What the Normalization of GCC Relations Means for your Business

March 21, 2021

Recent reports of the thaw in the chilled relations between Qatar and the countries of the GCC previously boycotting Qatar are welcome news to businesses operating in the Gulf.

The normalization of political relations between the GCC countries pursuant to the *AlUla Declaration* that was signed in the first week of January 2021 in the Kingdom of Saudi Arabia could result in the impacts to businesses highlighted below.

Although it remains unclear at this time how each country will respond to such a rapprochement, anticipating how normalization might affect such matters as trade routes, immigration, and investment should assist businesses in recognizing opportunities and mitigating risks.

Commercial Relations

Over the course of the embargo against Qatar, businesses operating throughout the Gulf have faced disruptions to, among other things, supply routes, transportation, recruitment, and scheduling obligations. Parties have sought to accommodate the impacts of these disruptions through contractual provisions aimed at providing relief to harmed parties. These "workaround" provisions have resulted in increased costs to business operations, development projects, and ultimately the public at large, throughout the Gulf.

Businesses should consider reviewing current contract obligations and how they would be affected by the elimination of embargo related disruptions. Parties may desire to enter

into Letters of Intent or Memoranda of Understanding to specify actions that would be implemented upon a lifting of restrictions.

Contracts that were suspended or terminated for *force majeure* (or other) causes could be revisited to explore their ability to be reinstated. Where contracts provided extraordinary modes of performance to deal with disruptions to normal operating methods, parties may revert to the original means of contractual performance.

Regional rights (such as those in agency or franchising) could be negotiated with more mutually beneficial terms considering the elimination of restrictions to travel and other impediments.

The cost of insurance for ongoing projects in the GCC may be reduced reflecting a lessening of project risks, thereby reducing costs.

Parties deterred from bidding on projects in a particular GCC country due to political concerns, may revisit tender opportunities in these countries. Businesses may also seek to reestablish relations with business partners in those countries where operations have been suspended.

Trade Routes

The embargo negatively affected imports into Qatar from countries previously supplying goods and services, including Saudi Arabia, Germany, China and the United States. Those countries which realized increased trade relations include India and Turkey. These disruptions to normal trade routes resulted in part from the closure of the border between Saudi Arabia and Qatar, and the rerouting of goods through ports friendly to Qatar.

For global exporters who utilize the Jebel Ali port as a single point-of-entry to the GCC market, the normalization of

GCC relations could result in reinstating efficient access to all markets within the GCC, as the Saudi-Qatar border reopens for sea-land transport. In addition, the ability to freely access all GCC ports would eliminate current port restrictions limiting imports from foreign markets such as India and China.

Immigration and Recruitment

Businesses adapted to the restrictions imposed by the embargo by, in some cases, revising internal governance structures. These revisions were needed to comply with new rules on authorized signatories for labor contracts, bank accounts, and immigration documents. As these rules may ease with a normalization of relations, businesses may wish to revert to more efficient governance structures.

Businesses may also benefit from an easing of restrictions imposed by various GCC countries which limit immigration from specified countries and affect the rights of foreigners to reside in each country.

Enforcement

The ability to seek enforcement of judgments in each country of the GCC should be enhanced with a normalization of relations. As embassies closed during the embargo reopen throughout the GCC countries, the ability to obtain attestation and other services required in the enforcement of foreign judgments will be restored.

In addition, arbitral forums for dispute resolution located in the GCC, such as the Arbitration Centre within the Dubai International Financial Centre, may see an increase in regional cases as parties seek to avoid the higher cost of arbitration in European venues.

In sum, the consequences of normalization of political relations would go well beyond those noted above and could further enhance the GCC as a stable market for foreign direct

investment. We welcome your inquiries on this topic.

Highlights from the AlUla Declaration

Construction of the Gulf railway network:

“Completing the requirements for the Customs Union and the Common Gulf Market. This includes achieving full economic citizenship that grants citizens of GCC countries the freedom to work, move and relocate, and invest in the Member States. As well as equal access to education and health care, the construction of the Gulf railway network, the creation of food and water security systems, and continuing to encourage joint projects that localize investment in the Gulf.“

Anti-corruption:

“Strengthening governance, transparency, accountability, integrity, and anti-corruption mechanisms through Joint-Gulf action and in all entities of the GCC, including its specialized bureaus. As well as benefiting from the agreements of the G20 framework and the “Riyadh Initiative” pertaining to cooperation in investigations of cross-border corruption and the prosecution of the perpetrators in order to mitigate the impact corruption has on economic growth, sustainable development, and mutual trust between governments and their peoples.“

Economic integration:

“The full implementation of the vision put forth by the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz, King of the Kingdom of Saudi Arabia, in the 36th GCC Summit in December 2015. This includes abiding by a timetable, the completion of economic integration, the implementation of joint defense and security systems, and a unified foreign policy for the Member States.“

Customs integration:

“Completing the requirements for the Customs Union and the Common Gulf Market. This includes achieving full economic citizenship that grants citizens of GCC countries the freedom to work, move and relocate, and invest in the Member States. As well as equal access to education and health care, the construction of the Gulf railway network, the creation of food and water security systems, and continuing to encourage joint projects that localize investment in the Gulf.“

Author: Mahmoud Abuwasel
Title: Partner – Disputes
Email: mabuwasel@waselandwasel.com
Profile: https://waselandwasel.com/about/mahmoud-abuwasel/

Lawyers and consultants.
Tier-1 services since 1799.
www.waselandwasel.com
business@waselandwasel.com