



The American Business Council of the Gulf Countries

- Monthly eBulletin -

Tuesday, August 15th 2006

Volume 1, Number 13

Message From The Chairman

On June 17th the ABCGC called a meeting in Washington, D.C. to discuss responses to the enactment last May of the (cynically named) Tax Increase Prevention Act, a new law which imposed a whopping tax increase on the four to six million United States taxpayers living and working abroad. In addition to the ABCGC, the Asia Pacific Council of American Chambers ("APCAC"), American Citizens Abroad, the American Chamber of Commerce in Hong Kong, the American Chamber of Commerce in Japan, the American Chamber of Commerce in Singapore, and others participated in the meeting.

At that meeting APCAC presented a proposal to engage PricewaterhouseCoopers, under the leadership of former Congressman Bill Archer, to lobby on TIPRA implementing rules, to lobby against the TIPRA tax increase generally, and to lobby in favor of Senator DeMint's bill to eliminate the cap on excludable foreign income. I understand from APCAC that PwC is moving forward, and that PwC has recruited six corporate sponsors so far to help finance the effort. More corporate support is needed, and I ask that each ABCGC chapter canvass its United States corporate membership for possible support. (At the request of Bill Khoury in Bahrain I am attempting to obtain a copy of the PwC solicitation materials, which we then could use.)

The ABCGC fully supports APCAC/PwC, but we also wish to do as much as we can to support the DeMint bill. Twice this summer I have called for an ABCGC vote on proposals in this connection, but there has been no consensus within our group as to precisely what we should do. I attribute this to summer holiday distractions. I now will call a September ABCGC board meeting to discuss and agree a specific plan.

Other individuals, groups and organizations have been active in combating TIPRA. Dan Mitchell of the Heritage Foundation, Andrew Quinlan of the Center for Freedom and Prosperity, Democrats Abroad, Republicans Abroad, American Citizens Abroad and others have organized events, written, and lobbied against the TIPRA tax increase.

The ABCGC has written to new Secretary of the Treasury Paulson and to Undersecretary of State for Public Diplomacy and Public Affairs, Karen Hughes on the need to have a fair and competitive tax policy, and on the pressing need for more Americans to live, work and study abroad. Copies of these letters (and the reply we received from the Department of the Treasury) are reproduced below.

Finally, please find reproduced below the August Issues Report of the ABCGC's Washington Representative, Capitol Capital Group.

Best wishes for the remainder of the summer.

ABCGC Letter to Secretary Paulson

Sent on 8th July 2006

July 8th, 2006

The Hon. Henry M. Paulson, Jr.
Secretary of the Treasury
1500 Pennsylvania Ave., N.W.
Washington, D.C. 20220
United States of America

Dear Mr. Secretary,

Congratulations on your nomination and confirmation as Secretary of the Treasury. The United States Chambers of Commerce in the Arabian Gulf countries wish you every success.

The American Business Council of the Gulf Countries comprises ten local American Chambers of Commerce, including the American Business Group of Abu Dhabi, American Association of Bahrain, American Business Council of Dubai and the Northern Emirates, American Business Association - Eastern Province, American Chamber of Commerce of Iraq, American Businessmen of Jeddah, American Business Council of Kuwait, Muscat American Business Council, American Business Council of Qatar, and the American Business Group of Riyadh.

For many years we have urged Congress to “level the playing field” for American businesses operating outside the United States by harmonizing our tax system with those of our industrial competitors. Section 911 of the Internal Revenue Code attempts to address the problem by creating a partial exclusion of foreign earned income from domestic taxation. Even this partial attempt at keeping American business competitive overseas was largely gutted this year when Congress imposed a substantial tax increase on American business and citizens abroad.

Former House Speaker New Gingrich summarized the devastating effects of this tax increase in an op ed piece he wrote in the Wall Street Journal (June 28, 2006) (copy enclosed). The Economist similarly addressed this matter in its June 22nd issue (copy enclosed). In 2005 the United States Chamber of Commerce, with support from our association and from the Asia Pacific Council of American Chambers of Commerce, commissioned a detailed study of the foreign earned income exclusion. I also enclose a copy of that study for your review.

In your confirmation hearings you were quoted as testifying “If confirmed, I will focus intensely on how the United States can maintain and strengthen our competitive position.”

Mr. Secretary, please deliver on this undertaking by asking that the whopping 30% tax increase recently imposed on American business and citizens abroad be rescinded. Please be certain the new rules to be issued by the Internal Revenue Service and the Department of the Treasury on exclusion of foreign housing costs are fair, well informed, and conducive to healthy bilateral trade (John Harrington, Associate International Tax Counsel at Treasury is working on these regulations).

But don't stop there; please make clear that the Bush Administration favors passage of S.3496 the Working American Competitiveness Act of 2006, as recently introduced by Senator Jim DeMint of South Carolina. Senator DeMint understands the urgent need to make our tax system competitive with those of our industrial and commercial rivals around the world.

American business overseas and American exporters and working people at home all will be

grateful for your support.

Congratulations, once again, on your nomination and confirmation.

Sincerely yours,

Neal L. Johnson
Chairman
American Business Council of the Gulf Countries.
P.O. Box 1011
Riyadh 11431
Kingdom of Saudi Arabia

Reply from Secretary Paulson



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

JUL 27 2006

Mr. Neal L. Johnson
Chairman
American Business Council of the Gulf Countries
P.O. Box 1011
Riyadh 11431
Kingdom of Saudi Arabia

Dear Mr. Johnson:

Thank you for your letter to Secretary Paulson regarding the impact of the recent legislative changes to section 911 of the Internal Revenue Code. Because your letter concerns a matter of tax policy, it has been referred to me for response.

The Treasury Department remains committed to ensuring that U.S. workers and businesses remain competitive in international markets. With respect to the exclusion of foreign housing costs under section 911, we are currently exploring how best to exercise our regulatory authority under the Tax Increase Prevention and Reconciliation Act of 2005 to address jurisdictions that have high housing costs relative to housing costs in the United States.

We very much appreciate input in this matter from U.S. individuals and U.S. businesses living and operating abroad. Thank you for your letter on this important issue.

Sincerely,

Hal Hicks
International Tax Counsel

ABCGC Letter to Karen Hughes

Sent on 8th July 2006

July 8th 2006

The Honorable Karen Hughes
Undersecretary of State for Public Diplomacy and Public Affairs

The Department of State
2201 C Street NW
Washington, DC 20520
United States of America

Dear Undersecretary Hughes,

We Americans who live overseas fully appreciate you have one of the toughest jobs in the world. We think we can help.

I am chairman of the American Business Council of the Gulf Countries, the regional association of American Chambers of Commerce in the Middle East. Our constituent chapters include:

- American Business Group of Abu Dhabi
- American Association of Bahrain
- American Business Council of Dubai and the Northern Emirates
- American Business Association, Eastern Province, Saudi Arabia
- American Chamber of Commerce of Iraq
- American Businessmen of Jeddah, Saudi Arabia
- American Business Council of Kuwait
- Muscat American Business Council, Oman
- American Business Council of Qatar
- American Business Group of Riyadh, Saudi Arabia

I personally have lived and worked in Riyadh, Saudi Arabia, for nearly twenty years. I also have lived and worked or studied in Brazil, the Netherlands, South Korea, the United Kingdom, and Italy. I am not at all unique. The four to six million United States citizens who live abroad include many people like me.

On July 4th 2006 The International Herald Tribune ran an article about perceptions of America and Americans in our closest traditional ally, the United Kingdom.

Most Britons asked in a new poll say that the United States is doing a bad job in Iraq, is indifferent to what the rest of the world thinks of it, and, among its social characteristics, is racially divided, dominated by big business and obsessed with money.... "The poll indicates that there has probably never been a time when America was held in such low esteem on this side of the Atlantic," Anthony King, a professor of government at Essex University, wrote....

Those polled had more favorable attitudes toward Americans as individuals, with 70 percent of respondents saying, they liked Americans "a lot" or "a little"....

("Britons in Survey Find Much to Not Admire in U.S.," International Herald Tribune, p.3, July 4, 2006.)

No doubt you see where I am headed: we who live, work, study, do missionary work, volunteer work or simply have retired overseas are a vast pool of underused and, frankly, underappreciated talent. America has fewer than 200 official ambassadors abroad; it has four to six million unofficial ambassadors abroad.

If we could prevail upon you to make the time, several of us who have lived and worked in the Arab countries for many years would like to meet with you to share information about what we do, how we think our day-to-day activities support your important work, and what the United States might do differently to use its four to six million unofficial ambassadors more effectively.

We in particular are concerned that, at the precise moment our government should be encouraging Americans to engage with the peoples of the world, it has made a public policy choice that achieves the opposite result. As you no doubt are aware, Senator Charles Grassley slipped in a whopping 30% tax increase on Americans living and working overseas in the recently enacted (and cynically named) Tax Increase Prevention Act of 2006. Our tax system is hopelessly “out of sync” with our industrial competitors, and has the net effect of discouraging American citizens from living and working abroad.

We also are worried about the problems, largely related to visa issuance, which have troubled our nation’s ability to attract and educate “the best and the brightest” from around the world in the United States. We know much has been achieved on this point, but much remains to be done.

Again, we would like to visit with you. We would like to tell you what some Americans are doing at the people-to-people level to engage other peoples and cultures. Some of us are educating young Saudis and Emiratis, the leaders of the future. Others are creating jobs for Saudi women in less developed parts of Saudi Arabia. Still others are prominent in business, and have direct access to influential “opinion makers” in the countries in which we live and work. We are your unofficial colleagues, America’s front line people-to-people ambassadors in the world.

Mr. Michael Jones, former chairman of Republicans Abroad, now represents our business group in Washington. If an appointment with you is possible, Mike can coordinate details with your office. Mike will contact your offices very shortly to inquire about an appointment.

Kind regards.

Very truly yours,

Neal L. Johnson
Chairman
American Business Council of the Gulf Countries
P.O. Box 1011
Riyadh 11431
Kingdom of Saudi Arabia

Washington Report

The American Business Council of the Gulf Countries

Issues Report

August, 2006

House of Representatives: seats Democrats must win

The August recess in Congress will allow more time for incumbents to campaign this month. And, there are a number of races too close to call. Since the outcome of the elections is critical to the ABCGC agenda on the Hill, CCG has prepared this analysis of the latest polling data from Newsweek and the tight races to watch. In order for Democrats to take back control in Congress 13 races are “must wins” and the dynamics of those races are outlined below.

The latest poll data

With Congressional elections three months away, 53 percent of those polled say they'd like to see the Democrats win enough seats to take over Congress; 34 percent say they'd like to see the Republicans keep control. Thirty-five percent of registered voters say their view of President Bush is very important in determining their vote for U.S. Congress (27% say it's somewhat important). When asked about the most important issue in deciding their vote for Congress, 22 percent of registered voters say it's the situation in Iraq; 18 percent say it's the economy; then comes terrorism (15%); health care (14%); gas and oil prices (12%); and immigration (9%).

When asked which political party would do a better job handling the war against terrorism at home and abroad, 44 percent of Americans say they trust the Republicans to do a better job; 39 percent say they trust the Democrats. But 45 percent trust the Democrats to do a better job at handling the situation in Iraq; 39 percent trust the Republicans. Fifty-three percent of those polled trust the Democrats to handle the economy better, compared to 34 percent who trust the Republicans. The Democrats also fare better on health care (56% v. 26%); gas and oil prices (52% v. 25%) and federal spending and the deficit (53% v. 29%).

On the topic of Iraq, 58 percent of all those polled say the U.S. is losing ground in efforts to establish security and democracy there; 31 percent say the U.S. is making progress. Just 11 percent say they are very confident that the U.S. will successfully establish a stable democratic form of government in Iraq over the long term. Thirty-two percent are somewhat confident and 24 percent are not too confident; 30 percent are not confident at all, the poll shows.

The public is split over whether the U.S. did the right thing in taking military action against Iraq: 49 percent say it was the right thing and 47 percent say it wasn't, the poll shows. Sixty-three percent of those polled say, in general, the Iraq war has not made Americans safer from terrorism; 32 percent say it has.

For this Newsweek Poll, Princeton Survey Research Associates International interviewed 1,001 adults aged 18 and older on August 10-11, 2006. The margin of error is plus or minus 4 percentage points. This poll is part of the August 21-28 double issue of Newsweek

(on newsstands Monday, August 14).

Races to watch

Ohio - 6th: This is the only one of these seats now held by the Democrats. Ted Strickland left to run for Governor. Democratic State Sen. Charlie Wilson is a strong campaigner, and might be favored over Republican State Rep. Chuck Blasdel, but Wilson is a controversial figure in his own right. The seat is on the list because it is open and Bush narrowly won it in 2004, and it is an absolute must-hold seat if Democrats' hopes for winning the House are to be kept alive.

Ohio - 18th: Open after incumbent Bob Ney withdrew from the race. Most years, this district wouldn't be on anyone's list of possible Democratic pickups, but Ney's "Abramoff problem" has been the talk of the district and led to his downfall. Democratic nominee Zack Space is new to the bigger stage, but he was almost even with the long-term incumbent in the polls. Republican State Sen. Joy Padgett is taking the GOP flag forward, pending nuisance suits from the Democrats. If this race follows the pattern of California's 50th {Cunningham's old seat}, and corruption charges don't taint the replacement candidate, Republicans will be breathing a sigh of relief. But if Space pulls out a win, Hastert might start packing his personal items in the Speaker's Office.

Texas - 22nd: Tom DeLay's old seat, which will have NO Republican on the ballot after the Democrats' successful suit to prevent a replacement being named. Redistricting has left the seat less strongly Republican than it was - the GOP legislature figured DeLay didn't need much protection at the time - but it is still a solidly conservative seat in the Houston suburbs. Democratic candidate Nick Lampson is a former congressman who was gerrymandered out of his seat, so it's a personal crusade to him, and he will be well-funded by national Democratic Party orgs and individual donors. Sugar Land Mayor David Wallace has filed to run as a write-in candidate. If enough money and organization is applied, he has a real chance, but the race must be regarded as the truest of "toss-ups" at this point: all up in the air.

Arizona 8th: 11-term incumbent Rep. Jim Kolbe is retiring, which wouldn't normally matter in this strong GOP district, but the primary has been very divisive over the hot-button immigration issue. State Rep. Steve Huffman is backed by Kolbe and the US Chamber of Commerce, but favors a balanced approach on the immigration issue, leaving an opening for State Rep. Randolph Graf to drive a wedge with his "enforcement-first and fence" approach. On the Democratic side, State Sen. Gabby Giffords was the strong favorite to win the primary, and leads in fundraising by more than 2-1 over the nearest rival. She was caught puffing her resume in a TV ad by the *Arizona Daily Star*, so some of the bloom is off of the rose. Like Ney's seat in Ohio, losing this Tuscon area district would greatly complicate GOP hopes of keeping the House.

Colorado - 7th CD: This one should be a good barometer of how things are going on Election Night. It's a very competitive seat and it's open now, as incumbent Bob Beauprez is running for Governor. He was reelected by double digits last time, but Kerry won the district. Republican Rick O'Donnell had no primary opposition and can count on support from the national GOP - Bush already did a fundraiser for him. Ed Perlmutter won the Democratic primary, and the former State Senator is considered a formidable candidate. Of course, he will get plenty of outside help, too.

Connecticut 4th: Incumbent Chris Shays is one of the best-known RINOs in the House, and has been very popular in his liberal district, BUT he supports the Bush policies on the Iraq War and national security generally, which is not a popular position there. The

Democrats have nominated Diane Farrell again - last time she gave Shays the closest race he had ever had, and the big issue was the war. Time for a rematch.

Pennsylvania 6th: One of the major targets for the Democrats, this one is another rematch, with GOP incumbent Jim Gerlach facing Democrat Lois Murphy again, after narrowly beating her in 2004. Murphy is well organized and well-funded. Both sides are pouring resources into this one, naturally. Being in the east, it will be another one to watch for early clues, but a loss here doesn't hurt the Republicans as much as it would the Democrats.

New York 24th: Another open seat, with popular GOP incumbent Boehlert retiring after 24 years in the seat. This is an upstate district, and is expected to be tightly competitive. Both sides have strong candidates. Republican State Sen. Ray Meier is an experienced legislator, while Democratic nominee Mike Arcuri is a popular local prosecutor. Both are well funded. Arcuri has recently run into some potential problems with donations from people associated with an insurance company embroiled in a fraud investigation, including \$4000 from two paralegals.

Illinois 6th: Another open seat created by the retirement of a longtime GOP incumbent. Henry Hyde has held this seat for more than three decades, but in recent years Democratic registration and results in other races have been steadily improving. Without Hyde's prestige, it is a competitive seat. Republican State Sen. Pete Roskam is taking on disabled Iraq War vet Tammy Duckworth. Expect a tough campaign, with plenty of outside help for both candidates.

Indiana 8th: Incumbent John Hostettler has held this seat for the GOP for six terms, but it has always been a competitive race. This time he is opposed by Evansville Democratic Sheriff Brad Ellsworth. This will be another rough and tumble campaign with plenty of outside help for both.

Indiana 9th: Another rematch race, this time the third for these two candidates. Republican incumbent Mike Sodrel beat Democratic Rep. Baron Hill last time in a tight race. Hill is one of the last of the conservative Democrats, and is well known in the district, of course. Expect another close one here.

Iowa 1st: Again, a long-term incumbent Republican, Rep. Jim Nussle, has retired and left a highly competitive open seat behind him. The GOP rests its hopes on businessman Mike Whalen, while the Democrats put up trial lawyer Bruce Braley. While Nussle held the seat comfortably for years, Kerry won the district decisively in 2004. This one is almost an absolute "must-win" for any Democratic chance of winning the House.

Minnesota 6th: GOP incumbent Mark Kennedy is running for US Senate, so the seat is open. State Sen. Michele Bachman is the Republican hopeful, while the Democrats are putting up Patty Wetterling again, who was beaten rather handily by Kennedy in 2004. She is well-known and well-funded, though, and expected to run a tougher campaign with Kennedy out of the picture.

Will these be the "lucky thirteen" races for Democrats in the fall? The difficulty in Democrats' chances of winning the House is clear in this scenario: it is possible they could sweep all 13 seats *and still not win a House majority*. So these races are absolutely critical to control of the House in the next Congress.