nickname "GCC."

of the moment; if properly tended, they should continue to serve our national interests well into the future.

We share converging values and interests with these countries in many fields including energy, education, culture, healthcare, industrial development and regional non-intervention. U.S. companies and interests have enjoyed a privileged position in local markets based on proven friendship, quality and commitment. These relationships should be leveraged to encourage positive reforms, not discarded in haste only to be regretted later as is too often our habit.

In this context, the U.S.-GCC relationship, along with bilateral relations between the U.S. and all GCC states, should be elevated to a Strategic and Economic Dialogue, as we currently enjoy with Qatar, China and India, to assure regular consultation on strategic and economic issues. This would contribute not only to U.S. exports and jobs, but also to peace and security in a chronically fragile region.

Common Security

Progress in expanding U.S./Saudi security cooperation bodes well for a broader GCC partnership, with existing agreements with Aramco, the Public Investment Fund and its subsidiaries and U.S. companies[25] to localize manufacture in the Kingdom, opening new opportunities for American investment in this once heavily-protected market, and many similar agreements with the UAE, Qatar, Kuwait, Oman and Bahrain.

A strengthening defense and security relationship will not only help our GCC partners deter aggression, but also promote better governance, human rights and regional stability. While nothing can replace a strong and effective U.S. presence, we will always need solid and reliable regional partnerships, for which our GCC partners remains our best hope.

Education

Qatar Foundation has developed an impressive "Education City" containing six American universities. Each university focuses on an area of expertise.

1. Virginia Commonwealth University in Qatar (VCUarts Qatar). Fashion Design, Graphic Design, Interior Design and Art History Degrees
2. Weill Cornell Medicine - Qatar (WCM-Q). Medical Degree.
3. Texas A&M University at Qatar (TAMUQ). Engineering Degrees
4. Carnegie Mellon University in Qatar (CMU-Q). Biological Sciences, Business Administration, Computational Biology, Computer Science, and Information Systems.
5. Georgetown University in Qatar (GU-Q). Foreign Service degrees
6. Northwestern University in Qatar (NU-Q). Journalism and Communication Degrees

Conclusion

U.S. strength depends not only on force, but most importantly on soft diplomacy, including the appeal, relevance and acceptance of our political, social, and free market economic values. In Saudi Arabia, the government's shift toward a more moderate form of Islam, as evidenced by the

[25] Including Lockheed Martin, Boeing, and Raytheon.

recent removal of ban on cinemas and ever-expanding rights for women to drive and participate as equals in society,[26] reflects a broader regional openness to global liberal values.

Where GCC nations have fallen short of our hopes and expectations, our best chance for positive change comes from engaging and influencing in better directions, not from abandoning relationships that have served well over many generations.

For all these reasons the U.S. should continue to support political, economic, and individual freedoms through diplomatic initiatives and trade and commercial policies, while avoiding provocations that could undermine the stability of friendly regimes or our need for effective partnerships in a troubled and often chaotic region.[27]

[26] For example, women have recently been freed from requirements for permission from a male guardian to travel, and from the obligation to wear the traditional *abaya* in public and from segregation in the workplace and restaurants.
[27] From the mind of Alfred North Whitehead, progress = change + stability.