Investments of Middle East and North African governments in the Netherlands

A research paper prepared for RTL Nieuws

Profundo
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Summary

Currently, anti-government unrest is spreading across countries of the Middle East and North Africa. Since large-scale demonstrations against Tunisia's and Egypt's governments have started in January 2011, protests against other undemocratic regimes in the region are on the rise.
The revenues of state-owned companies provide these regimes with a significant share of their annual income, thereby strengthening their power base. These revenues are generated in their home countries, but increasingly abroad as well.

For this reason this report investigates the investments in the Netherlands of a number of Middle Eastern and North African state-owned companies, making a first assessment of the revenues generated by these investments for the respective regimes. We have researched Dutch investments of state-owned companies from the following countries:

- Algeria
- Bahrain
- Libya
- Oman
- Saudi Arabia
- Yemen

Several state-owned companies from these countries were found to own production, trading, holding and financing activities in the Netherlands. These companies are:

- SABIC — Saudi Arabia
- Saudi Aramco — Saudi Arabia
- Sonatrach — Algeria
- Oilinvest — Libya
- Gulf International Bank — Saudi Arabia, Oman, Bahrain and others

In total, the state-owned companies mentioned above own investments with a value of € 19.8 billion in the Netherlands, in the form of trading and manufacturing operations as well as financial assets: shareholdings in and loans to foreign subsidiaries. These activities yield significant revenues, which provide the regimes owning the state-owned companies with additional income, thereby strengthening their power base.

The Dutch trading and manufacturing activities of these state-owned companies yield annual revenues of € 1,485 million. SABIC, for example, has significant plastics manufacturing locations in Geleen, Bergen op Zoom and elsewhere, which generate 7% of its global revenues. Saudi Aramco co-owns a storage facility in the Rotterdam port and Oilinvest owns a substantial number of Tamoil petrol stations in the Netherlands.

Additionally, it seems probable that these state-owned companies benefit from the Dutch tax climate. The first four companies all use a similar ownership structure: their foreign subsidiaries in Europe, Asia, the Americas and Australia are owned by a Dutch holding company, which in turn is owned by a subsidiary of the state-owned company based in a tax haven country like Curacao, the British Virgin Islands or Luxembourg. Investments flow from the state-owned company to its foreign subsidiaries through this structure, while the dividend payments flow back in the opposite direction.
In addition to these holding activities, in many cases the Dutch subsidiaries also engage in financing activities, like issuing bonds on the financial market and attracting inter-company and external loans.

It seems probable that the state-owned companies from the Middle East and North Africa have given a Dutch holding company a central place in this ownership structure because the Netherlands offers companies a fairly unique, favourable tax climate. The most important elements in this respect are the ‘participation exemption’ in Dutch corporate tax law and the large number of ‘Double Taxation Treaties’ which the Netherlands has concluded with other countries.
Although detailed information on their global tax payments is lacking, it seems likely that this structure - including a Dutch holding company owned by a holding company in a tax haven - allows the state-owned companies to reduce their global tax payments on interest, dividends and capital gains to the tax authorities of the countries in which their foreign subsidiaries are based. If this is indeed the case, it would also benefit the ultimate owners of these state-owned companies - all undemocratic regimes in Middle Eastern and North African countries. Further research into how their Dutch holding companies influence the global tax payments of these state-owned companies therefore seems desirable.

Introduction

Currently, anti-government unrest is spreading across countries of the Middle East and North Africa. Since large-scale demonstrations against Tunisia's and Egypt's governments have started in January 2011, protests against other undemocratic regimes in the region are increasing.
The revenues of state-owned companies provide these regimes with a significant share of their annual income, thereby strengthening their power base. These revenues are generated in their home countries, but increasingly abroad as well.

For this reason this report investigates the investments in the Netherlands of a number of Middle Eastern and North African state-owned companies, making a first assessment of the revenues generated by these investments for the respective regimes. We have researched Dutch investments of state-owned companies from the following countries:

- Algeria
- Bahrain
- Libya
- Oman
- Saudi Arabia
- Yemen

Several state-owned companies were found to have (holding) activities in the Netherlands. These companies are discussed in this report:
Chapter 1 discusses the petrochemical company Saudi Arabian Basic Industries Corporation (SABIC), which is owned by the government of Saudi Arabia. This company has manufacturing locations as well as holding and financing activities located in the Netherlands.
Chapter 2 provides an overview of the activities of oil company Saudi Arabian Oil Company (Saudi Aramco), owned by the government of Saudi Arabia. This company owns trading activities and an important holding company in the Netherlands.
Chapter 3 discusses the company Sonatrach, an oil company which is owned by the government of Algeria. Sonatrach has a very complex ownership structure which involves an important holding company in the Netherlands.
Chapter 4 provides an overview of the Dutch activities and holding companies of Oilinvest, which is owned by the government of Libya.
Chapter 5 discusses Gulf International Bank, which is owned by the governments of Saudi Arabia, Kuwait, Qatar, Bahrain, Oman and the United Arab Emirates. This bank has issued complex financing instruments, “collateralised bond obligations” in the Netherlands.
Chapter 6 provides a brief overview of two other companies with relatively small holding activities that could be found: Lafitrade and Verenex Energy, both owned by the Libyan Investment Authority (LIA), Libya’s sovereign wealth fund.
Finally, Chapter 7 presents an overview of the different cases. A brief summary is presented of the favourable tax regime of the Netherlands, which makes it so attractive for foreign companies to locate their (holding) activities in the Netherlands.

The list of state-owned companies discussed in this report is by no means exhaustive, but serves to provide different examples of the activities of foreign state-owned companies in the Netherlands.

A summary of the findings of this report can be found on the first pages of this report.

Chapter 1 SABIC - Saudi Arabia

1.1 Company profile

Saudi Arabian Basic Industries Corporation (SABIC) was founded 1976 and is headquartered in Riyadh, Saudi Arabia. SABIC is one of the world's top six petrochemical companies and is the largest non-oil company in the Middle East. The company manufactures chemicals, fertilizers, plastics and metals. SABIC is 70% owned by the Government of the Kingdom of Saudi Arabia and 30% by the private sector. In 2009, SABIC generated revenues of SAR 103.0 billion (€ 19.2 billion), resulting in a net profit of SAR 9.1 billion (€ 1.7 billion). Total assets of SABIC at the end of December 2009 amounted to SAR 296.9 billion (€ 55.2 billion).[1]

Figure 1. Prince Saud bin Abdullah bin Thenayan Al-Saud, CEO of SABIC

1.2 Activities in the Netherlands

1.2.1 Manufacturing activities

In 2002, SABIC acquired the petrochemical activities of the Dutch chemical company DSM (DSM Petrochemicals). As a result, the activities of DSM Petrochemicals in manufacturing locations Geleen (Netherlands) and Gelsenkirchen (Germany) were transferred to SABIC.[2] In 2007, SABIC also took over a major manufacturing location in Bergen op Zoom from the American company General Plastics. Currently, SABIC also has additional production locations in Enkhuizen, Sittard, Urmond, and Raamdonksveer.[3]
The location in Bergen op Zoom manufactures and distributes synthetic resins (polycarbonate and others) used for example in the manufacture of dashboards, bumpers, computers, telecommunications equipment, household appliances, packaging, building and construction materials. The company’s plants in Geleen, which are located in the industrial park Chemelot, produce the gases ethylene and propylene. These are the raw materials for the plastics polyethylene and polypropylene. These plastics are used in a wide range of products, for example packaging products, bottles, milk cartons, crates and containers (polyethylene) and car bumpers, dash boards and garden furniture (polypropylene).[4]

Figure 2. SABIC factory in Geleen, the Netherlands

1.2.2 Holding and financing activities

The company's subsidiary SABIC Holding Europe BV in Sittard (Netherlands) is the holding company for all SABIC activities in Europe and may of its activities outside Europe. This subsidiary has 54 wholly-owned subsidiaries based in Europe, the Americas, Asia and Australia.[5]
In September 2008, SABIC also established a new wholly-owned company, SABIC Capital Ltd., based in Amsterdam (Netherlands).[6] This company would take over the financing and tax activities of SABIC in Europe and the United States.[7] Both subsidiaries engage in inter-company loaning and attracting external finance.

These Dutch subsidiaries are discussed in more detail below:

- *SABIC Capital BV*: This Dutch investment holding subsidiary was incorporated in September 2008 and is based in Amsterdam. SABIC Capital BV is a wholly-owned subsidiary of SABIC Luxembourg SARL and has two subsidiaries in the Netherlands: SABIC Capital I BV and SABIC Capital II BV. Especially SABIC Capital I BV is important for the financial activities of the group. The activities of this subsidiary are described as "carrying on the business of a finance and investment company and raising money from time to time by the issue of shares, stocks, bonds or monetary instruments and securities of any kind and on-lending the proceeds to certain companies within the SABIC Group".[8]

  SABIC Capital BV mainly generates revenues through interest payments on loans to related parties (i.e. other companies belonging to the SABIC Group). In the prolonged financial year 2009 (from 3 September 2008 to 31 December 2009), SABIC Capital BV generated revenues of € 82 million, of which € 68 million was generated through interest on loans to related parties and € 14 million through a guarantee support fee (for the company's Eurobond, see below) from a related party. The total costs of the company were € 80 million, composed of interest expenses related to capital provided by third parties of € 43 million, interest expenses related to loans provided by related parties of € 23 million and a guarantee support fee to the ultimate parent company of € 14 million.[9]

In 2009, total assets of SABIC Capital BV were € 2,210 million. SABIC Capital BV's main sources of finance are a € 750 million Eurobond and € 360 million intercompany loans from ultimate parent SABIC, based in Saudi Arabia. The Eurobond was originally issued in 2006 by SABIC Europe B.V., and had a maturity of 2013. However, in 2008, upon establishment of SABIC Capital BV, the bond was redeemed and exchanged for a new € 750 million Eurobond issued by SABIC Capital I BV, a subsidiary of SABIC Capital BV. The bond is guaranteed by ultimate owner SABIC, implying that SABIC will make available to SABIC Capital I BV sufficient funds to meet its payment obligation as and when they become due and payable. The bond still has a maturity date of 2013. The intercompany loans, provided by ultimate owner SABIC, mature in 2018.[10]

Subsidiary SABIC Capital I BV is lending the amounts generated through the Eurobond and the intercompany loans onwards through five loans to SABIC Holding Europe (see below). Through its participations, this subsidiary distributes the money to different subsidiaries located all over the world. In the financial year 2009, the total amount of these inter-company loans was € 1,081 million.[11]

In October 2010, SABIC Capital I BV launched another bond: a dollar-denominated five-year bond with a value of US$ 1,000 million (€ 730 million). This bond is also guaranteed by ultimate owner SABIC. The net proceeds from the offering would be used to refinance existing borrowings of SABIC Capital I B.V.[12]
Amongst the holders of this bond is Dutch asset manager Robeco (part of the Dutch Rabobank), which owns 2.07% of the total issuance, with a total value of € 14.9 million.[13]

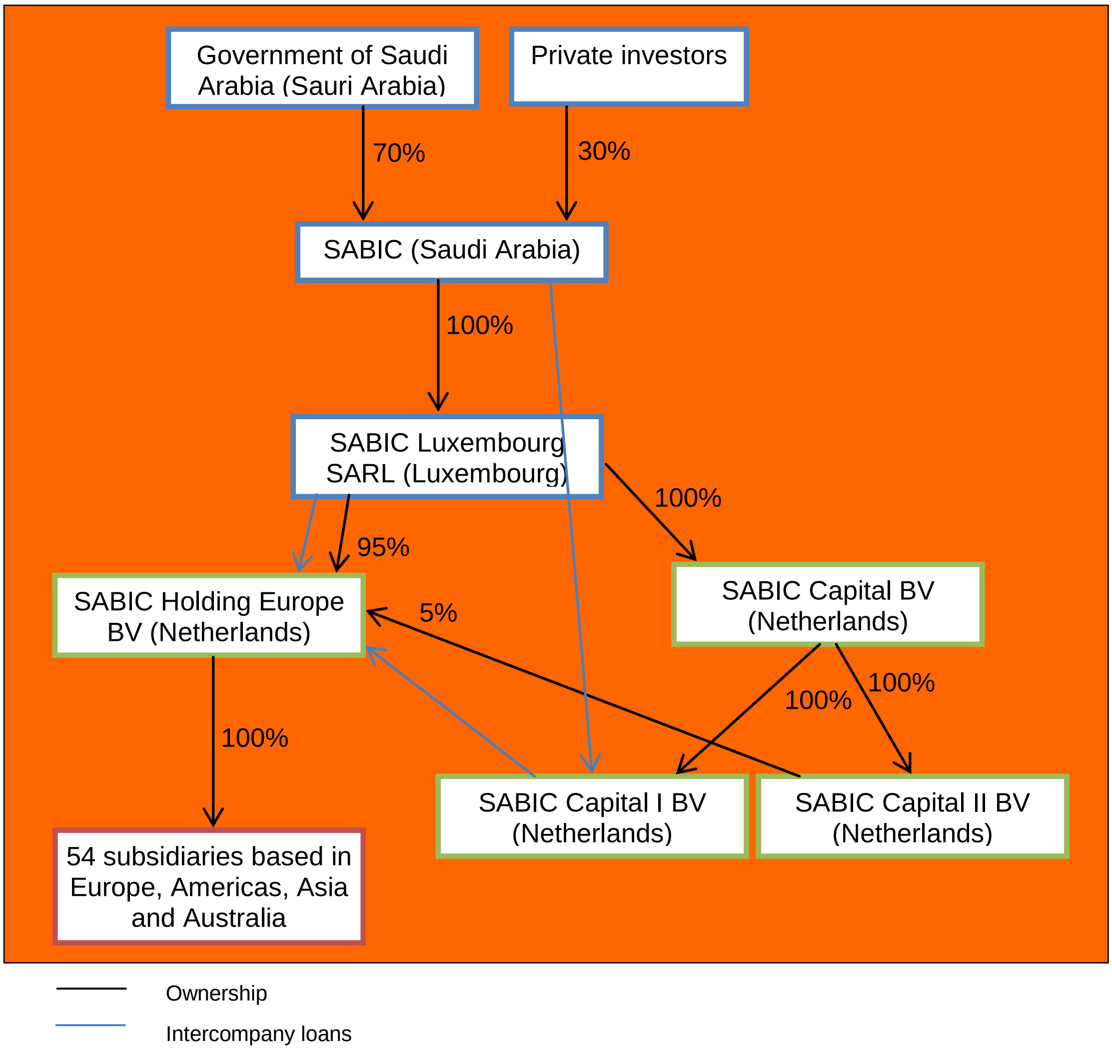
- *SABIC Holding Europe BV*: SABIC Holding Europe BV is based in Sittard, the Netherlands. This subsidiary holds investments in group participations in Europe, Asia/Pacific and the Americas. Amongst the subsidiaries of the company are for example SABIC Innovative Plastics Limited (UK), SABIC Polymerland Japan (Japan) and SABIC Plastic Sunsheet (Zhonggshan) Co. Ltd. (China). SABIC Holding Europe BV is owned by SABIC Luxembourg SARL and SABIC Capital II BV, a subsidiary of SABIC Capital (see above). The principal business activities of SABIC Holding Europe are grouped under business units polymers and chemicals through its subsidiaries in Europe, and innovative plastics through its subsidiaries in Europe, Asia/Pacific and Americas.

  In 2009, this subsidiary generated revenues of € 8,716 million, resulting in a gross profit of € 577 million and a net loss of € 1,040 million. € 1,342 million (15%) of the company's revenues were generated through its activities in the Netherlands. € 4,146 million (48%) of the company's revenues are generated in the rest of Europe, € 1,676 million (19%) in the Americas and € 1,552 million (18%) in the rest of the world. As at 31 December 2009, total assets of SABIC Holding Europe BV were € 11,012 million.[14]

  Next to the intercompany loans outstanding with SABIC Capital I BV, SABIC Holding also has an intercompany loan with a value of € 127 million outstanding from its parent company SABIC Luxembourg SARL.
  In addition, the company attracts external capital, in the form of a € 1,250 million revolving syndicated credit facility due 2011, two senior term loans with an outstanding amount of € 3,774 million due 2013, and senior notes with a value of € 1,046 million due 2015.[15]

  Figure 3 provides an overview of the ownership structure of the SABIC Group and the different financing relationships between group companies.

Figure 3. Ownership structure of SABIC Holding Europe BV



At the end of December 2009, total assets of SABIC's Dutch subsidiaries amounted to € 13,222 million. In total, € 1,342 million (15%) of the company's revenues were generated through its manufacturing and trading activities in the Netherlands.

Chapter 2 Saudi Aramco - Saudi Arabia

2.1 Company profile

Saudi Arabian Oil Company (Saudi Aramco) is a fully integrated 100% state-owned international petroleum company with the world's largest oil reserves. The company was founded in 1933 and is headquartered in Dhahran, Saudi Arabia.[16] Saudi Aramco has operations spanning the whole globe, including the Middle East, North America, Europe and Asia. [17] In 2009, Saudi Aramco generated total revenues of US$ 55 billion (€ 38.4 billion). [18]

2.2 Activities in the Netherlands

2.2.1 Trading activities

Saudi Aramco owns 34.35% of the Team Terminal BV facility in Rotterdam. TEAM is owned by three partners: BP, ExxonMobil and Saudi Aramco. It operates a 3.9 million barrel oil (or 2.75 million m^3) storage facility, which is used by Saudi Aramco to serve Northwestern European customers.[19] In 2009, total revenues of Team Terminal BV were € 20.1 million. Based on its ownership share, Saudi Aramco's revenues related to this company are € 6.9 million.[20] Together with BP Raffinaderij Rotterdam, AOC company also owns a petrol station located at Team Terminal.

Figure 4. Team Terminal storage facility, Rotterdam

Source: Team Terminal BV, "Een vleugje historie", *Website Team Terminal BV*, Visited in March 2011.

2.2.2 Holding and financing activities

Saudi Aramco's activities in Europe and the Far East are managed by Aramco Overseas Company B.V. (AOC), based in the Hague, the Netherlands. This subsidiary provides the Saudi Aramco group with a wide range of services including finance support, supply chain management, technical support services and administrative support services. In addition, AOC forms an important link between Saudi Aramco and business partners in Europe, the Asia-Pacific region, South America and Africa.[21]

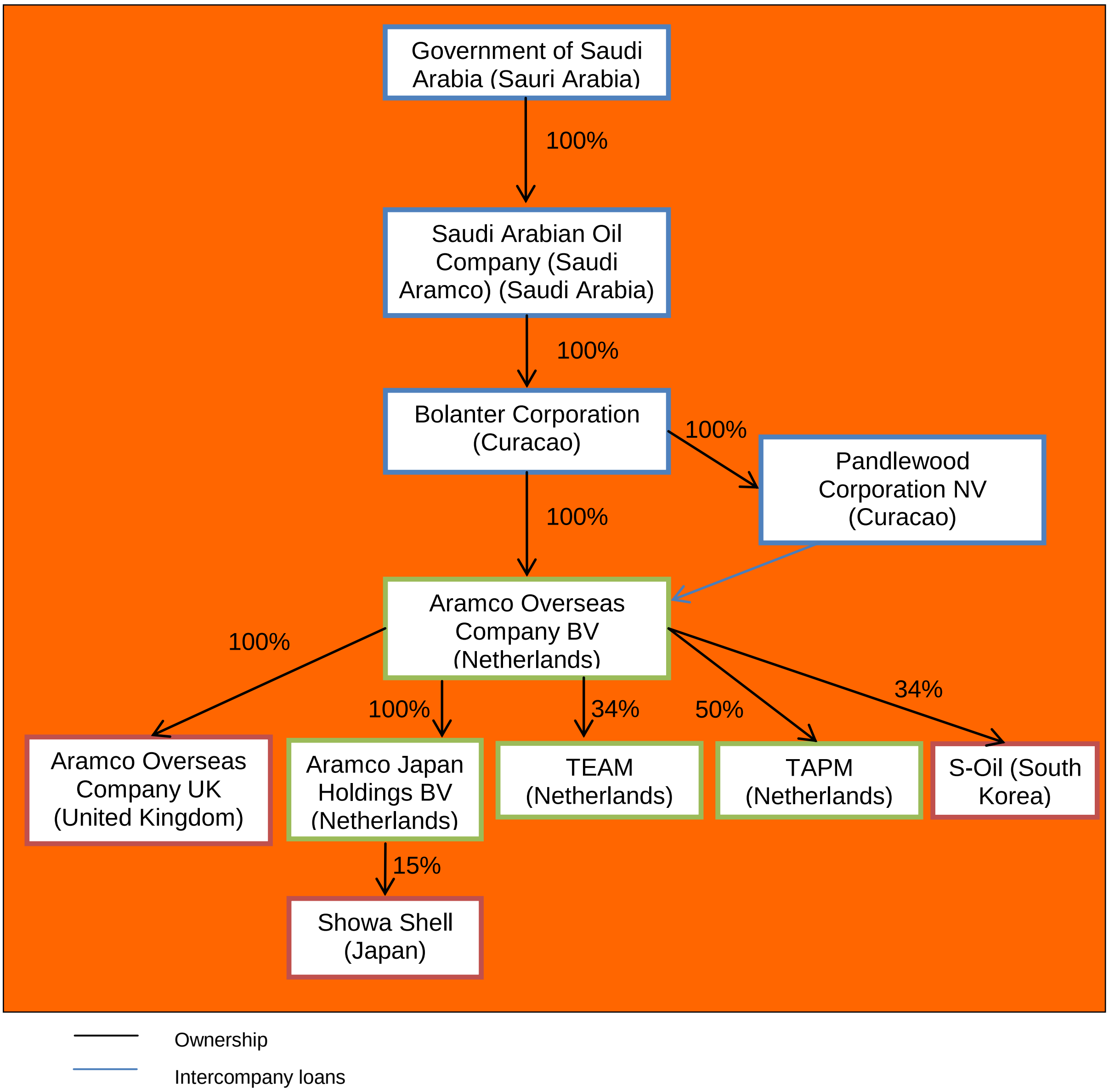
AOC was incorporated in December 1989 and is wholly owned by Bolanter Corporation NV, based in Curacao. The objective of the company is to maximise downstream revenues and to provide optimal support to Saudi Aramco.

AOC has two wholly-owned subsidiaries: Aramco Overseas Company UK (United Kingdom) and Aramco Japan Holdings BV (Netherlands). AOC also holds interests in hydrocarbon refining companies in the Far East as well as storage and terminal facilities in the Netherlands (see paragraph 2.2.1). In addition, AOC has offices in the United Kingdom, Paris, Italy, China, Japan, Singapore and India.[22]

In 2009, total revenues of AOC were US$ 2,455 million (€ 1,713 million), resulting in a net income of US$ 21 million (€ 15 million). As at 31 December 2009, total assets of the company were US$ 3,199 million (€ 2,232 million).
In its annual report, AOC mentions that the intercompany borrowings resulting from trading activities with Saudi Arabia do not bear any interest. The company has a long term interest-bearing note payable to an (unknown) subsidiary of Saudi Aramco. It also has a US$ 88 million (€ 61 million) loan outstanding from Pandlewood Corporation NV (Curacao), a subsidiary of Bolanter Corporation NV. AOC has loans outstanding to group companies of US$ 443 million (€ 309 million).[23]

Figure 5 presents an overview of the corporate structure of Aramco Overseas Company BV and its financing relations with other Saudi Aramco companies.

Figure 5. Ownership structure of Aramco Overseas Company BV



At the end of December 2009, the total assets of Saudi Aramco which are located in the Netherlands amounted to € 2,232 million. In 2009 Saudi Aramco generated a revenue of € 7 million through its trading activities in the Netherlands.

Chapter 3 Sonatrach - Algeria

3.1 Company profile

Société Nationale pour la Recherche, la Production, le Transport, la Transformation, et la Commercialisation des Hydrocarbures (Sonatrach) is an Algerian state-owned company formed to exploit the hydrocarbon resources of the country. The company engages in the exploration, production, pipeline transportation and marketing of hydrocarbons and by-products. The company's activities are mainly located in Africa and Europe, with additional activities in North America, Peru and South Korea. In 2009, Sonatrach generated revenues of DZD 3,533 billion (€ 33.1 billion), resulting in a net profit of DZD 284 billion (€ 2.7 billion). At the end of December 2009, the company owned total assets of DZD 5,629 billion (€ 52.8 billion).[24]

3.2 Activities in the Netherlands

3.2.1 Trading activities

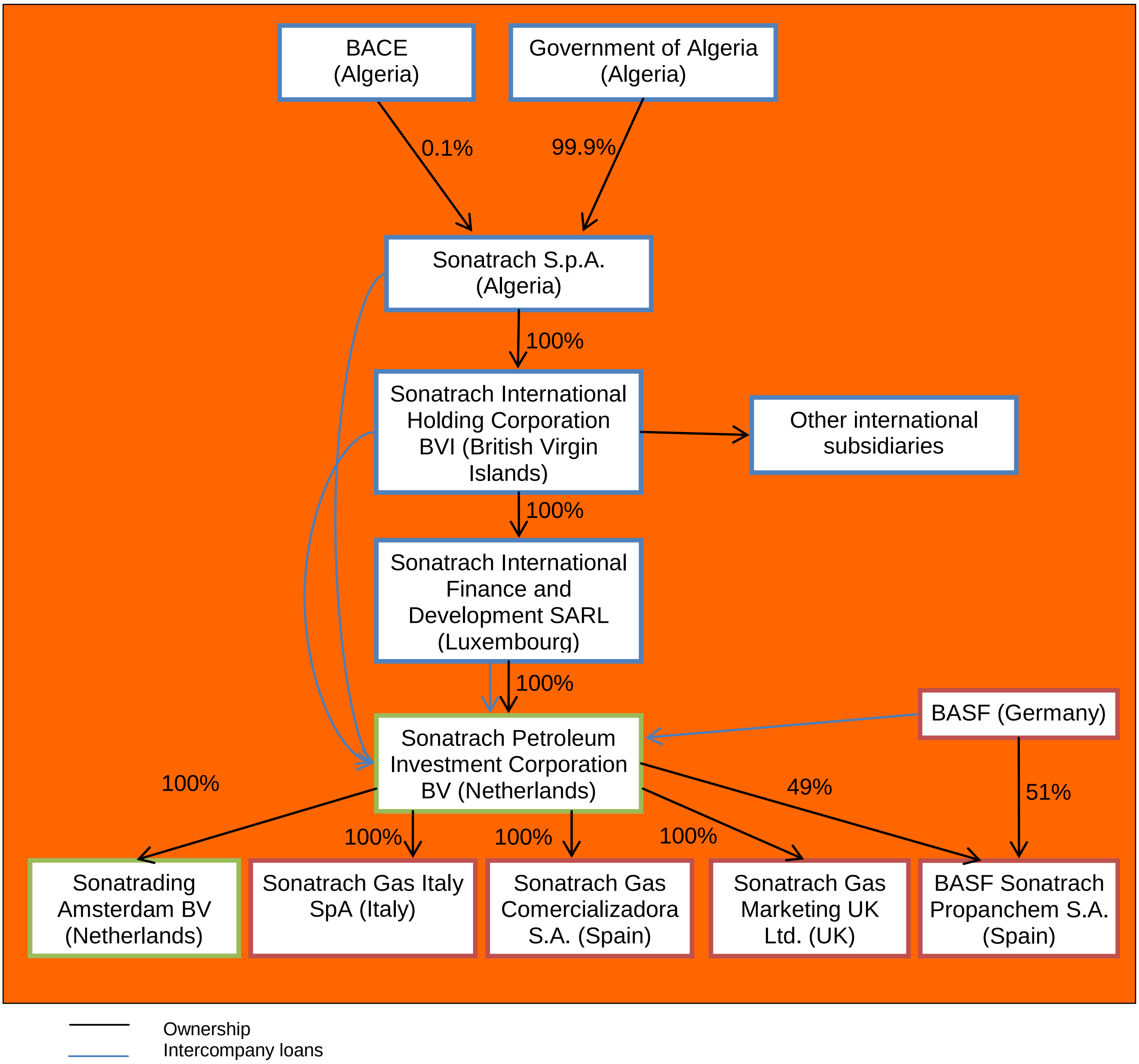
Sonatrading Amsterdam BV, 100% owned by Sonatrach Petroleum Investment Corporation BV (see paragraph 3.2.2), is a trading and marketing unit for piped gas and LNG. It handles marketing in Europe and has a unit for the American LNG market. However, for the financial year 2008 the company mentions that there were no cargos with LNG purchased or sold. In this year, the company reported a loss of US$ 2.2 million (€ 1.6 million).[25]

In 2009 it was announced that Sonatrach was in talks with Dutch company 4Gas, in which US private equity firm the Carlyle Group has a majority stake. This company plans to build an LNG import and regasification terminal in Rotterdam ('LionGas terminal'), which will have an initial annual throughput capacity of 9 billion m^3 of gas. The terminal is set to come on stream in 2012.[26] No recent information could be found about these talks.

3.2.2 Holding and financing activities

Sonatrach Petroleum Investment Corporation BV (SPIC) was set up in April 1992 and is based in The Hague (Netherlands). It is a finance and investment company ultimately owned 99.9% by Sonatrach and 0.1% by the Algerian foreign trade bank Banque Algérienne du Commerce Extérieur (BACE). The company's main activities are holding and finance activities for subsidiaries and participations.
SPIC is directly owned by Sonatrach International Finance and Development SARL (SIFID), based in Luxembourg. SPIC has four wholly-owned subsidiaries, based in the Netherlands, the United Kingdom, Italy and Spain. In addition, the company has four minority-owned subsidiaries in Spain, among which BASF Sonatrach Propanchem, which is majority owned by German chemical company BASF.
In the financial year ended 2008 (the most recent year for which data were available), SPIC generated revenues of US$ 526.4 million (€ 373.4 million), resulting in a profit US$ 29.6 million (€ 21.0 million). At the end of December 2008, total assets of SPIC were US$ 357.4 million (€ 253.5 million).[27]
A significant part of the liabilities of SPIC consist of intercompany loans and third party loans. Most related party loans (US$ 50.4 million or € 35.8 million) are owed to Sonatrach International Holding Corporation BVI, which is the shareholder of SIFID. The company also reports purchases outstanding to this company of US$ 140.1 million (€ 99.4 million). From Sonatrach Algiers SpA, its ultimate parent, SPIC reports purchases and other expenses of US$ 246.5 million (€ 174.9 million). SPIC also has a bank loan with BASF outstanding.
In addition, the company has a bank loan of US$ 25.9 million (€ 18.4 million) outstanding.[28]

Figure 6. Ownership structure of Sonatrach Petroleum Investment Corporation BV



At the end of December 2008, the total assets of Sonatrach's subsidiaries located in the Netherlands amounted to € 253.5 million. Sonatrach does currently not generate revenues from trading or manufacturing activities in the Netherlands.

Chapter 4 Oilinvest - Libya

4.1 Company profile

The Oilinvest Group, based in the Netherlands and owned by the Libyan Investment Authority (LIA), is active in oil trading and distribution. Its subsidiary Tamoil Group has approximately 3,000 service stations throughout Europe. Of these, the majority is based in Italy. Other countries where the group has a presence are Switzerland, Germany, the Netherlands and Spain. The LIA is a Libyan government organization established 2006 that manages investment funds of the government coming from the oil and gas industry.[29]

4.2 Activities in the Netherlands

4.2.1 Trading and distributing activities

The Oilinvest Group has two important marketing and trading subsidiaries in the Netherlands:

- *Oilinvest (Netherlands) Group BV*: Oilinvest (Netherlands) Group BV was incorporated in October 1988 and is based in Ridderkerk, the Netherlands. The principal activities of the company are oil refining and petroleum products distribution. The shareholder of the company is Oilinvest (Holdings) NV, incorporated in Curacao. Since 2008, the ultimate shareholder of the company is the Libyan Investment Authority (LIA), Libya's sovereign wealth fund.[1]
  In the financial year 2009, Oilinvest (Netherlands) Group BV generated revenues of € 7.5 billion, resulting in a net profit of € 26 million. The revenues were generated by crude oil sales (€ 1.1 billion or 15%), petroleum products (€ 4.5 billion or 60%) and other products (€ 1.9 billion or 25%). At the end of December 2009, total assets of Oilinvest (Netherlands) Group BV were € 3,506 million.
  A large part of the company's oil is purchased from National Oil Corporation, Libya's state owned company that controls oil and gas production. During 2009, the group purchased 97.6 million barrels of oil, of which 55.2 million barrels (56.6%) originated from Libya. In 2009, Oilinvest (Netherlands) had accounts payable outstanding to the National Oil Corporation of Libya of € 262.6 million.[30]

- *Tamoil Beheer BV*: Tamoil Beheer BV, based in Ridderkerk, and its subsidiaries are mainly engaged in the retail of oil and related products in the Netherlands. The company entered the Dutch petroleum market in 1993 through its acquisition of the OK Beheer BV group of companies who owned a network of "OK" branded service stations. Today the principal Tamoil Beheer BV company operating in the Netherlands is subsidiary Tamoil Nederland BV. In 2005, Tamoil Nederland BV acquired an additional 89 service stations and currently has approximately 160 service stations.[31]
  In 2009, the revenues of Tamoil Beheer were € 135.5 million, resulting in a net loss of € 0.2 million.[32]

[1] Before March 2008, the shareholders of Oilinvest (Netherlands) Group BV were: National Oil Corporation of Libya (70%), the Libya Foreign Bank (15%) and the Libyan Arab Foreign Investment Company (15%).

Figure 7. Tamoil petrol station in Veghel, the Netherlands

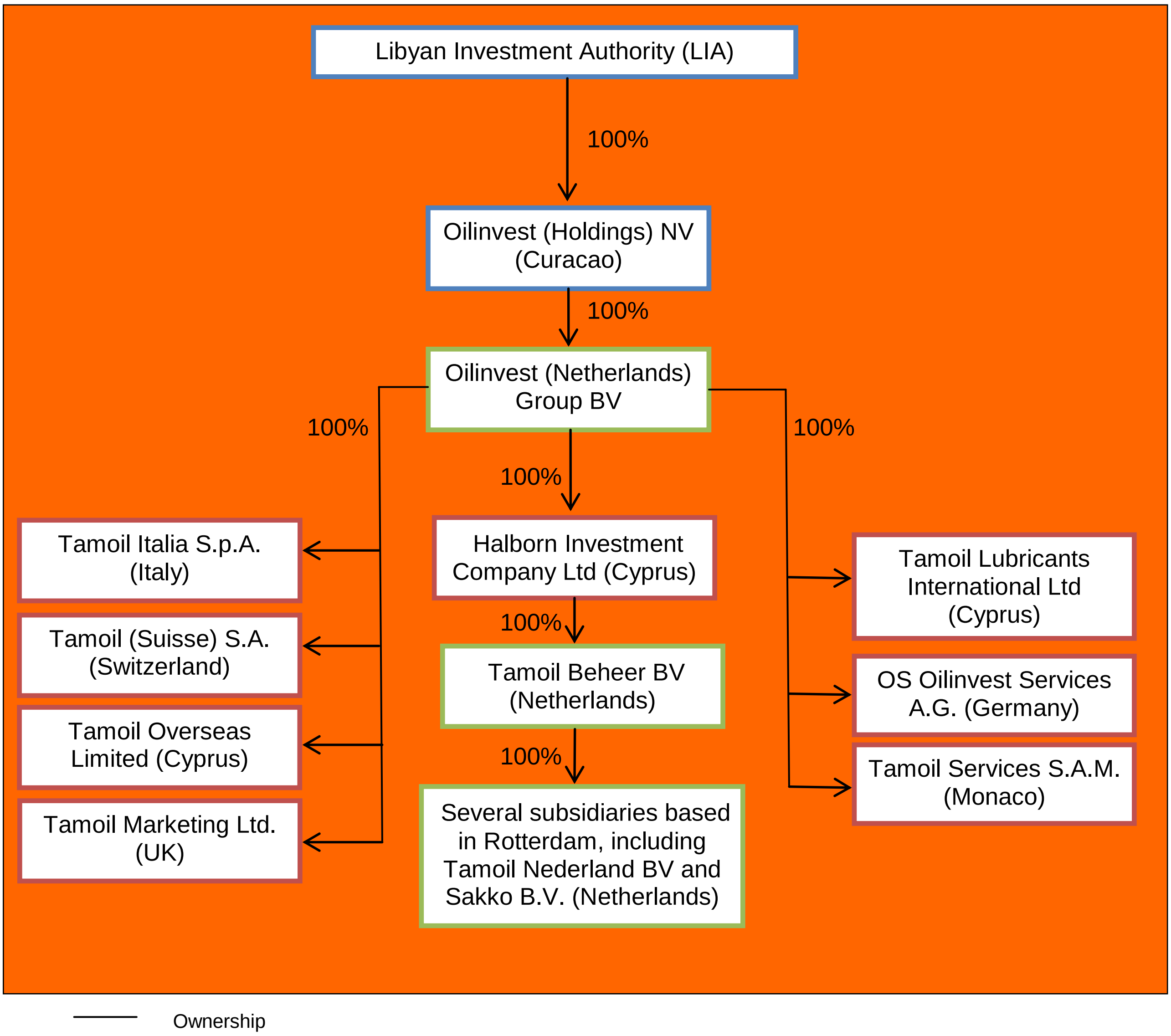
Source: Kliknieuws, "Wasstation Tamoil Bunders weer open", *Kliknieuws*, 11 March 2009.

4.2.2 Holding activities

In addition to its retail activities in the Netherlands (see paragraph 4.2.1), Oilinvest (Netherlands) Group BV also serves as the holding company for other group companies. Oilinvest (Netherlands) Group BV has eight wholly-owned subsidiaries, all based in European countries.[33]

Figure 8 provides an overview of the ownership structure of Oilinvest (Netherlands) Group BV.

Figure 8. Ownership structure of Oilinvest (Netherlands) Group BV



At the end of December 2009, the total assets of Oilinvest's subsidiaries located in the Netherlands amounted to € 3,506 million. The total revenues of the company generated by its trading and distributing activities located in the Netherlands were € 135.5 million.

4.3 Other information

In February 2011, the Dutch newspaper de Volkskrant reported that Oilinvest (Netherlands) Group BV was one of the companies owned by Libyan Colonel Muammar Gaddafi. However, according to the directors of Oilinvest, the fact that the company is owned by the Libyan Investment Authority does not imply that Gaddafi's capital is invested in the company.[34]

In February 2011, press reports also revealed that Oilinvest (Netherlands) Group BV has been on the US government's terrorist list for 13 years. Oilinvest's parent company Oilinvest International NV has been on the terror list since 1994. The company is not included on the European Union's 'freeze list' which only includes firms convicted of crimes. If Oilinvest (Netherlands) Group BV had been on the freeze list, it would not have been able to operate in the Netherlands.[35]

Chapter 5 Gulf International Bank - Several Middle East countries

5.1 Company profile

Gulf International Bank (GIB) is a merchant bank incorporated in the Kingdom of Bahrain. Until recently, the states of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates each owned 12.08 per cent of the shares of GIB. The remainder was owned by Saudi Arabian Monetary Agency (SAMA), which owned 22.2 per cent and JPMorgan (United States), which owned 5.3 per cent.[36]

However, since 2009 Saudi Arabia's Public Investment Fund (PIF) is the majority shareholder of the company. The ownership structure of the bank now is as follows:[37]

• Public Investment Fund	Saudi Arabia	97.226%
• Kuwait Investment Authority	Kuwait	0.730%
• Qatar Holding Company	Qatar	0.730%
• Bahrain Mumtalakat Holding Company	Bahrain	0.438%
• Ministry of Finance Oman	Oman	0.438%
• Emirates Investment Authority	United Arab Emirates	0.438%

In 2009, GIB generated revenues of US$ 463 million (€ 323 million), resulting in a net loss of US$ 153 million (€ 107 million). At the end of December 2009, total assets of the company amounted to US$ 16,208 million (€ 11,308 million).[38]

Figure 9. Logo of Gulf International Bank

5.2 Activities in the Netherlands

5.2.1 Financing activities

Gulf International Bank BSC has established three special purpose financing vehicles in the Netherlands: FAB CBO 2002-1 BV, FAB-2003 CBO 1 BV and FAB CBO 2005-1 BV. These companies engage in the issuance of collateralised bond obligations (CBOs) developed out of different assets ("CBO assets"), including residential and commercial mortgage-backed securities (RMBS, CMBS), asset-backed securities (ABS) and collateralised debt obligations (CDOs).[39]

The CBOs of these Dutch vehicles are managed by Gulf International Bank (UK) Ltd, a wholly-owned subsidiary of Gulf International Bank. The CBOs, which have been sold predominantly with European financial institutions, "provide the Gulf International Bank with a further diversified source of management fees".[40]

By selling the CBOs to investors, the Gulf International Bank is able to remove an amount of (mortgage) loans from its balance sheet and replace it with fresh capital. This makes it possible for the bank to lend out the same money again and again, thereby raising fees each time the money is lent out. These management fees increase the total profit of the bank.

The Dutch subsidiaries are discussed in more detail below:

- FAB CBO 2002-1 BV: The company was incorporated in February 2002 and is based in Amsterdam. In 2002, the company issued various classes of floating rate notes and subordinated notes. These notes had a total value of € 309.5 million and are due 2078. The notes have different ratings and therefore different types of credit risk. All classes are listed on the Luxembourg stock exchange. The classes of these notes range from A-1 (best) to C (subordinated). "Senior" tranches (A-1 in this case) are considered the safest securities. Interest and principal payments are made in order of seniority; “junior” tranches (C in this case) offer higher coupon payments or lower prices to compensate for additional default risk. At the end of December 2008, the market value of the portfolio amounted to € 88.8 million.[41]
  In 2009, FAB CBO 2002-1 BV generated revenues (interest income) of € 5.8 million, resulting in a net profit of € 17,220. At the end of December 2009, total assets of FAB CBO 2002-1 BV amounted to € 66 million.[42]

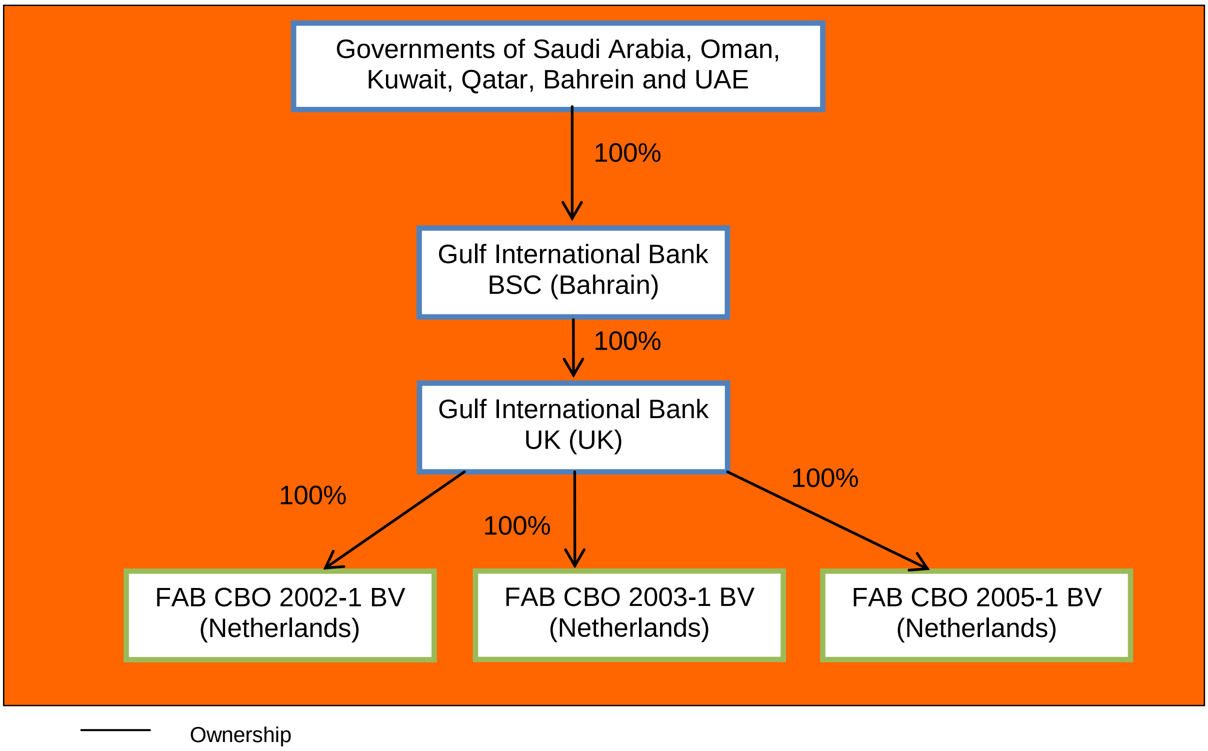
- FAB CBO 2003-1 BV: The company was incorporated in July 2003 and is based in Amsterdam, the Netherlands. In 2003, the company issued various classes of floating rate notes and subordinated notes. These notes had a total value of € 308.8 million and are due 2080. The notes have different ratings and therefore different types of credit risk. All classes are listed on the Luxembourg stock exchange. The classes of these notes range from A-1E (best) to C (subordinated). At the end of December 2008, the market value of the portfolio was € 141.2 million.[43]
  In 2009, FAB CBO 2003-1 BV generated revenues (interest income) of € 8.9 million, resulting in a net profit of € 17,220. At the end of December 2009, total assets of FAB CBO 2003-1 BV amounted to € 127 million.[44]

- FAB CBO 2005-1 BV: The company was incorporated in April 2005 and is based in Amsterdam, the Netherlands. In 2005, the company issued various classes of notes due 2098 for a total amount of € 305.6 million. The classes of these notes range from A-1 (best) to C (subordinated). The portfolio of CBO assets consists primarily of loans and to a lesser extent high yield bonds and opportunity investments such as distressed debt. At the end of December 2009, the market value of the portfolio was € 147.3 million.
  In 2009, FAB CBO 2005-1 BV generated revenues (interest income) of € 9.3 million, resulting in a net profit of € 17,220. At the end of December 2009, total assets of FAB CBO 2005-1 BV amounted to € 253 million.[45]

Among the European financial institutions that have invested in these CBOs are for example by pension insurer Zwitserleven (part of Dutch SNS Reaal) and Dutch bank Friesland Bank.[46]

Figure 10 presents an overview of the ownership structure of the different FAB CBO companies based in the Netherlands.

Figure 10. Ownership structure of FAB CBO



At the end of December 2009, the total assets of the Dutch subsidiaries of Gulf International Bank amounted to € 446 million.

Chapter 6 Other companies - Libya

6.1 Introduction

In addition to the companies mentioned in the previous chapters, two other companies which have also established holding activities in the Netherlands but which are relatively small in size, were found. These companies, both owned by the Libyan Investment Authority (LIA), are briefly discussed in this chapter.

6.2 Lafitrade Holdings

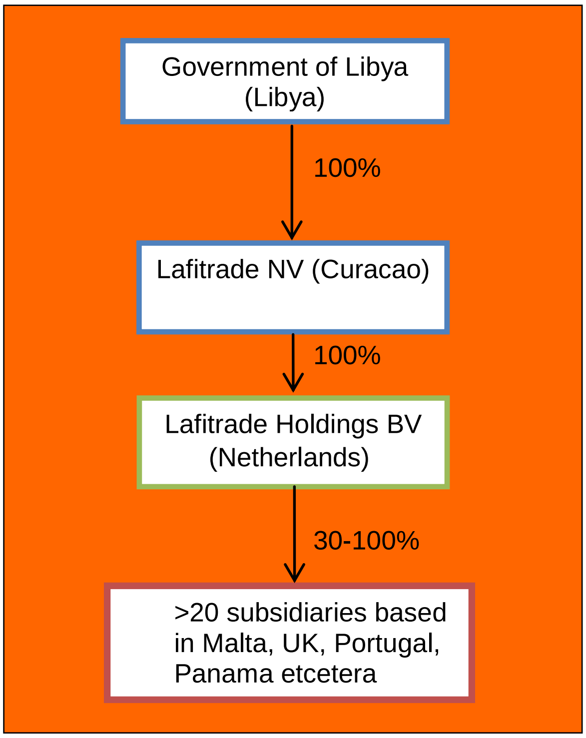
Lafitrade Holdings BV, based in Hoorn (the Netherlands), was set up as an investment holding company by the state-controlled Libyan Arab Foreign Investment Company (LAFICO). In August 2006 the assets of LAFICO were transferred into the newly established Libyan Investment Authority (LIA), which manages investment funds of the government coming from the oil and gas industry.[47] Lafitrade Holdings BV is directly owned by Lafitrade NV, incorporated in Curaçao.[48]

At the end of December 2007, Lafitrade Holdings BV owned total assets of € 6.8 million. In its annual report over 2007, the company indicates that it has 22 subsidiaries, including Al Hamra S.A. in Panama, UIS Ltd in Malta, and Award Brand Ltd in the United Kingdom. Some of the subsidiaries, including Italian oil company SRL Someco, are mentioned to be in liquidation.[49]
In May 2009, Lafitrade Holdings BV was also reported to have acquired a 10 per cent stake in Quinta, a cinema production company founded by Tunisian-born, French-based entrepreneur Tarak Ben Ammar. Other investors in this company include the Italian prime-minister Silvio Berlusconi.[50]

Among the board members of Lafitrade Holdings BV is Mahamud Al Ftise, head of the Libyan Privatization and Investment Authority.[51]

Figure 11 provides an overview of the ownership structure of Lafitrade Holdings BV.

Figure 11. Ownership structure of Lafitrade Holdings BV



6.3 Verenex Energy

Verenex Energy is a Canadian oil firm which engages in the acquisition, exploration, and production of oil and gas in Libya, France and Canada. The company was founded in 2004 and is headquartered in Calgary, Canada. It was listed on the Toronto stock exchange until November 2009, when the Libyan Investment Authority (LIA) acquired the company through a subsidiary for C$ 316 million (€ 198 million). The deal was approved by the shareholders of Verenex Energy in December 2009.[52]

Dutch company Area 47 Coöperatief U.A. is reported by the Investment Canada Act, which requires foreign investors to submit either a notification or an application for review, to be the new owner of Verenex Energy Inc.[53] It is very probable that this is the subsidiary of LIA that acquired Verenex Energy in 2009. “Area 47” is one of the exploration operations of Verenex in Libya's Ghadames Basin. In January 2009, Verenex Energy confirmed its tenth oil and gas discovery in Area 47 since drilling began in September 2006.[54]
Area 47 Coöperatief U.A. was set up in December 2009, shortly after the acquisition deal gained shareholder approval. The company is registered at the same address as Oilinvest (see Chapter 4), which is also owned by LIA, in Ridderkerk (the Netherlands). The activities of Area 47 Coöperatief U.A. are described as “providing for the material needs of its members by directly and indirectly investing in companies and corporations” and “developing and/or undertaking activities related to potential investments in companies and corporations”. The manager of Area 47 Coöperatief U.A. is Mohammed Husain Layas, who is also the chairman of Arab Banking Corporation. This bank is Based in Bahrain, but is 59.4% owned by the Central Bank of Libya.[55]

Area 47 Coöperatief U.A. was set up as a cooperative: a business organization owned and operated by a group of individuals for their mutual benefit. In comparison with Dutch BVs or NVs (limited liability companies), the requirements for establishing a cooperative are minimal. In the Netherlands, cooperatives are increasingly used as a holding company.[56] It is unknown why Area 47 Coöperatief U.A was set up as a cooperative and which group of individuals, if any, own the company. Although cooperatives are required to, Area 47 Coöperatief U.A. has not delivered financial accounts at the Dutch company register.

Chapter 7 Findings and conclusions

7.1 Summary of the findings

We have researched Dutch investments of state-owned companies from the following countries:

- Algeria
- Bahrain
- Libya
- Oman
- Saudi Arabia
- Yemen

Several state-owned companies from these countries were found to own production, trading, holding and financing activities in the Netherlands. These companies are:

• SABIC	Saudi Arabia
• Saudi Aramco	Saudi Arabia
• Sonatrach	Algeria
• Oilinvest	Libya
• Gulf International Bank	Saudi Arabia, Oman, Bahrain and others

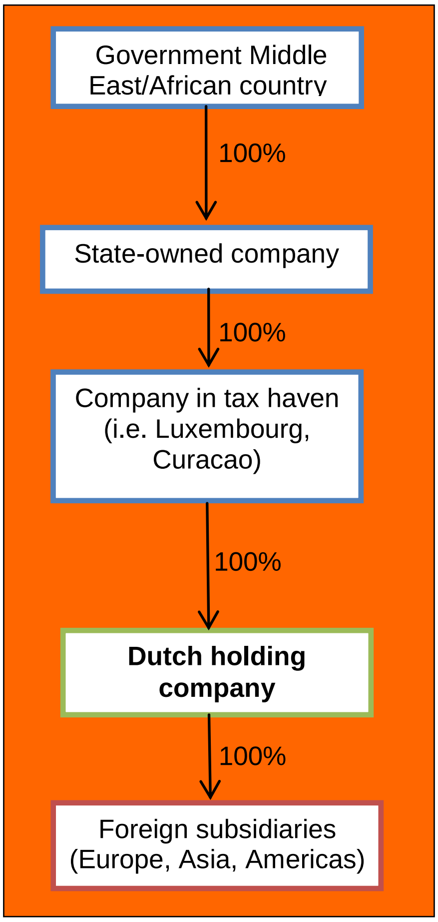
In addition, two other companies (Lafitrade Holdings BV and Verenex Energy), both owned by the Libyan Investment Authority, were found. These companies have also established holding activities in the Netherlands but these activities are relatively small in size.

The list of state-owned companies is by no means exhaustive, but serves to provide different examples of the activities of state-owned companies from the listed countries in the Netherlands.

Several of the companies researched have significant activities in the Netherlands. SABIC, for example, has significant plastics manufacturing locations in the Netherlands, where it generates 7% of its global revenues. Saudi Aramco owns a storage facility in the Rotterdam harbour and Oilinvest owns a substantial number of petrol stations in the Netherlands. These activities provide significant revenues to the regimes which own these companies.

Perhaps even more importantly, the state-owned companies all own holding and financing activities in the Netherlands. With these activities the state-owned companies probably use the favourable tax climate in the Netherlands to attract investments from foreign investors and manage their investments in foreign countries in such a way as to minimise their global tax payments.
The first four companies all have a similar ownership structure (see Figure 12): the state-owned company has established a Dutch (holding) subsidiary, which is directly owned by a subsidiary of the state-owned company based in a tax haven country like Curacao, the British Virgin Islands or Luxembourg. The Dutch holding company, in turn, owns several other companies, mainly based in Europe but also in Asia, the Americas and Australia. These companies are 100 per cent owned by the Dutch holding company and therefore their revenues and profits are consolidated and included in the accounts of the Dutch company.

Figure 12. Simplified holding structure of foreign investments of state-owned companies



In addition to these holding activities, in many cases the Dutch subsidiaries also engage in financing activities, like issuing bonds on the financial market and attracting inter-company and external loans.

Table 1 presents an overview of the total investments of the selected governments in the Netherlands. In total, the state-owned companies discussed in this report own investments with a value of € 19.8 billion in the Netherlands, in the form of factories, trading locations and petrol stations as well as financial assets: shareholdings of, and loans to, foreign subsidiaries. The Dutch trading and manufacturing operations of the state-owned companies yield an annual revenue of € 1,485 million.

Table 1 Investments of the selected state-owned companies in the Netherlands[2]

Company	Revenues (€ mln)			Assets (€ mln)		
	State-owned company	**From trading and manufacturing activities in the Netherlands**	**%**	**State-owned company**	**Dutch holding(s)**	**%**
SABIC	19,166	1,342	7.0	55,205	13,222	24.0
Saudi Aramco	38,372	7	0.0	?	2,232	?
Sonatrach	33,100	0	0.0	52,800	357	0.7
Oilinvest	7,469	136	1.8	3,506	3,506	100.0
Gulf International Bank	323	0	0.0	11,308	446	3.9
Total		**1,485**			**19,763**	

The next paragraph will discuss why the tax climate in the Netherlands could be the reason for the state-owned companies to set up ownership structures like the one demonstrated in Figure 12 and to engage in financing activities.

7.2 Tax climate in the Netherlands

Many foreign companies have set up an ownership structure as shown in Figure 12 because the Netherlands offers companies a fairly unique, favourable tax climate, with a reduction of tax charges on interest, royalties, dividend and capital gains income. The most important elements in this respect are the 'participation exemption' in Dutch tax law and the large number of 'Double Taxation Treaties' which the Netherlands has concluded with other countries.[57] Both are discussed in the following sub-paragraphs.

7.2.1 Participation exemption

The participation exemption exempts dividends and capital gains from subsidiary companies abroad from corporate income tax in the Netherlands. The Dutch participation exemption applies to shareholdings in which there is an interest of at least 5% of the nominal paid up capital.[58] So if a foreign company, like the ones discussed in this report, sets up a holding company in the Netherlands which in turn owns several subsidiaries in foreign companies, the dividends and capital gains of these subsidiaries are exempted from corporate income tax in the Netherlands.

7.2.2 Double Taxation Treaties

The Double Taxation Treaty (DTT) network substantially reduces withholding taxes on dividend, interest and royalty payments between treaty countries and the Netherlands. The Netherlands currently has tax treaties with around 81 countries.[59] For treaty countries, the rate on dividends is set between 0% and 15%, while it is 25% for non-treaty countries. In addition, withholding tax from the Netherlands is always zero on interest and royalties, irrespective of the target country. So if a foreign company, like the ones discussed in this report, sets up a Dutch holding company which in turn owns several foreign subsidiaries which are located in tax treaty countries, the tax rate on dividends, interest and royalty payments on activities in these foreign countries is much lower.

[2] Lafitrade Holdings BV and Verenex Energy are not included in this table, as their investments are very small in size or unknown.

The Dutch company is also able to attract inter-company loans and external financiers, and will on-lend this money to its foreign subsidiaries. The interest payments by these foreign subsidiaries to the Dutch holding company receive a favourable tax treatment.

7.2.3 Benefits

The aspects discussed above result in the following main benefits for foreign companies when establishing holding companies in the Netherlands:[60]

- Companies are able to get dividends, interest and royalty payments out of the foreign subsidiaries to the Dutch holding company in the Netherlands free of (or at a lower rate of) withholding tax;
- The dividend income received by the Dutch holding company from the foreign subsidiary is exempted from corporate income tax in the Netherlands;
- The profits realised by the holding company in the Netherlands on the sale of shares in the subsidiary are subject to a low rate of capital gains tax in the Netherlands;
- The outgoing dividends and interest paid by the holding company in the Netherlands to the ultimate parent corporation are subject to low rates of withholding tax in the Netherlands.

To avoid misunderstanding: when the Dutch holding company undertakes trading and manufacturing activities in the Netherlands, these activities are taxed with the normal corporate income tax in the Netherlands. The benefits only apply to the holding and financing activities of the Dutch holding company.
Setting up a holding company in the Netherlands which owns their foreign subsidiaries, is especially beneficial to foreign companies located in countries which do not have signed double tax treaties with all the countries in which the foreign subsidiaries are located. The foreign company can then use a Dutch holding company structure to reduce its global tax payments on interest, dividends and capital gains to the tax authorities of the countries in which its foreign subsidiaries are based.

7.3 Conclusions

The Dutch activities of the state-owned companies discussed in this report yield significant revenues, which provide the regimes which own them with a significant share of their annual income, thereby strengthening their power base. These revenues are derived partially - € 1,485 million per year - from their trading and manufacturing activities in the Netherlands.

Additionally, it seems likely that the state-owned companies benefit from the Dutch tax climate. The state-owned companies have not invested directly in foreign subsidiaries, but channel their investments via a holding in a tax haven to a holding in the Netherlands, from where the investment in the foreign subsidiary is made (see Figure 12). Payments of dividends and interest flow back to the state-owned company in the reversed way: from the foreign subsidiary to the Dutch holding, then to the holding in a tax haven and finally to the state-owned company. Although detailed information on their global tax payments is lacking, it seems likely that this structure allows the state-owned companies to reduce their global tax payments on interest, dividends and capital gains to the tax authorities of the countries in which their foreign subsidiaries are based. The following arguments strengthen this assumption:

- The Dutch Ministry of Finance itself advertises the favourable Dutch tax climate on its website: “attractive tax rules are of crucial importance. That is recognized by the Dutch government that is making every effort to create a favourable climate for establishing a business.”[61]

- Some of the state-owned companies undertake significant trading and manufacturing activities in the Netherlands, which could also be a reason to set up a holding structure in the Netherlands. But as they are undertaking similar manufacturing and trading activities in several other countries - or in one case in dozens of other countries - this does not explain why they all choose to set up a holding company in the Netherlands only;
- Some of the state-owned companies (Saudi Aramco, Sonatrach, Gulf International Bank) do not undertake (significant) manufacturing or trading activities in the Netherlands, but they nevertheless set up a holding structure in the Netherlands;
- The direct parent company of the Dutch holding company is always located in a tax haven.

If the holding structure shown in Figure 12 would indeed allow the state-owned companies to reduce their global tax payments, this would also benefit the ultimate owners of these state-owned companies - all undemocratic regimes in Middle Eastern and North African countries. Further research into how their Dutch holding structures influence the global tax payments of these state-owned companies therefore seems desirable.

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