

Doing business in Saudi-Arabia

How to enter the market – from a Norwegian perspective

Royal Norwegian Embassy in Riyadh

Commercial Section

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Commercial Section in Riyadh

January 2011, Saudi Arabia

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Facts Saudi-Arabia

Official name	Kingdom of Saudi Arabia (KSA)
Official name (Arabic)	مملكة العربية السعودية
Population	29 million
Non-Saudi population	About 8 million (2009 est.)
Area	2.15 million sq km
Natural resources	Petroleum, natural gas, iron ore, gold, copper
Government	Monarchy
Head of state	King Abdullah bin Abd al-Aziz Al Saud (since 1 August 2005)
GDP	\$ 435 billion
GDP per capita	\$ 24 300 (real pp)
Labour force	7 million
Unemployment rate	10,2 % (official est.)
Inflation rate	5,4 %

Source: Economist intelligence unit (EIU) and CIA World Factbook



Source: http://www.lib.utexas.edu/maps/middle_east_and_asia/saudi_arabia_rel_2003.jpg



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Background and purpose

It is in the interest of the Norwegian Ministry of Foreign Affairs to promote and encourage increased trade and co-operation between Norwegian and foreign companies and organisations. The Royal Norwegian Embassy in Riyadh's trade section aims at pursuing those interests by distributing information, identifying opportunities and potential collaboration partners, and building long-term relations with key partners in the Saudi government and private sector.

The main aim of this report is to be an introduction to the Saudi economy, as well as identifying rules and regulation relevant to Norwegian companies interested in entering the Saudi market. And provide information to help recipients form their own judgements about making business decisions as to whether to invest or operate in the Kingdom of Saudi-Arabia.

Economic data and forecast			
Year	2008	2009	2010
Real GDP growth	4,3%	0,1 %	3,8%
GDP per capita (US\$ PPP)	23 573	23 355	23 878
Inflation (average)	9,9%	5,1%	5,3%
Trade balance (US\$ m)	212 027	105 206	136 310
Tot Int. reserves (US\$ m)	443 013	410 109	454 102
Economic structure (Real GDP by sector)			
Year	2009 (% of GDP)	2010	2011 ¹
Agriculture	3,2%	3,1 %	3%
Industry	60,4%	60,3%	60,1%
Services	36,4%	36,6%%	36,%

The Saudi-Arabian economy

The Saudi economy is dominated by the oil sector. Since the start of the 90s the oil has accounted for more than 30% of the nominal GDP. In recent years the oil has provided for up to 90% of the government revenue, making the economy highly dependant and exposed to fluctuations in oil production and oil prices. But being the biggest oil producer in the world, and one of very few oil producing countries with spare capacity, Saudi-Arabia plays a vital role as a market stabilizer.

In addition to being highly oil dependant, the Saudi economy is characterized by its strong governmental control on most economic activities. This makes up one of the biggest challenges for new companies entering the Saudi market. There are several strategies in place in order to decrease the dependence on oil in addition to increasing the competitiveness of the private sector. These include fiscal incentives to attract foreign capital and know-how, privatization of state-owned companies, the saudisation process, the economic cities and the establishment of the Saudi-Arabian General Investment Authority (SAGIA), just to name a few.

Saudi Arabia barely managed to avoid a recession during the global financial crisis in 2009. However, the fact that real growth ended at 0.2 percent does not capture the severity of the economic downturn. As global wholesale banking markets seized up and oil prices plummeted, domestic banks retrenched and consumption and investment quickly fell away, impacting almost all of the non-oil sectors.

The government's enormous stimulus package of 7.5 % of the GDP has provided a good platform for the economic recovery in Saudi-Arabia. The package has mainly been invested in infrastructure and education, hoping to create a sustainable growth and a diversified economy. Despite the expansive fiscal policy, the recovery is still in the starting phase and the economy is still fragile.

Economic policy

Fiscal indicators (% of GDP)

Year	2008	2009	2010	2011
Revenue	61,8%	36,5%	41,8 %	39,7%
Expenditure	29,2%	39,7%	37,3%	36,9%
Balance	32,6%	-3,2%	4,5%	2,8%
Public Debt	18,8%	23%	15,7%	14,3%

Money Supply

Year	2008	2009	2010	2011
M1 (% change y/y)	10,9%	22,5%	16,0 %	9,0%
M2 (% change y/y)	18,0%	10,8%	6,5%	9,9%
Deposit rate (Average %)	2,9%	1,2%	1,5%	1,5%
Public Debt	18,8%	23%	15,7%	14,3%

Since the oil boom in the 70s, the Saudi-Arabian authorities have sought to fuel public consumption and welfare, by pursuing an expansive fiscal policy. The taxes have been kept low in order to satisfy domestic lobbies. The government spending has also been characterized by heavy subsidizing of goods and services, maintaining a high level of public sector employment and salaries by spending freely on infrastructure, education and public services such as health. These decisions tend to be carried out in an opaque and ad hoc manner. Budgets have increasingly emphasized plans to increase investment spending, although current expenditures also continues to expand as public sector wages and size as well as subsidies have increased.

The economic policy is highly linked to the fluctuation of the oil price. In the wake of the sudden oil price surge in 1998 a debate about the efficiency, and the size of the public sector arose. This debate has since abated, much due to the soaring oil prices which have underpinned large fiscal surpluses. The economies dependence of the oil is one of the greatest economic challenges the Kingdom faces, and is also one of the reasons why the government has made several efforts to diversify the Saudi economy. One of these measures is to attract private and foreign investment, and in order to do so the government has a goal of becoming among the top 10 easiest countries to do business in (according to the annual World Bank rating, they are currently 11)

Meanwhile, the pegging of the Saudi riyal against the US dollar in 1986 (US\$ 1 = SR 3,745), has reduced the exchange rate risk and interest rate instability that might otherwise have arisen owing to variations in oil price or government spending policies. There is however a growing debate with regards to the pegging of the Riyal and plans has been made to create a GCC currency. The plans have been postponed several times for different reasons, and the plan is to introduce the GCC currency in 2015, although many experts believe that this will not be the case.

Outlook

There is reason to believe that the government will remain a major force in the economy, despite the fact that there is a long term effort to increase the role of the private sector. The state is likely to continue to monopolize the crude oil production, giving private entities an opportunity to involve themselves in gas-production as well as in planned joint-venture refineries.

The government income will still be highly dependent on oil production and oil prices, and hence the fiscal policy

will be constrained by the developments in the oil market. Nonetheless, substantial savings has been built up over the last years and will enable Saudi-Arabia to pursue a more diversified economy.

Budget allocation by sector			
Year	2008	2009 ²	2010 ³
Total Budget (SAR billion)	410	475	550
Capital investment	40,2%	47,3 %	47,3%
Education	27,6 %	25,7%	25%
Health	10,8%	11 %	11,1 %
Municipal services	4,1 %	4,2 %	3,9 %
Transport and communication	4 %	4 %	4,3 %
Infrastructure	6,9 5	7,4 %	8,4 %

Public investments worth US\$ 400 billion are planned between now and 2013. These investments will be used to increase the oil production capacity, to 12,5m barrels/day. In addition the government is increasing their spending on health, education and infrastructure projects. One of these projects is the four economic cities, which are a part of the diversification strategy. It is however likely that these plans may not fully materialize, especially given the subdued outlook for the global economy.

It seems like some of the state owned companies may be part-privatized, but the restructuring of large companies such as Saudi Arabian Airlines and the loss-making Saudi Electricity Company will be a long and difficult task. These privatizations are likely to be carried out through IPOs on the local stock exchange, which are only open to Saudi citizens. (Some financial instruments can be used by foreigners to obtain shares at the Saudi stock exchange)

Overall policy implementation is likely to be mixed, given the lack of coordination between ministries and the inefficiencies of the overstuffed bureaucracy. Saudisation quotas on the proportion of expatriates firms can hire will remain a drawback for businesses. But there have been some signals from prominent Saudis that the saudisation strategy has been a failure, and that it need to be reconsidered.

This also highlights one of the biggest challenges faced by Saudi-Arabia; the mismatch unemployment. The structural difference between the education system, where 60 % of those who are educated pursue a degree within religious studies, and 60 % of those who attend universities are females (and female saudis make up 11 % of the employed labor force), and the demands creates an imbalance between the skills of the local work force, and the skills needed by the private entities in the country. This imbalance has been the main driver of the immigration of more than 6 million foreign workers, mainly from Asia, and it has created an unemployment rate well above 10 %, in fact, some researchers claim that the unemployment rate amongst Saudis may be as high as 20 %. This of course, is the reason to the enormous investments within the education sector, where the establishment of KAUST (King Abdullah University of Science and Technology) stands out as the single most important. As the King has pointed KAUST to be the beacon of the Saudi efforts to enhance their human capital and to reduce their structural unemployment. This unemployment is expected to continue to be one of the

² GIH, January 2009

³ NBC, December 2009

greatest challenges faced by Saudi authorities.

Fiscal policy

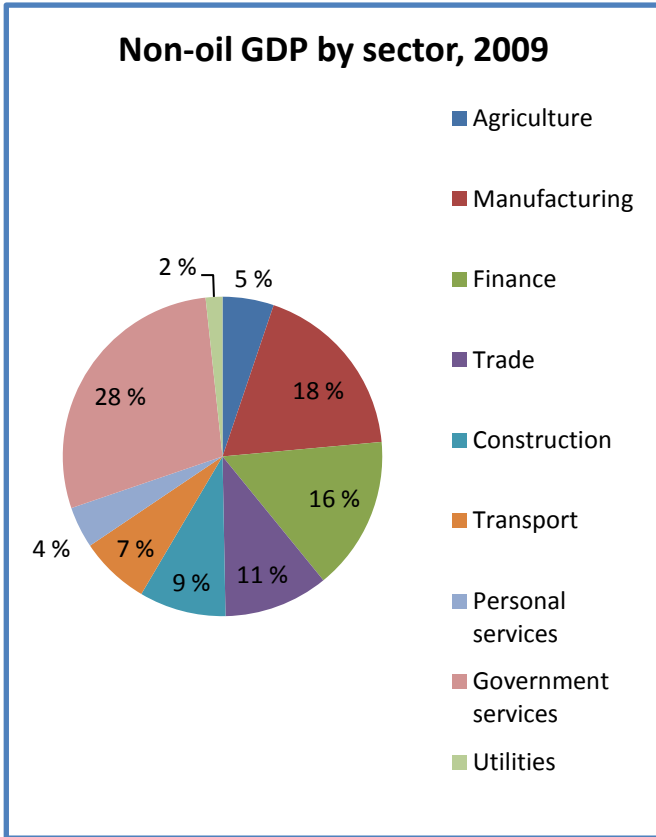
The fiscal performance, and hence the fiscal policy, is expected to remain closely tied to the development in the oil market. And there are no expectations with regards to increasing the tax base or other tariffs (except with regards to utilities such as water and energy). The government has expressed its intentions to continue the fiscal expansion, with a particular focus on increasing capital expenditure as opposed to current expenditures.

In 2009 the state overspent its budget targets by more than 25%, as they raised the urgency of re-integrating the private sector. As the state revised upward its fiscal deficit for 2009, prognoses for 2010 show that KSA will post another deficit. These small deficits are manageable in the short to medium term given the low levels of public debt. However continuous overspending cannot be sustained without a constant rise in oil prices. And several factors make it difficult to reduce spending such as, the rapid population growth, a growing wage bill as the bulk of new labour market entrants continues to be absorbed into the public sector, rising pension and other welfare costs, and commitments to healthcare, education and infrastructure.

Monetary policy

The currency's peg to the US dollar is likely to be maintained. This implies that the interest rate policy must roughly track the movements of the US interest rate and the Federal reserve bank (FED). As the US is expected to keep the interest rates at a low level, which will likely be the case in Saudi as well. The FED is expected to begin monetary tightening in the second half of 2011; it is though likely that SAMA will initiate such an effort at an earlier stage due to the rising inflation. An inflation that, by now, is the highest in the Gulf region following increasing food prices, shortages in real estate supply as well as growing domestic demand. This is happening despite a slow credit growth and hence some experts claim that monetary policy isn't a strong enough tool to cope with the increasing inflation.

Credit to the private sector stagnated for much of 2009, but is expected to expand during 2010 and 2011.



Commercial Section in Riyadh

Facts and figures – Construction sector

Construction sector's share of non oil GDP in 2010	10,41 %
Construction sector real GDP growth in 2010	6,4 %
Expected value of contracts awarded in 2011	US \$ 86 bn
Rise in government expenditure on projects	13 %
Number of new homes needed by 2020	5 million
Planned government expenditure on water projects next 15 years	US \$ 53 bn
Planned government expenditure on power projects nest 10 years	US \$ 80 bn

Economic Structure

The economy is, as already mentioned, highly dependant on oil. But the increased oil revenues, and the governments strategy to diversify the economy, has made way for other sectors. The non-oil sector is starting to gain importance, and according to official figures the non-oil grew by 3 percent in real terms in 2009. Compared to the total real growth of 0.2 percent.

Construction

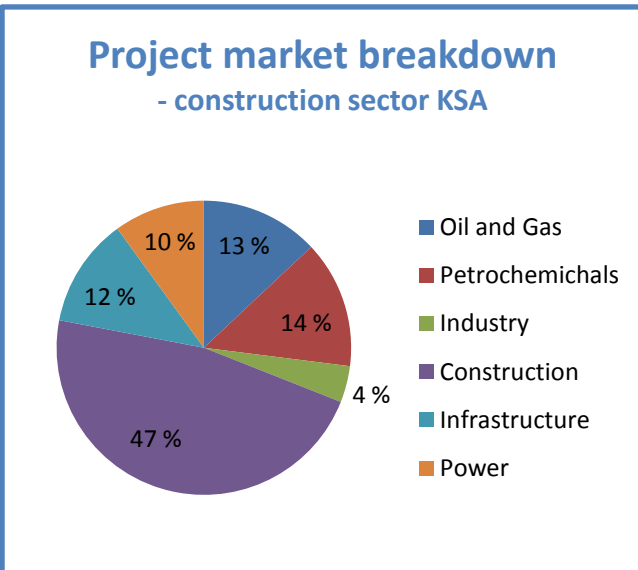
As the government keeps investing in huge infrastructure projects, the construction sector will continue to be an important part of the Saudi economy. Despite these increased budgetary allocations, the construction firms performed below what we could expect in 2009. This trend has continued in 2010. At the same time, these construction indexes making up the average for the sectors performance is only based on listed companies, and hence it does not tell the whole story. Anecdotal evidence suggests that non-listed contracting firms are enjoying a robust performance on the back of the public sector's investment surge.

Despite these disappointing results, the construction sector's share of the non-oil GDP will reach a historic 10 % by the end of 2010. This is mainly driven by the fast growing population, expanding industrial base and heightened government spending. Contracts awarded in 2010 and 2011 are expected to reach USD 64 bn and USD 86 bn respectively. There are currently 687 planned projects in KSA, valued at USD 624bn, 22 % of which are in the execution phase

GCFC is expected to continue rising with residential building expenditure growing at a faster rate in 2009 and 2010 as KSA's housing problem is being addressed. The shortage of homes is currently at two million, and an estimated five million houses will be needed by 2020. If you also take into account the fact that only 24 % of Saudi nationals own their own home, one can understand that this is a key in unlocking the private sector as well as increasing the growth of the Saudi economy.

Outlook

The future for the construction sector is not clear cut. On the one hand, previous recessions (1998) have showed that the sector is rigid and that it responds slowly to governmental stimulus. This is confirmed by the poor performance of the listed construction companies in 2009. On the other hand there are several indications of a good recovery for the sector. One of them being that most of the infrastructure projects that were initiated in 2009 are only now being rolled out. Second, the oil prices and the confidence are increasing and hence we are



Opportunity areas – Construction sector

Structural engineers

Engineering consultants

Quantity surveyors/cost consultants (estimators)

Master planners

Project managers

Design specialists

Urban designers

Green/sustainable design

Creative architecture

likely to see a boost in private projects. It is also worth mentioning that the mortgage law that is under way will have a positive impact on the private projects, but the law has been planned for over ten years and no one really knows when it will be approved.

Norwegian opportunities

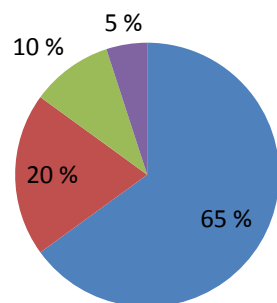
There is vast potential for growth in this market particularly as demand rises for residential, commercial housing and institutional construction. The housing sector, in particular, is likely to grow, as the Saudi population is rising at a rate of 2.5 percent a year. Construction will also play a large part in the Kingdom’s massive industrial expansion through the National Industrial Cluster Development Program as well as in the completion of four Economic Cities. Saudi Arabia’s government budget reflects the importance of ongoing growth in the construction sector. Government spending is likely to remain aggressive in the sector, to ensure a healthy recovery. Furthermore, according to industry experts, a revival in the Saudi economy in general, and in the construction sector in particular, is likely, as demand for projects continues to increase and as the financial climate improves.

Looking past this general expectance of growth there are several parts of the Saudi construction sector that are likely to create opportunities for Norwegian companies. These areas are mentioned in the column on the left and are expected to arise from huge projects such as the economic cities, King Abdul Aziz cultural centre, Riyadh Techno Valley and the North-South railway just to mention a few.

Feedstock composition

2014e

■ Ethane ■ Propane ■ Naphta ■ Butane



Petrochemicals

The petrochemicals sector is the largest non-oil sector in KSA. Saudi Arabia is the world's 11th largest petrochemicals supplier, accounting for 7-8% of total supply. While the nation's current strengths lie in the production of basic petrochemical building blocks such as ethylene and methanol, there are plans to diversify its petrochemical portfolio into more complex, distinctive products such as specialty chemicals and engineering thermoplastics. At the same time, Saudi Arabia is investing in raising its world petrochemical market share profile to 13 % by 2010.

There are already several facilities with a high level of infrastructure, such as the Yanbu and Jubail industrial city-projects. These are projects developed to diversify the economy by amongst other things, making Saudi-Arabia a hub for petrochemicals, not only in the region, but in the entire world. The government supports and finances a large part of these projects and ensures continuous upgrades and the highest quality. This gives the projects the stability and the security it needs, but it remains to see whether the privatisation of such projects will create the pillar for the diversification and sustainable growth the government is hoping for.

Historically dominated by 70% state-owned petrochemical giant Saudi Basic Industries Corporation (SABIC), KSA's petrochemical sector is gaining momentum from private sector participation. This trend is emphasized by the fact that even though the petrochemicals sector account for 14 % of the GDP, it accounts for 34% of the Saudi stock exchange (TASI). SABIC is worth a staggering 22% of the TASI and the remaining 12 % is shared between Sipchem, Saudi Kayan, Yansab and Petro Rabigh.

This sector is one that hasn't been influenced by the government spending to the same extent as the construction sector. Susceptible to global economic changes, it has been highly volatile over the last year. Profits plunged in 2009 as global economic activity stalled and demand for industrial chemicals deteriorated. But as global demand, particularly from the emerging markets, has recovered, the Saudi firms have seen their profit recover. This demand from China in particular, in addition to the world's lowest feedstock cost, as well as the large scale capacity expansion, is transforming the Saudi petrochemical sector into a formidable force in Saudi economy. Due to these latent competitive advantages, the sector is also a highly regarded investment opportunity.

Outlook

As the sector already seems to have bounced back quite strongly, the companies are positive about the future. The government is also looking to make Saudi-Arabia a strategic hub, with newer large-scale facilities, particularly ones with feedstock supplies, as a comparative edge. Another positive aspect is the increase of private sector participation. The government actively encourages private investments in order to improve its competitiveness and diversify the economy. As a result private sector contribution to the sector is expected to quadruple in the next ten years.

The main driver, and hence the single most important factor on which the petrochemical sector in Saudi relies on, is that demand from markets such as China, India and Brazil recovers to a level similar or higher than prior to the economic downturn. These markets have already seen some increase, and the demand is expected to grow and continue to be vital markets for the growth of the Saudi petrochemical sector. If you also take into account that the government is likely to remain stable and solid provider of favorable incentives in order to diversify the economy, then with such catalysts for growth the Saudi petrochemical sector has a prosperous future.

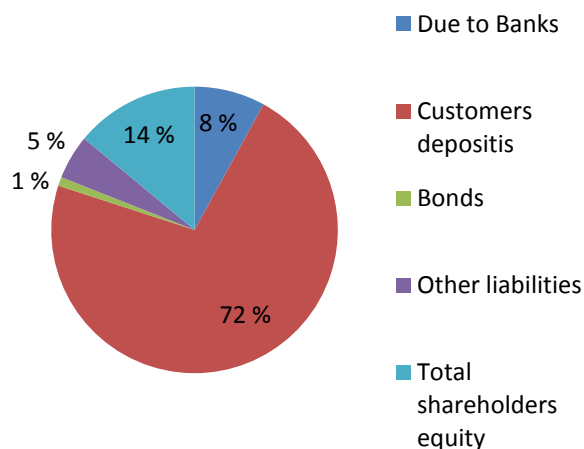
Norwegian opportunities

There are several good reasons to invest in this sector. First of all Saudi-Arabia is the first country in the region to open its petrochemical industry for private investment. And in addition attractively priced liquid feedstock in a highly competitive petrochemical infrastructure offers attractive project economics. The growth in the sector also creates great opportunities for support service providers.

Joint venture partnerships between local companies and U.S., European, and Asian counterparts are playing an increasing role in the growth of the upstream and downstream plastics industry in Saudi Arabia. Because of their role in the Kingdom's diversification program, petrochemicals projects benefit from significant government incentives. Incentives include a 10-year tax holiday, access to low-cost feedstock from Saudi Aramco and SABIC, and loans on favorable terms commonly covering 50 percent of the total capital cost from the Saudi Industrial Development Fund. There are excellent opportunities evolving from new joint venture projects undertaken by SABIC and the private sector for Norwegian manufacturers and suppliers of industrial equipment to the petrochemical and plastics industry. Norwegian design and engineering companies/licensors have good opportunities to license their processes or provide technical know-how through licensing agreements.

Total cracker capacity (ktpa)	2010	2011e
Kemys (SABIC/Exxon)	810	810
Arabian Petchem, Jubail 1	800	800
Arabian Petchem, Jubail 2	800	800
Arabian Petchem, Jubail 3	960	960
Chevron/Phillips, Jubail	Na	1200
Saudi Chevron/Phillips, Jubail	300	300
Sipchem	Na	1350
Sharq, Jubail	1300	1300
Saudi Kayan	1350	1350
JUPC, Jubail	1450	1450
Sadaf (SABIC/Shell), Jubail	1300	1300
Yanpec (SABIC/Exxon), Yanbu 1	860	860
Yanpec (SABIC/Exxon), Yanbu 2	920	920
Yanbu National Petrochemical	1300	1300
Petro Rabigh	1300	1300
SEPC	1000	1000
Total Ethylene capacity	14450	17000

Banking Sector Liability and Equity Structure



Finance

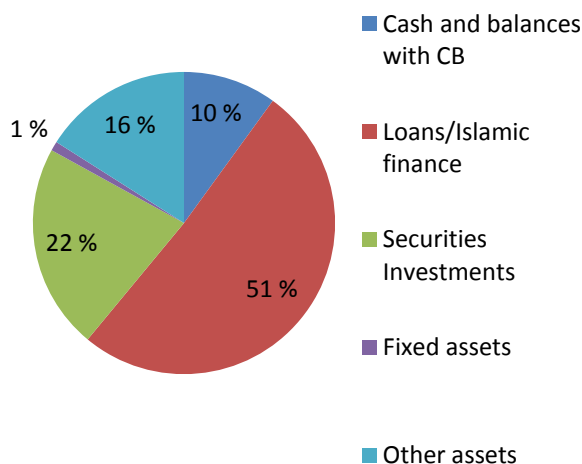
The banking sector is relatively small, with assets at around 70 percent of GDP at end-2009. The sector is only moderately concentrated with the three largest banks (National Commercial Bank, Samba Financial Group, and Al Rajhi Bank) accounting for 45 percent of total assets. Public ownership (including quasi government) is fairly extensive in four banks and reaches 80 percent in the largest bank, the National Commercial Bank. There are five sizable specialized credit institutions with asset size close to half that of the banking sector. These provide interest free loans for public policy purposes. There are also three autonomous government institutions (the Pension Fund, the General Organization for Social Insurance, and the Saudi Fund for Development) that dominate the primary market for government securities. The rest of the nonbank financial institutions (NBFIs) account for a marginal share of the total financial system's assets.

Saudi Arabia's financial sector can be defined as "bank centric", according to the IMF. Saudi Arabian banks have been traditionally well capitalized, with good loan-to-deposit ratios and low exposure to foreign debt and toxic loans, as a result of robust financial regulation, including high reserve and liquidity requirements for banks. Relative to its regional peers, Saudi Arabia's financial sector is relatively insulated from the global financial markets; unlike smaller GCC states, which take part in significant cross-border lending, the majority of Saudi banks' exposure is at home. Lacking a mortgage law, Saudi banks had little exposure to domestic property markets. This, along with its history of financial prudence, may have contributed to the relatively good performance of the Saudi financial sector through the recent credit crunch and ensuing financial crisis. Following the global financial crisis, credit growth slowed, banks had to boost loan-loss provisions, restraining profits. However, no Saudi Arabian banks needed the capital injections administered to their regional peers by central banks.

The country has one of the fastest growing banking markets in the Middle East, but because of the prudent regulation it remains difficult to obtain a banking license, and hence the international presence is not as large as in other parts of the region. In terms of banking assets, it ranks second in the region after UAE.

The difficulty in obtaining a banking license to operate in Saudi means that only 12 Saudi and Saudi-foreign joint venture banks operate, dominated by Al-Rajhi bank, the country's most profitable and one of the world's largest Islamic banks, and the National Commercial Bank the largest by asset size in both Saudi Arabia and the whole GCC. A number of international banks have entered the market by taking stakes in domestic firms, such as HSBC's 40 per cent stake in Saudi British Bank (SABB) and ABN Amro's 40 per cent stake in Saudi Hollandi Bank, which could soon be up for sale. Five GCC banks are licensed to operate in Saudi Arabia, and licenses were also granted to Deutsche Bank, BNP-Paribas, State Bank of India, National Bank of Pakistan, and J.P. Morgan Chase.

Asset structure



Moreover, the Saudi Arabian banking sector has also witnessed a notable expansion in the modern banking technologies, including Internet banking and phone banking services. They have enabled the banks to provide a well integrated and modern range of high-tech banking services. The banks are also modernizing their payment card technology and shifting towards smart card technology to offer more secure and advanced featured card to consumers.

Outlook

The Saudi banking sector has so far weathered the economic crisis well, but 2010 did not bring about the strong rebound that many had been hoping for. One of the key issues with regards to the recovery is whether or not the banks risk aversion will be reduced. According to Jadwa investment this is likely to happen. Greater business confidence and rising use of insurance services are also likely to be key drivers of the growth in the sector. Estimations made by Samba in October 2010 imply that the banking assets are forecasted to grow at a CAGR of around 18% during 2010-2013. The profitability is projected to fall slightly following a reduction in the margins.

The banks have demonstrated the soundness of the system, by coping well with the financial crisis. This does not imply that there aren't challenges and risks for Saudi banks as well. Both the risk of a possible worsening of asset quality and weaknesses associated with the operational aspects of the banks has to be addressed and evaluated according to the IMF. These operational challenges are particularly related to liquidity management and the liquidity volatility following the "indirect" link between the available bank liquidity and the oil prices.

Norwegian opportunities

The banking sector in Saudi-Arabia is largely domestically owned, following the strict regulations and barriers of entry. As all the other GCC countries (except Bahrain), Saudi-Arabia have limits on foreign ownership (40 % for non GCC-nationals and 60 % for GCC nationals). Therefore the cross-border presence of GCC banks and other foreign banks is limited and is mostly in the form of branches, in many cases as single branches. Market share of foreign banks by total assets is only 2 % in Saudi-Arabia. There are some joint ventures in the domestic banking sector, mostly by non-GCC investors (around 13 % of the domestic sector's assets).

That being said, the increased need for finance and the underdeveloped capital market in the region, in addition to the increasing presence of Norwegian companies, may create opportunities for Norwegian capital institutions. These opportunities are likely to be as consultants and advisors to regional banks looking for human capital and know-how.

Saudi production and export of crude oil

	2008a	2009	2010f	2011f
Oil Prod. (mbpd)	9.2	8.1	8.3	8.5
Oil exp (US\$ b)	247	128	150	142

Source: *The Economist, Saudi Arabia country report*

Crude oil refining

Oil is by far the biggest contributor to the GDP, and hence it is a vital part of the Saudi economy. The exploration of oil is done by Saudi Aramco, a fully state owned company which enables Saudi-Arabia to maintain a monopoly in the sector. Despite this monopoly, Saudi-Arabia will always be constrained by the fact that, as a key swing member of OPEC, it may be called upon to slash output, which will impact growth, as was the case in 2009.

Outlook

The CEO and President of Saudi Aramco, Khalid A. Al-Falih, have announced investments in the Saudi Arabian petroleum sector amounting to \$120 billion in the period 2009 to 2014. He has also signalled a shift in Aramco's strategy from its prior production capacity expansion to a strategy including resolving the refinery capacity bottleneck, searching for non-associated natural gas reserves and exploration, and developing offshore competence through deep sea drilling and sub sea production in the Red Sea.

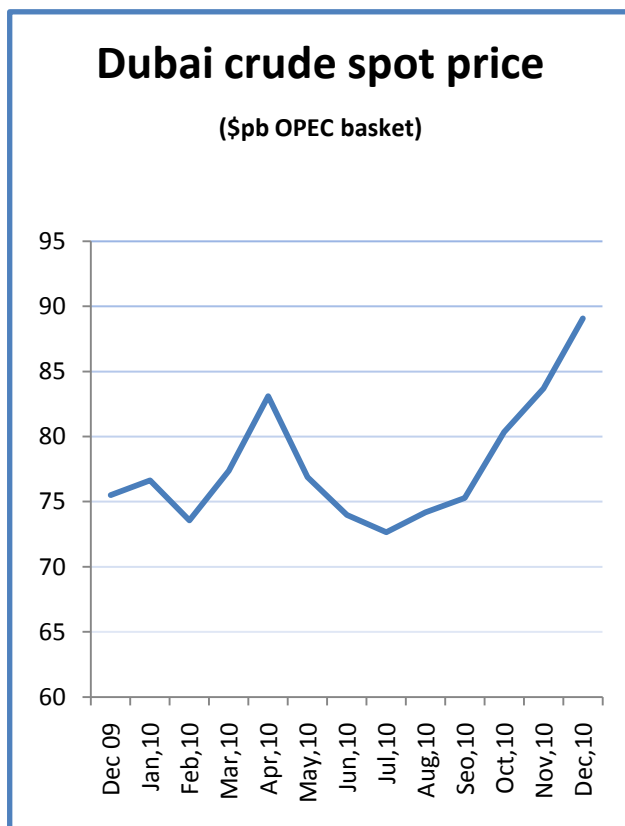
Growth in the oil sector is forecasted to be above the expected 2.3 % increase in oil production as growth will be boosted by the project work occurring in the sector.

Norwegian opportunities

The greatest future opportunities for Norwegian companies are found in sub sea and deep water drilling in the Red Sea. Since Saudi Aramco has a monopoly on crude oil production, the market seems most attractive for contractors in oil and gas field services. Furthermore, improved oil recovery could result in huge returns on an aggregated level.

And given the scope and level of technology of the Norwegian oil cluster, there should be great opportunities to increase the Norwegian presence in the sector.

For further information on the oil sector, please contact the embassy for the "Who is Who in Saudi-Arabia" report.



Mining and metals

Mineral mining is set to join oil and petrochemicals as the third pillar of Saudi Arabia's economy. The Kingdom sits upon a massive terrain, which holds huge deposits of bauxite, as well as gold, silver, lead, zinc, uranium, copper, coal, tungsten and other base metals. Efforts to exploit these extensive resources have increased, despite the long distances and lack of water.

The state controlled Saudi Arabian mining company (Maaden), which was founded in 1997 to develop mining prospects jointly with private partners, operates several mines, mainly on the central plateau. Up until now they have focused on their gold mines (Mahd Ad Dahab, Al Hajar, Sukhaybarat, Bulghah, and Al Amar). But they're now expanding its activities beyond the gold business with the development of its phosphate and aluminum projects. There are several new projects underway, and the sector is experiencing a massive growth. The key drivers for this growth, besides the resources itself, are the reformed mining regulation, cheap energy, and the domestic construction boom.

Maaden's long term strategy is to develop and exploit a full range of mining opportunities. One of the biggest of these is in the northern region's phosphate reserves which will allow Saudi-Arabia to become a significant supplier of phosphate fertilizer and related downstream products.

These projects include a phosphate- mining complex at Al Jalamid at a projected contract value of 6,6 bn US \$, and a phosphate fertilizer production complex at Ras Alzour. The Al Jalamid project is expected to average approximately 12 Mtpy of ore and produce an estimated 5 Mtpy of flotation concentrate on a dry basis.

In the aluminum sector, Maaden has entered into a joint venture with Alcoa to build the region's first vertically integrated Aluminum project, with investments reaching 10 bn USD. This underlines the government's ambition of becoming a net exporter of Aluminum, exploiting their competitive advantages such as, access to bauxite reserves and cheap energy (at least for now). There are also several other aluminum projects underway, and the expected production capacity will reach 2,4 million ton alumina per year upon completion. For further information on the alumina sector please contact the embassy for "En markedsintroduksjon til aluminiumssektoren"

All these projects will share common infrastructure and their success hinges on the construction of a USD 4,5 bn railroad from Riyadh to Haditha, backed by the public investment fund, to connect the mines with the processing complex.

Alumina projects in Saudi-Arabia				
Name	Place	Value (USD mill)	Capacity	Completion
Maaden/ALCOA AZ-Zabirah	Al Zabirah	200	4 mntpa bauxitt	Q1 2014
	Raz Az-Zawr	1 000	1,8 mntpa alu	Q1 2014
	Raz Az-Zawr	7 000	740 000 tpa alu	Q1 2013
	Raz Az-Zawr	2 600	350 000 tpa (hm)	Q1 2013
Emaar/EMAL	KAEC	5 000	700 000 tpa alu	Q1 2016
Sino Saudi Jizan	JEC	3 500	1 mntpa alu	Q2 2014
Total		19 300	2,4 mntpa alu	

Outlook

In a global perspective, the industry leaders are more positive than recent years, according to PwCs annual confidence report from the mining industry. This is expected to bolster the growth of the Saudi mining sector, and increase the importance of the mining sector within the Kingdom. The growth is driven by the relatively easy access to an abundance of minerals, the competitive price on energy, increased demand from emerging markets, large government investments and the relatively cost effective labour force. The predictions indicate that Saudi will supply 12 % of the world alumina supply in 2015, and this is expected to grow further towards 2020.

Norwegian opportunities

With the largest known deposits of mineral resources in the Middle East, favorable regulations, competitive prices on input factors, growing demand and improved infrastructure, the sector makes a good investment opportunity. In 2004 a mining law, allowing 100% foreign ownership of mining projects, took effect. In addition to this the government has imposed a 20% tax reduction on the sector, in order to attract foreign investors. Under the new code, the Ministry of Petroleum and Mineral Resources can issue seven types of licenses. Investors can choose from three non-exploitation licenses and four exploitation licenses. Non exploitation licenses include reconnaissance and material collection licenses, both valid for two years, and exploration licenses, valid for three years.

The Saudi Government is currently developing four economic cities throughout the Kingdom. Together, the cities are estimated to attract over \$100 billion worth of investments. Valued at \$8 billion, the Prince Abdul-Aziz bin Musaed Economic City will be developed in the Hail region in the northern part. One of the 12 components of the city will be dedicated to mining services. Opportunities to explore Saudi Arabia's mineral resources are not confined to the central and northern parts of the Kingdom. The Deputy minister for Mineral Resources has published a list of industrial minerals that can be developed by investors. Some of these deposits have been explored or are in the process of being mined, while others have not.

Contracts in the Kingdom can be awarded to pre-qualified, large, foreign firms. Some foreign contractors, who win turnkey projects, will subcontract civil and electro-mechanical works to qualified Saudi companies. Usually, these local companies employ expatriates at all levels to do the work, and they sometimes have joint ventures with foreign firms. Only pre-qualified companies and their subsidiaries are invited to submit their quotations for tenders. Separate technical and commercial bids are normally required. The commercial bid documents are not opened until the technical evaluation of a project is completed. The contracts are typically awarded as lump sum, turnkey contracts, or engineering, procurement and construction contracts (EPC), or lump sum services contracts, excluding the costs of material purchases and civil works.

Power production KSA	2009	Relative to 2008
Actual capacity	37 913 MW	+ 10 %
Growth of tot peak loads	41 200 MW	+ 8,4 %
Available capacity	44 582 MW	+ 13,6 %
Sold energy	193 472 GWh	+ 6,8%

INDEPENDENT POWER PROJECTS	Bid date	Capacity (MW)	Value (bn USD)	Completion
Daba 1	2010	500	1,1	2014
Ras Azzour 1	2011	1260	2,9	2015
Ras Azzour 2	2012	1260	2,9	2016
Jeddah south 3	2014	1260	2,9	2018
Shuqaiq 3	2014	800	1,7	2018
Salwa 3	2015	1260	2,9	2019
Jeddah south 4	2016	1260	2,9	2020
Salwa 4	2017	1260	2,9	2021

Energy and Environment

The population growth, the economic growth and the subsidized prices have led to a strong increase in the demand for power within the Kingdom. This growth is expected to continue, and as a consequence it is expected that Saudi-Arabia needs to double their production capacity within 2030.

The power is by and large generated through power plants that run on fossil fuel; in fact more than 65 % of the power is generated from oil. This is, of course, a highly ineffective and expensive method, especially taking into account the alternative cost following an oil price well above USD 80 / barrel. During 2009 Saudi-Arabia consumed more than 2,7 million barrels in order to meet the increasing energy demand, which makes up almost 30 % of the country's total oil production. This domestic consumption of fossil fuel is one of the greatest challenges faced by the Saudi state, and in order to cope with this challenge Saudi has made large investments in to the development of alternative energy sources. In addition to the large investments the government has also given economic incentives to attract private capital and interest to the sector. There has also been an initial increase in the power and water tariff, which may be the single most important measure, taken by the government, in order to get control of the energy demand.

Within 2020 the energy demand is expected to reach 60GW, and in order to meet this demand, investments of USD 20 bn has to be made. The government has announced that 20 % of these 60 GW should be generated from renewable resources (it has to be noted that they include atomic energy in their classification of renewables). In order to obtain this diversification of energy generation, it has been invested heavily in both atomic energy as well as solar energy, both in terms of research facilities and infrastructure. Mega projects such as the King Abdullah Nuclear and Renewable Energy city and Riyadh, as well as the major investments at KAUST, and more specific investments such as the polysilicon factory in Yanbu, emphasizes the government's determination to diversify their energy production and reduce their dependence on oil.

In addition to the above mentioned strategies, the government is also taking other measures in order to reduce their domestic oil consumption. One of these measures is to collaborate with neighboring countries on a mutual power grid system. Recently a new study was initiated in order to examine the feasibility of a power grid with Egypt.

WATER PROJECTS	Capacity (m3/day)	Type
Yanbu 3	550 000	MSF
Shouibah 4	650 000	MSF
Shuqaiq 3	175 000	MSF
Khobar 4	250 000	MSF
Jubail (upgrade)	78 000	RO
Al Waji / Duba / Haql	29 000	MED
KAEC	70 000	RO
Jizan Economic City	12 000	RO
Al Khajafi	30 000	RO
Al-Kharij STP 3	200 000	WWTP
Jeddah (airport)	250 000	WWTP
Jeddah – Al Khumra 4	250 000	WWTP
Jeddah – Al Khumra 5	250 000	WWTP
Medinah	200 000	WWTP
KAEC	30 000	WWTP

Outlook

This is by far one of the most important markets in Saudi-Arabia as it is one the country's greatest challenges to cope with ever increasing energy demand. This will ensure that the government will keep focused on the sector and hence investments are guaranteed.

Norwegian opportunities

There are great opportunities for Norwegian companies within this sector. The Saudi import market is valued at USD 1 bn a year, and is expected to grow at 7 % pa. For companies interested please contact the embassy for the report "Status energi og miljø Saudi-Arabia 2010".

Demographics profile KSA 2010	
Population	28 686 633
Non-Saudis	7 890 000 (est, 2010)
Population growth rate	1,848%
Median age	19,9
Birth rate	28,55 births/1000 pop
Fertility rate	3,83 children/women
Literacy	78,8%

Demographics and resources

Population

One of the biggest challenges that Saudi-Arabia faces is one of demographic character. The population is rapidly expanding, and the UN estimates that around half of the Saudis are under 25. The challenge is to provide jobs and housing as well as maintaining the living standards for this rapidly growing, young population. On the other hand this gives big opportunities. A young population also implies a large work force relative to those not working, and hence there are possibilities to create a competitive private sector, with a highly educated, young population.

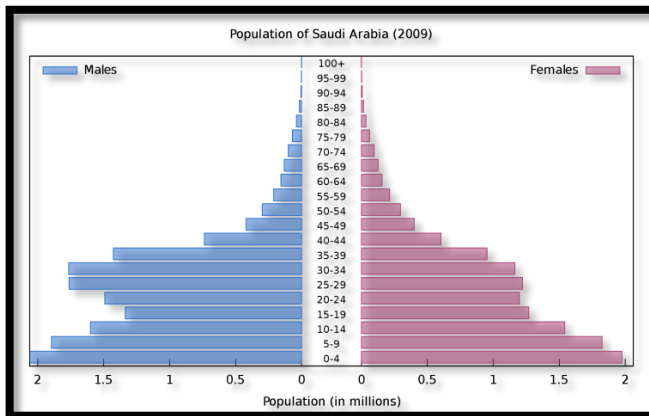
The strong population growth in combination with the private sector's general preference for lower paid expatriate-workers has led to high unemployment among Saudis. Official numbers show an unemployment rate at around 11%, but the real number is expected to be severely higher. The official figures have increased over the last years implying that the government has become more open about the problem, but the numbers still underestimate the number of women seeking employment and number of high-school dropouts.

Another challenge faced by Saudi-Arabia, is the fact that more than 90 % of the employees in the private sector are non-Saudis. And given the existence of illegal workers that number might be even higher. Despite the fact that there are strategies in place to increase Saudi employment in the private sector, there are doubts that it will be possible, much due to the salaries, abilities and willingness to take the jobs in private sector.

Education

Most educational institutions are administered by the government, although the role of private establishments has grown as standards in the state sector have been called into question in recent years.

During recent years investments in the educational system has increased rapidly. Being one of King Abdullah's highest regarded investment objects, Saudi Arabia has become the world's 8th highest education spender. The country has recently initiated a complete overhaul of the educational system including several new universities. This is a measure taken to meet the challenge of reduced Saudi participation in the private sector, and to reduce the unemployment rate.



Despite the increased investments, there has been some criticism towards the educational system. Specifically that the system is not fit to give the students the necessary marketable skills to enter the private sector. Instead, critics claim, the education is skewed towards religious studies and literature, which is not compatible with the needs of the Saudi market.

Infrastructure

Another favored investment for the government over the last couple of years, has been infrastructure projects. A series of expensive, high profiled projects have been initiated and are expected to be finished within the decennium. The projects are particularly aimed at improving the railroad and the roads. The government's desire to improve the infrastructure was emphasized when they recently endorsed the 9th five year plan, manifesting the infrastructure investments.

Railway

Saudi Arabia's main railway network (the only one in the Arabian peninsula) consists of two lines totaling 1,000 km, running between Dammam and the capital, Riyadh: the longer and older freight line runs via Hufuf, and the shorter, more modern line provides a passenger service. Three new lines, which would add some 2,800 km of track to the kingdom's rail network, are being prioritized by the state-owned Saudi Railways Organisation (SRO). These are the Landbridge project, which will connect Jeddah to Dammam and Jubail via Riyadh; the north-south railway, or "minerals railway", which will link key bauxite and phosphate mines at Hazm al-Jalamid to processing facilities at Ras al-Zour in Eastern Province; and the western rail network, which will link Jeddah with Mecca, Medina and Yanbu. The north-south railway will include a passenger link from Riyadh to Hail and Qurrayet.

Roads

The country's road-building program was given priority in the early five-year development plans. Major arteries include the trans-peninsular highway connecting Jeddah, Mecca and Medina in the west with Riyadh and the Gulf oilfields in Eastern Province, and the Tapline road from Dammam to the Jordanian border. The Red Sea road links Taif, Abha and Jizan, and motorways connect most other urban centers. A causeway between Saudi Arabia and Bahrain opened in November 1986.

Ports

Saudi Arabia has six major ports: Yanbu, Jeddah, Dammam, Jubail, Jizan and Duba as well as two specialized industrial ports at Jubail and Yanbu and 14 minor ports. King Abdel-Aziz Port at Dammam is currently the main export terminal for Saudi Arabia's petrochemicals industry, although Jubail is likely to take on an increasing role here as its own capacity expands. Dammam is also a major entry point for construction materials for projects in Eastern Province. In February 2008 plans were submitted to the Saudi Transport Ministry to build a new container terminal at King Abdel-Aziz Port, adding 1.5m TEUs to the port's existing 1.7m-TEU capacity. A major new port is also planned as part of the King Abdullah Economic City project, which aims to have a 10m-TEU capacity, as well as a dedicated *haj* (pilgrimage) terminal. However, the timetable for construction is unclear. Private-sector firms have operated and maintained the docks and equipment at the country's seaports since 1997.

Airports

There are three international airports at Jeddah, Dammam and Riyadh. The airports at Mecca and Medina can receive international flights bringing religious pilgrims to the country, but non-Muslims are not permitted to enter either city. To meet the transportation challenge of the *haj* season, the capacity of the King Abdel-Aziz International Airport at Jeddah is to be expanded to 80m passengers/year with the addition of two new terminals. In 2007 a contract was signed with a local company, Al Mabani, to expand the runways and build a new jet parking area to handle jumbo jets including the Airbus A380, at an estimated cost of US\$4.8bn. There are other sizeable domestic airports at Abha, Jizan, Taif, Tabuk and Qassim, as well as 13 minor airports.

The government largely controls Saudi Arabian Airlines (SAA), the former monopoly, but the airline is gradually being restructured and privatized. The airline sector has opened up to greater competition, with two budget airlines, Sama and Nas, entering the market in 2007. The crown prince, Sultan bin Abdel-Aziz al-Saud, said in September 2007 that four other airlines would be licensed, but the timescale for this is unclear. The budget airlines have complained that SAA has the advantage of access to subsidized fuel. In January 2008 a German company, Fraport, was selected to manage Riyadh's King Khalid International Airport and King Abdel-Aziz International Airport

Bilateral trade

The trade between Norway and KSA has grown over the last five years. Despite the recent increase in bilateral trade, the amount is still relatively small if one takes into account the potential. As a comparison the Swedish export to the Kingdom was thirteen times as big as the Norwegian.

Growth in several Saudi sectors is going to continue to create good opportunities for Norwegian exporters. However, there is no point denying that an introduction to the Saudi market can be both resource demanding and time demanding. But these challenges can be met by taking several measures and choosing the right approach, these will be discussed further, later in this report.

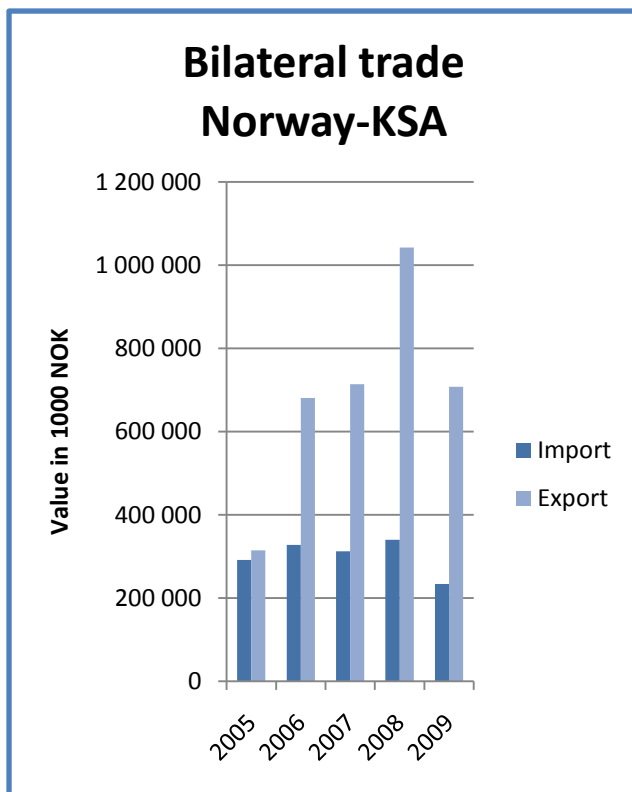
An average of over 50% of the Norwegian export to the Kingdom is machinery and transport equipment. In addition Norway exports some metals and consultancy services within the oil and gas sector. While the import mainly consists of chemicals and related products.

Major Norwegian investments on the other hand, has so far been in the telecommunication sector, within ICT, and paint production

Another aspect that is expected to bolster the Saudi-Norwegian ties is the opening of a Saudi embassy in Oslo. The embassy is expected to be up and running by the summer of 2011.

There is without a doubt, great opportunities for increased bilateral trade between the countries, particularly in the petroleum industry, specifically in improved oil recovery and in providing an environmental friendly regime in oil production.

But new and emerging markets can also be attractive to Norwegian companies and investors, health, ICT, fisheries, real estate and others are all sectors in which the recent growth and government spending are likely to create good investment opportunities.



Future outlook for the Saudi economy

This part of the report will focus on the future of the Saudi economy. Both by looking at the forecasts for the economy, as well as identifying both short- and long term challenges.

The first three quarters of 2010 has seen a recovery of the Saudi economy, but in a modest pace. This is expected to continue in 2011. The global energy demand, especially from Asia, is advancing gradually and hence dictating the speed of the recovery. Despite this increasing demand, it is expected that the demand growth will decelerate next year as governments are looking to unwind fiscal stimulus packages. Which in turn will have a direct impact on Saudi oil export and hence the recovery pace.

In general one can say that the near-term outlook is positive, following increased oil production and oil prices, stronger domestic demand, and a gradual resumption of credit growth. It has to be noted though, that a dark cloud on the horizon is the increasing inflation.

In a longer perspective there are several challenges that have to be met. The dependency on the volatile oil sector is an important challenge to address, as it has big implications for both the large public sector as well as the public investments the private sector depends on. Another imminent challenge is the labor market. Suffering from a vast structural unemployment as well as an increasing number of foreign laborers, the young Saudi population poses both a concern as well as an opportunity.

Near term outlook

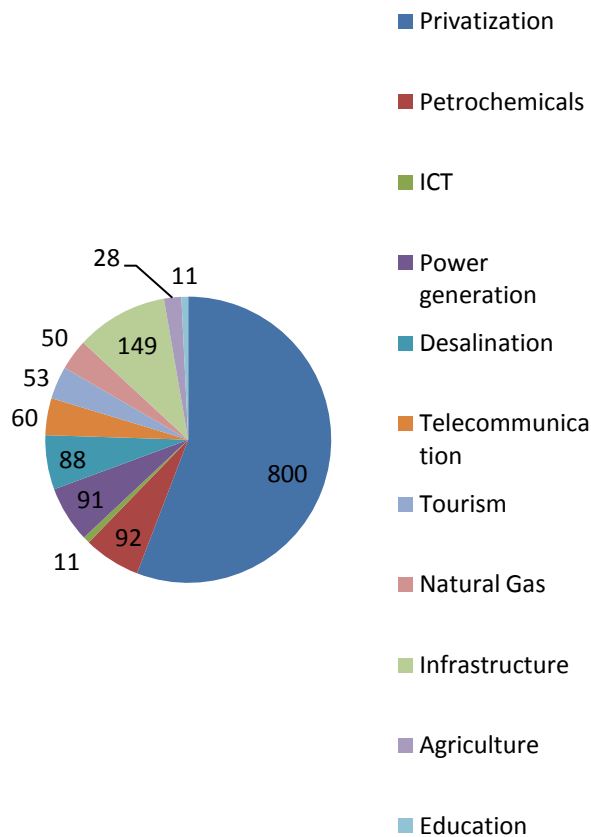
The Saudi economy is expected to strengthen in the short term. Economic growth will rise, financial conditions will get better, inflation will be contained and the budget will remain in surplus. Government spending will continue to be the main driver of growth, with the contribution from the private sector expanding as the availability of bank credit improves and business and consumer confidence revives. Oil prices should rise owing to robust demand from emerging markets, though the economies of major developed countries will remain subdued.

Experts forecast that economic growth in Saudi Arabia will rise to between 3.7-4.2 percent in 2011. Growth in both the oil and non-oil sectors will pick up. Oil production is forecast to respond to rising demand. High government spending will remain the main driver of the non-oil economy, supported by greater bank lending.

Economic growth by sector			
Year	2009	2010	2011f
Agriculture	0,6%	1,8%	1,0%
Manufacturing	2,3%	5,0%	5,5%
Utilities	6,8%	6,0%	6,5%
Construction	4,7%	3,7%	4,5%
Wholesale & retail	2,5%	4,4%	4,8%
Transport & communication	6,9%	5,6%	5,0%
Finance	3,7%	1,4%	2,1%
Non-oil private sector	3,5%	3,7%	4,2%
Oil	-8,0%	2,1%	5,0%
Government services	3,8%	5,9%	5,0%
Total	0,6%	3,8%	4,2%

Investment opportunities

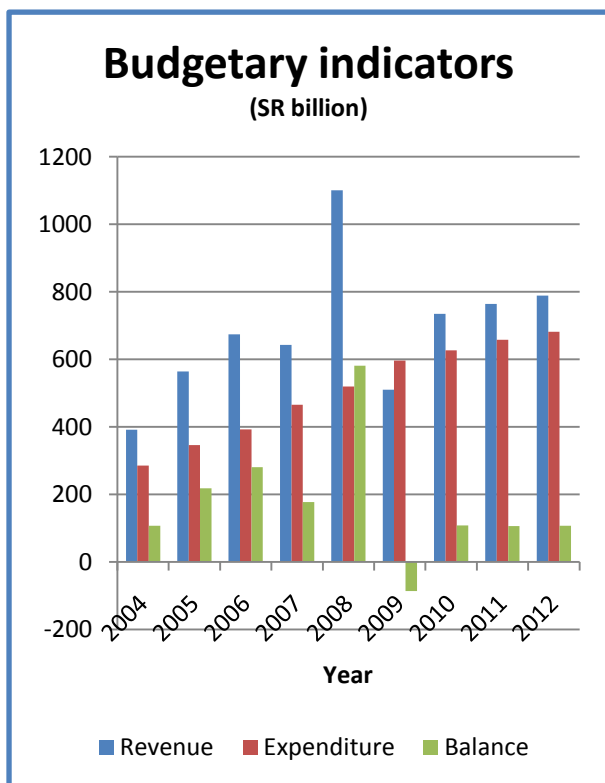
Value (\$US billions)



The fastest growing sectors of the economy, energy and construction, rely heavily on government spending. Government investment spending is not expected to rise in 2011, it will probably fall a little; but it is the level of, rather than the growth in, this spending that is important. Government investment spending is budgeted at SR256 billion in 2011, equivalent to nearly 15 percent of GDP. High spending will not prevent the government from running a budget surplus of around 6 percent of GDP, though it will require an oil price of nearly \$70 per barrel to balance the budget. A price that, at the current time, seems highly likely. Several analysts seem to agree that an average of 83 \$/barrel of WTI (equivalent to 78 \$ for Saudi crude export) is likely, other forecast's suggest a higher price, such as Reuter's survey amongst 33 oil experts, which indicated an average Brent price of 88 \$/barrel in 2011. Hence it seems highly likely that the budget will run at a surplus, and secure the economic health of the Saudi state. Any shortfall would be covered by drawing down foreign assets. Rising imports associated with the government project spending are expected to dent the current account surplus.

Inflation is expected to stay at elevated levels in 2011, averaging 5.3 percent. Rents will remain the leading source of inflation; other inflationary pressures will be external, mainly in the form of commodity prices. Domestically-driven inflationary pressures should still be muted, though there is a risk of a gradual increase in inflation expectations. Although inflation will be well above the historical norm, experts expect interest rates to remain very low and do not anticipate the adoption of new policy measures to tackle rising prices. Any changes to the riyal's peg to the dollar seems unlikely. While the economic picture will improve, performance will still be very heavily dependent on the government. Tough credit conditions and a weak global economy will keep growth of the non-oil private sector below that of the boom years around the middle of the last decade and activity will be dominated by government contractors. Non-oil growth will be slower than in 2004 to 2007, despite a doubling of government investment spending since then.

If we take a closer look at the budget for 2011, there are a couple of things worth mentioning. The budget is a stimulatory one, authorizing big government investments that will ensure the economic growth of Saudi-Arabia. The budget projects a deficit of USD 11 billion, but it has to be mentioned that this is based on an oil price of USD 56/barrel (Saudi crude), and as noted above that is a very conservative assumption given that most experts expect an average oil price of around USD 80/ barrel for Saudi crude. Spending remains focused on defense, education and healthcare. Investment spending is down slightly from the level budgeted for 2010, but at SAR 265 billion it remains very high.



Long term outlook

In the long term there are several challenges that the country needs to address, and the economic performance will in large part hinge on how the country copes with these challenges. These challenges include economic diversification, population growth and unemployment as well as judicial and structural reforms.

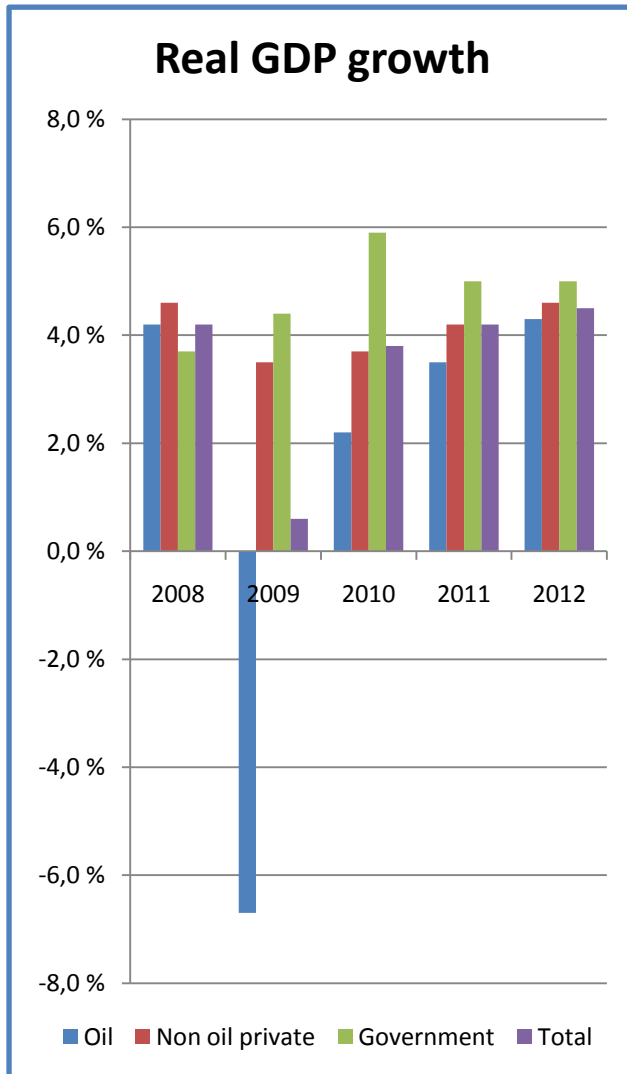
But before we take a closer look at that, let's look at the global and GCC area outlook, in order to understand the fundamentals that are likely to impact the Saudi economy, and hence in many ways dictate the economic infrastructure.

GCC

Several factors indicate that the GCC will grow in importance over the course of the next ten years, as an economic and trading hub. It is projected by the EIU that the GCC will be a USD 2 trn economy within 2020, providing nearly one-quarter of the world's oil supplies, as well as the above mentioned increase in petrochemicals, metals and plastics. As economic weight moves southwards and eastwards, emerging markets will become increasingly important trading partners and investment destinations.

Following this increasing importance of emerging markets, we are likely to see an increasing economic and political integration between the countries within the GCC region. Several analysts claim that the GCC countries are likely to continue their gradual efforts at economic integration, including a single currency, a single central bank and greater harmonization of legal and regulatory environments. But following the economic downturn in Europe and the Euro-zone particularly, the political leaders in the GCC region seem a bit more reluctant to create their own monetary union, particularly with regards to the common currency, which once again has been delayed, this time until 2015. Hence it's still a great uncertainty attached to whether or not the GCC area will create a common currency, and this uncertainty has been emphasized with the current debate regarding the pegging towards the USD. Despite this uncertainty regarding a potential monetary union, it seems likely that we will experience an increase in the collaboration between the GCC-states, albeit not on a scale such as in the EU.

If we take a closer look at the economic structure it seems likely that the emphasis on manufacturing will be enhanced. As production of hydrocarbons are expected to rise heavily within 2020 in the GCC, it is likely that the countries will be seeking to export a smaller proportion of its oil as crude – a low value commodity which demands



more capital than employees and hence isn't set to reduce the increasing unemployment the region is facing. Instead, GCC states will aim to turn more of their oil into refined products or petrochemicals, and to use their oil and gas resources as feedstock for industries that will add more value and provide more jobs. However, the GCC will remain dependent on foreign labour by 2020 despite a range of efforts to encourage the employment of nationals.

All in all the GCC will continue to diversify both its foreign alliances and its economic relationships towards newly industrializing countries. By 2020, it will remain primarily an oil-exporting region, providing an even greater share of the world's oil than at present. GCC firms will also be gaining market share in energy-intensive industries including chemicals, metals and plastics.

Economic forecast

The Saudi economy is expected to grow by an average of between 3.9 – 4.5 a year between 2011-2015, a slowdown from the annual average of 4,9 % during the 03-08 oil boom. During the recession in 2009 the economy grew by 3,4 %, mainly driven by the enormous stimulus package. During last year the real GDP growth recovered somewhat, and ended at 3.8 %.

Oil output will remain the key determinant of economic growth, and hence the demand from the emerging markets, China in particular, will in many ways dictate the growth of the Saudi economy. But with expectations of even higher oil price in 2012-13 the outlook seems quite bright for the Saudi state finance.

The inflation, has for a long time been a severe challenge in Saudi-Arabia, a challenge that has been made even more difficult to cope with as the peg against the US Dollar in many ways dictate the Saudi monetary policy. The increasing inflation is primarily driven by the shortages in housing, as well as the rises in non-oil commodity prices. Factors such as a weakening dollar, and the government plan to reduce some utilities subsidies, will add to the risk of inflation. And most analysts therefore put the long-term average inflation at about 5 %, and hence it will remain a major challenge especially given the weakness of the policy tools available to contain inflationary pressure.

The current account is forecast to remain at a surplus during 2011-2015. Oil revenue will remain the primary factor dictating current-account trends, and the volatility of the oil production and prices will continue to be the main risk. The oil price is, as earlier mentioned, expected to be lower than during the oil boom, but lower commodity prices eases the cost of import and hence offsets the reduction in revenue.

Following this the trade balance is expected to remain comfortably in surplus. The current-account surplus is forecast to average 6.2% of GDP in 2011-2015, although it will narrow 1.1% of GDP in 2015.

Long-term challenges

As mentioned earlier there are severe challenges that have to be faced in order for the Saudi economy to thrive and expand. One of these challenges is the **diversification of the economy**, making Saudi-Arabia less dependent of the oil. This oil dependence has led to a relatively large public sector, which accentuates the concern related to this issue. In other words, not only is the government heavily dependent on oil, but the rest of the economy is also reliant on government spending for economic growth.

Meanwhile the private sector's contribution to national output has remained relatively stable over time, increasing by only 3 pp over the past 20 years to about 70 % of real non-oil GDP. The historically large public sector is attributable to the fact that the country's oil revenue accrue directly to the government. During periods of high oil prices, this has allowed it to successfully mitigate the inflationary impact of massive oil inflows by channeling excessive revenues i.e., those that exceed domestic absorptive capacity, abroad in the form of foreign savings.

Saudi-Arabia has indeed realized their challenge with regards to diversifying the economy, the question remains if the measures taken are the right ones, and if they are able to create a competitive private sector that does not rely on government subsidies.

A second large challenge is **the population growth and unemployment**. Saudi-Arabia's young population holds great potential, but the question remains if there will be sufficient job opportunities in the country. Over the past 30 years, the Saudi population has grown at an average annual rate of 3.75, compared to 1.83 % for other developing countries. The young population, along with the fact that a large proportion of Saudi women do not participate in the work force, explains why no more than 23% of Saudi citizens are actively employed or seeking employment. Within this relatively small work force the official unemployment rate stands at about 10 %, and 7 % among be Saudi males. Notwithstanding the possibility that the actual rate may be considerably higher, one needs to also consider the potential for significant underemployment among working Saudi nationals. Relatively well compensated and less-demanding government jobs may be accentuating labor market inefficiencies by reducing the

incentive to join the private sector. Although official data on the exact proportion of Saudi nationals working in the public sector are not consistent, it is safe to assume that it's in the range of 25-50%. The problem of unemployment is further accentuated by the large number of newly educated Saudi's who will be joining the work force. Estimates show that there will be 500 – 600 000 new graduates seeking a job within the next five years. If you also take into account the previously noted mismatch between the academic qualifications needed and the demanded skills in the private sector, it seems clear that this problem will increase over the years to come.

A third challenge seems to be **structural reforms**. Although the authorities' efforts on structural reforms have been largely successful, more is still needed. Following the slump in the oil market in the late 90s, the authorities embarked on a wide ranging structural reform program aimed at fostering sustainable long-term economic growth and strengthening the role of the private sector. This included the establishment of the Supreme Economic Council, the creation of SAGIA (Saudi-Arabia General Investment Authority) and the adoption of several laws such as the foreign investment law and the capital market law.

And it is beyond doubt that these reforms have led to an increase in the international interest and confidence in Saudi-Arabia, making it the region's largest recipient of FDI.

However, despite these significant strides, there continues to be significant need for additional reforms on a number of levels. These include, (1) strengthening and modernizing the country's legal framework, particularly in the areas of business and commercial law, (2) aligning the objectives of the country's educational sector with the needs of its growing private sector, (3) increasing the depth, stability and sophistication of domestic financial markets by fostering a higher degree of transparency, greater involvement by institutional investors and deeper bond markets, (4) further enhancing the efficiency of the public sector through fiscal reforms aimed at rationalizing government expenditures, involving the private sector through partnership programmes and gradually diversify the economy away from oil, and (5) increasing the overall level of institutional transparency so as to ease foreign investors' concerns with respect to political and social risks.

Doing Business in Saudi-Arabia

As shown above Saudi-Arabia provides one of the most stable and prosperous markets in the region, and the increase in international presence has been noticeable over recent years. That being said, there are still barriers of entry which seem to make Norwegian companies a bit reluctant and hesitant to enter the Saudi market. These barriers contribute to conserve the profits as there is great lack of competition within several of the biggest Saudi markets.

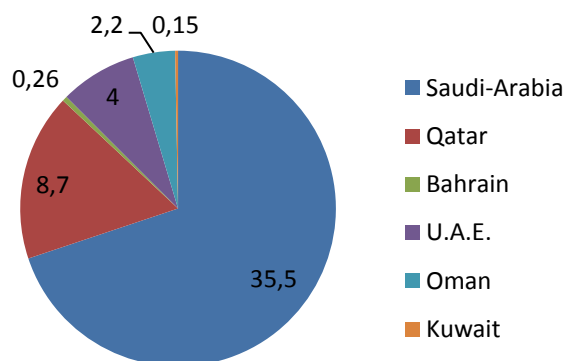
The main concern, it seems, is the cultural difference, the lack of manpower willing to move to Saudi, the lack of information about the Saudi market as well as an impression that Saudi markets are time consuming, relies on good contacts and are generally difficult to maneuver in.

The following section will give an overview of the judicial aspects and the cultural aspects of doing business in Saudi-Arabia.

Summary KSA ranking (of 183 economies)			
World Bank's Ease of Doing Business report			
Topic	2011	2010	Change in Rank
Doing Business Rank	11	12	1
Starting a Business	13	13	No change
Dealing with Construction Permits	14	30	16
Registering Property	1	1	No change
Getting Credit	46	69	23
Protecting Investors	16	16	No change
Paying Taxes	6	7	1
Trading Across Borders	18	19	1
Enforcing Contracts	140	139	-1
Closing a Business	65	60	-5

Judicial aspects of doing business in Saudi-Arabia

FDI in GCC 2009 (USD billions)



Judicial system overview

The paramount body of law in the Kingdom of Saudi Arabia is the *Shari'ah*. The *Shari'ah* is comprised of a collection of fundamental principles derived from a number of different sources, including the Holy Quran, the *Sunnah* (sayings of the Prophet Mohammed) and the works of *Shari'ah* scholars. In addition to the *Shari'ah*, Saudi Arabian law is also derived from enacted legislation. Legislation is enacted in various forms, the most common of which are Royal Orders, Royal Decrees, Council of Ministers Resolutions, Ministerial Resolutions and Ministerial Circulars. All such laws are ultimately subject to, and cannot conflict with, the *Shari'ah*.

The judicial system of the Kingdom of Saudi Arabia is comprised of a number of courts and adjudicatory bodies. These include the *Shari'ah* courts, the Board of Grievances and various specialized committees. The *Shari'ah* courts, generally, have jurisdiction over all civil claims, except for claims the jurisdiction for which has been reserved to one of the other adjudicatory bodies established in the Kingdom of Saudi Arabia (*i.e.* the Board of Grievances or another specialized committee). In particular, the *Shari'ah* courts generally have jurisdiction over all family law, real property matters and the majority of criminal matters.

In addition to the *Shari'ah* courts and the Board of Grievances, specialized committees have been established under the authority of various Ministries and government agencies. The jurisdictions of these specialized committees are determined by their constitutive regulations. They include the Committee for the Settlement of Banking Disputes, the Negotiable Instruments Offices and the Committees for the Settlement of Labor Disputes. Such committees are independent of the *Shari'ah* courts and the Board of Grievances.

One of the major reforms initiated by the King was the enactment of a new Law to restructure the judiciary and dispute resolution bodies in the Kingdom of Saudi Arabia. Pursuant to the new Law of Judiciary, among other things, specialized courts such as Criminal Courts, Commercial Courts and Labor Courts are to be established and the Board of Grievances will become an administrative court. While enacted in late 2007, the new Law of Judiciary is being implemented in phases and is yet to be fully implemented.

Negative list

Industrial Sector

- Oil exploration, drilling and production. Except the services related to mining sector listed at (CPC 5115+883) in International Industrial classification codes.
- Manufacturing of military equipment, devices and uniforms.
- Manufacturing of civilian explosives.

Service Sector

- Catering to military sectors.
- Security and detective services.
- Real estate investment in Makkah and Madina.
- Tourist orientation and guidance services related to Hajj and Umrah.
- Recruitment and employment services including local recruitment offices.
- Real estate brokerage.
- Printing and publishing.
- Commission agents internationally classified at (CPC 621).
- Audiovisual and media services.
- Land transportation services, excluding the inter-city passenger transport by trains.
- Services provided by midwives, nurses, physical therapy services and quasi-doctoral services internationally classified at (CPC 93191).
- Fisheries.

Foreign investment in Saudi-Arabia

In 2000 the Saudi government implemented the Foreign Investment Act, as a part of their strategy to attract more foreign capital. This act liberalized the foreign investment laws and created the Saudi-Arabian General Investment Authority (SAGIA), a one-stop-shop for establishing a business in Saudi. Under the new act foreign investors and entities were allowed to invest in all industries and services except those listed by the Supreme Economic Council on the so called "negative list". The investment law also requires any company in the Kingdom with foreign shareholders to obtain a foreign capital investment. These licenses are issued by SAGIA .

When licensed under the Investment Law, a company enjoys all privileges and incentives offered to wholly Saudi owned companies, such as ownership of freehold property (except in Mecca and Madinah) that is necessary to carry out the licensed activity, privileges granted by the anti-double taxation treaties to which the Kingdom of Saudi Arabia is a party, law prohibiting against expropriation or confiscation of investments, rights to repatriate profits, etc. foreign investors are also eligible for more than one investment license should they wish to participate in more than one business venture.

Doing business with the public sector

Government procurement and tenders are regulated by the Government Tender and Procurement Law. In general, all governmental entities are required to deal, in their tenders and procurements, with companies that are duly licensed in the Kingdom.

There is no central tender board in Saudi Arabia. Every government agency has full contracting authority. Foreign companies interested in bidding on a government project must make themselves known to that specific government agency/ministry offering the project. When a project becomes available, the government agency/ministry selects bidders from a list of prequalified/known companies and invites them to bid for that particular project. The law states that all qualified companies and individuals will be given opportunities in dealing with the Government and will be treated equally. The law also states that locally manufactured products and those of a non-Saudi origin of equal quality will have priority in dealing with the Government. Saudi Government Contacting and Procurement Law also affirms that all government bids be announced in the official Gazette (Arabic), in two local newspapers, as well as in the electronic media. Projects which do not have a contractor must be

advertised both inside and outside Saudi Arabia.

Procurements for less than SR 1 million may be made on a sole source basis. However, the Saudi government must receive at least three bids for all contracts larger than SR 1 million (for construction contracts it must receive 5 bids).

Foreign contractors awarded government contracts must subcontract at least 30 % of the value of the contract to wholly owned Saudi subcontractors unless they can show that no Saudi entity can provide the required goods or service. Foreign companies with a majority Saudi shareholding are exempt from this requirement.

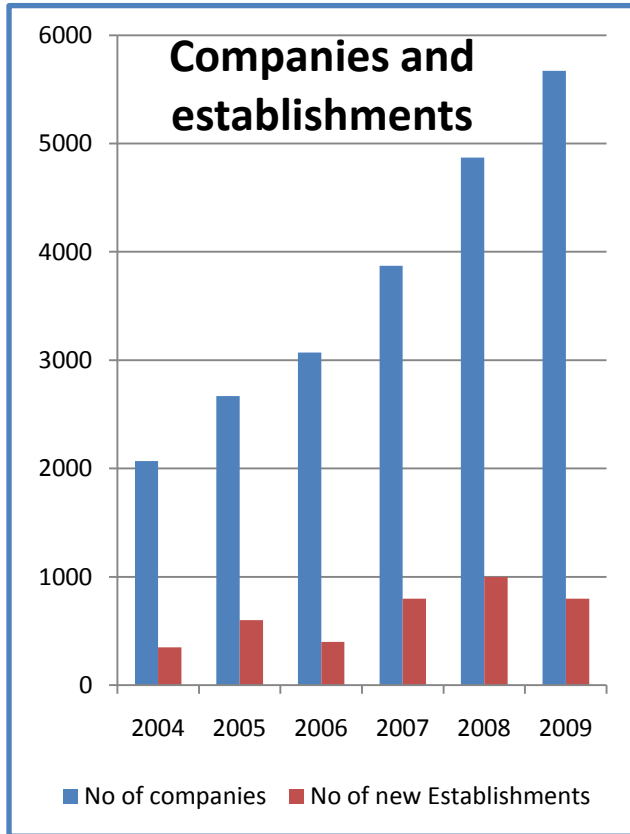
Capital markets

The capital markets law established the Capital Markets Authority, which is the sole regulator and supervisor of the capital markets in the Kingdom. The CMA is a government organization with financial, legal and administrative independence and reports directly to the President of the Council of Ministers. The Saudi Stock Exchange (Tadawul) was also re-established pursuant to the Capital Markets Law as a joint stock company whose shares are wholly owned by the Saudi Arabian Government through its investment arm, the Public Investment Fund. The CMA’s function is to regulate and develop the Saudi Arabian capital markets. It issues rules and regulations for implementation of provisions of the Capital Markets Law.

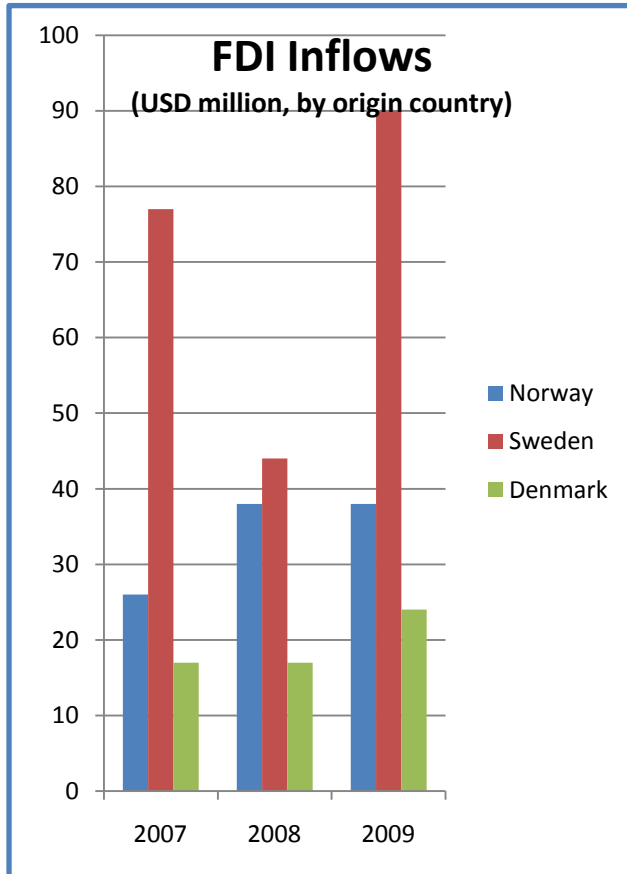
“Soft” term financing is available from specialized credit institutions: the Saudi Agricultural Bank, the Saudi Credit Bank, the Public Investment Fund, the Saudi Industrial Development Fund (SIDF), and the Real Estate Development Fund.

SIDF loans are available to finance foreign-owned businesses in Saudi Arabia under the Foreign Investment Law. The Embassy is not aware of any “cross-shareholding” or “stable shareholder” arrangements being used by private firms to restrict foreign investment through mergers and acquisitions. Nor is the Embassy aware of any laws or regulations that specifically authorize private firms to adopt articles of incorporation/association, which limit or prohibit foreign investment, participation, or control.

Project financing is also available for longer-term loans by the local commercial banks and Saudi specialized credit institutions such as the Saudi Industrial Development Fund or the Public Investment Fund.



The International Finance Corporation (IFC), which finances and provides advice for private sector ventures and projects, has been quite active in the Saudi market. IFC has been active in Saudi Arabia since 1999 when it took \$2.4 million equity in the Saudi Orix Leasing Corporation, helping SMEs get access to asset-backed financing and help develop the Saudi non-bank financial institutions. Since then, IFC has made a number of investments and/or provided advisory and technical assistance to Saudi entities.



How to open an office in Saudi-Arabia

There are several choices and considerations one has to take when entering and starting up a business in the Saudi market. Norwegian companies wishing to conduct business in the Kingdom may either do so by establishing a permanent presence in the country, or by entering into an agency relationship for the distribution and sale of their products.

The procedures to establish an office in Saudi Arabia differ according to the type of business undertaken. The most common and direct method is simply to appoint an agent/distributor who can set up the office under its own commercial registry. The agent/distributor agreement should be registered with the Ministry of Commerce & Industry. The Commercial Agency regulations govern the agent/distributor agreement.

A second method might be to establish a technical and scientific service office, which also requires a license from the Ministry of Commerce and Industry. This approach preserves the independence and identity of the foreign company and provides for more leeway in managing and marketing the company's products or services. Technical and scientific service offices are not allowed to engage directly or indirectly in commercial activities, but they may provide technical and advisory support to Saudi distributors, as well as conduct market surveys and product research.

A third method is to establish a branch office. Saudi Arabia's Foreign Investment Law allows international companies the possibility of 100% ownership of projects and property required for the project itself, while enabling them to retain the same incentives given to national companies. A branch office involves a more direct presence than a commercial agent. Branch offices are largely restricted to an administrative role and may not engage in trading activities. Nevertheless, a branch office can be very useful as a liaison presence for a Norwegian company. A branch office offers the benefits of a physical presence without the formal requirements of a joint venture company. A Norwegian company can open an independent branch office without a Saudi partner. Its parent company must

accept full responsibility for all work undertaken by the branch office in Saudi Arabia.

To establish an office in Saudi Arabia, a foreign company needs to submit to related Saudi authorities a copy of its articles of association as incorporated in the country of origin, a copy of its commercial registration, a written approval by the board of directors of the company, its chief executive officer/president or a similar entity related to their decision to open a subsidiary office stating the name of the city and the name of the subsidiary's manager. All aforementioned documents are to be attested as required. The authorization to the applicant has to be attested by the Saudi Embassy in Stockholm (a Saudi embassy in Oslo is due to open in 2011).

A fourth method is to establish a representative (or liaison) office. This is normally granted only for companies that have multiple contracts with the Government and require a local office to oversee contract implementation. Representative offices are not allowed to engage in direct or indirect commercial activity in the Kingdom. Founding a business establishment requires a license from the Ministry of Commerce and Industry.

A fifth method is for a foreign company to establish a joint venture with a Saudi firm. Usually, the Saudi business community refers to limited liability partnerships as joint ventures. These partnerships must be also registered with the Ministry of Commerce and Industry and the partners' liabilities are limited to the extent of their investment in the partnership.

Finally, foreign companies can get a license from the Saudi Arabian General Investment Authority (SAGIA) to set up an industrial or a non-industrial project in Saudi Arabia. SAGIA will license projects under the new Foreign Investment Act, which allows for 100% foreign ownership. In addition, foreign investors can open a sales/administration/marketing office to complement their industrial or non-industrial project. SAGIA has a broad mandate on all matters relating to foreign investments in industry, services, agriculture, and contracting

The "Regulation for companies" regulates the establishment and governance of Saudi-Arabian corporate entities. It should be noted that a new version of the "Regulation of Companies" is in the process of being developed and is expected to be enacted in the near future

Below follows a summary of the business forms available under Saudi law:

Forms of doing business in Saudi-Arabia

Limited liability companies (LLC)

This is the most common form for entering into joint ventures with Saudi partners; however, a Saudi partner is not required since there are no legal limitations on the percentage of foreign ownership.

The minimum capital investment required in such an entity is SR 500 000, and the LLC must have a minimum of two shareholders and a maximum of 50. Natural persons and corporate entities may be shareholders. Shareholders are, generally liable for the debts of the company only to the extent of their respective interests in the company's shares.

There is no board of directors, although shareholders often provide for a Board and other management arrangements in the Memorandum of Association. The LLC must also have an auditor and, where it has more than twenty partners, it must establish a Board of Controllers.

Joint stock Corporation

A JSC is an entity with a minimum of five shareholders, there is no upper limit. Shares in a JSC are typically evidenced by share certificates, although dematerialized shares are becoming more common. The capital requirements are SR 2 million for a private JSC, and SR 10 million for a public JSC. And the shareholders are only liable to the extent of the par value of each shareholder's share capital. The JSC must be approved by license or Royal Decree published in the Saudi Official Gazette. As well as being subject to the approval of the Ministry of Commerce and Industry, share capital subscribed for in cash may be paid up in stages, provided that the amount payable per cash share upon subscription is not less than one quarter of its par value.

Branch Offices

Foreign companies may register a wholly foreign-owned Saudi branch office, provided that they obtain the required license. Branch office registration follows the same general procedure as for the registration of a LLC.

Branches of foreign companies in the Kingdom of Saudi Arabia are subject to the provisions of the Regulations for Companies and to the laws and regulations applicable to their activities. A foreign company that opens a branch in the Kingdom of Saudi Arabia is required, as is the case with limited liability and joint stock companies, to deposit an amount equivalent to the capital required by SAGIA with a local bank and such amount is blocked until issuance of the certificate of registration for such branch by the Ministry of Commerce and Industry.

Partnerships

Norwegian companies seeking to do business in the Kingdom may enter into a limited partnership. The limited partnership, or “sharikat tawsiya baseetah”, is a separate business entity comprised of several individual companies, including general (at least one) and limited partners. The general partners are liable for partnership debts to the full extent of their personal assets while the limited partners are liable only to the extent of their capital contributions.

Sponsorship and temporary commercial registration

As an alternative to one of the above entities, foreign contractors have in the past performed isolated private sector projects under the sponsorship of their Saudi customer and in contracts with the Saudi government. The foreign contractor operates under a Temporary Commercial Registration (TCR).

Sponsorships may be in two forms. The first is where the foreign contractor obtains a business visa, sponsored by the Saudi customer. The second is where the foreign contractor ‘seconds’ its employees to the employment and sponsorship of the Saudi customer.

If a foreign contractor is awarded a project with the Saudi government, and it does not have a registered presence in Saudi in one of the above forms, it must obtain a TCR (Commerce Ministry Resolution No. 680, 1978). An application for a TCR must be filed within 30 days of obtaining the contract, along with a copy of the contract. Additionally, a ‘service agent’ must be identified pursuant to the Saudi Service Agent Regulations. TCRs are limited in scope and duration to the substance and term of the government contract for which they are issued

Commercial agencies

Agencies and distributorships are governed by the Commercial Agencies Regulations and the related Implementing Rules (Royal Decree No. M/11, amended by Royal decree No. M/32; Ministry of Commerce Decision No. 1897). The rules and regulations reserve a monopoly for Saudi nationals and wholly owned Saudi entities on trading activities. Trading activities include the import and local purchase of goods for resale. So, foreign companies engaging in such activities must use Saudi commercial agents and distributors, who must register their agency agreements with the Ministry of Commerce agency register.



The agent must hold a valid Saudi commercial registration permitting him to act as an agent or distributor, and the directors and authorised representatives of the agent must be Saudi nationals. The Commercial Agency Regulations board appointment of agents is indirectly controlled by the foreign principal, therefore the Saudi agent must be independent from the foreign principal.

Agencies do not have to be exclusive, although the MOC will not normally register more than one agreement for the same principal.

Selecting the right agent is of the utmost importance. It should be made clear from the outset what services will be provided and what will not. An agent may be anything from a highly-proactive investor into the business who is deeply involved on a day-to-day basis with all aspects of management, finance and marketing, to a hands-off agent who just arranges official paperwork, and has little other involvement. One of the most important assets an agent may contribute with is contacts. Saudi is a highly relation-oriented economy, and hence it may be highly desirable with an agent with the right contacts. All parties must have a clear and agreed view of the agent's role and jurisdiction. Hence, it is highly advisable that the Norwegian company should try to visit the potential agent on his home ground before concluding any agreement. It is also recommended that companies seek legal advice before signing agency agreements.

In July 2001, the Council of Ministers cancelled a decree compelling foreign companies with government contracts to appoint a Saudi service agent. The old decree also specified a maximum commission of 5%. Following this it seems that the "normal" commission in Saudi-Arabia is close to 10 %.

Some government contracts, however, still require a minimum participation by a Saudi entity. In addition, government contracts typically include a clause requiring training programs for Saudis.

Terminating an agent/distributor agreement can be difficult even though Saudi policy has changed to permit registration of a new agreement over the objections of the existing distributor. While most prospective Saudi agents and/or distributors generally prefer exclusive agency contracts, these are by no means required. Given the close-knit nature of business circles in Saudi Arabia, replacing an agent or distributor could damage a firm's reputation if not handled sensitively. A Norwegian company should at all costs avoid being viewed as lacking adequate commitment to its Saudi business relationships. Saudi agents may request "parting compensation" in the event the foreign exporter decides to dissolve a business relationship

Since this is a common practice, Norwegian companies should address this eventuality prior to executing a contract.

Trade regulation and standards

Norwegian exporters are not required to appoint a local Saudi agent or distributor to sell to Saudi companies, but commercial regulations restrict importing for resale and direct commercial marketing within the Kingdom to Saudi nationals, wholly Saudi-owned companies, and Saudi-foreign partnerships where the foreign partner holds 25% equity. Nationals from the Gulf Cooperation Council (GCC) countries, which include Saudi Arabia, Kuwait, Qatar, Oman, Bahrain, and the UAE, are also allowed to engage in trading and retail activities, including real estate. Agent/distributor relations are governed by the Commercial Agency Regulations of the Kingdom of Saudi Arabia that is administered by the Ministry of Commerce and Industry. Saudi businesspeople cannot act as commercial agents unless their names are entered into the Register maintained by the Ministry of Commerce and Industry.

As a member of the WTO and a party to a number of free-trade agreements, most notably within the GCC, Saudi-Arabia applies the GCC common external tariff of 5 % for most products, with a limited number of GCC-approved country-specific exceptions. The exceptions include 666 products that may be imported duty-free, including aircrafts and most livestock. The Saudi government also applies a 12% tariff on 294 products, in some cases to protect local industries, when imported goods are identical or similar to those produced locally. It's also worth mentioning that a free- trade agreement between EFTA and the GCC countries has been made, but the agreement is still not ratified by all the involved countries.

In 2005, Saudi-Arabia became the 149th country to join the WTO. As a part of its commitments, the country's trade regime should become more transparent and more accommodating to non-Saudi businesses. As of the date of this report, noticeable progress has been made on these issues, but Saudi business and laws still favor Saudi citizens. And there are still trade barriers, mainly regulatory and bureaucratic practices, which restrict the level of trade and investment.

Nevertheless, the Government has liberalized the wholesale, retail, and franchise sectors, allowing foreign investors to establish joint ventures and retain a 51% share. The foreign partner's capital requirement is set at \$5.3 million (SR 20 million) and his equity share can be increased to 75% after 3 years from the contract date. All industrial enterprises are open to non-Saudis, and they can also trade in the products they manufacture. Restrictions on individual professions also are in force, such as who can practice law, medicine, accounting and financial services, architect and engineers, and other similar professions. A Saudi joint venture partner is a requirement for any entity or individual to practice the above-mentioned professional services

Under its WTO obligations, Saudi Arabia has committed to implement a transparent and predictable import licensing system. The following documents are required for exporting goods to Saudi Arabia:

- certificate of origin;
- commercial invoice (in triplicate) which must state the country of origin, name of the carrier, brand and number of goods, and description of the goods including weight and value;
- a clean bill of lading or airway bill;
- documents indicating compliance with health regulations, if applicable;
- insurance documents, if shipments are sent CIF;
- packing list; and
- certificate of conformity with applicable Saudi standards, if available

The original documents must be accompanied by an Arabic translation of a radiation certificate, if applicable.

Taxation

In general the principal taxes in Saudi-Arabia are corporate tax, Islamic tax on wealth known as Zakat, and withholding tax. A comprehensive tax law was enacted in 2004. It states that there is no personal taxation in Saudi-Arabia. Neither Saudi nationals nor foreign employees are taxed on their salaries.

Generally companies pay a 20 % corporate tax. But non-Saudis who derive net income from investment in Saudi businesses; and self-employed individuals who engage in professional activities, are subject to corporate tax on a sliding scale according to their income levels.

Tax rules and regulations in Saudi-Arabia are quite simple compared to many other countries. Those subject to tax are:

- A resident capital company with non-Saudi shares
- A resident non-Saudi person who carries out activities in the Kingdom
- A non-resident person who carries out activities in the Kingdom through a permanent establishment
- A non-resident person who has other income subject to tax from sources within the Kingdom
- A person engaged in natural gas investment fields
- A person engaged in oil and other hydrocarbon production

Income tax/ corporate tax

The income tax rate is 20 percent for all taxpayers, except for certain specific natural gas investment activities which are subject to a defined investment tax that provides a base 30 percent tax rate and additional rates of up to a maximum of 85 percent, and oil or other hydrocarbon activities which are subject to a tax rate of 85 percent. Income that is subject to tax includes all income, profits, gains of any type or payment resulting from carrying out of any “activity”, including capital gain or incidental income, that is not an “exempt” income. However, as mentioned, employee salaries and benefits are not taxable income.

Zakat

Zakat is an Islamic tax on wealth and is levied on Saudi Arabian and GCC natural persons, wholly Saudi Arabian or GCC-owned entities, and Saudi Arabian or GCC shareholders of companies. While the calculation of *Zakat* is complex, the effective rate for natural persons is 2.5 percent of their net worth, and for companies 2.5 percent of their total capital resources. The tax base for calculation of *Zakat* for companies excludes fixed assets, long-term investments and deferred costs from total capital resources, but includes profits from foreign investments that do not consist of investment in real property.

Profits of foreign non-real property investments are estimated by the Department of Zakat and Income Tax (DZIT) to be 15 percent of the revenues in cases where no specific information is made available.

Withholding tax

Any resident (whether or not considered a taxpayer under the Tax Law) who makes payment to a nonresident from a source in the Kingdom of Saudi Arabia must withhold a tax from such payment as follows: (1) Five percent for rents; (2) 15 percent for royalties; (3) 20 percent for management fees; (4) Five percent for payments for air tickets, air-freight and maritime freight; (5) Five percent for payment of international telecommunications services; and (6) 15 percent for any other services. Generally, income is considered to be “derived from a source in the Kingdom” if it is derived from an activity in the Kingdom.

In the case of payments made by a natural person, the withholding requirement applies only to payments made in the course of the person's business activity.

A person required to withhold tax is personally liable for the payment of the amount of tax outstanding and delay penalties in the case where he/she, (1) fails to withhold tax as required, (2) having withheld tax, fail to pay tax as required, (3) fails to report the withholding.

If tax is not withheld, the beneficiary remains liable for the tax and it may be recovered from him, or from his agent or sponsor.

Where a payment is made to a non-resident and tax is withheld, that tax is a final tax and no further tax liability can be imposed on the income to which the tax relates, and no refund of tax shall be made in respect of the payment.

Where a payment is made to a non-resident which carries on business in the Kingdom through a permanent establishment, and that payment is effectively connected with such business, that payment is taxed as a part of the tax base of the beneficiary.

If tax is withheld from a payment that is included in the tax base of a taxpayer, the tax withheld is credited against the non-resident person's liability in respect of the tax base.

Employment law

Employment matters in the Kingdom of Saudi Arabia are governed by the Labor Law. The Ministry of Labor regulates all labor related issues in the Kingdom through Labor Offices located in different regions of the Kingdom. The Labor Law imposes certain minimum standards on labor related matters such as working hours, vacations, safety standards and termination of employment. Upon termination of employment, an employee is entitled to an end of service award calculated on the basis of half a month's salary for each year of the first five years of employment, and one month's salary for each year following the first five years with the employee's most recent wage being the basis for the end of service award calculation.

The Government has a strategic goal to increase the proportion of Saudi employees in both the public and private sectors. This policy is known as "Saudisation" and is affected by requiring companies to employ a certain percentage of Saudi citizens. Such percentage ranges from 5-75 percent based on the nature of business, condition of work and availability of Saudi employees.

Intellectual Property

Trade Names

The Trade Names Law protects registered trade names in the Kingdom of Saudi Arabia by requiring every business operating in the Kingdom to register its trade name with the Commercial Register at the Ministry of Commerce and Industry and proscribing any other business or individual from using registered trade names. Only Arabic or “Arabized” trade names may be registered, except for companies with foreign shareholders whose names are registered outside of the Kingdom of Saudi Arabia.

Trademarks

The Trademarks Law permits a person or company to register a unique combination of letters, numbers, symbols or signs that are applied to a certain category of goods or services in such a way as to distinguish such goods and services from similar ones in the marketplace. Trademark registrations are valid for ten *Hijra* years from date of application and are perpetually renewable for further periods of ten *Hijra* years. Two years of continuous, open and uncontested use of a registered trademark gives rise to an irrefutable presumption of ownership. In 2004, the Kingdom of Saudi Arabia acceded to the Paris Convention for Protection of Industrial Property.

Copyright

Copyrights are protected by the Copyright Law. The Copyright Law covers all scientific, literary or artistic works regardless of their type, importance, manner of expression or purpose. Works of foreign and Saudi Arabian authors are protected if they are published, acted or shown for the first time in the Kingdom of Saudi Arabia. Copyrights will in most cases be valid for the lifetime of the author plus fifty *Hijra* years from the date of his or her death. Protection of sound and audio visual works, photographic works and works in applied arts is limited to twenty-five *Hijra* years from the date of publication. Protection of computer software is for fifty *Hijra* years from the date of publication. In 1994, the Kingdom of Saudi Arabia acceded to the Universal Copyright Convention. In addition, in 2004 the Kingdom of Saudi Arabia acceded to the Berne Convention for Protection of Literary and Artistic Works.

Patents

Patents are protected by the Patent Law. The King Abdul-Aziz City for Science and Technology has authority to issue “protection documents” in the Kingdom of Saudi Arabia. Protection of patents (and plant patents) is for a period of twenty years from the date of filing an application. Protection of layout design certificates is for a period of ten years from the start of commercial exploitation anywhere in the world while protection of industrial design certifications is for a period of ten years from the date of filing the application.

The Kingdom of Saudi Arabia has acceded to the GCC Patent Law. 30 In addition, in 2004 the Kingdom of Saudi Arabia acceded to the Paris Convention for Protection of Industrial Property

Trade Secrets

Trade secrets are protected by the Protection of Confidential Trade Secrets Regulations from being divulged by third parties or official authorities to whom such secrets are entrusted.

Corruption

As in most other countries corruption exists in Saudi-Arabia as well. On a scale from 0-10, 10 being the best, Saudi-Arabia gets 4,7 on Transparency Internationals corruption index for 2010. This is an index of the perceived corruption in a country, and it puts Saudi at 50th place among the 178 countries evaluated. Compared with other countries in the region this shows that the country still has some way to go, but the Saudis improved significantly over the last years according to this index, from 70th to 50th place in five years and from 3,4 to 4,7 on the index.

Compared to its regional peers, Saudi still trails behind countries such as Qatar (19 of 178), UAE (28 of 178) and Oman (41 of 178). Saudi is ranked 6 among the MENA countries.

Cultural Aspects of doing business in Saudi-Arabia

Issues to consider when doing business

Office Hours

Traditionally private business offices open from 0800 to 1300 and again from 1600 to 2000, Saturday to Wednesday inclusive, and from 0800 to 1300 on Thursday. But, increasingly, many are moving to a more practical 0800-1700 working day. Government offices normally work from 0800 to 1430 Saturday to Wednesday inclusive. All offices and shops close four times a day for prayer. Working hours during the holy month of Ramadan are reduced - Government offices should be open from 1000 to 1500. In the private sector many businesses will open at night in Ramadan, normally 22.00 to 01.00. The banking hours are 9:00 am to 4:30 p.m., Saturday through Wednesday.

Business Visits

It is generally best to avoid visiting Saudi Arabia in July and August (when many Saudi businessmen are out of the Kingdom) and close to the two Eid Festivals (see dates below). Visitors during Ramadan need to be prepared to do business outside western hours. The lead-up to the pilgrimage (Hajj) season is the peak-buying season for merchants in Jeddah, Makkah and Medina. The month of Ramadan is normally the peak period for sales of clothes, furniture and toys. Beginning in June, large numbers of Saudis and expatriates leave the country for the summer holidays.

Public Holidays

The Saudi weekend is Thursday and Friday. Public holidays are observed for the two annual Eid Festivals when all government and business offices are closed. It is best to avoid non-essential business travel around these times, especially as the dates can move back or forward by a few days, depending on the sighting of the moon. Business does continue during Ramadan, but meetings are often conducted in the late evening after the breaking of the fast. The National Day Holiday always falls on 23 September.

2011

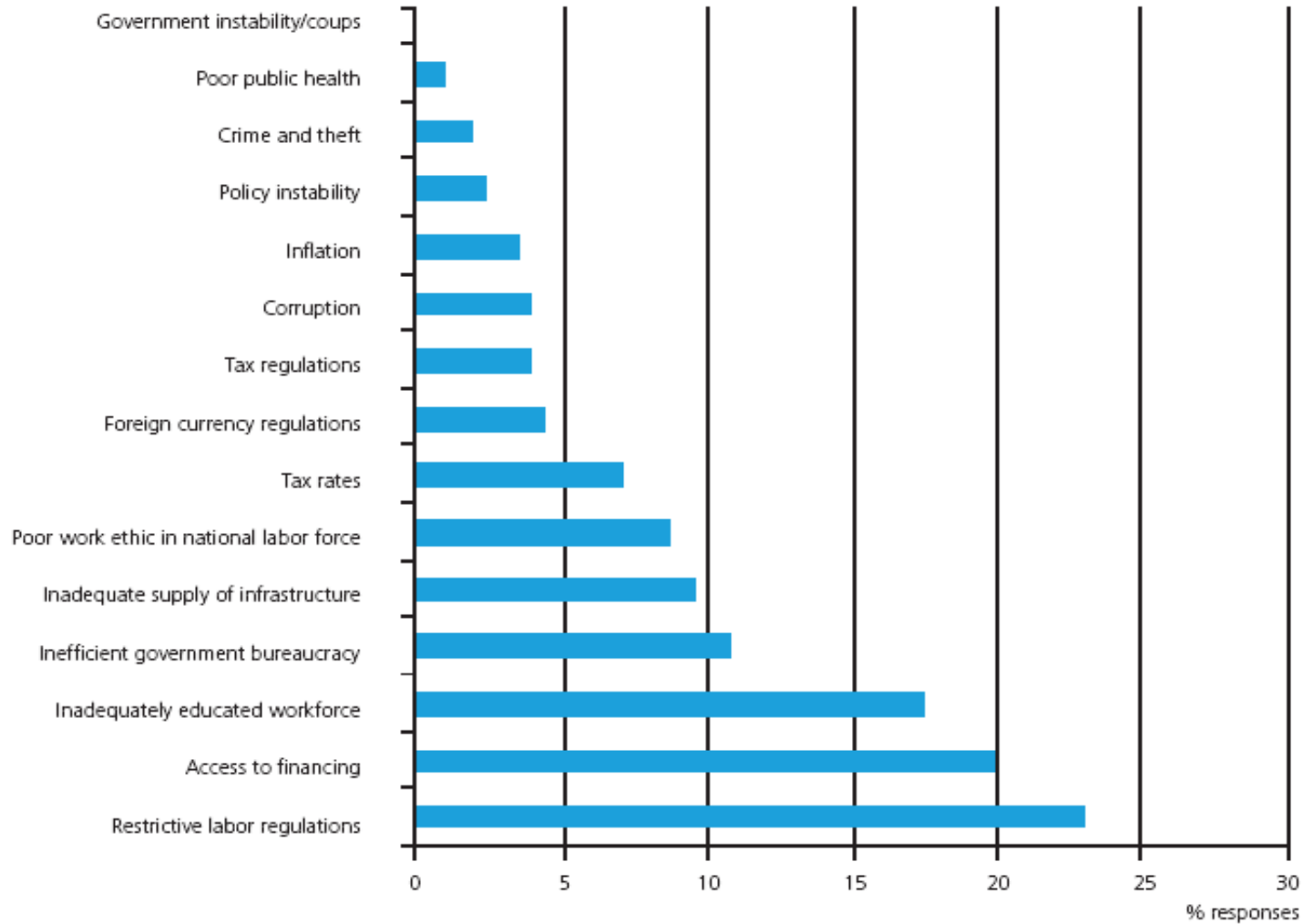
Ramadan	1– 29 August 2011
Eid	30. August – 11. September 2011
Haj/Eid Ul Adha	6-15 November 2011

Business customs

While modern Saudi Arabia has adopted numerous business methods and styles of the West, many cultural differences remain. Most important is that business will generally only be conducted after a degree of trust and familiarity has been established. Considerable time may be spent exchanging courtesies, and several visits may be needed to establish a business relationship. Business visitors should arrange their itineraries to allow for long meetings, as traditional Saudis often maintain an “open office” in which they will sign papers, take telephone calls and converse with friends or colleagues who drop by. Tea and traditional Saudi coffee are usually offered. One to three cups of Saudi coffee should be taken for politeness, after which the cup may be wiggled between thumb and forefinger when returning it to the server to indicate that you have finished.

Many Saudi businessmen have been educated or have traveled extensively in the West and are sophisticated in dealing with westerners. For the most part, travelers can rely on Western manners and standards of politeness to see them through, with a few additional rules that may be observed. One should avoid sitting at any time with the sole of the foot pointed at the host or other guest. Unless one is on familiar terms with a Saudi, it may be discourteous to ask about a man’s wife or daughters; ask instead about his family. Shoes are often removed before entering a Saudi living room (*majlis*). If you are invited to the home of a Saudi for a party or reception, a meal is normally served at the end of the evening, and guests will not linger long after finishing. Be observant and adapt your behavior to the customs of your host.

Dress is conservative for both men and women. Men should not wear shorts or tank tops, while women are advised to wear loose-fitting and concealing clothing with long skirts, elbow-length sleeves and modest necklines. There is strict gender separation in the Kingdom and restaurants maintain separate sections for single men and families. Wives are often excluded from social gatherings or are entertained separately.



This chart summarizes those factors seen by business executives as the most problematic for doing business in their economy. The information is drawn from the 2010 edition of the World Economic Forum's Executive Opinion Survey. From a list of 15 factors, respondents were asked to select the five most problematic and to rank those from 1 (most problematic) to 5. The results were then tabulated and weighted according to the ranking assigned by respondents.

Trade events 2011				
Date	Event	Place	Sector(s)	Info
Feb 20 - 23	Machinex	Jeddah	Machinery	www.machinex-arabia.com/
Mar 6 - 8	Gulf Environment Forum	Jeddah	Energy & Environment	www.gulfenvironmentforum.com/
Mar 21 - 25	Saudi Construction	Riyadh	Construction	www.saudiconstructionshow.com/
Apr 3 - 5	Saudi Healthcare	Jeddah	Healthcare	www.saudi-healthcare.com
Apr 10 - 13	Saudi Medicare	Riyadh	Healthcare	www.saudi-medicare.com/
May 16 - 19	Gitex KSA	Riyadh	ICT	www.recexpo.com/exhibition_overview.php?id=172
May 29 - Jun 1	Saudi Elenex	Riyadh	Energy	www.recexpo.com/exhibition_overview.php?id=180
May 29 - Jun 1	Saudi Water	Riyadh	Utilities	www.recexpo.com/exhibition_overview.php?id=202
Sep 19 - 22	Recycling and waste	Riyadh	Waste management	www.recexpo.com/exhibition_overview.php?id=183
Sep 19 - 22	Saudi Agriculture	Riyadh	Agriculture	www.recexpo.com/exhibition_overview.php?id=185
Oct 16-19	Saudi build	Riyadh	Construction	www.saudibuild-expo.com/
Oct 16-18	SAOGE	Dammam	Oil and Gas	www.saoge.org/
Nov 28 – Dec 1	Saudi Petrochem	Riyadh	Petrochemicals	www.recexpo.com/exhibition_overview.php?id=256
Dec 4-7	SWPF	Jeddah	Energy	www.ksawpf.com/

Web resources

Almana General Hospital	www.almanahospital.com.sa
Al-Yaum (newspaper)	www.alyaum.com
Central Department of Statistics & Information	www.cdsi.gov.sa
Commerce & Industry	www.riyadhchamber.com/indexen.php
Communications and Information Technology Commission	www.citc.gov.sa
Emaar Saudi Arabia	www.emaar.com
Executive Board of the Health Ministers' Council for the GCC states	www.sgh.org.sa
Franchise Expo	www.franchiseexpo.com/
Franchising Saudi Arabia	www.internationalbusinessstrategies.com/market-research-reports/
General Organization for Social Insurance Hospitals	www.riyadhcare.com
InfoFranchise World	www.infofranchise.com/
International Medical Center	www.imc.med.sa
Knowledge Economic City	www.sagia.gov.sa/en/Why-Saudi-Arabia/Economic-cities/Knowledge-Economic-City
Middle East Business Directory	www.zawya.com
Middle East Business Intelligence	www.meed.com
Middle East Franchising	www.mefranchising.com/
Ministry of Commerce and Industry	www.commerce.gov.sa
Ministry of Communications and Information Technology	www.mcit.gov.sa
Ministry of Defense and Aviation	www.rkh.med.sa
Ministry of Education	www.moe.gov.sa
Ministry of Health	www.moh.gov.sa

Ministry of Interior Medical Services	www.sfh.med.sa
Ministry of Municipal & Rural Affairs	www.momra.gov.sa/
Ministry of Petroleum & Mineral Resources	www.mopm.gov.sa
Ministry of Transport	www.mot.gov.sa
Ministry of Water and Electricity	www.mow.gov.sa
National Water Company (NWC)	www.nwc.com.sa/
Power & Water Utility Company for Jubail and Yanbu	www.marafiq.com.sa/e_home.htm
Riyadh Chamber of Commerce and Industry	www.riyadhchamber.com
Royal Commission for Jubail and Yanbu	www.royalcommission.com
SABIC — Saudi Basic Industries Corporation	www.sabic.com
Saline Water Conversion Corporation (SWCC)	www.swcc.gov.sa
Saudi Arabia General Investment Authority	www.sagia.gov.sa
Saudi Arabia Mining Company (Ma'aden)	www.maden.com.sa
Saudi Arabian General Investment Authority	www.sagia.gov.sa
Saudi Arabian National Guard Health Affairs	www.ngha.med.sa
Saudi Aramco	www.saudiaramco.com
Saudi Franchise Show	www.icef-ksa.com
Saudi Ports Authority	www.ports.gov.sa
Saudi Rail Expansion Program	www.saudirailexpansion.com
Saudi Railway Organization	www.saudirailexpansion.com
Saudi Telecommunications Company	www.stc.com.sa
Saad Specialist Hospital	www.saadmedical.com
Water & Electricity Company (WEC)	www.wec.com.sa



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