



## **U.S. Department of State FY 2001 Country Commercial Guide: Saudi Arabia**

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### **1.: EXECUTIVE SUMMARY**

This Country Commercial Guide (CCG) presents a comprehensive look at Saudi Arabia's commercial environment, using economic, political and market analysis. The CCG was established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. CCGs are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

The Kingdom of Saudi Arabia remains the United States' largest trading partner in the Arab world. Thousands of Americans derive their livelihood from making the U.S. goods exported to Saudi Arabia, and 30,000 more reside and work in the Kingdom, employed by Saudi companies and by hundreds of joint venture companies. As of June 1998, U.S. direct investment in both industrial and non-industrial joint ventures had increased more than 14 percent, reaching \$8 billion in more than 267 ventures. These figures include significant expansions underway at major U.S. joint venture petrochemical plants. In 1999, Saudi Arabia was America's 24th largest trading partner, with two-way trade totaling about \$16.8 billion. U.S. merchandise exports to Saudi Arabia in 1999 stood at \$7.9 billion, while Saudi exports to the U.S. totaled \$8.9 billion. The drop in U.S. exports to Saudi Arabia reflected a slowdown in the Saudi Arabian economy caused by the decline of international petroleum prices to as low as \$10 per barrel in the first quarter of 1999.

The United States is also the leading supplier of defense services and equipment to the Kingdom. Estimates place U.S. defense exports to Saudi Arabia at over \$2 billion in 1999.

Oil remains the lifeblood of Saudi Arabia, which possesses over one-fourth of the world's proven crude oil reserves. Crude oil prices fluctuated widely during 1999, jumping from a low of \$10 per barrel in February-March to over \$30 per barrel by the end of the year. Recovery of the Asian economies contributed significantly to the crude oil price run-up, signaling renewed Asian demand for Saudi crude and especially petrochemical product exports. As of mid-year 2000, the Saudi economy had not rebounded nearly as fast as the price of crude oil, for a variety of reasons which will be discussed later in this Country Commercial Guide (CCG).

The Saudi Arabian leadership has embarked on a wide ranging restructuring of the entire Saudi economy. Annual population growth rates of over 3 percent, coupled with depressed levels of foreign investment, have led the Government to place strong new emphasis on private sector expansion. The Government clearly recognizes that the public sector cannot keep expanding to absorb all the new entrants to the job market over the coming decade. Diversification and privatization have become the watchwords of the Saudi leadership. A wide range of economic and policy reforms are underway, seeking to diversify the economy, expand the technology base, increase exports, and create jobs for Saudi citizens.

Sweeping reforms have been instituted during the past 18 months. A Supreme Economic Council (SEC) has been formed to formulate and better coordinate economic development policies. A Supreme Petroleum and Minerals Council (SPMAC) was formed to manage and accelerate the reentry of multinational oil/energy companies under HRH Crown Prince Abdullah Bin Abdul Aziz's September 1998 energy initiative.

The Saudi Arabian General Investment Agency (SAGIA), under the Chairmanship of Prince Abdullah bin Faisal bin Turki, has been formed to facilitate liberalized investment policies and legal reforms. Additional reforms are being prepared in the areas of taxation, land ownership, commercial agencies, and tourism.

The most important market reform initiatives are in the areas of information technology and basic infrastructure. During the past two years, the Saudi Arabian telecommunications sector has been reorganized. The State monopoly in telecommunications was corporatized into a commercial entity named the Saudi Telecommunications Company (STC). STC embarked on a crash expansion program, and is preparing itself for the entry of a strategic investor/partner, which is expected to be negotiated by the end of 2000. A Telecommunications Law is being prepared, in anticipation of an opening of the telecommunications sector to competition. A similar program is being followed in the power generation sector, where the four regional Saudi Consolidated Electricity Companies (SCECO), as well as six smaller parastatal electricity producers, have been

merged into one corporate entity called the Saudi Electricity Company (SEC). New electricity laws are being prepared, as well as appropriate regulatory bodies. It is estimated that Saudi Arabia needs to add between 1,000 and 2,000 MW of power each year for the next decade, which could add up to a total investment of more than \$10 billion. Privatization of the national air carrier, Saudi Arabian Airlines (Saudia), is also being debated, and expert advisors are in the process of being selected. Other key sectors of potential private investment are water desalination, municipal wastewater treatment facilities, aviation (charter airlines, airport management) and mining.

The telecommunications sector has been the fastest growing element of the Saudi economy. In little more than a year since the Internet was legalized, well over 100,000 accounts were opened with more than 25 locally licensed Internet Service Providers (ISPs). Demand for a range of telecommunications services has outstripped STC ability to meet that volume, ensuring telecommunications services will continue expanding rapidly in coming years. The full range of IT services are either unavailable or in the development stages, including ISDN lines, video conferencing wireless Internet access, V-SAT, and high speed broadband data services.

During the past year, Saudi Arabia has been negotiating for entry into the World Trade Organization (WTO). Accession will require the Saudi Arabian Government to initiate a series of substantial reform measures, including tariff reduction, opening up to financial services (banking, insurance), allowing competition in telecommunications and other key sectors, and improved protection of intellectual property rights. Progress has been made in reaching these milestones, and Saudi entry to the WTO is anticipated in the near future. WTO entry is expected to give a big boost to the Government's broad based economic reform efforts. These in turn will facilitate the levels of private (Saudi and foreign) investment essential to Saudi Arabia achieving the economic growth needed to ensure adequate infrastructure services and large scale job creation.

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## 2.: ECONOMIC TRENDS AND OUTLOOK

## - Principal Growth Sectors

### The Oil and Gas Sector

The West Texas Intermediate (WTI) price tripled from a low of about \$10 per barrel in February 1999 to above \$30 per barrel in early summer 2000. Although the Saudi economy has benefited in the short term from this price increase, the SAG has grown increasingly concerned about oil price volatility and the long-term effects of higher prices on OPEC's future revenues. The near-term outlook for oil prices will depend on a combination of growing world demand, producer compliance with output restraints and new non-OPEC sources of oil.

In September 1998, Crown Prince Abdullah invited several leading American oil companies to submit proposals for energy-related investment projects within Saudi Arabia. This invitation, later extended to leading European oil companies, was enthusiastically accepted. The invitation marked a major change in policy, the first possibility of foreign direct investment in the Saudi upstream energy sector (other than in the Saudi/Kuwaiti Neutral Zone) since ARAMCO, the national oil company, was nationalized with compensation during the period 1974-1980.

Implementation of the Crown Prince's Oil and Gas Initiative has been a slow process, in part due to uncertainty about which projects and what terms are acceptable to the government. Negotiations between the SAG and the oil companies began in April 2000. Among the projects being considered are investments in upstream gas exploration and development, electrical power generation, petrochemicals, refining, and water desalination. OPEC production constraints virtually preclude new foreign investment in the oil upstream (other than in the Neutral Zone) for the foreseeable future. Nevertheless, firms that invest in other areas will be well placed for possible oil upstream investment if the Saudi Government decides at some point to allow oil production by non-ARAMCO firms.

Saudi Arabia has enormous untapped gas potential. Until recent years, ARAMCO focused on oil exploration and production. In response to the Crown Prince's Oil and Gas Initiative, several major oil companies are making gas-related investment proposals to the SAG. The Crown Prince recently stated that the process would be transparent, and that foreign firms would provide useful competition to ARAMCO. New foreign investment under this initiative could total many tens of billions of dollars, an amount that would exceed the total present level of foreign investment in the country.

Observers believe that development of upstream gas resources is the most profitable portion of the proposal, and would make derivative projects in water desalination, petrochemicals and power generation more viable. ARAMCO operates the master gas system and is expected to participate with foreign partners in

plans to expand Saudi Arabia's gas supplies. Much of Saudi Arabia's current gas production is "associated" with oil deposits and cannot easily be utilized while oil production is constrained by its OPEC production quota. International oil companies are expected to focus on developing "non-associated" gas deposits which can be used as feedstock for derivative products and can substitute for oil in meeting the local demand for electricity. This, in turn, would free up more oil for export. Industry experts confirm that major energy companies are prepared to make billion dollar investments in Saudi Arabia if product pricing and other issues can be resolved.

Whether the SAG will opt for a regional approach to gas development and allow gas to be freely traded among GCC states remains an open question. Industry experts believe that a regional approach to gas would encourage substantially greater foreign direct investment in the near-term.

### Manufacturing

The Saudi industrial sector continued to grow in 1999. The latest Government figures revealed that there were 3,190 factories in Saudi Arabia with investments reaching \$61.9 billion. Foreign joint ventures investments were valued at \$39.07 billion in 1,609 projects. The largest number was in the manufacturing sector representing more than half the number of joint venture projects.

More than 88 percent of investments in the manufacturing sector were in plastics and petrochemicals. There are 98 petrochemical and plastic joint venture projects with investments valued at \$28 billion. The building materials industries come in second place with investments at \$1.7 billion followed by fabricated metal and machinery at \$1.08 billion. Growth of the non-oil processing industries is expected to reach more than six percent in current prices.

Joint venture projects in the services sector numbered 318 with total investments of \$3.49 billion. The United States remains the largest partner, both in number of projects and value. U.S. companies invested in 267 projects with a paid-up capital of \$2.25 billion, excluding companies registered in Bermuda, Panama, and Cayman Islands.

### Agriculture

Despite the goal of the Saudi Government to reduce water consumption by two percent annually over the 1995-2000 period, industry sources do not believe this target will be met. During the period 1990-1997, Saudi Arabia's agricultural sector had a negative 1.4 percent average annual shrinkage compared to 13.4 percent growth during 1980-1990.

The wheat and barley production quotas remained unchanged in 1999. The Saudi Government, through the Grain Silos and Flour Mills Organization (GSFMO), required farmers to grow wheat for domestic consumption only. On June 11, 2000, the Government subsidized the sale of barley, removing barley unloading charges, and also eliminating custom duties levied on imported feed alternatives and feed ingredients used in local production. Many farmers are now moving away from wheat to alfalfa production, which is used by Saudi dairies. The production of alfalfa has increased in recent years, draining Saudi water reserves.

Livestock and poultry farming are also growing steadily in Saudi Arabia. Broiler output jumped 30 percent in 1999, but Saudi Arabia remains a significant importer of frozen broilers.

The number of food processing companies continues to expand. Both local and well-known national brand potato chips, snack foods, fruit juices, and other products are produced in Saudi Arabia. Most food processors rely extensively, if not entirely, on imported raw ingredients.

Up to the end of 1998, the Saudi Arabian Agricultural Bank provided 42 percent more soft loans to finance the purchase of various equipment and machinery. The number of loans jumped from 3,942 in 1997 to 5,607 in 1998.

## Mining

Saudi Arabia has substantial deposits of a number of minerals, including iron ore, phosphates, bauxite, copper as well as other precious and non-precious metals. Studies conducted by the Directorate General of Mineral Resources (DGMR) have revealed large quantities of minerals in 42 fields spread throughout the Western and Central regions of the Kingdom.

In a move to enhance Saudi Arabia's economic diversification drive, the Saudi Government issued a Royal Edict announcing the formation of the Supreme Petroleum & Mineral Affairs Council (SPMAC). The SPMAC is responsible for the country's energy policy and will also supervise Saudi Aramco's projects. The SPMAC will also study and endorse general mining policies.

The Saudi Government plans to encourage private-sector investments in the mining sector, which is expected to grow strongly. In April 1997, the Saudi Government established the state-owned Saudi Arabian Mining Company (Ma\_,aden), which will consolidate all mining projects in which the government is involved. Ma\_,aden has already obtained concessions to produce gold and silver from the Al-Abar, Al-Hejar, and Al-Souk gold mines.

The Government provides many incentives to attract foreign investors, such as tax exemption for between five to ten years, and a 30-year extraction concession.

## Construction

Historically, the construction sector is a good indicator of Saudi Government spending levels. In recent years, however, declining government spending has had little or negligible impact on the Saudi construction sector due to greater private sector activity. The oil price recovery, which started in March 1999, has provided considerable relief for the Saudi budget, enabling the Government to initiate a number of delayed projects, especially expanding the country's infrastructure for water, power, health, telecommunications, and roads.

Saudi Arabia is the largest market for contractual works in the Near East. The Saudi construction sector is expected to grow more than 2 percent in 2000, mainly fueled by continued investments and expansion in capital projects in the power, water, telecommunications, and petrochemical sectors. A number of projects in the private sector are also moving forward. Housing starts and expenditures on urban development projects are expected to increase, catering to a growing population and an increased number of new households. A recent survey showed that there are close to 250 residential compounds Kingdom-wide.

Saudi Arabia's Economic Development Plan for 2000-2005 anticipates average annual growth in construction of 4 percent, with commercial and residential construction representing approximately seventy percent of this increase.

Nine commercial banks and two government-funded agencies provide credit, directly or indirectly, to the Saudi construction sector. Outstanding loans to the construction sector increased by more than 20 percent, from \$4.18 billion in 1997 to \$5.05 billion in 1998. That growth is expected to be sustained throughout 1999 and 2000.

## Banking

In general, the banking system is the strongest part of the private sector. Saudi Arabia's commercial banks have enjoyed steady profits for the last four years. In January 1999, the United Saudi Bank (USB) owned by Prince al-Waleed bin Talal, merged with the Saudi-American Bank (SAMBA). Nine banks remain in the banking community.

In 1999, the National Commercial Bank (NCB), largest in Saudi Arabia in terms of assets, sold 50 percent of its shares to the government-run Public Investment Fund (PIF) as part of a change of management and ownership. The Saudi Government has stated its intent to sell back the shares, as soon as the local capital markets are able to absorb them.

The banking sector enjoyed a significant boost in profits in late 1999 as a result of new regulations allowing for foreign ownership of mutual funds. Previously, only one closed-end fund, managed by the Saudi American Bank (SAMBA), allowed foreign ownership. Both the local stock market and share prices of the commercial banks saw a significant rise after the announcement of the new regulations, with the Saudi stock market registering a large 44 percent gain in 1999. If the opening of mutual funds to foreigners is followed by a similar opening of stock ownership, as promised by the Saudi Government, share values may be further boosted.

Although the Saudi stock market is the largest in the region in absolute terms, its capitalization to GDP ratio lags several other Middle Eastern markets. Only 74 firms are traded, with banks and SABIC (Saudi Basic Industries) dominating total capitalization. Greater privatization in the Saudi economy, including the creation of partial savings accounts in the two major pension systems of the country, would greatly boost the capitalization of the stock exchange, and make it a more important engine for economic growth.

#### Water Desalination

Saudi Arabia has more than 25 water desalination plants that provide approximately 726 million cubic meters of potable water daily accounting for 70 percent of Saudi Arabia's supply of drinking water. That figure is expected to reach 800 million cubic meters once a number of projects and expansions are completed.

During 1998, the Shuaiba first phase was commissioned providing 25 million gallons per day to both Makkah and Taif. The most pressing projects include a second station at Shuaiba and another at Yanbu, both on the Red Sea, plus a third station at Al-Khobar plant on the Arabian Gulf coast. The second phase of the Shuaiba plant, estimated to cost \$1.07 billion, is expected to supply 60 million gallons of water a day to Jeddah.

The Ministry of Agriculture and Water is currently working on a national water plan study. Based on the plan, the Ministry will allocate more than \$4 billion in order to provide water to all regions of the Kingdom over the next nine years. The Kingdom has a comprehensive network of water pipelines extending over 1,250 miles and 98 reservoirs with a total capacity of 105 million cubic feet.

The Saudi Government already provides water at a highly subsidized rate, charging approximately three cents per cubic meter for water that costs \$1.08 to produce. The Government is considering raising the rate for water to compensate for the high costs of the desalination process.

#### Insurance

Saudi Arabia is the second largest insurance market in the Arab world. The value of insurance premiums in both Saudi Arabia and the United Arab Emirates account for 70 percent of the total premiums collected in the Gulf Cooperation Council states.

A local insurance company reported that insurance premiums were \$2.06 billion in the Gulf Cooperation Council (GCC) countries of Saudi Arabia, Kuwait, Qatar, Bahrain, Oman, and the United Arab Emirates. With approximately 27.5 million people living in the GCC states, insurance per capita is about \$75.

Insurance premiums in Saudi Arabia amounted to \$760.5 million in 1997, a 5.1 percent growth over the year before. Based on a local survey, there are close to 70 insurance companies in Saudi Arabia offering all categories and classes of insurance. Medical insurance registered the highest growth in recent years. This reflects an increased awareness about personal insurance and a move toward private health care providers. Medical insurance premiums are expected to rise rapidly following the newly approved health care plan of the Saudi government.

Under new regulations, it is expected that private medical insurance will be obligatory for expatriate workers in the Kingdom as early as FY2001. The intent of this new system is to provide cooperative medical insurance on a non-profit basis. The premiums will be determined by a health insurance council. There are an estimated 6 million expatriates who will utilize this new system. Industry sources estimate that medical premiums should rise to \$800 million per year once the plan goes into effect. The largest health insurance company operating in Saudi Arabia is the state-owned National Company for Cooperative Insurance.

Motor insurance accounts for the second largest insurance coverage, with more than 23 percent of written premiums. Insurance premiums covering oil facilities, major projects, marine and aviation represent 44.4 percent of total insurance premiums.

#### - The Government's Role in the Economy

The Saudi budget process is opaque in many ways. Little is known about the method used to plan the annual budget or about the actual breakdown of the budget itself. Most importantly, the oil price forecast from which the Saudi Government (SAG) derives approximately 75 percent of its revenues is not officially released.

The SAG apparently projected an average price per barrel of Arab light of \$11.50 in 1999. The actual average for the year was about \$17. Additional budgetary revenues resulted from a 50 percent increase in gasoline prices in May 1999.

Despite the much-higher-than-projected oil revenues, the actual deficit in 1999 declined by less than three billion dollars from the original projection.

For 2000, the SAG apparently used a projection of approximately \$17 per barrel. Based on current market trends, which are subject to dramatic variations, we project the average price per barrel for 2000 to be well above that figure. At current production levels, every \$1 increase in the average price per barrel results in an additional \$2.9 billion in annual revenues. Government spending in 2000 is projected at SR 185 billion (\$49.3 billion), while income is forecast at SR 157 billion (\$41.9 billion). The largest items in the 2000 budget are wages, debt financing, and non-wage defense expenditures. Electricity price hikes, that took effect in April 2000, will help reduce the deficit. The projected 2000 deficit of SR 28 billion (\$7.5 billion) would follow the pattern of the past 17 years. However, in FY2000, if oil revenues rise to a yearly average of over \$20, and if spending rises by only five percent over the target level, the deficit should be largely covered. Possible receipts from the Saudi Telecommunication Company (STC) privatization may be used to retire debt or to cover current expenditures. How STC receipts are used will set a precedent for future privatization.

Saudi Arabia's public sector debt-to-GDP ratio was more than 120 percent at the end of 1999. The central government's domestic debt was about 115 percent of GDP, while a small public sector (mostly parastatal) external debt exceeded 5 percent of GDP. A large majority of public sector debt is financed by the two major pension funds which currently have a large cash position given the low retiree-to-active-worker ratio. The growth of domestic debt represents a burden on the economy. In particular, growing interest payments on the debt continue to crowd out other areas of budget expenditure, especially capital expenditure. Private investment capital, both domestic and foreign, must be encouraged to replace public capital. The slowdown in government capital spending has affected the important construction sector. The SAG has a general reluctance to borrow externally except through parastatals.

Wages continue to be a large portion of government spending, but are not growing rapidly, given restraints in recent years. The SAG has made clear through its campaign to restrict certain private sector jobs/positions to Saudi citizens that the private sector, not the government, is expected to be the prime source of new employment. A job growth rate above 6 percent per annum will be necessary to cope with the population increase.

Saudi Arabia's defense and national security budget line item incorporates spending by the Ministry of Defense and Aviation (MODA), the Ministry of the Interior, and other agencies. Although almost 40 percent of the budget is allocated to this line item per annum, a significant portion goes to functions such as police, internal security, customs and immigration, and other areas not traditionally incorporated in the defense spending figures of many countries.

Defined as such, defense expenditures remain the largest sectoral allocation of budget spending, even though defense procurements of goods and services have declined steadily in recent years and do not show signs of significant increase.

Large state corporations, generally monopolies, dominate the Saudi private sector. These firms include the oil firm Saudi ARAMCO, the Saudi Basic Industries Corporation (SABIC), the Saudi Telephone Company (STC), the Saudi Electricity Company (SEC), and the Saline Water Conversion Corporation (SWCC). Prior to the oil boom in the 1970s, parts or all of many of these firms, including ARAMCO, were in private hands.

In recent decades, the non-oil sector has accounted for one third of the Saudi GDP. During 1999, the non-oil sector grew 2 percent based on the positive financial performance of SABIC, the state-owned petrochemical company. The demand-driven hike in international petrochemical prices boosted SABIC earnings, which led to a positive performance of the sector.

Lack of diversity in sources of GDP and budgetary funds continues to impede Saudi economic development. Oil and oil derivatives make up around 90-95 percent of total Saudi export earnings, 75 percent of budget revenues, and approximately 35-40 percent of GDP. The 1999 GDP grew by only 0.5 percent in real terms, despite the recovery in oil prices. The Saudi Government (SAG) is considering updating its current GDP base year from 1970 to reflect broad changes in the economy since then. We project that the April 2000 boost in oil production will raise real GDP in 2000 to about four percent, with oil accounting for about half of the growth. The SAG has announced its intent to study new non-oil tax revenues, which could lessen the budget's dependence on volatile oil prices. Currently, personal income and value added taxes do not exist.

Saudi Arabia has 261 billion barrels of proven oil reserves (more than one-fourth of the world total) and up to 1 trillion barrels of ultimately recoverable oil. Saudi Arabia is the world's largest producer (at eight million barrels per day), exporter, and holder of spare oil production (about 2.5 million barrels per day). Saudi Arabia's share of world oil production has declined from 17 percent in 1980 to 10.4 percent currently. Recent price strength notwithstanding, the long-term trend for oil prices has been downward, given greater worldwide production, more efficiencies in usage, new technologies, and conservation. Faced with these factors, Saudi Arabia must diversify to create a basis for high sustainable economic growth in the coming decades. Economic liberalization is intended to answer these problems.

#### - Balance of Payments Situation

Mainly due to the likely rise in average oil prices in 2000, this year's current

account could be in balance or surplus for the first time since 1997.

Worker remittances account for much of the perennial current account deficits in Saudi Arabia. Remittances in 1999 equaled approximately \$16 billion. With 6-7 million foreigners living in Saudi Arabia, remittances continue to put a mild devaluating pressure on the Saudi currency. Arguably, Saudi economic development is further hampered by the lack of investment opportunities open to these workers in Saudi Arabia.

Senior SAG officials have stated an intention to open both non-commercial real estate and Saudi local stocks to foreign corporate ownership, but as yet final legislation remains to be enacted. Allowing foreign workers to own their own houses, and to invest in companies they have either come to know or work for in Saudi Arabia, could provide the means to keep significantly more capital in the local market.

The recent decision to provide visas for tourists in addition to religious pilgrims should help balance the current account. Net outflows of capital currently amount to about five to six billion dollars annually.

#### - Adequacy of the Infrastructure System

Saudi Arabia possesses a solid network of infrastructure to facilitate the distribution of goods and services. The business centers of Riyadh, Jeddah, and Dammam/Al-Khobar/Dhahran have international airports served by a variety of international airlines with passenger and cargo capabilities.

Because of the large distances that separate Saudi Arabia's main cities, air travel is preferred for travel within the Kingdom. This is restricted to the sole national airline, Saudi Arabian Airlines (Saudia). In 1998, Saudia transported more than 12.6 million passengers on 82,735 international and domestic flights. Most within-country freight is hauled by truck over a relatively good highway system linking the major business centers.

There are a total of 175 airports and four heliports. The network of paved roads expanded from 44,140 kilometers in 1997 to 48,661 kilometers in 1998. A sum of \$1.49 billion has been earmarked in the new budget for the transport and communications sector.

One rail link carries passengers and freight between Dammam and Riyadh. In association with the World Bank, the Saudi Government is currently evaluating the feasibility of establishing a number of railway lines over the next five years (2000-2005). Reliable sources at the Saudi Arabian Railways Organization expect the Organization to spend close to \$4.5 billion over the next five years on a Kingdomwide railway line network. The plan calls for a link between the seaports of Jeddah on the Red Sea and Dammam on the Persian Gulf. Other

projects include connections to major Saudi military installations, major future mining sites in the north with the cities of Jubail and Riyadh, and another linking Madina, Makka, and Jeddah.

Saudi Arabia has the largest seaport network in the Near East. The network comprises eight major ports with 183 piers. Jeddah and Dammam are the main international seaports for moving containerized and bulk cargo. Other ports are specially configured for more specialized uses, e.g., Ras Tanura for oil shipping, and Jubail and Yanbu for serving the petrochemical sector and heavy industry.

A new port at Dhiba was inaugurated during 1996 to handle both passengers and cargo, especially from Egypt. Moreover, a terminal for receiving pilgrims was added at the Jeddah Islamic Port.

The volume of cargo, other than oil, handled at these ports reached 91 million tons in 1998, More than 16 percent higher than in 1997. According to sources at the Seaport Authority, cargo handling in 1999 was relatively lower than in 1998.

As part of its privatization drive, the Saudi Ports Authority sub-contracted the operation and management at a number of ports whereby Saudi companies will operate six piers for the handling of bulk and container cargo. These companies are also expected to invest in order to upgrade and enhance the flow of goods through these piers.

Modern communications facilities are available including telephone, facsimile, Internet, and courier services. Sources at the Saudi Telecommunications Company (STC) expect that, by the year 2005, there will be 7.5 million lines operational, 6.5 million fixed lines and one million mobile lines.

The Government is embarking on a large-scale telecommunications upgrade program, and hopes to resolve the telecommunications bottleneck by the end of 2002 by installing an additional 4 million lines and issuing a second cellular license. A tender for an additional one million Global System for Mobile (GSM) lines has been awarded to Ericsson from Sweden.

Internet service in Saudi Arabia started in 1998. There are already 15 Internet service providers in Saudi Arabia, with close to 120,000 subscribers. This is expected to grow to 200,000 by the end of the year 2000.

Use of private satellite communications transponders is not allowed. Facsimile machines are heavily utilized in the conduct of business. A cellular phone system based on the GSM standard is operational and very popular, while radiophones are restricted.

STC has also invested into a \$1.5 billion underwater cable system, FLAG, which

will stretch from Jeddah through the United Kingdom to the United States of America.

#### - Regional Economic Integration

At the December 1999 Gulf Cooperation Council (GCC) Summit, members agreed to establish a customs union, to take effect in March, 2005, versus an original target date of 2001. The customs union will establish universal three-tier tariff levels for members at the rates of 0 percent, 5.5 percent and 7.5 percent. These are significant decreases from Saudi Arabia's current levels. GCC countries include Saudi Arabia, Kuwait, Qatar, Oman, Bahrain, and the United Arab Emirates.

Saudi Arabia is a member party in the following regional organizations and agreements:

- African Development Bank
- Arab Bank for Economic Development in Africa
- Arab Fund for Economic and Social Development
- Arab Gulf Programme for United Nations Development Organization
- Arab Monetary Fund
- Gulf Cooperation Council
- League of Arab States
- Organization of Arab Petroleum Exporting Countries

For many years, Saudi Arabia was one of the world's largest foreign aid donor countries. The country occupies leadership positions in many multilateral organizations, such as the World Bank and IMF, and also donates or lends substantial humanitarian, emergency and development amounts through the Saudi Red Crescent, the Saudi Fund for Development, and other bilateral funds. Averaging 4 percent of GDP per annum during the past 25 years, Saudi Arabia's average aid-to-GDP ratio was among the highest in the world, although aid flows have declined sharply since the Gulf War, reflecting the budgetary constraints cited above. This traditionally prominent position of leadership in international finance and development efforts stands in high contrast to Saudi Arabia's non-membership in the WTO.

The keystone of Saudi Arabia's economic reform program is pursuing membership in the World Trade Organization. Saudi Arabia made significant progress toward achieving WTO membership in 1999, but critical work remains before the accession negotiations are brought to a successful conclusion.

The accession negotiations continue to move forward in 2000, with efforts by all parties directed at bringing the Saudi offer in line with WTO norms. The process is complex and at times painstaking, but will ultimately result in the kinds of commitments needed to advance Saudi Arabia's economic and trade environment, and to advance the purposes of the WTO itself. The United States will continue to work with Saudi Arabia to bring the negotiations to a

successful conclusion.

- Revision of Laws Affecting Foreign Investment

Saudi Arabia's Council of Ministers recently approved a new Foreign Direct Investment Code. The Code establishes a framework for future legislative and regulatory activities meant to enhance the country's foreign investment climate.

The code will permit foreign investment in all but a few sectors and relax rules restricting foreign ownership of local businesses. Key provisions allow foreign investors to transfer money freely from their enterprises outside of the country; allow joint venture companies to sponsor their foreign investors as well as their foreign employees; and permit foreign investors to own real property for company activities. The SAG is also undertaking efforts to provide increased transparency regarding the procedures for resolving commercial disputes.

The Council of Ministers also approved the establishment of the Saudi Arabian General Investment Authority (SAGIA), headed by Prince Abdullah bin Faisal bin Turki, to provide information and assistance to foreign investors. SAGIA will operate under the umbrella of the Supreme Economic Council. SAGIA's duties will include formulating government policies regarding investment activities; proposing plans and regulations to enhance the investment climate in the country; and evaluating investment proposals. SAGIA must decide on license applications within 30 days, time.

The Code does not directly address taxation issues. However, the Saudi Minister of Finance and National Economy stated that the SAG will rebate 15 percent of corporate taxes imposed on foreign companies that have an annual profit of more than SR100,000 (\$26,667). Currently, the tax rate on such corporations ranges as high as 45 percent. The Minister indicated that this scheme will be in effect only until the current tax regime is revised - a process we understand is underway. Tax provisions reported to be under consideration include an allowance for foreign corporations to carry losses forward for an indefinite period, although the current ten year tax holiday may not be in effect for new investors. Incentives are expected for foreign companies which assist in the training of Saudi workers, establish operations in developing regions, license advanced technologies to local firms, and engage in research and development projects.

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### 3.: POLITICAL ENVIRONMENT

#### - Nature of Political Relationship with the United States

Saudi Arabia's unique role in the Arab and Islamic worlds, its possession of the world's largest reserves of oil, and its strategic location make its friendship important to the United States. Diplomatic relations were established in 1933; the U.S. Embassy opened in Jeddah in 1944 and moved to Riyadh in 1984. The post in Jeddah became a U.S. Consulate. A U.S. Consulate also opened in Dhahran in 1944.

The United States and Saudi Arabia share common concerns about regional security and stability, oil exports and imports, and sustainable development. Close consultations between the United States and Saudi Arabia have developed on international, economic, and development issues such as the Middle East peace process and shared strategic interests in the Gulf. The continued availability of reliable sources of oil, particularly from Saudi Arabia, remains important to the prosperity of the United States as well as Europe and Japan. Saudi Arabia is often the leading source of imported oil for the United States, providing more than 20 percent of total U.S. crude imports and 10 percent of U.S. consumption. The United States is Saudi Arabia's largest trading partner, and Saudi Arabia is the second largest U.S. export market in the Middle East.

In addition to economic ties, a longstanding security relationship continues to be important in U.S.-Saudi relations. A U.S. military training mission established at Dhahran in 1953 provides training and support in the use of weapons and other security-related services to the Saudi armed forces. The United States has sold Saudi Arabia military aircraft (F-15s, AWACS, and UH-60 Blackhawks), air defense weaponry (Patriot and Hawk missiles), armored vehicles (M1A2 Abrams tanks and M-2 Bradley infantry fighting vehicles), and other equipment. For many years, the U.S. Army Corps of Engineers had a long-term role in military and civilian construction activities in the Kingdom.

### - Major Political Issues Affecting Business Climate

The United States and Saudi Arabia share a common concern about regional security and stable development. Military cooperation during the 1991 Gulf War was extensive and remains a hallmark of the U.S.-Saudi bilateral relationship. The Government of Saudi Arabia adheres to the U.N.-imposed sanctions regime against Iraq. While it supports efforts to alleviate the sufferings of the Iraqi people, Saudi Arabia insists that the Iraqi regime must fully implement all U.N. resolutions before sanctions are eased. While also an advocate of a comprehensive peace in the Middle East, the Saudi Government has conditioned normalization of its relations with Israel on the resolution of final status issues, such as Jerusalem, and on success in the Syrian-Israeli bilateral peace negotiations.

### - Synopsis of the Political System

The central institution of Saudi Arabian Government is the monarchy. The Basic Law adopted in 1992 declared that Saudi Arabia is a monarchy ruled by the sons and grandsons of King Abd Al Aziz Al Saud, and that the Holy Qur'an is the constitution of the country, which is governed on the basis of Islamic law (Shari'a). There are no political parties or national elections. The King's powers are limited because he must observe the Shari'a and other Saudi traditions. He also must retain a consensus of the Saudi royal family, religious leaders (ulama), and other important elements in Saudi society. The Basic Law stipulates that the King alone chooses his successor, the Crown Prince. However, his choice must meet with the approval of leading members of the royal family.

The King governs the Kingdom through a Council of Ministers, which advises on the formulation of general policy and directs the activities of the growing bureaucracy. This council consists of a prime minister (the King), the first (the Crown Prince) and second (the Minister of Defense) deputy prime ministers, 20 ministers, seven ministers of state, and a small number of advisers and heads of major autonomous organizations. In the past year, establishment of several "Supreme" Councils (e.g. Economic, Petroleum & Minerals, and Tourism), has streamlined economic development decision-making.

Legislation is by resolution of the Council of Ministers and must be compatible with the Shari'a. Access to high officials (usually at a majlis, or public audience) and the right to petition them directly is a well-established tradition.

The Kingdom is divided into 13 provinces governed by members of the royal family. The King appoints all governors, who report to the Minister of Interior.

In March 1992, the King established a national Consultative Council, with appointed members having advisory powers to review and give advice on issues of public interest. It also outlined a framework for councils at the provincial or emirate level. The Consultative Council currently has 90 members, appointed to four year terms by the King.

#### - The Legal System

Saudi Arabia's legal system is based on Shari'a law, which is derived from the Qur'an and the traditional sayings (Hadith) of the Prophet Muhammad, and interpreted by the ulama, a body of religious experts.

Justice is administered by a system of religious courts whose judges are appointed by the king on the recommendation of the Supreme Judicial Council, composed of 12 senior jurists. Law protects the independence of the judiciary. The King acts as the highest court of appeal and has the power to pardon. Shari'a courts exercise jurisdiction over common criminal cases and civil suits regarding marriage, divorce, child custody, and inheritance. Cases involving relatively small penalties are tried in summary courts; more serious crimes are adjudicated in general courts. Other civil proceedings, including those involving claims against the government and enforcement of foreign judgments, are held before specialized administrative tribunals, such as the Commission for the Settlement of Labor Disputes and the Board of Grievances.

In order to ensure appropriate legal principles and punishments, the Justice Ministry, the Court of Cassation, or the Supreme Judicial Council reviews judicial appeals. In capital cases, the King acts as the highest court of appeal and has the power to pardon.

Laws are enforced by local police and officers of the Ministry of Interior. In addition, the religious police, members of the Committee for the Promotion of Virtue and the Prevention of Vice, enforce adherence to a strict version of Islamic norms by monitoring public behavior.

#### 4.: MARKETING US PRODUCTS AND SERVICES

A key word of the Saudi Government's economic agenda is reform. The SAG realizes that in order to diversify the economy, attract foreign investors, and boost government revenues other than oil, privatization and liberalization will be fundamental. Realizing the challenge of a slow GDP and increasing unemployment, the Saudi Government has embraced a number of measures to initiate and accelerate these reforms. Moreover, these reforms will help pave the way for Saudi Arabia to become a member of the World Trade Organization (WTO). The changes that will take place will eventually impose new set of rules and guidelines on how to conduct business in Saudi Arabia.

The following pinpoints these developments and policy initiatives:

- In August 1999, a Supreme Economic Council was formed to advise on and accelerate institutional and industrial reforms.
- In October 1999, the Crown Prince announced that foreigners would be allowed to own property, sponsorship requirements would be eased, the labor law would be changed, and the new Foreign Direct Investment law would be announced.
- In November 1999, foreign investors were allowed to invest in closed-end mutual funds. Currently, foreign institutional investors from outside the GCC states are allowed to invest in 12 open-ended mutual funds that are offered by Saudi banks. That same month, the Finance Minister announced that a Saudi entity, similar to the U.S. SEC, will be established for stock market transparency.
- During November 1999, the GCC states agreed on customs unification that will be fully implemented by March 2005; thus bringing Saudi tariffs down from 12-20 percent to 5.5-7.5 percent.
- In December 1999, a Supreme Petroleum and Minerals Council was formed to manage and accelerate the reentry of multinational oil/energy companies to Saudi Arabia under the Crown Prince's Oil & Gas Initiative.
- As of January 2000, higher electricity charges took effect following a restructuring and a merger of Saudi Arabia's 11 power companies into the Saudi Electric Company.
- In April 2000, a Supreme Commission for Tourism was formed to advise on and increase the tourist sector in Saudi Arabia.

The pending application of Saudi Arabia to the WTO could have profound implications for conducting business in Saudi Arabia. Until accession occurs, the following describes the present state of affairs.

#### - Distribution and Sales Channels

There are three major marketing regions in Saudi Arabia: The Western Region, with the commercial center of Jeddah; the Central Region, where the capital city Riyadh is located; and the Eastern Province, where the oil and gas industry is most heavily concentrated. Each has a distinct business community and cultural flavor, and there are few truly "national" companies dominant in more than one region.

Many companies import goods solely for their own use or for direct sale to end-users, making the number and geographical pattern of retail outlets a factor

of potential significance. U.S. exporters may find it advantageous to appoint different agents or distributors for each region having significant market potential. Multiple agencies and distributorships may also be appointed to handle diverse product lines or services.

While there is no requirement that distributorships be granted on an exclusive basis, it is clearly the policy of the Saudi Ministry of Commerce that all arrangements be exclusive with respect to either product line or geographic region.

Many Saudi companies handle numerous product lines, making it difficult to promote all products effectively. Saudi agents typically expect the foreign supplier to assume many of the market development costs, such as hiring of dedicated sales staff. Foreign suppliers often detail a sales person to the Saudi distributor to provide marketing, training, and technical support. Absent such an arrangement, U.S. firms should expect to make at least four visits per year to support their Saudi distributor.

In considering the socio-cultural differences between Saudi Arabia and the United States, in particular, the segregation of men and women, it should not be overlooked that the number of Saudi businesses owned and managed by women is significant, and growing rapidly. The latest published figures showed that Saudi women own and run about 16,390 companies, more than 4.5 percent of registered Saudi businesses. With the advent of the Internet, an increasing number of Saudi women are starting businesses from their home.

#### - Steps to Establishing an Office

The procedures to follow in establishing an office in Saudi Arabia differ according to the type of business undertaken. The most common and direct method of establishing an office is simply to appoint an agent/distributor, who can set up the office under their own commercial registry and obtain residency visas for any necessary expatriate personnel. The agent/distributor agreement should be registered with the Ministry of Commerce as previously described.

A second method might be to establish a technical and scientific service office, which requires a license from the Ministry of Commerce. This approach preserves the independence and identity of the foreign company's local office as a separate entity from the Saudi agent/distributor.

Technical and scientific service offices are not allowed to engage directly or indirectly in commercial activities, but they may provide technical support to the Saudi distributor as well as conduct market surveys and product research.

A third method is to establish a branch office, which is normally permitted only for foreign defense contractors and other limited exceptions such as Information

Technology (IT) companies. The establishment of branch offices is open to wholly foreign-owned entities, and requires approval of the Ministry of Industry and Electricity's Foreign Capital Investment Committee (FCIC). Industry sources have confirmed that some of the requirements and procedures for establishing a foreign branch office have lately been eased. The move has sparked a number of foreign IT companies to set up branch offices in Saudi Arabia.

An essential element in the FCIC's approval process is that the branch office contributes to Saudi Arabia's economic development. FCIC approval also requires the foreign company submit a certified copy of its charter and bylaws, accompanied by an Arabic translation, as well as the company name, address, date of establishment, type of business and amount of capital. The company's board of directors must also provide a resolution authorizing the establishment of a Saudi branch office.

Following FCIC approval, the branch office must establish and register with the Commercial Register of the Ministry of Commerce. The registration process requires representation by a Saudi attorney, although legislation is being under review to allow foreign lawyers to practice in Saudi Arabia.

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. Establishment requires a representative office license from the Ministry of Commerce.

Finally, foreign companies may establish an office by entering into a joint venture with a Saudi firm, as described in the next section.

Costs associated with setting up an office in Saudi Arabia have remained relatively unchanged from the previous year. As a general guide, the following are current costs of housing and office rental, as well as costs for employee salaries, taxes, and transportation. Most of these costs have remained relatively unchanged from previous years.

Typical rent per year for a one-bedroom furnished apartment is \$13,200, and \$16,134 for a two-bedroom apartment. A one-bedroom furnished villa in a Western-standard residential compound will rent per year for \$22,000 to \$23,650; two bedrooms, \$27,866 to \$29,333; three bedrooms, \$33,733 to \$36,666; four bedrooms, \$42,533 to \$54,266. Residential compounds in Saudi Arabia often include a swimming pool, tennis courts, a club house, and eating facilities. Typical management, maintenance, and use charges are usually included in the rental price, and security deposits are in the range of \$2,970. Rental terms are for one year payable in advance.

Office rental costs are variable, and are governed largely by the city and business location. Typical rental costs in a modern commercial center are approximately \$220 per square meter, inclusive of maintenance and utility charges. A 12-month rental is the minimum and advance payment is required.

Saudi law requires that Saudi nationals make up 75 percent of a company's work force and 51 percent of its payroll in all businesses, unless an exemption has been obtained from the Ministry of Labor and Social Affairs. However, due to a shortage of qualified Saudis, in practice much of the work force is made up of non-Saudi Arabs, Europeans, Americans and Asians. In 1996, the Saudi Government implemented a regulation requiring each company employing over 20 workers to include a minimum of five percent Saudi nationals. Companies not complying with the five percent rule (which increases in annual increments of five percent) are not supposed to receive visas for expatriate workers.

Saudi Arabia's seven million expatriates include 4.7 million laborers employed in various sectors, who annually transfer close to \$16 billion. In general, the government encourages recruitment of Muslim workers, either from Muslim countries, or countries such as India, or Sri Lanka with sizable Muslim populations. The largest groups of foreign workers now come from Pakistan, The Philippines, India, and Egypt.

An employee's nationality and level of experience, as well as the nature and location of the business will create variations in pay, but a typical manager's yearly salary (base) is approximately \$30,000 to 40,000. Mid-level office workers are paid approximately \$20,000 to 30,000 per year. A clerical worker's base yearly salary is in the range of \$8,000 to 10,000. A support worker (driver, caretaker) earns in the range of \$6,000 to 7,000 yearly.

Local Saudi employee taxes are 15 percent of base or combined with benefits. From base salary and housing, companies withhold five percent and pay 10 percent. It is customary to provide non-Saudi workers with furnished accommodations or a housing allowance as well as round-trip airfare to their country of origin on a yearly basis.

Regarding transportation, four-door sedans rent monthly for approximately \$960, and yearly for about \$11,500. A new GMC Suburban can be purchased for approximately \$30,373.

It is important to note that the law forbids females in Saudi Arabia, regardless of nationality, to drive motor vehicles.

Additional monies, along the lines mentioned above, should be included in an office budget to provide sufficient cars and drivers for transportation of female family members and staff. Expatriate workers also pay educational tuition at local international schools, or boarding school fees for older children.

Business travelers coming to Saudi Arabia to explore business opportunities are eligible for a visitor's visa, which is usually a single-entry visa for up to three months' duration, even though a revision was passed in October of 1999 allowing for a two-year, multiple-entry visas for U.S. citizens. Americans are urged to request such visas in accordance with the reciprocal visa agreement between the two countries.

Currently, the visitor's visa application requires the U.S. company's representative to submit to Saudi visa authorities a letter of invitation issued by a Saudi company that has agreed to serve as his sponsor. The letter, which must be in Arabic, must be on the Saudi company's letterhead, in the original, and must bear an authenticating stamp from the Saudi company's local chamber of commerce.

The U.S. company's representative must apply for the visa prior to departing the United States at either the Saudi Embassy in Washington, D.C., or at one of the Saudi Consulates in Houston, Los Angeles or New York City. Saudi visa authorities strictly enforce these requirements. Airport visas are impossible to obtain.

#### - Creating a Joint Venture

Recently, the Saudi Government reviewed the foreign investment code to encourage more Saudi-foreign joint ventures in Saudi Arabia. The new code has yet to be implemented, and the information below refers to current practices.

Foreign investment is generally welcomed in Saudi Arabia if it promotes economic development, transfers foreign expertise to Saudi Arabia, involves Saudis in ownership and management, creates jobs for Saudis, and expands Saudi exports.

Foreign investment is regulated under the Foreign Capital Investment Law administered by the Ministry of Industry and Electricity (MIE), which must approve all investments except banks, which are licensed by the Ministry of Finance and National Economy. The Ministry of Petroleum and Mineral Resources handles investments involving mineral extraction.

Foreign investment is normally limited to joint ventures in which the Saudi partner holds at least 25 percent up to a majority share. There are no restrictions on the use of currency accounts or on the entry or repatriation of capital, profits, dividends, or salaries, provided tax requirements have been satisfied and clearance provided by the Department of Zakat and Income Tax.

Foreign ownership is not permitted in a few sensitive areas or in well-developed sectors where it is believed sufficient local investment and expertise already exist.

A variety of incentives may be available to foreign investors upon approval of the Ministry of Industry and Electricity (MIE). These include tax holidays for five years (ten years for industrial and agricultural projects), duty free importation of capital equipment, spare parts and raw materials for the duration of the project, and access to low cost financing, industrial land, and utilities.

Local products receive price preferences of 10-20 percent in Government tenders. Most incentives are only available to joint ventures with at least 25 percent Saudi ownership.

Licensing is an appropriate method of doing business in Saudi Arabia under some circumstances, but the tax implications should be considered. Royalties, license fees, and certain management fees are deemed to be 100 percent profit, and the full amount will be taxed at the normal corporate tax rate for non-Saudi companies.

The process for establishing a joint venture is as follows:

First, the Ministry of Industry and Electricity (MIE) and its constituent parts must review and process all applications for industrial projects. Within the MIE, the Industrial Licensing Department (ILD) and Foreign Capital Investment Bureau (FCIB) are responsible for evaluating and licensing industrial projects. Non-industrial projects are handled unilaterally by the FCIB.

The MIE's Industrial Protection and Encouragement Department (IPED) studies the project's potential impact on domestic industry and determines any tariff protection that may apply. The MIE's Industrial Cities Department (ICD) evaluates requests for sites in Saudi Arabia's industrial cities.

In addition, an application must be made to the Foreign Capital Investment Committee (FCIC) for a foreign investment license. The FCIC is an inter-ministerial committee that receives recommendations forwarded by the MIE/FCIB, and after study makes its recommendation for final approval to the MIE. Following the issuance of the investment license, an application for commercial registration is made to the Ministry of Commerce (MOC).

In this process, the MOC will approve the joint venture's Articles of Association, register the company under the MOC's Companies Regulations, and assign a commercial registration number.

Depending on the nature of the foreign investment, the Saudi Arabian Standards Organization (SASO) may be involved. SASO is the Saudi authority for establishing product standards for imports and locally-manufactured goods, and will examine products or processes to be used to ensure they meet existing or planned Saudi standards.

The Saudi Industrial Development Fund (SIDF) may be engaged to provide up to 50 percent financing for approved industrial joint venture projects. Market intelligence also is available through the SIDF for prospective investors.

Other Saudi Arabian Government entities that may be involved in the process include the Ministry of Foreign Affairs (visas), the Ministry of Interior (residence permits and industrial safety and security approvals), the Ministry of Labor and Social Affairs (work permits for foreigners), the Royal Commission for Jubail and Yanbu (if the project is sited at the Saudi industrial cities of Jubail or Yanbu), the General Organization for Social Insurance (social insurance and disability payments for Saudi employees), and the General Organization for Technical Education and Vocational Training (training programs for Saudis).

Foreign investors may structure their enterprise as a limited liability company (the most commonly used approach), as a joint-stock company, or as a joint venture. By law, limited liability companies must not have less than two nor more than fifty shareholders and must be capitalized with at least SR. 500,000 (\$133,333). Limited liability companies are forbidden to deal in insurance or financial enterprise. Joint stock companies are a variety of the limited liability company that can be held either privately or publicly. They resemble U.S. corporations in structure and function.

Joint ventures are unincorporated associations in which each party to the venture holds title to his mutually agreed contribution. They resemble general partnerships. The Ministry of Commerce approves formation of all joint ventures.

Applications must include the venture's objectives, rights and liabilities, as well as the manner in which profits are to be divided. A detailed "Guide to Establishing Joint Ventures in Saudi Arabia" is available in CD-ROM format on the National Trade Data Bank. A few major U.S. accounting firms with Saudi offices also publish very useful guides to the tax and legal aspects of doing business in Saudi Arabia.

Once the new Foreign Direct Investment Code is implemented, the formidable set of rules and regulations that applied to foreign investment should be replaced by a more transparent and easier process through a one-stop shop, the Saudi Arabian General Investment Authority (SAGIA). A key goal of SAGIA's creation is to see that the license process takes no more than 30 days.

- Use of Agents/Distributors; Finding a Partner and Attorney

The Saudi Government is currently reviewing a new agency law and related regulations with the aim of improving and further promoting commercial exchanges

as Saudi Arabia prepares to join the World Trade Organization (WTO).

U.S. exporters are not required to appoint a local Saudi agent or distributor to sell to Saudi companies, but commercial regulations restrict importing and direct commercial marketing within the Kingdom to Saudi nationals and wholly Saudi-owned companies. Agent/Distributor relations are governed by the Commercial Agency Regulations of the Kingdom of Saudi Arabia that is administered by the Ministry of Commerce. Saudi commercial regulations are also being revised.

Obtaining a two-year multiple entry business visa for Saudi Arabia requires sponsorship by a Saudi national, and Saudi nationals receive strong preference in sales to Saudi Arabian Government (SAG) agencies and parastatal corporations. Consequently, U.S. firms may find it advantageous to establish local representation, especially for product lines requiring strong sales and service efforts.

Foreign contractors wishing to bid for SAG contracts must appoint a local service agent, and consultants must be represented by a Saudi consulting agency.

The compensation payable to a local service agent is limited to five percent of the total contract price as per the Service Agency Regulations. However, that percentage is not adhered to at all times.

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. Time is better spent in making the proper initial selection than in attempting to end an unsatisfactory relationship at a later date. The U.S. Commercial Service, through its U.S. District Offices, Export Assistance Centers, and overseas posts, offers a variety of services to assist U.S. firms in selecting a reputable and qualified representative. A complete "Guide to Agency/Distributor Regulations in Saudi Arabia" is available through the National Trade Data Bank in CD-ROM format (Tel: (202) 482-1986 for details).

Saudi law is based on the Islamic Shari'a and differs considerably from U.S. practice. U.S. firms contemplating a joint venture, licensing, or distribution agreement are advised to consult with a local attorney. The American Embassy and Consulates can provide a list of attorneys.

- Performing Due Diligence/Checking Bona Fides of Banks/Agents/Customers

In 1995, the Commercial Service in Saudi Arabia ceased to offer regular International Company Profile (ICP) reports. Nonetheless, CS Saudi Arabia will provide bona fides checks in support of a U.S. company's due diligence process, if requested.

Dun and Bradstreet's local agent, Amer Research Company, can produce complete

background and credit reports. The company can be reached at: (966 1) 406-5050 ext. 4118, Fax: (966 1) 403-7491, Attention: Mr. Salah Ibrahim. E-mail:salah@zajil.net.

#### - Franchising and Direct Marketing

Franchising is a popular and growing approach for local firms to establish additional consumer-oriented businesses in Saudi Arabia. Although the franchise market is small relative to that in the United States, it is rapidly expanding in several business sectors.

Franchising opportunities exist in the following business categories: apparel, laundry and dry cleaning services, automotive parts and servicing, mail and package services, printing, and convenience stores.

Success in franchising in the Saudi market is often attributed to finding the appropriate franchisor and location. Non-food franchises account for 55 percent to 65 percent of the franchise market.

Franchising remains a growing sector in Saudi Arabia. This is in part due to a desire among Saudis to own their own business, and an appreciation for Western methods of conducting business.

Competition is particularly fierce between U.S. franchisors and local and third country competitors in the following sectors: car rental agencies, laundry and dry cleaning services, and auto maintenance. Moreover, some local fast food outlets are already making inroads, being more successful and more accommodating to the Saudi tastes.

Direct marketing is not widely used in Saudi Arabia. Personal relations between vendors and customers play a more important role than in the West; furthermore, many forms of direct marketing practiced in the United States are unacceptable due to Islamic precepts regarding gender segregation and privacy in the home. Limitations in the Saudi postal system are also a constraint: no home delivery or postal insurance is available yet; however, as part of the privatization of the Post, Telecommunications, and Telegraph Ministry, it is likely that mail and parcel home deliveries could begin by the end of 2001.

Direct marketing has been conducted on a very limited basis using unsolicited mail campaigns and fax, catalog sales (with local pick-up or delivery arranged), and commercials on satellite television providing consumers in many nations (including Saudi Arabia) with a local telephone number to arrange delivery.

The advent of the Internet in the Saudi market will increasingly have a profound effect on Saudi shopping behavior, providing increased possibilities and accessibility for Saudi consumers.

### - Selling Factors/Techniques

Expatriate managers have had a strong influence in introducing advanced selling techniques into a market that relied heavily on word-of-mouth and established buying patterns until a few years ago. Advertising and public relations firms are multiplying in Saudi Arabia and the Saudis themselves have become a discerning, sophisticated clientele.

Although details of a transaction can be handled by facsimile, now in widespread use, no serious commitment is likely to be made without a face-to-face introduction. Business cards are usually printed in English on one side and Arabic on the other.

Saudis are gracious hosts and will try to put a visitor at ease, even during arduous business dealings. A large portion of upper and middle class Saudis were educated in the United States or in Europe.

The positive aspect of the Saudis' familiarity with the United States is that most importers are very receptive to American products because of the U.S. reputation for state-of-the-art technology, durability, and stable prices. Of course, this goodwill can be used only as an introduction, since a product must be competitively priced and readily available to make a sale.

Financing may also be offered as part of a sales proposal, usually after a solid relationship has been established. Financing is increasingly becoming an important facet of business dealings with Saudi Government agencies. Likewise, the Government has begun to experiment with Build-Operate-Transfer (BOT) financing schemes.

Foreigners need to find a Saudi partner before they are allowed to engage in trade within Saudi Arabia, but direct sales can be made to Saudi private clients without having to use a local agency. Saudi Ministries will purchase only from local agents or distributors, and contracts for major projects are usually awarded to joint ventures linking foreign and Saudi partners.

An irrevocable letter of credit (L/C) is the instrument normally used for Saudi imports; open account, cash in advance and documentary collection are also acceptable if both parties agree. Maximum or minimum credit terms are not required. Export Credit Insurance for political and commercial risk is available from the Foreign Credit Insurance Association (F.C.I.A.) of the U.S. Export-Import Bank in Washington, D.C. (Tel: 202-566-8990 or 212-306-5084).

The Government maintains a free trade approach to exchange transactions: no exchange restrictions apply; exchange for payments abroad is obtained freely; and there are no taxes or subsidies on foreign currency transactions.

Furthermore, the Saudi business community is becoming increasingly aware of the value of electronic commerce. With an increasing demand for high-speed Internet access coupled with the requirement for improved interconnectivity, industry sources expect that this surge in awareness will boost regional and international business. Saudi ARAMCO, the National Oil Company, is for example spearheading the use of e-commerce and is also encouraging local vendors to do the same in order to expedite and streamline procurement procedures. For that matter, the Ministry of Commerce is forming a team to establish regulations regarding electronic commerce that is expected to expand.

Since 1981, the Saudi Arabian Monetary Agency (SAMA) has pegged the riyal to the dollar, to facilitate long term planning and minimize exchange risk for the private sector. The rate has remained stable at \$1 = SR 3.7450 since 1987.

#### - Product Pricing and Licensing

A rate of exchange of the dollar to the riyal has been set at 3.745 since 1987, a competitive dollar value compared to the Japanese and European currencies, and reasonable interest rates have greatly facilitated market penetration. Thanks to this, Saudi importers expect U.S. producers to practice a more stable pricing policy than their foreign competitors.

Products are usually imported on a CIF basis, and mark-ups depend almost entirely on what the vendor feels that the market will bear relative to the competition. There is no standard formula to come up with the mark-up rates for all product lines at different levels of the relatively short distribution chain. Pricing is very important to the average Saudi. Therefore, where there are competitive products, Saudi buyers frequently will compare prices before making a buying decision.

Stability of prices has been a policy of the Saudi Government for years, and after rising to five percent in 1995 as a result of the utility and gas rates hikes, inflation was negative 0.2 percent for the 12-month period ending December 1998. Likewise, the Embassy forecasted a negative 1.2 percent inflation for the year ending 1999. For the U.S. supplier, some give-and-take is expected in preliminary negotiations. The asking price is usually lowered a bit, to entice the client and to bow to the old-fashioned Saudi penchant for bargaining and personal exchange.

Financing has become a leading consideration in purchasing, especially for investment goods and repeat orders. As leveraged transactions become the norm, Saudis have come to understand that an attractive financial package can be even more interesting than an up-front low price.

The support and services provided by the U.S. Export-Import Bank attract the Saudis' keen interest, and are being considered for several major projects.

## - Advertising and Trade Promotion

Advertising, once a relatively secondary aspect of sales has come into its own, especially with the recent lifting of a ban on televised commercials. Most companies' advertising budgets now cover the complete array of media, such as TV, newspapers, trade magazines and billboards, in addition to trade promotion events. Saudis receive preferential rates.

Bright colors such as red, blue, green and black dominate ads. Pink, cream and other soft colors are not as popular. With some modest exceptions, the female human form is not culturally or religiously acceptable in the media. Landscapes and other non-human images are commonly featured. Ads, packages, and product literature are frequently in both English and Arabic.

A recent study by a local research firm indicated that advertising expenditures in the Gulf Cooperation Council (GCC) countries are expected to rise 12 percent from \$817 million in 1998 to \$913 million in 1999.

Televised commercials are broadcast on the two Saudi channels (Secam color system) during limited periods of the day. One TV channel is in Arabic; the second is in English, with broadcasting covering all of Saudi Arabia. Cost of a time slot varies considerably, depending on timing, and is usually less costly for Saudis than foreign firms. Contents are thoroughly screened to conform to strict moral and religious standards.

A new approach to presenting products is advertising through international TV channels such as CNN and MBC (Middle East Broadcasting Corporation in London). In 1997, two new satellite channels broadcasting from Beirut, Lebanon, went on the air, the Lebanese Broadcasting Company (LBC) and Future Television. Many analysts rate the two channels as the most popular pan-Arab stations, and most major Saudi companies place commercials on these two channels as well as on the MBC channel.

Arab satellite TV stations are expected to have an increasing share of advertising spending which is projected to reach \$439 million in 1999, a 22 percent rise over 1998. In addition, two encrypted TV networks each provide approximately 30 channels for an average subscription of \$1000 per year. The networks include Orbit Communications and ShowTime. Other Arabic satellite channels that have been launched, such as Arab Radio and Television, are also attracting numerous advertisers. These TV channels have succeeded in introducing several new products to the market.

Newspaper advertising is carried in both the local English and Arabic press, but its effectiveness is somewhat limited by the relatively low readership rates. The three local dailies published in English have a circulation in the range of

20,000 to 50,000 copies: Arab News (London); Saudi Gazette (Jeddah); Riyadh Daily (Riyadh). The leading Arabic newspapers, with nationwide distribution, have circulation in the 70,000 to 100,000 range: Al-Hayat, Al-Shark Al-Awsat, Okaz. Other relevant newspapers have lower circulation, and some have only regional distribution: Al Bilad, Al Jazira, Al Madina, Al Nadwa, Al Riyadh, Al Youm, Um Al Qura, Al-Riyadiya (sports only). Another economic daily, Al Iqtisadiyah, has rapidly earned a loyal readership of executives and Government officials.

#### Arab News

Contact: Javid Hassan, Editor  
Riyadh, Saudi Arabia  
Phone: (966 1) 441-9933  
Fax: (966 1) 441-9390

#### Saudi Gazette

Contact: Edgar Cadano, Editor  
Riyadh, Saudi Arabia  
Phone (966 1) 465-3324  
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#### Riyadh Daily

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NOTE: 966 is the country code for Saudi Arabia if dialing from the United States or other locations outside Saudi Arabia

- Sales Service/Customer Support

Saudi Arabia is a relatively open market, which makes it highly competitive. Brand loyalty and established preferences are less developed than in other countries. Consequently, above average sales service and customer support are indispensable to win and maintain new clients.

As the Saudi market matures, this will become more and more the norm. The recent economic slowdown is adding to the competitive pressure; the sell-and-forget techniques still common in the 1980s are definitely out.

Saudis view a foreign firm's physical presence in the Kingdom as a tangible sign of a long-term commitment. Prompt delivery of goods from available stock and the presence of qualified support technicians have become more important, and

they influence repeat business much more now than ten or even five years ago. Government agencies usually require equipment suppliers to commit to providing maintenance and spare parts for an average period of three years.

#### - Selling to the Government

In 1999, SAG actual spending stood at \$48.3 billion, or about 34 percent of GDP, which compares favorably with a 38 percent a year earlier as a sign that the Saudi private sector is again assuming an increasingly major role in Saudi Arabia's economic performance.

U.S. firms considering sales to the Government should request a briefing from the Embassy concerning the latest situation on payments and how U.S. firms can protect themselves. As a practical matter, U.S. companies seeking sales of goods and services to the Saudi Government should appoint a reputable agent or distributor with experience in the field.

Foreign contractors operating solely for the Government, if not already registered to do business in Saudi Arabia, are required to obtain temporary registration from the Ministry of Commerce within 30 days of contract signing. They are also required to select a Saudi national as an officially registered agent (weapons sales are exempt from this agency requirement). Compensation for agents is limited to a maximum of 5 percent of contract value; however, the rate may vary depending on the agreement.

Foreign companies also may be allowed to establish a branch office by obtaining a foreign capital investment license from the Ministry of Industry and Electricity.

Branch offices are usually approved only for foreign defense contractors and high-tech companies. For others, a liaison office may be established to supervise work in Saudi Arabia and to facilitate coordination between the Government and home offices. This requires approval of the Ministry of Commerce. Liaison offices are prohibited from conducting commercial business in Saudi Arabia.

Foreign contractors involved in public works projects are required to subcontract at least 30 percent of the contract value to 100 percent Saudi-owned companies. This requirement also applies to limited liability partnerships with less than 51 percent Saudi ownership. The subcontractor must be qualified to perform the work and may not further subcontract any portion of it. Purchases of Saudi products and services and of imported products from Saudi distributors may count toward the 30 percent requirement.

#### - Protecting Your Product From Intellectual Property Right Infringement

Saudi Arabia has a Copyright Law. However, this law does not extend protection to works that were first displayed outside of Saudi Arabia unless the author is a Saudi citizen. The Saudi Government has taken actions to enforce copyrights of U.S. firms, and pirated material has been seized or forced off the shelves of a number of stores. Enforcement has been strongest for printed material, recorded music, and videos. Pirated software is still easily obtained in Saudi Arabia, although it has been removed from open display on store shelves. A recent Islamic ruling, or "fatwa" ruled software piracy to be "forbidden".

In 1996, Saudi Arabia was moved from a &priority watch list\_8 country to a &watch list\_8 country under the Special 301 provision in recognition of its work to improve intellectual property protection. Saudi Arabia remains on the &watch list\_8.

Trademarks are protected under the Trademark Law. Trade secrets are not specifically protected under any area of Saudi law. Nonetheless, they are often protected by contract. There is no specific protection for semiconductor chip layout design. However, such protection would be provided under the Patent Law and the Copyright Law. This, and certain other intellectual property concerns, are being addressed under the TRIPS agenda issue, in connection with Saudi Arabia's application to accede to the WTO.

U.S. firms that wish to sell products in Saudi Arabia should work through their local representative to register their trademarks with the Ministry of Commerce and copyrighted products with the Ministry of Information, which are responsible for IPR protection in these areas, and report any suspected incidents of piracy or infringement to the Ministry.

Numerous trade promotion events take place from September through June, with most of them held in the modern exhibit centers in Saudi Arabia's three major cities:

Riyadh Exhibitions Co., Ltd.  
PO Box 56101 Riyadh 11554, Saudi Arabia  
Tel: (966 1) 454-1448  
Fax: (966 1) 454-4846  
e-mail: info@recexpo.com  
Contact: Akram Al-Masri, Director of Exhibition Services

Al-Harithy Co. for Exhibitions, Ltd.  
PO Box 40740 Jeddah 21511, Saudi Arabia  
Tel: (966 2) 654-6384  
Fax: (966 2) 654-6853  
Contact: Saeed Haider, General Manager

Dhahran International Exhibition

PO Box 7519 Dammam 31472, Saudi Arabia  
Tel: (966 3) 857-9111  
Fax: (966 3) 857-2285  
Contact: Najeeb Abdul Rahman Al-Zamil, General Manager

Each exhibit center organizes five to ten events a year, and even though the programs have varied over time, the recurrent themes cover most industries of interest for U.S. exporters: agriculture, automotive, computers, medical and lab equipment, construction, production technology, electrical and A/C-heating, and communications. Smaller exhibit facilities are also located in regional centers, and often operate in cooperation with or under the sponsorship of the local Chamber of Commerce.

Most Chambers have a proactive approach to promotion and trade, organizing shows and presentations for individual companies or groups, and have been eager to attract American and other Western suppliers.

The main Chambers Are:

Council of Saudi Chambers of Commerce and Industry  
PO Box 16683 Riyadh 11474, Saudi Arabia  
Tel: (966 1) 405-3200  
Fax: (966 1) 402-4747

Riyadh Chamber of Commerce and Industry  
PO Box 596 Riyadh 11421, Saudi Arabia  
Tel: (966 1) 404-0044  
Fax: (966 1) 402-1103

Jeddah Chamber of Commerce and Industry  
PO Box 1264 Jeddah 21431, Saudi Arabia  
Tel: (966 2) 651-5111  
Fax: (966 2) 651-7373

Dammam Chamber of Commerce and Industry  
PO Box 719 Dammam 31421, Saudi Arabia  
Tel: (966 3) 857-1111  
Fax: (966 3) 857-0607

Makkah Chamber of Commerce and Industry  
PO Box 1086 Makkah, Saudi Arabia  
Tel: (966 2) 534-3838  
Fax: (966 2) 534-2904

Medina Chamber of Commerce and Industry  
PO Box 443 Medina, Saudi Arabia

Tel: (966 4) 822-5380  
Fax: (966 4) 826-8965

Taif Chamber of Commerce and Industry  
PO Box 1005 Taif, Saudi Arabia  
Tel: (966 2) 736-6800  
Fax: (966 2) 738-0040

## 5.: LEADING SECTORS FOR US EXPORTS AND INVESTMENTS

### A.) Best Prospects for Non-Agricultural Goods and Services (Rank Order)

1. OIL AND GAS EQUIPMENT AND SERVICES
2. AUTO PARTS AND SERVICE EQUIPMENT
3. TELECOMMUNICATIONS SERVICES
4. ELECTRICAL POWER SYSTEMS
5. CHEMICAL PRODUCTION MACHINERY
6. COMPUTER SOFTWARE AND SERVICES
7. FRANCHISING
8. AIR CONDITIONING AND REFRIGERATION EQUIPMENT
9. BUILDING PRODUCTS
10. COSMETICS/TOILETRIES
11. PHARMACEUTICALS/DRUGS
12. OPERATIONS AND MAINTENANCE SERVICES
13. MEDICAL EQUIPMENT
14. APPAREL
15. EDUCATION AND TRAINING SERVICES
16. SECURITY AND SAFETY EQUIPMENT
17. INSURANCE SERVICES
18. FURNITURE
19. PRINTING/GRAPHICS EQUIPMENT
20. POLLUTION CONTROL EQUIPMENT
21. FINANCIAL SERVICES
22. HEALTH CARE SERVICES
23. TRAVEL AND TOURISM SERVICES
24. SPORTING GOODS/RECREATIONAL EQUIPMENT

### B.) Best Prospects for Agricultural Goods and Services (Rank Order)

1. CORN
2. SOYBEAN MEAL
3. RICE
4. PROCESSED FRUITS AND VEGETABLES
5. SNACK FOOD
6. BREAKFAST CEREAL

## C.) Significant Investment Opportunities Offered by Privatization Efforts

1. TELECOMMUNICATIONS SECTOR
2. ENERGY SECTOR
3. OIL & GAS SECTOR
4. PETROCHEMICAL SECTOR

### 1. OIL AND GAS EQUIPMENT AND SERVICES (OGM)

Saudi Arabia has enormous untapped gas potential. Its natural gas reserves total 204.0 trillion standard cubic feet (tcf) including nearly 68 tcf of non-associated gas. Until recently, Saudi Aramco, the national oil company, focused on oil exploration and production. In response to the Crown Prince's Oil and Gas Initiative, several major oil companies have submitted their gas-related investment proposals to the Saudi Government. New foreign investment under this initiative could total many tens of billions of dollars, an amount that would exceed the total present level of foreign investment in the country. Observers believe that development of upstream gas resources is the most profitable portion of the proposal, and would make derivative projects in water desalination, petrochemicals and power generation more viable.

Saudi Aramco operates the master gas system and is expected to participate with foreign partners in plans to expand Saudi Arabia's gas supplies. Much of Saudi Arabia's current gas production is "associated" with oil deposits and cannot easily be utilized while oil production is constrained by its OPEC production quota. International oil companies are expected to focus on developing "non-associated" gas deposits which can be used as feedstock for derivative products and can substitute for oil in meeting the local demand for electricity. This, in turn, would free up more oil for export.

Industry experts confirm that major energy companies are prepared to make enormous investments in Saudi Arabia if product pricing and other issues can be resolved.

(Note: Due to the size and scope of the oil and gas industry in Saudi Arabia and because of lack of official statistics produced in country, it would be impossible to try to quantify total production, export or import in concrete terms.)

### 2. AUTO PARTS AND SERVICE EQUIPMENT (APS)

Saudi Arabia is the largest and most sophisticated car market in the Near East. As a result of declining per capita income, more people are opting for used or reconditioned automobiles. Others prefer to defer new car purchases through regular and extensive maintenance of their vehicles. On average, car lifetime

has increased from five to almost ten years during the 1997-2000 period. With this increase in automobile life, the market for auto parts has grown dramatically. Industry sources believe that the Saudi market for automotive after-market parts reached \$608 million in 1999, excluding tires and OEM parts. As more new car makes and models are introduced, the Saudi spare parts market will expand accordingly. The market is already very competitive.

Although counterfeit parts still exist, local dealers and distributors are cooperating with international auto spare parts suppliers to aggressively campaign against fake and counterfeit automotive parts.

As more technologically advanced and newly developed features are included in automobiles, market demand for car spare parts will also evolve. U.S. manufacturers and suppliers of spare parts are expected to take advantage of those new opportunities, including side-protection bars, air bags, electronic fuel injection systems, electronic-no-point distributors, ABS braking system, front-wheel McPherson strut bar, DOHC engines, and sophisticated entertainment systems.

	1998(E)	1999(E)	2000(E)
a. Total Market Size	578	606	636
b. Total Local Production	89	91	93
c. Total Exports	53	54	55
d. Total Imports	542	569	598
e. Imports from the U.S.			

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

### 3. TELECOMMUNICATION SERVICES (TES)

The privatization of the telecommunications sector is a top priority for the Saudi Government. Since its formation in mid-1998, the Saudi Telecommunications Company (STC) has carried out major telecommunications projects kingdom-wide, gradually taking over from the Ministry of Post, Telephone and Telegraph (PTT). Likewise, the Saudi private sector is also involved in the development of telecommunication services, providing prepaid calling cards, Internet services, and phone cabins. In addition, Saudi telecom companies acquired an equity share in the global telecommunication provider, Globalstar. Recently, the Saudi Government issued about six licenses to private companies to operate VSAT telecommunication links, both voice and data.

In an effort to speed the liberalization of the telecommunication sector, the Saudi Government is expected to transform the STC into a corporation within 3 years. By the same token, and in an effort to augment the mobile network capacity, the SAG is expected to grant a number of licenses to private

operators.

According to industry sources, the STC plan will include the installation of 700,000 additional fixed (wire) lines, 635,000 mobile telephone lines, and an additional 500,000 pager lines by the end of 2000. Moreover, STC is continuously struggling to meet bandwidth demand by expanding the ATM network, the core technology for Internet services. By the third quarter of this year (2000), the number of high capacity ATM switches will reach 61. With an ATM backbone, STC can transport the national Internet traffic and offer advanced business data services like Frame Relay at speeds from 64 kbps to 2048 kbps. The foundation of the STC network is a 5,000-kilometer fiber optical network throughout Saudi Arabia that provides the broad bandwidth needed to sustain the voice network (PSTN/ISDN), the ATM network and IP platforms. STC is presently evaluating multiple technologies for Internet access like V.90/k-Flex, ISDN and ADSL. Internet services for the public began January 1999.

(Note: Due to the size and scope of the telecommunications industry in Saudi Arabia and because of privatization efforts currently underway, it is not possible to quantify the total value and market size of this industry.)

#### 4. ELECTRICAL POWER SYSTEMS (ELP)

Demand for power in Saudi Arabia is increasing dramatically at an average annual rate of 8-10 percent. That growth rate is expected to be sustained until the year 2010. The demand is attributed to both industrial growth and the vast increase in population.

The residential sector accounts for approximately 22 percent of the demand, the commercial sector 18 percent and the industrial sector approximately 60 percent. The existing generation capacity in Saudi Arabia rose from 4,000 MW in 1977 to 26,000 MW in 1999. The Saudi Electric Company (SEC) has a target to increase the generation capacity to 46,000 MW by the end of 2010.

The rising number of factories, particularly in the oil and gas, and petrochemical industries is increasingly placing straining demands on power. The Saudi government continues to encourage expansion in the power generation, transmission and distribution sectors. SEC has forged ahead with projects such as PP-9 in Riyadh and continues with the Ghazlan II in the Eastern Province, and Shuiaba in the Western Province to augment power supply for the next two to three years.

According to local industry sources, the Saudi market for electric power systems and equipment grew 5 percent in 1999, compared to 1998. The total market is

expected to grow between 4-5% over the next two years. To date, there is only one major project for power generation: Ghazlan in the Eastern Province of Saudi Arabia, with an estimated cost of over \$1.8 billion. The completion of this project is expected within the next two years.

	1998(E)	1999(E)	2000(E)
a. Total Market Size	1,812	1,903	1,981
b. Total Local Production	635	635	635
c. Total Export	300	300	300
d. Total Imports	1,477	1,568	1,646
e. Imports from the U.S.	369	392	412

(Note: Unofficial estimates. Figures in millions U.S. Dollars.)

## 5. CHEMICAL PRODUCTION MACHINERY (CHM)

Saudi Basic Industries Corporation (SABIC), the Saudi parastatal petrochemical company, is planning to add 10.7 million tons of basic, intermediate and final petrochemical production capacity by the year 2003. By 2003, Saudi Arabia's annual production capacity will reach about 27.1 million tons, up from its current capacity of 22.8 million tons.

SABIC's expansion to increase ethylene production capacity is driven by local demand rather than feed stock push. This captive demand for ethylene is an indicator of future growth for the Saudi petrochemical industry. By 2003, Saudi ethylene production capacity will grow from its present level of 5.4 million tons to around 6 million tons.

The feed stocks used by SABIC to produce the basic petrochemicals are predominantly methane, ethane, and NGL, all derived from natural gas. Given this gas-based feature, it is not surprising that the most developed product chains in the Saudi petrochemical industries are those derived from methane and ethane. This non-diverse feedstock results in an unbalanced product mix, as reflected in the under development of product chains based on propylene, butylene, benzene, toluene and xylenes (BTX).

A more balanced product mix at the basic petrochemical level is expected by 2003. Plans involving significant capacity expansions for propylene and BTX will be a major source of annual growth in this important sector.

Joint ventures, for some time to come, will continue to be a viable strategy for Saudi Arabia's petrochemical industry. A compatible foreign partner complements Saudi Arabia's strengths, offsets its weaknesses, and provides access to new geographic markets. The rate of new joint ventures is expected to accelerate with the advent of a more amicable foreign investment law.

The following items are grouped together to produce the estimates below: measuring pumps, water tube boilers, heat exchangers, valve parts, pressure reducing valves, check valves, safety valves, floating measurement instruments, flow measuring instruments, pressure measuring instruments, stainless steel pipe, stainless steel fitting and elbow, and other stainless steel fittings. All of these items listed can be utilized at oil refineries, water desalination plants, plastic plants, and power generation plants.

	1999(E)	2000(E)	2001(E)
a. Total Market Size	N.A.	N.A.	N.A.
b. Total Local Production	N.A.	N.A.	N.A.
c. Total Exports	N.A.	N.A.	N.A.
d. Total Imports	404.6	424.8	464.3
e. Imports from the U.S.	120.3	126.3	139.7

(Note: Unofficial estimates. Figures in million U.S. dollars)

## 6. COMPUTER SOFTWARE AND SERVICES (CSP)

Industry analysts estimated the overall Saudi market for computer software and related services at \$250 million in 1998. The rapid expansion of the Internet in the region along with the increasing acceptance of e-commerce as an effective business tool will ensure continued growth of at least two percent in this sector over the next two years. In many cases, current computer systems will require an upgrade of either hardware or software in order to use the Internet/e-commerce application effectively. Therefore, as the Internet gains a greater presence in the region, and the need for increased bandwidth expands, it will create a subsidiary market for hardware, software, and network integration.

One common problem in this industry is the continuous infringement on Intellectual Property Rights. Industry sources estimate that close to \$100 million is lost every year due to pirated software. However, the Saudi Government is aggressively pursuing the enforcement of copyright laws, which should make the market more attractive to U.S. exporters.

Because of the Arabic/English mix in the region, there is a need for multilingual software, which would allow web masters the flexibility to produce their company home pages in different languages and scripts. This would permit international users to read a company's mission statement or product and services description in their native language, which in turn improves product knowledge for the customer.

	1998(E)	1999(E)	2000(E)
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a. Total Market Size	250.0	255.0	260.0
b. Total Local Production	0.0	0.0	0.0
c. Total Exports	0.0	0.0	0.0
d. Total Imports	250.0	255.0	260.0
e. Imports from the U.S.	235.0	238.0	242.0

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

## 7. FRANCHISING (FRA)

The Saudi franchise market is still lucrative and is virtually untapped in many sectors. Although no concrete data is available, CS Saudi Arabia estimates that there is excellent potential for this type of investment, especially for restaurants, fast-food outlets and non-food franchise. There is already a large number of U.S. based fast-food restaurants in the country, but the rapid population growth and high regard for American products offer potential for additional franchises and expansion of those already present. The most promising sub-sector within this industry sector are fast-food outlets (\$130-135 Million).

The non-food franchise market in Saudi Arabia is estimated to account for 55 percent to 65 percent of the total franchise market. Non-food growth areas include the following: quick printing, dry cleaning, office temporary services, laundry, hardware stores, home furnishings and furniture repair, garden care and florists, health and fitness clubs, weight control, retail and convenience stores.

	1998(E)	1999(E)	2000(E)
a. Total Sales	226	230	235
b. Sales by Local Outlets	69	72	72
c. Sales by Foreign Outlets	157	158	163
d. Sales by U.S. Outlets	110	111	114

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

## 8. AIR-CONDITIONING AND REFRIGERATION EQUIPMENT (ACR)

Air-conditioning and refrigeration equipment, including compressors, remains one of the most growth-oriented markets in Saudi Arabia. Rapid population growth and a harsh climate combine to keep Saudi Arabia a lucrative market for HVAC equipment.

The market, which grew from \$912 million in 1998 to \$958 million in 1999, is

expected to pick up again in 2000, growing by an estimated 5 percent. U.S. suppliers compete aggressively with Japanese manufacturers, but have maintained an average 24 percent share of the import market. Capacity at local factories will increase by about five percent from \$260 million in 1999 to \$273 million in 2000, with about 33 percent of the local output being exported. In particular, mini-split units are gaining ground over wall units. In the refrigeration sector, there is ample and continuous need for cold storage facilities, both stationary and mobile.

	1998(E)	1999(E)	2000(E)
a. Total Market Size	912	958	1006
b. Total Local Production	247	260	273
c. Total Exports	82	86	90
d. Total Imports	747	784	823
e. Imports from the U.S.	179	188	197

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

#### 9. BUILDING PRODUCTS (BLD)

The Saudi Arabian market for building and plumbing products is a particularly promising one. Saudi Arabia is in the midst of a construction boom that began in 1999 in the wake of the improved oil prices. This boom follows a period of decline between 1996-1998 in Saudi construction activity, due to static oil prices at that time, which created significant pent-up demand for public, commercial and residential construction. Saudi Arabia's Economic Development Plan for 2000-2005 anticipates an average annual growth in construction of 4 percent, with commercial and residential construction representing approximately seventy percent of this increase. Imports of building materials and hardware reached \$3.5 billion in 1998, almost 3 percent more than in 1997. The United States' share of this market stood at \$195 million in 1998. Industry sources expect the value of total imports of construction products to grow by approximately 4 percent annually through FY2001.

	1998(E)	1999(E)	2000(E)
a. Total Market Size	3800	3952	4110
b. Total Local Production	400	420	441
c. Total Exports	180	189	198
d. Total Imports	3580	4160	4326
e. Imports from the U.S.	195	205	215

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

#### 10. COSMETICS/TOILETRIES (COS)

The Saudi cosmetics market has continued to show good growth. Total market demand for beauty products is estimated at \$150 million in FY2000. Best sales prospects for U.S. exporters are new product lines that incorporate lipstick, skin care products, foundation, and nail polish. Arab women have understood the benefits of natural beauty products for centuries. Therefore, product lines that combine an emphasis on natural ingredients and modern style would enjoy success in the marketplace. Moreover, product lines that target men and teens also stand to fair well. Attractive packaging and competitive pricing seem to be the strongest determinants for a successful product launch in the region.

France, Italy, and the UK are the dominant exporters of high-quality cosmetics brands, with 90 percent share of this market niche. Conversely, Taiwan tends to dominate the lower end of the scale, providing lower prices, and increased accessibility. At a market share of just 12 percent, U.S. beauty product exports only currently occupy a small share of this industry sector that exhibits enormous potential.

	1998(E)	1999(E)	2000(E)
a. Total Market Size	144.0	147.0	150.0
b. Total Local Production	7.0	7.4	7.8
c. Total Exports	3.0	0.0	0.0
d. Total Imports	140.0	139.6	142.2
e. Imports from the U.S.	17.0	16.7	17.0

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

## 11. PHARMACEUTICALS (DRG)

The Saudi pharmaceutical market is the largest and most dynamic market in the region. It consumes about 65 percent of all pharmaceutical imports in the GCC market (Saudi Arabia, Kuwait, Qatar, Bahrain, Oman, and the UAE). The demand for pharmaceutical products is fueled by a growing number of hospitals, medical centers and clinics operating throughout the Kingdom. There are currently 285 hospitals, both general and specialized, with a total of capacity of 41,916 beds. The Saudi market for pharmaceutical products is expected to approach the \$1 billion by 2001, growing by an average 5 percent annually. Currently, the market is estimated at \$970 million, more than 98 percent is imported. Although the number of local factories is increasing, the value of their sales in the Saudi market is marginal due to the composition of their product mix, which has a lower price tag.

Factors contributing to this growth include the recently implemented medical insurance policy in the private sector, and the Saudi Government commitment to provide free medical service to all Saudi citizens.

The Saudi pharmaceutical market includes all the following sub-sectors: prescription drugs, generics, OTC, and herbal products.

	1998(E)	1999(E)	2000(E)
a. Total Market Size	880	924	970
b. Total Local Production	9	10	11
c. Total Exports	0	0	0
d. Total Imports	871	914	959
e. Imports from the U.S.	264	282	299

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

## 12. OPERATION AND MAINTENANCE SERVICES (OMS)

Harsh climatic conditions, limited technical expertise, and industrial expansion create a high demand for O&M services in the Kingdom. Every capital project undertaken brings with it a maintenance component, specifically for electrical and mechanical engineering contracts. Demand for specialized O&M services are especially high in sectors dependent on high tech equipment and instruments.

Saudi Arabia has a well-developed oil & petrochemical industry, and preventive maintenance in those areas conforms to world norms and standards. The latest state of affairs, which has slowed down capital investment in plants and equipment, has also boosted the need to preserve and maintain existing infrastructural and capital projects pending better business and economic climates. By the end of FY 2000, the Saudi market for O&M services would have reached \$7 billion, approximately 80 percent of that will be handled by either foreign companies and/or Saudi-foreign joint ventures.

U.S. companies have the lead in this market and their share is estimated at 54 percent. U.S. participation in this sector is expected to grow by 5 percent annually over the next couple years, one percentage point more than the growth for the whole sector.

Local companies, however, will be expected to gain more expertise and their market share, currently estimated at 5 percent, will grow at an increasing rate over the next three years. Until oil prices surge again, many projects will be delayed and/or cancelled; in turn, expenditures on the maintenance of existing projects will escalate.

	1998(E)	1999(E)	2000(E)
a. Total Sales	5700	6000	6300
b. Sales by Local firms	1140	1200	1260

c. Total Offshore Sales	0	0	0
d. Sales by Foreign Firms	4560	4800	5040
e. Sales by U.S. firms	2508	2640	2772

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

### 13. MEDICAL EQUIPMENT (MED)

Future spending on sophisticated medical equipment is expected to increase as Saudi Arabia's private healthcare sector continues to grow. The Saudi Council of Ministers recently approved the guidelines for allowing private insurance companies to conduct business in the Kingdom. This new measure will have enormous potential for insurance companies, especially for medical coverage of some six million expatriates in the first stage.

The overall market for medical equipment in Saudi Arabia has expanded with the growing demand for sophisticated medical services. The introduction of advanced treatments has stimulated the market for advanced diagnostic, monitoring and treatment devices.

Total expenditures on medical equipment are projected to increase by 3.5 percent per annum through the year 2000 reaching a high of \$294 million from the 1996 level of \$256 million.

The Saudi market relies entirely on imports of medical equipment. U.S. Manufacturers continue to enjoy a good market share. U.S. suppliers' share of the market is 54 percent and is expected to grow at a rate of 5 percent annually. A number of factors point to the continued success of U.S. suppliers of medical equipment in Saudi Arabia. American products are perceived to feature the latest technology and to be sturdy and well serviced. This opinion is reinforced among the local end-users and healthcare professionals. The preference for American products and services and the stability of U.S. Dollar versus the Riyal are both advantages U.S. manufacturers have over suppliers from competing countries.

Competition comes mainly from European and Japanese manufacturers, which control the remainder of the balance. The German, British and Japanese presence is very strong in Saudi Arabia. European companies in general, and German companies in particular, miss no opportunity to bid on Saudi government tenders through their local representatives, and to participate in local trade exhibitions. In addition, German firms regularly conduct educational and training seminars for local physicians, specialists, and technicians to bolster their presence in the market.

(Note: The Medical Equipment Sector encompasses far too many distinct products to be able to provide an accurate measurement of statistical data even on an

unofficial basis.)

#### 14. APPAREL (APP)

The Saudi Arabian apparel market remains a promising one for U.S. apparel manufacturers and suppliers. U.S. apparel companies are expanding their share of this market, growing by an average 4 percent yearly. U.S. companies are expected to ship close to \$100 million worth of apparel by the end of FY2000. The Saudi apparel market presents lucrative opportunities for both established U.S. suppliers as well as newcomers who are able to accommodate the tastes and expectations of a discriminating Saudi consumer with substantial spending power. The growing lower end of the market is dominated by cheaper imports from Southeast Asian countries.

U.S. branded apparel, especially at stand-alone boutiques, present excellent opportunities for that niche of the market. Best sales prospects are for lightweight, well-constructed apparel fiber such as cotton, polyester blends, and silk for women's lingerie and children's clothing.

	1998(E)	1999(E)	2000(E)
a. Total Market Size	906	942	979
b. Total Local Production	75	82	90
c. Total Exports	13	13.5	14
d. Total Imports	844	873.5	903
e. Imports from the U.S.	77	80	83

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

#### 15. EDUCATION AND TRAINING SERVICES (EDS)

The increased pressure by government to enforce the Saudiization program continues to ensure the expansion of manpower training requirements at all levels. The Saudi Arabian Government's plans to replace 60 percent of the estimated six million expatriate workers with Saudi nationals by 2005 are well underway. In 1996 a regulation was published requiring companies with over 20 employees to include a minimum of 5 percent Saudi nationals, and to increase the number of Saudi nationals by annual increments of 5 percent. In order to enforce the Saudiization program, the list of jobs/positions that may no longer be held by non-Saudis is expanding. Non-compliance with these regulations by a company results in fines and blocking of all requests for expatriate work permits.

With the threat of incurring penalties for non-compliance, this has truly become an employee driven market. There is a high attrition rate among Saudi

employees, estimated to be 70 percent in the private sector and 20 percent in government. This in turn further fuels the requirement for training. An increasing number of organizations, both government and private, now offer business related training courses, either in-house or in training institutions. The market is highly fragmented in an effort to cater to the numerous different customer groups. Many ready-made training courses are not suitable for Saudi Arabian culture and therefore must be adapted. The marketplace is competitive and extremely price conscious. While no estimates of this maturing market are currently available, the statistics below represent a guide to potential market size.

Estimated number of job seekers entering market during current 6th 5-Year Plan (1995-2000): 660,000

Number of SAG training institutions: 89

Estimated number of private training institutions: 265

Training centers for in-house company use: N.A.

Average annual growth of school/university graduates: 30% (1996-2000)

## 16. INDUSTRIAL SECURITY EQUIPMENT (SEC)

Imports of industrial security items into Saudi Arabia for 1998 were estimated at \$114.8 million. This figure is expected to grow by 7 percent per annum over the next two years. Having experienced two lean years from '96 to '97 when the market remained comparatively static, this relative boom has been caused by several factors. (1) The recovery in oil prices stimulating economic growth, (2) Several governmental and quasi-governmental projects previously on hold have been reinstated, and (3) new regulations governing the private sector are ensuring increased security at private sector facilities.

The oil industry, using predominantly American products, is the major non-military end-user of security equipment. American products hold an approximate 68 percent overall market share. However, European suppliers are making inroads into the market, particularly in the private sector. Low cost is a major criterion for Saudi clients, followed by maintenance and back-up services. American companies need to adjust and accommodate to Saudi Arabia's economic cycle, which relies heavily on the fluctuating price of oil, to retain their market share. No published statistics are available on security products imported into Saudi Arabia. The table below reflects the estimates of business people in the security market.

1998 (E) 1999(E) 2000(E)

a. Total Market size	114.9	123.1	131.9
b. Local Production (Assembly)	0.1	0.2	0.4
c. Total Exports	0	0	0
d. Total Imports	114.8	122.9	131.5
e. Imports from the U.S.	79.3	83.6	88.2

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

## 17. INSURANCE SERVICES (INS)

Saudi Arabia is the second largest insurance market in the Arab world. The value of insurance premiums in both Saudi Arabia and the United Arab Emirates account for 70 percent of the total premiums collected in the Gulf Cooperation Council states. Based on a local survey, there are a total of 174 insurance companies operating in the GCC offering all categories and classes of insurance.

Medical insurance registered the highest growth in recent years. This reflects an increased awareness about personal insurance and a move toward private health care providers. Medical insurance premiums are expected to rise rapidly following the newly approved health care plan of the Saudi government. The new plan indicates private medical insurance is to be obligatory for expatriate workers in the Kingdom. The intent of this new system is to provide cooperative medical insurance on a non-profit basis. The premiums will be determined by a health insurance council and are expected to be implemented as early as FY2001. The estimated number of expatriates who will utilize this new system is 6 million. Industry sources estimate the current medical premiums are up to \$187 million per year.

This estimate should rise to \$800 million per year once the plan goes into effect. The largest health insurance company operating in Saudi Arabia is the state-owned National Company for Cooperative Insurance.

Note: As this market is changing and growing at such a rapid pace, official statistics are not yet readily available.

## 18. FURNITURE (FUR)

The Saudi Arabian market for furniture is the largest in the Middle East and is projected to remain so through at least 2002. The size of the Saudi market was estimated at \$328 million in 1999, of which 60 percent was for household furniture and 35 percent for office furnishings. The drop is mainly attributed to a slow down in the economy due, which negatively affected the level of imports to Saudi Arabia in general, and imports of furniture in particular.

The dramatic recovery of crude oil prices, beginning in the second quarter of

1999 and continuing through the first half of 2000, and the high population growth rate, estimated at 3.4 percent, combine to create a positive climate for furniture purchases and imports over the next two years. Local furniture suppliers reported that while furniture sales in 1999 and the first quarter of 2000 were stagnant, they are seeing increased interest and anticipate sales to pick up substantially during the latter four months of 2000 and continue throughout 2001.

Increased demand will also result from new construction, both residential and commercial. Projects for new office buildings, apartments and villas, which were delayed when oil prices dropped, have resumed at a healthy pace and urban landscapes are dotted with construction projects in various stages of completion.

Demand for American furniture has grown among Saudis and expatriates in the upper-middle to high-income bracket, and by younger Saudis who tend to favor American products in general. These factors should spur U.S. furniture imports, which are anticipated to increase at approximately 6 percent per year for 2000 - 2002. Although many of the major American brand names in the higher end of the market are already represented in Saudi Arabia, significant opportunities exist for smaller firms, especially those with quality products targeting the mid-price sector.

	1998(E)	1999(E)	2000(E)
a. Total Market Size	345	328	340
b. Total Local Production	45	40	43
c. Total Exports	18	16	16
d. Total Imports	318	304	313
e. Imports from the U.S.	60	55	59

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

## 19. PRINTING/GRAPHIC ART EQUIPMENT (PGA)

Industry sources estimate the market for printing and graphic arts equipment at \$ 25-30 million annually. As two major recipients of printing and graphic arts equipment, both the publishing and advertising industries are booming, increasing the demand for printing, packaging, and graphic arts equipment. In addition, technological breakthroughs in equipment also positively affect the demand for printing and packaging machinery, especially for automated and computerized equipment. According to latest statistics, there are 450 printing shops kingdom-wide in addition to 54 government printing presses. Furthermore, The King Fahd Complex for the Printing of the Holy Koran is one of the major

printing institutions in the Middle East with an annual capacity of more than 10,000,000 copies of the Holy Koran in various languages. This institution requires a considerable amount of upgrades and new accessories on a yearly basis.

European equipment, especially from Germany, has a near-monopoly in this sector of the market, since German manufacturers are viewed as being the pioneers and leaders in the printing industry, especially for sheet-fed equipment.

Nevertheless, the market is evolving toward faster and better colors separation technologies, which is where the U.S. might gain a competitive edge over German systems. Also, as the pricing of American equipment becomes more aggressive, U.S. manufacturers stand a better chance at winning more bids in this industry sector. Widening prospects for electronic publishing equipment and software now exist in the marketplace, but at the moment the U.S. tends to mainly compete for web-offset machinery.

	1998(E)	1999(E)	2000(E)
a. Total Market Size	28.0	31.0	34.0
b. Total Local Production	0.0	0.0	0.0
c. Total Exports	0.0	0.0	0.0
d. Total Imports	28.0	31.0	34.0
e. Imports from the U.S.	10.4	11.6	13.0

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

## 20. POLLUTION CONTROL EQUIPMENT (POL)

Urban development and industrial growth have compounded Saudi Arabia's environmental problems. Population growth, a significant construction market, continuing growth of Saudi Arabia's oil, gas and petrochemical industry, the rising level of ground water, an insufficient sewerage system, increasing air pollution and solid waste, have all contributed toward making the Saudi environmental technology market a promising one. Saudi Arabia's environmental technology market size was estimated at \$52 million in 1999, and is expected to grow by an average of five percent annually over the next two years. Although it is still a small market by world standards, the Saudi Government is actively working to implement and enforce a number of guidelines to help reduce the levels of pollution and damage to the environment. Once those guidelines are implemented, the Saudi market is expected to expand tremendously; the outfitting and refurbishing of industrial facilities alone will cost billions of dollars.

The best prospects include recycling systems and equipment, waste water treatment systems, sewage systems, solid waste equipment and systems, equipment and treatment systems for marine pollution, air pollution control equipment and monitoring devices. There is no local industry for any environmental equipment

in the Kingdom except for waste- water treatment plants, membrane manufacturing, and some solid waste compacting.

	1998(E)	1999(E)	2000(E)
a. Total Market Size	49	51.4	54
b. Total Local Production	6	7	8
c. Total Exports	0	0	0
d. Total Imports	43	45	46
e. Imports from the U.S.	13	13.6	14

(Note: Unofficial estimates. Figures in millions of U.S. dollars)

## 21. FINANCIAL SERVICES (FNS)

The Saudi financial market is still underdeveloped by world standards. Specifically, the Saudi banking sector is not as sophisticated as is the case of neighboring states. Financial services in Saudi Arabia are limited to basic services, such as loans, letters of credit, checking and saving accounts, and investment funds. Recently, the Saudi Government implemented a number of steps to open up the financial market in an effort to join the World Trade Organization (WTO). Some of these steps included allowing Gulf banks to open branches in Saudi Arabia and permitting foreign residents to invest in Saudi funds.

Industry sources predict that the new laws will authorize commercial banks to provide mortgage loans and life insurance investment accounts. Moreover, the long-awaited foreign investment code is expected to open the door for foreign banks and brokerage firms to compete in the Saudi market. This will encourage local banks to offer better and more sophisticated services. Already, some of the foreign joint venture banks operating in Saudi Arabia are restructuring and upgrading their services to offer personal loans, commercial and residential mortgages, small business loans, trust and investment services, electronic banking, cash management services, and lock box services.

(Note: Official statistics are currently unavailable for this industry sector.)

## 22. HEALTH CARE SERVICES (HCS)

The reduced revenues for the Saudi Arabian government, coupled with an expanding population growth estimated at 3.4 percent a year, have led the government to put more emphasis on private sector expansion. The Saudi government has traditionally maintained a health care system, which provides free treatment at public hospitals for all residents, both Saudis and expatriates, and some four million pilgrims visiting the holy sites every year. However, financial constraints are now forcing a re-evaluation of this position, and public health spending is now strictly controlled. Moreover, many public as well as private

hospitals are not coping very well with the demand for healthcare services, as many facilities and equipment need to be refurbished and upgraded.

Nonetheless, approximately 75 percent of the Saudi population of nearly 17 million depend exclusively on public health assistance provided by the ministry of health, the national guard, armed forces hospitals, security forces hospitals, university hospitals, and the general organization for social insurance hospitals.

There are currently 285 hospitals, both general and specialized, with a total capacity of 41,916 beds in Saudi Arabia. Of these hospitals, 175 are run by the Saudi Ministry of Health, 36 are run by other government agencies, and 80 are owned by the private sector.

Many of these facilities were previously managed and operated by foreign companies. Lately, some private hospitals are re-evaluating the possibility of partnership or turnkey management and operation of their facilities to foreign firms. Eventually, the foreign company will have to establish a joint venture entity to be able to bid on these contracts. A revamping at many private and public hospitals is badly needed to upgrade and maintain an acceptable level of service, especially when insurance companies shop around for affiliated and preferred providers.

American companies are known to apply very high western standards. These standards will be required especially for know-how, operation manuals, health care information management systems, a program for visiting physicians, and another for patient referrals.

(Note: Official statistics are currently unavailable for this industry sector.)

### 23. TRAVEL AND TOURISM SERVICES (TRA)

Recently, the Saudi Government passed a law allowing foreigners, both Muslims and non-Muslims, to visit the Kingdom on tourist visas. The new directive is expected to have a multiplier effect in the economy, bringing a new source of revenues. It will also entail extensive investment in this sector, especially to upgrade services at a number of historical and cultural sites.

The Government has set up a Higher Council for Tourism, which will act as a regulating and coordinating body to implement guidelines aimed at enhancing the tourist industry in Saudi Arabia.

Some of the steps that will be taken include establishing tourist information centers, identifying resort areas, tourist and camping sites, and building new hotels, motels, and tourist villages. The private sector will play an important and major role. The new law will present new opportunities for American companies in this industry. There will be a need for both products and

services. Theme parks, hotels, resort and camping grounds will need equipment and know-how; tour operators and transportation companies will also require the expertise and know-how of U.S. and foreign companies in this sector.

(Note: Official statistics are currently unavailable for this industry sector.)

#### 24. SPORTING GOODS (SPT)

The total market for sporting goods in Saudi Arabia is still a promising and lucrative one for importers. Imports grew 4 percent from \$78 million in 1995 to \$87 million in 1998 and are expected to reach \$94 million by the end of 2000. Imports from the United States were \$22 million in 1998 and are expected to reach \$24 million by the end of 2000, matching the average annual growth of the industry.

The Saudi market for indoor fitness equipment grew faster than any other sporting goods sector during the past few years. Growing at an average of 4-5 percent annually, imports of indoor fitness equipment reached \$12.5 million in 1999, and expected to reach \$13.1 million by the end of 2000. Imports from the United States were \$4 million in 1999 and growing an average of 5 percent annually. U.S. suppliers share of the Saudi market stood at 32 percent in 1999, surpassed only by Taiwanese companies at 35 percent.

Health conscious middle-aged Saudis are among the largest users of indoor fitness equipment. Other major end-users include upper-income households, hotels, residential compounds, hospitals, clubs and recreational centers. Equipment designed for losing weight are in greater demand than body building equipment because of the growing numbers of Saudis desiring to reduce the deleterious effects of their sedentary lifestyles and rich diet.

	1998(E)	1999(E)	2000(E)
a. Total Market Size	11.7	12.2	12.8
b. Total Local Production	0.0	0.0	0.0
c. Total Exports + Re-Exports	0.3	0.3	0.3
d. Total Imports	12.0	12.5	13.1
e. Imports from the U.S.	3.8	4.0	4.2

(Note: Unofficial estimates. Figures in millions of U.S. Dollars)

- Best Prospects for Agricultural Goods and Services

#### 1. CORN (0440000)

Livestock and poultry farming are growing steadily in Saudi Arabia. The two

largest poultry producers, Al Watania and Al Fakieh, both completed expansion projects in 1996, causing poultry output to jump to a 30 percent increase. As a result, U.S. corn exports to Saudi Arabia rose 25 percent in value from 1996 to 1999. The U.S. accounts for nearly 85 percent of all imported corn, and the market is expected to increase as small to medium size farms also increase production capacity.

	1999(E)	2000(E)	2001(E)
a. Total Market Consumption	281	292	298
b. Total Local Production	5	5	3
c. Total Exports	0	0	0
d. Total Imports	276	287	295
e. Imports from the U.S.	261	271	250

(Note: Table shows CIF values. Figures in Millions of US Dollars.)

## 2. SOYBEAN MEAL (0813100)

Soybean meal is used principally in poultry feeding and to a lesser extent in livestock rations. The recent increase in local poultry production resulted in a 30 percent increase in the value of soybean meal imports by the Kingdom in 1998 compared to 2 years earlier. With nearly 75 percent market share, the U.S. is the dominant supplier of soybean meal to Saudi Arabia, followed by India. As with corn, the demand for U.S. exports of soybean meal will continue to increase as small to medium size poultry producers expand production.

	1999(E)	2000(E)	2001(E)
a. Total Market Consumption	190	193	197
b. Total Local Production	0	0	0
c. Total Exports	0	0	0
d. Total Imports	190	193	197
e. Imports from the U.S.	162	165	148

(Note: Table shows CIF values. Figures in Millions of US Dollars.)

## 3. RICE (0422110)

The market for rice in Saudi Arabia is large and rapidly expanding. The Kingdom relies heavily on imports to be able to maintain all of its increasing need for this particular commodity. Though the U.S. is a major player in the rice market, competition remains stiff. India currently retains the dominant share in the Saudi rice market with about 60 percent market share followed by the U.S. with a mere 20 percent market share. Indian rice competes aggressively with U.S. rice both on price and promotional activities. Other competitors include Pakistan, Thailand and Australia.

The Saudi population is growing swiftly at 3.7 percent per year. More than 80 percent of the Saudi population consumes rice on a daily basis, a large percentage of those are expatriates. Recently, major Saudi rice importers began importing bulk rice and bagging it for re-export to nearby African and Arab countries. U.S. rice is commonly shipped in bulk to a modern packing plant in Jeddah where a percentage of the bulk is divided up and transshipped to other destinations. There is an opportunity for the U.S. to regain its market share, but its exporters must be price competitive and aggressive in order to wrest the leading position from India.

	1999(E)	2000(E)	2001(E)
a. Total Market Consumption	379	394	401
b. Total Local Production	0	0	0
c. Total Re-Exports	0	0	10
d. Total Imports	379	394	411
e. Imports from the U.S.	70	73	75

(Note: Table shows CIF values. Figures in Millions of US Dollars.)

#### 4. PROCESSED FRUITS AND VEGETABLES

The demand for processed fruits and vegetables in Saudi Arabia is substantial. The growth of supermarket food sales is helping to broaden the market, and good market growth is expected to continue. Local production of canned fruit and vegetables has been on the rise over the past five years. Insufficient local fruit and vegetable output and the high costs related to importing them for use in local processing suggest that a significant demand for processed fruits and vegetables will continue to be met by imports. An estimated 60 percent of the local production numbers reported in this section are for dates, which are locally produced and processed successfully.

	1999(E)	2000(E)	2001(E)
a. Total Market Consumption	355	369	383
b. Total Local Production	251	276	295
c. Total Exports	7	7	7
d. Total Imports	111	100	95
e. Imports from the U.S.	25	24	20

(Note: Table shows CIF values. Figures above are in millions U.S. dollars.)

#### 5. SNACK FOODS (EXCLUDING NUTS)

The last official census indicated that more than 60 percent of the Saudi population is in their teens. This group of the population tends to be a heavy consumer of snack foods. Local production has dramatically increased in recent years.

Leading organizations have realized the potential for the snack food market and have thus launched massive production units. There is a general decline in imports of corn & wheat-based snacks. Candies and chocolates are also being manufactured in country on a large scale. However, the market for quality brand name chocolates and snacks still exists. Exporters should also be encouraged to look into supplying raw materials for the fast growing snack industry. The U.S. holds a strong positive image in the market, as U.S. goods and services are associated with quality. In addition, products focusing on Saudi preferences, such as sweets, generally find better market reception.

	1999(E)	2000(E)	2001(E)
a. Total Market Consumption	106	111	115
b. Total Local Production	75	83	87
c. Total Exports	13	13	13
d. Total Imports	44	41	41
e. Imports from the U.S.	18	16	16

(Note: Table shows CIF values. Figures above are in millions U.S. dollars.)

## 6. BREAKFAST CEREALS

The demand for breakfast cereal is increasing significantly. As previously indicated, minors make up an estimated 50% of the current population. These numbers would therefore account for the high demand of this particular commodity. In the past the U.S. has been the market leader in this industry sector. However, Kelloggs products, now supplied through German subsidiaries as well as other European breakfast cereal brands have quickly edged their way into the competition and have caused the U.S. market share to decline. Promotion and advertising efforts are particularly important to acquaint potential consumers with these non-traditional products in order to gain wider consumer acceptance and improve current market share.

	1998(E)	1999(E)	2000(E)
a. Total Market Consumption	40	42	44
b. Total Local Production	6	8	8
c. Total Exports	0	0	0
d. Total Imports	34	34	36
e. Imports from the U.S.	18	18	18

(Note: Table shows CIF values. Figures above are in millions U.S. dollars.)

- Significant Investment Opportunities for U.S. Companies Offered by Privatization Efforts, Major Infrastructure Development Projects, and Bilateral Foreign Assistance or Multilateral Development Projects

Saudi Arabia has an immature, but developing, service sector, which in general lacks the legal and regulatory structure needed for foreign investment. While the Saudi government encourages foreign investment, this has usually taken the form of joint ventures with Saudi partners. The U.S. has encouraged Saudi Arabia to lift restrictions in the service sectors as part of their ongoing effort to gain membership in the World Trade Organization. The Saudi Government has recently put forward a new foreign investment code, and a new tax code is expected in the near future.

To date, the Saudi concept of privatization has been largely limited to allowing private firms to take on certain service functions, such as management of seaports and airports, and to the provision of some postal collection, health, and education services, which complement the work of still-dominant state agencies. One dynamic area of growth is private health clinics and hospitals. The pending requirement that firms purchase private health insurance for foreign workers, which may be expanded to cover many Saudi workers in the future, could accelerate this trend.

Sales of existing state assets would boost privatization dramatically. However, there has not yet been a single sale of existing assets, with a transfer of management control, of any state corporation. In the first test case, the Saudi Arabian Government has stated its intent to sell a significant minority stake in the Saudi Telecommunications Company to a foreign strategic partner where management control would be transferred. Such a sale should lead to higher overall return and value for the corporation and rapid improvements in service. The telecommunication and information technology sectors are growing rapidly, and are attractive areas for U.S. traders.

#### Telecommunications Sector

In an effort to speed the liberalization of the telecommunication sector, the Saudi Government is expected to transform the STC into a corporation. By the same token, and in an effort to augment the mobile network capacity, the SAG is expected to grant a number of licenses to private operators.

Since its formation in mid 1998, the Saudi Telecommunications Company (STC) has carried out major telecommunication projects kingdom-wide, gradually taking over from the Ministry of Post, Telephone and Telegraph (PTT). Likewise, the Saudi private sector is also involved in the development of telecommunication

services, providing prepaid calling cards, Internet services, and phone cabins. Recently, the Saudi Government issued about six licenses to private companies to operate VSAT telecommunication links for both voice and data.

According to industry sources, the STC plan includes the installation of 700,000 additional fixed (wire) lines, 635,000 mobile telephone lines, an additional 500,000 pager lines and 1,500 satellite phones by the end of 2000.

STC is continuously struggling to meet bandwidth demand by expanding the ATM network, the core technology for Internet services. By the third quarter of 2000, the number of high capacity ATM switches is expected to reach 61. With an ATM backbone, STC can transport the national Internet traffic and offer advanced business data services like Frame Relay at speeds from 64 BPS to 2048 BPS. The foundation of the STC network is a 5,000 kilometer kingdom-wide fiber optical network that provides high bandwidth needed to sustain the voice network (PSTN/ISDN), the ATM network and IP platforms. STC is presently evaluating multiple technologies for Internet access like V.90/k-Flex, ISDN and ADSL. Internet services for the public began January 1999.

#### Energy Sector

The recent consolidation of regional electricity firms, which will take considerable time to become effective, has likely delayed the possible sale of state assets of Saudi Electricity Company (SEC) for several years. Many domestic and foreign investors would like to invest in new independent power plants (IPPs). For IPPs to become competing sources of electricity to SEC, however, a legal framework must be created to allow electric power purchasing agreements to be instituted by an authority not under the control of SEC. In addition, the SAG must establish an independent regulatory body to assure that investors receive a reasonable return over the long term.

The extremely low rate pricing structure for the Saline Water Conversion Corporation (SWCC) does not make it an early candidate for privatization, but some licenses have been issued for relatively small independent water producers to supply industrial users. Other privatization possibilities include Saudi Arabian Airlines(Saudia), hotels, municipal services, and grain mills and silos, as well as large minority stakes in banks.

#### Gas Sector

The Crown Prince's Oil and Gas Initiative is moving steadily forward. Recent announcements have opened the door for potential huge investment in upstream natural gas, and have reinvigorated petroleum company interest in Saudi Arabia. One of the best tools to restructure the economy would be broad and deep privatization, which would spur greater foreign direct investment.

In September 1998, Crown Prince Abdullah invited several leading American oil companies to submit proposals for energy-related investment projects within Saudi Arabia. This invitation, later extended to leading European oil companies, was enthusiastically accepted. The invitation marked a major change in policy, the first possibility of foreign direct investment in the Saudi upstream energy sector (other than in the Saudi/Kuwaiti Neutral Zone).

Implementation of the Crown Prince's Initiative has been a slow process, in part due to uncertainty about which projects and what terms are acceptable to the Saudi government. Negotiations between the SAG and the oil companies began in April this year. Among the projects being considered are investments in upstream gas exploration and development.

OPEC production constraints virtually preclude new foreign investment in the oil upstream (other than in the Neutral Zone) for the foreseeable future. Nevertheless, firms that invest in other areas will be well placed for possible upstream oil investment if the country one-day decides to allow oil production by firms other than Saudi Aramco.

Saudi Arabia has enormous untapped gas potential. Its natural gas reserves total 204.0 trillion standard cubic feet (tcf) including nearly 68 tcf of non-associated gas. Until recently, Saudi Aramco focused on oil exploration and production. In response to the Crown Prince's Oil and Gas Initiative, several major oil companies have submitted their gas-related investment proposals to the SAG. The Crown Prince recently stated that the process would be transparent, and that foreign firms would provide useful competition to Saudi Aramco.

New foreign investment under this initiative could total many tens of billions of dollars, an amount that would exceed the total present level of foreign investment in the country. Observers believe that development of upstream gas resources is the most profitable portion of the proposal, and would make derivative projects in water desalination, petrochemicals and power generation more viable. Saudi Aramco operates the master gas system and is expected to participate with foreign partners in plans to expand Saudi Arabia's gas supplies.

Much of Saudi Arabia's current gas production is "associated" with oil deposits and cannot easily be utilized while oil production is constrained by its OPEC production quota. International oil companies are expected to focus on developing "non-associated" gas deposits which can be used as feedstock for derivative products and can substitute for oil in meeting the local demand for electricity. This, in turn, would free up more oil for export. Industry experts confirm that major energy companies are prepared to make enormous investments in Saudi Arabia if product pricing and other issues can be resolved.

## Projects in Petrochemical Industries

Saudi Basic Industries Corp. (SABIC) is planning to add 10.7 million tons of basic, intermediate and final petrochemical production capacity by the year 2003. By 2003, Saudi Arabia's annual production capacity will reach about 27.1 million tons, up from its current capacity of 22.8 million tons.

SABIC's drive for ethylene capacity growth is local demand, not feed stock push. This captive demand for ethylene is an indicator of future growth for the Saudi petrochemical industry. By 2003, the annual production capacity for Saudi ethylene will grow from its present level of 5.4 million tons, including expansions through year 2000, to around 6 million tons.

The feed stocks used by SABIC to produce the basic petrochemicals are predominantly methane, ethane, and NGL, all derived from natural gas. Given this gas-based feature, it is not surprising that the most developed product chains in the Saudi petrochemical industries are those derived from methane and ethane. This non-diverse feedstock results in an unbalanced product mix, as reflected in the under development of product chains based on propylene, butylenes, benzene, toluene and xylenes (BTX). SABIC has diversified its feed, and thus its product mix, in two plants. These developments suggest that the Saudi petrochemical industry will further diversify its product range in the years to come.

Between now and 2003, a more balanced product mix at the basic petrochemicals level is expected. Plans involve significant capacity expansions for propylene and BTX will be a major source of annual growth in this important sector.

Joint ventures, for some time to come, will continue to be a viable strategy for Saudi petrochemical companies. A compatible foreign partner complements the country's strengths, offsets its weaknesses, and provides access to new geographic markets. The rate of new joint venture establishments in Saudi Arabia will accelerate now after the new Foreign Direct Investment Code was enacted. Implementation is still pending as of the date of this report.

## 6.: TRADE REGULATIONS, CUSTOMS AND STANDARDS

### - Membership in Free Trade Arrangements

Saudi Arabia is a member of the Gulf Cooperation Council (GCC) which consists of Kuwait, Qatar, Bahrain, the UAE, Oman, and Saudi Arabia. Membership confers special trade and investment privileges within those countries. The GCC is not yet, however, a full-fledged customs union. Member states have set a target date for customs union in March 2005. Saudi Arabia is also a member of the Arab League. Recently, Arab League states have agreed to negotiate an Arab Free

Trade Zone. Under the arrangement, countries should negotiate tariff reductions of 10 percent per annum. Provision may be made for more expeditious tariff reductions on a reciprocal basis between Arab States.

#### - Tariff and Non-Tariff Barriers/Tariff Rates

Saudi Arabia is currently in the process of accession to the World Trade Organization (WTO). Once Saudi Arabia is admitted, the country's trade regime should become more transparent and more accommodating to non-Saudi businesses. Moreover, the Saudi Arabian leadership has embarked on a wide ranging restructuring of the entire Saudi economy. A wide range of economic and policy reforms are underway that will lay the foundation for a better climate conducive to foreign enterprises. As of the date of this report, Saudi business and laws still favor Saudi citizens, and the Kingdom still has a set of trade barriers, mainly regulatory and bureaucratic practices, which restrict the level of trade.

For example, only Saudi nationals are permitted to engage in trading activities. All industrial enterprises are open to non-Saudis, and they can also trade in the products they manufacture. Non-Saudis are not permitted to register as commercial agents.

Other trade barriers are:

**Commercial Disputes Settlements:** Saudi Arabia signed the New York Convention on foreign arbitral awards in 1995. While this is an encouraging step, the enforcement of foreign arbitral awards has yet to be tested in practice. Government agencies are not allowed to agree to international arbitration without agreement from the Council of Ministers, which, we understand, is rarely granted.

**Business Visas:** All visitors to Saudi Arabia must have a Saudi sponsor in order to obtain a business visa to enter Saudi Arabia. The Saudi who agrees to act as a sponsor accepts certain legal obligations including personal liability for the actions of the visitor. Therefore, a Saudi rarely assumes sponsorship unless he has a personal interest in the proposed visit.

In practice, this makes it very difficult for an American businessperson to visit Saudi Arabia to investigate the market or to select a local representative without incurring some obligation to his sponsor, e.g., the right of first refusal on any business opportunity developed. Although the process of obtaining a visa has been streamlined, naturalized American citizens of Arab descent and women continue to experience difficulties in procuring business visas, even when they have a sponsor. The Saudi Arabian Government has indicated that U.S. citizens of the Jewish faith as well as U.S. citizens with an Israeli exit and entry stamp will face no difficulty in getting a visa to visit Saudi Arabia.

Investors or potential investors wishing to visit Saudi Arabia must also have a Saudi sponsor to obtain the necessary business visa. On rare occasions the Saudi Embassy or Consulates may grant, at their discretion, sponsorless business visas to employees of prominent American firms, but this practice is unpredictable. Most business visas are valid for only one entry for a period of up to three months, even though the Saudi authorities agreed in October 1999 to issue two-year, multiple-entry visas to U.S. citizens on a reciprocal basis.

**Delayed Payments:** This can be an important concern for affected U.S. companies. Although some Saudi Government agencies still have outstanding debts from FY 1999 and FY 2000, the Saudi Government has taken measures to reduce its arrearages. Nonetheless, the problem persists, and U.S. companies should check with the U.S. Embassy or Consulates for information on the current arrearage situation.

Due to accounting procedures used by the Saudi Government, the Department of Zakat and Income Tax imposes taxes even on payments that have not been received, arguing that the fact of non-payment is essentially immaterial in the tax liability determination process.

**Intellectual Property Protection:** The Saudi legal system protects and facilitates acquisition and disposition of all property rights, including intellectual property. The Saudi Government has acceded to the Universal Copyright Convention; implementation began on July 13, 1994.

Saudi Arabia's Copyright Law does not extend protection to works that were first displayed outside of Saudi Arabia, unless the author is a Saudi citizen. However, the Saudi Government maintains that this is sufficient to extend protection to foreign works.

The Saudi Government has taken actions to enforce copyrights of U.S. firms, and pirated material has been seized or forced off the shelves of a number of stores. The latest religious edict (Fatwa) by the highest religious authority in Saudi Arabia condemns software piracy. Overall, however, piracy remains a problem.

Saudi Arabia has had a Patent Law since 1989 and the Patent Office accepts applications, but the number of patents issued remains limited. Protection is available for product and product-by-process. Product-by-process protection is extended to pharmaceuticals. There are provisions in the Patent Law for compulsory licenses for non-working and dependent patents. The term of protection is 15 years. The patent holder may apply for a five-year extension.

Trademarks are protected under the Trademark Law. Trade secrets are not specifically protected under any area of Saudi law; however, they are often

protected by contract. There is no specific protection for semiconductor chip layout design. Several of these issues are being taken up in connection with Saudi Arabia's application to become a member of the WTO.

Counterfeiting: Manufacturers of consumer products and automobile spare parts are particularly concerned about the widespread availability of counterfeit products in the Kingdom. Anti-counterfeiting laws exist, and the U.S. Government has urged the Saudi authorities to step up enforcement actions against perpetrators.

Arab League Boycott: The Gulf Cooperation Council, (Saudi Arabia, Kuwait, Bahrain, Oman, Qatar, and the United Arab Emirates), announced in the fall of 1994 that its members would no longer enforce the secondary and tertiary aspects of the Arab League Boycott. The primary boycott against Israeli companies and products still applies.

Advice on boycott and anti-boycott related matters is available from the U.S. Embassy or from the Office of Anti-Boycott Compliance in Washington, D.C., at tel: (202) 482-2381.

Protective Tariffs and Non-Tariff Trade Barriers: Saudi tariff protection is generally moderate, but has increased over the years. A number of Saudi "infant industries" now enjoy 20 percent tariff protection as opposed to the general rate of 12 percent. Saudi non-tariff barriers also are increasing.

Such barriers include: preferences for national and GCC products in Government procurement; a 30 percent of contract value "set-aside" for local contractors on major Government projects; a requirement that foreign contractors obtain their imported goods and services exclusively through Saudi agents; reservation of some services for Government-owned companies, namely, insurance and air transport; and the economic offset requirement mandating reinvestment of a portion of contract value in indigenous industries for certain high value Government contracts, particularly in defense.

#### - Prohibited Imports and U.S.-Imposed Export Controls

Saudi law prohibits importation of the following products: weapons, alcohol, narcotics, pork, pornographic materials, distillery equipment, and certain sculptures.

Special approval is required for the importation of seeds, food, livestock, books, periodicals, religious books, movies, chemicals, pharmaceuticals, wireless equipment, horses, perfumes, natural asphalt, and archaeological pieces. There are health and sanitation regulations for all imported foods. The Ministry of Commerce has issued a number of directives aimed at preventing outdated goods from entering the Kingdom and requiring Arabic and point of

origin labeling.

Saudi exporters need to submit a copy of their commercial registration, which indicates they are allowed to export. They are also required to submit a certificate of origin of Saudi products (issued by the Ministry of Commerce). Certain items such as antiques, Arabian horses, livestock, or subsidized items need special approval to export. Exports of oil, petroleum products, natural gas and wheat all require export licenses.

#### - Import Taxes and License Requirements

The importation of certain articles is either prohibited or requires special approval from competent authorities. In addition, importing the following products requires special approval by Saudi authorities: agricultural seeds; live animals and fresh and frozen meat; books, periodicals, movies, and tapes; religious books and tapes; chemicals and harmful materials; pharmaceutical products; wireless equipment; horses; products containing alcohol (e.g., perfume); natural asphalt; and archaeological artifacts.

#### - Customs Regulations and Contact Information

The Department of Customs at the Ministry of Finance and National Economy appraises all merchandise moving through Saudi customs ports. Import valuation is primarily used for collection of import duties and often does not reflect the actual transaction value. Saudi customs valuation procedures are not WTO-consistent; nor are they based on invoice value.

Minimum prices are used, which is contrary to the WTO. Customs agents rely on their own experience and local prices, as well as some contact with manufacturers, to assess import tariffs. For statistical purposes, the valuation of imported merchandise is the Cost-Insurance-Freight (CIF) value. The value of exported merchandise is based on Free On Board valuation (FOB). The Saudi tariff nomenclature is consistent with the Harmonized System. There does not seem to be a significant body of rule making or documentation available. Appeals are frequently done orally, and an appeals committee, under the Deputy Director General of Customs, meets frequently.

Although Saudi Arabia is a member of the Customs Coordination Council, Saudi Customs officers do not have the authority to do investigative work on business premises; nor do they have enforcement powers. These powers are vested in the Ministry of Interior.

The U.S. Government, through a reimbursable arrangement with the Saudi Government, is working with Saudi authorities to upgrade customs valuation procedures. This is particularly important in connection with Saudi Arabia\_s

bid to accede to the WTO.

Saudi Arabian Department of Customs  
Contact: Mr. Saleh Al-Barrak, Director General  
P.O. Box 3483, Riyadh 11471, Saudi Arabia  
Phone: (966 1) 401-3334, Fax: (966 1) 404-3412

#### - Temporary Goods Entry Requirements

For temporary entry of goods for promotional purposes, imports need an invoice with the value of the goods endorsed by the local chamber of commerce, and a certificate of origin. The invoice should state that the goods are being imported for exhibition purposes only and will be re-exported.

Saudi Customs requires a deposit for these goods (either 12 percent or 20 percent of the total value). This deposit is refundable when the exhibition is over and upon showing a document that the owner of the equipment officially participated in a trade show. Additionally, the customs authorities will collect handling charges. Reimbursement takes between two to four weeks.

#### - Special Import/Export Requirements and Certifications

There are no special import provisions. Unusual cases should be worked out on a case-by-case basis with Saudi Customs. The following documents are required for exporting goods into Saudi Arabia: a notarized certificate of origin authenticated at a Saudi diplomatic mission and local chamber of commerce or the U.S.-Saudi Business Council; a similarly authenticated 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; documents indicating compliance with health regulations, if applicable; and insurance documents if shipments are sent CIF.

The original documents must be accompanied by an Arabic translation; a Saudi Arabian Standards Organization (SASO) certificate of conformity issued by Intertek Testing Laboratories, if applicable; and a radiation certificate, if applicable.

In late 1997, the Saudi Embassy in Washington advised U.S. traders to obtain authentication of certificates of origin and other necessary documents through the U.S.-Saudi Business Council, which has offices in Washington and Riyadh.

#### - Labeling and Marking Requirements

Labeling and marking requirements are compulsory for any products exported to Saudi Arabia. The Saudi Arabian Standards Organization (SASO) is the legislative authority responsible for establishing labeling and other guidelines

in the Kingdom. The Ministry of Commerce, on the other hand, is the executive body vested in implementing SASO's guidelines through its inspection and test laboratories spread at ports of entry Kingdomwide.

Labeling is particularly important for companies marketing food products, personal care products, health care products, and pharmaceuticals. SASO has specific requirements for identifying marks and labels for various imported items. Companies can request a copy of the labeling requirements by contacting SASO at Tel: (966 1) 452-0000 or Fax: (966 1) 452-0086. Recently, SASO started enforcing a previous regulation requesting an Arabic manual with household electrical appliances.

Quality control laboratories at ports of entry may reject the entry of products that are in violation of existing laws. Products arriving at port having less than one-half of the time remaining between production and expiration date will be rejected and cannot be sold on the market. U.S. manufacturers are urged to discuss labeling requirements with their selected representative or distributor.

#### - Free Trade Zones/Warehouses

There are no free trade zones in Saudi Arabia, although the Government is considering them.

#### - Standards (incl. ISO 9000 Usage)

The Saudi Arabian Standards Organization (SASO) has over 1750 SASO and 1040 Gulf promulgated standards, and is actively pursuing the promulgation of hundreds of new standards currently in various drafting stages of development.

Labeling and expiration date requirements are stringent and an export impediment for U.S. fresh eggs and bottled baby food products.

Saudi Arabia's residential electric power system of 127/220 volts, 60 Hertz, is unique and has caused export problems for many American firms. However, SASO will accept electrical products as low as 120 volts, 60 Hertz.

A standards representative has been assigned to SASO from the U.S. Department of Commerce's National Institute of Standards and Technology (NIST) to advise the Saudi Government in developing standards and work to insure that new standards are not inconsistent with those in the United States. New draft standards are forwarded to U.S. industry associations for comments and recommendations, before finalization by SASO. Other developed nations have similar programs. The U.S. NIST representative can be reached by fax at 966-1-488-3237.

SASO has decided to adopt ISO 9000 as the approved standards for Saudi Arabia and to act as an accreditation body through the Quality Assurance Department.

Compliance will be on a voluntary basis. However, it would be prudent for U.S. industry and services to consider this matter seriously in their planning. There may be many cases where procurement agencies will insist on purchasing and placing orders only with those companies that are in compliance with ISO 9000, or the U.S. equivalent series.

In Saudi Arabia, SASO will set up its own certification organization for locally manufactured products, as several SASO employees have been certified to work as professional auditors in conformance to ISO 9000 series standards. Ever since its inception in November 1995 by the Ministry of Commerce the certification program, known as the International Conformity Certification Program (ICCP), is still applicable to 66 regulated products. The purpose of the program is one of consumer protection, ensuring that products and goods entering the Kingdom are in conformance with SASO standards. On behalf of SASO, the Intertek Testing Services administer the ICCP on a global basis. Products may require laboratory testing before certificates of conformity are issued by Intertek.

The program consists of two related but separate processes:  
LISTING - Regulated products exported to the Kingdom of Saudi Arabia must be registered by the manufacturer; SHIPMENT CERTIFICATION - Regulated products exported to the Kingdom need to be inspected for compliance prior to shipment.

With the exception of certain food products, all other regulated products will require Certificates of Conformity (COC's) issued by Intertek; otherwise, customs authorities at the port of entry will reject the shipment. In addition, shipments valued at less than \$5000 do not require the ICCP. Used motor vehicles were added to the regulated product list and will be strictly enforced by customs at point of entry.

SASO's Licensing Center should be contacted for detailed information at the following address:

Nabil (Bill) Bekdash, Regional Licensing Center Manager  
SASO \_ ) ICCP  
Intertek Testing Services  
70 Codman Hill Road  
Boxborough, MA 01719  
Phone: (978) 635-8651/8652/8653, Fax: (978) 635-1620  
E-mail: nbekdash@itsqs.com

For clarification on regulated product guidelines and procedures, contact SASO's Program Manager Regional Office (PMRO) at the following address:

Mr. Craig Bryant or Mr. Yusef Soutari  
3741 Red Bluff Road  
Pasadena

Houston, TX 77503  
Phone: (713) 475-9184, Fax: (713) 475-2083

## 7.: INVESTMENT CLIMATE STATEMENT

### - Openness to Foreign Investment

The Saudi government generally encourages foreign direct investment, particularly in the case of foreign investment in joint ventures with Saudi partners. Though Saudi Arabia technically allows wholly foreign-owned firms to operate, such ventures are, to date, rare. With an eye to stimulating greater foreign investment to strengthen the non-oil private sector, Saudi Arabia recently revised its 30-year-old investment code and is in the process of revising its foreign corporate tax code. Implementing legislation for the code is pending.

The government and the private sector actively promote investment opportunities in Saudi Arabia, particularly partnerships with Saudi businessmen that expand job opportunities in the industrial sector, that transfer technology to the Kingdom, or diversify Saudi Arabia's export capabilities. Currently, the government is focusing on attracting investment in infrastructure, including power, water, and transportation, but has yet to make such investments financially attractive. Disincentives include: a high tax rate on a foreign partner's corporate profits, a government policy of forced hiring of Saudis, the practical requirement for a foreign investor to have a Saudi partner, a restrictive visa policy for all workers, a very conservative cultural environment, enforced segregation of the sexes in most business and social settings, and an extreme desert climate.

Though currently in the formative stages, the Saudi Arabian General Investment Authority (SAGIA) will most likely serve as the primary Saudi government body for the identification and encouragement of foreign direct investment. SAGIA is expected to serve as a one-stop-shop for business licensing as well, replacing the multiple permits from a variety of Saudi government bodies are currently required for new ventures.

The Ministry of Industry and Electricity also periodically identifies investment opportunities, as do the Saudi Chambers of Commerce and industry and private consulting houses. Other government bodies, such as the royal commission for Jubail and Yanbu, and the Arriyadh Development Authority, have also been active in promoting opportunities in Saudi Arabia's industrial cities and other regions. In addition to the majority government-owned Saudi Arabian Basic Industries Corporation (SABIC), private investment companies, such as the National Industrialization Corporation, the Saudi Venture Capital Group, the Saudi Industrial Development Company, and the Arabian Industrial Development

Company, have also become increasingly active in project development and in seeking out foreign joint venture partners. SAGIA may be expected to take a more active role in investor recruitment as it formalizes its structure and functions.

Part of SAGIA's mandate includes the creation of a "negatives list" of foreign investment, widely considered by investors to be an improvement on the current "positives list." In essence, SAGIA is tasked to create a short list of sectors in which FDI will be proscribed, with the assumption that all other investment is to be permitted. Currently, new FDI is presumed "prohibited until proved allowable." One sector currently closed to foreign investment is upstream oil and gas exploration and development, as the Saudi government considers this sector to be of strategic national interest. That said, top levels of the Saudi government, in response to the Crown Prince's Oil and Gas Initiative, are negotiating proposals on upstream gas investment, a process which most likely will move forward in the near future.

The national oil company, Saudi ARAMCO, conducts all oil exploration and development. The greatest foreign investment in the Kingdom is found in a related sector - petrochemicals. Several major international oil companies have partnered with Saudis to build world-scale petrochemical plants.

The government uses its purchasing power to encourage foreign investment. In 1985, and later under the Peace Shield defense procurement program, the Saudi government reached an agreement with American contractors for "offset" joint venture investments equivalent to 35 percent of the program's value. British and French defense firms also have offset requirements. Offset requirements are likely to remain components of major defense purchases, and have been incorporated into other large Saudi government contracts.

While Saudi law permits a variety of corporate structures, joint ventures almost always take the form of limited liability partnerships. This form of organization does confer limited liability. However, there are disadvantages. Foreign partners in service and contracting ventures organized as limited liability partnerships must pay in cash or kind 100 percent of their contribution to authorized capital.

Industrial projects normally require 25 percent capitalization, although it may be higher for some industries. Additionally, 10 percent of profits must be set aside each year in a statutory reserve until it equals 50 percent of the venture's authorized capital.

Though many changes may result from reforms currently underway inside SAGIA, currently the Ministry of Industry and Electricity licenses direct foreign investment, except for mineral concessions, which are governed by separate agreements. Otherwise, all proposals for new investments, reinvestments,

mergers, or acquisitions must go through the Ministry's licensing process. SAGIA will likely assume the lead role in licensing. For ventures with government participation, the process is usually only a formality. On the other hand, for a purely private venture, the process can involve a considerable amount of time and effort, although this may vary depending on the Saudi partner's involvement in the process. SAGIA has promised, once procedures are in place, to take decisions within one month.

Though ongoing reforms will likely change the process, the Ministry of Industry and Electricity's foreign capital investment committee now screens all license applications and counseled prospective investors. License applications must be accompanied by a formidable array of documents including a feasibility study, an outline of the venture's proposed capital structure and legal form, the partnership agreement, plans to train Saudi nationals for technical and managerial positions, and procurement plans for machinery and other equipment. Applicants must also submit permits to use specific patents, the foreign partner's foreign certificate of registration, and authorization from the foreign partner's board of directors.

Following the initial screening, the foreign capital investment committee evaluates applications. The committee is chaired by the Deputy Minister of Industry and Electricity and includes representatives from other relevant ministries, including the Ministries of Commerce, Finance, Agriculture, Planning and Petroleum. License applications approved by the committee then require the approval of the Minister of Industry and Electricity.

The new joint venture must apply for a commercial registration number from the Ministry of Commerce. Depending on the type of business, additional approvals may be needed, such as from the Ministry of Health in the case of a healthcare business. The foreign capital investment committee evaluates projects using a variety of factors. Foremost is the project's compatibility with Saudi Arabia's basic economic goals:

1. Economic diversification
2. Access to modern technology
3. Development of a trained Saudi labor force to reduce dependence on foreign labor
4. Addition to export base

The committee looks with special favor on projects involving the transfer of high technology, preferring firms with experience in the proposed field of investment. The committee evaluates royalty arrangements and the price of equipment to be supplied by the foreign partner. Additionally, while there is no minimum foreign equity requirement for joint ventures, more than nominal investment is encouraged. Intangible property is not counted toward this investment, and a Saudi accountant must evaluate the monetary worth of any

contributions in kind.

The Embassy understands that, currently, the foreign capital investment committee will not license a second joint venture in a specific industry sector until the committee agrees the first venture is "established." While this would be beneficial to initial licensees, it could also tie up industrial and commercial opportunities for extended periods.

Professionals, including architects, consultants, and consulting engineers, are required to register with and be certified by the Ministry of commerce in accordance with the requirements defined in the Ministry of Commerce's resolution 264, published in 1982.

These regulations, in theory, permit the registration of Saudi-foreign joint venture consulting firms. However, according to business sources, the regulations have never been fully implemented. As a result, most foreign consulting firms work as adjuncts to established Saudi firms.

Foreign investors are currently denied national treatment in the following sectors: catering, cleaning, maintenance and operation of facilities, power generation, trading, transportation, and businesses that affect national security.

Saudi privatization efforts are embryonic. In May 1998, the council of ministers announces the establishment of the Saudi Telecommunications Company (STC), the first phase of privatization of telecommunications services. In effect the state Post, Telephone and Telegraph (PTT) Ministry was converted to a state corporation.

STC is now involved in a privatization process, with foreign telecommunications companies already having been invited to submit bids for partial ownership of the company. The Saudi government has, since that time, publicly discussed possible privatization in the areas of: postal services; airline services; grain mills and silos; water, sewage and power utilities; ports and port services; transportation; educational institutions; hospitals; and even the Saudi Basic Industries Corporation (SABIC). While many of these privatization attempts would be economically positive steps, to date little actual headway has been made.

There is a clear hierarchy of privileges and preferences in Saudi Arabia that favors Saudi companies and joint ventures with Saudi participation. For instance, only firms with at least 25 percent Saudi ownership are eligible for interest-free loans from government credit institutions such as the Saudi Industrial Development Fund (SIDF). The new FDI code will permit SIDF loans for wholly foreign-owned projects. Similarly, only foreign-owned corporations and the foreign-owned portion of joint ventures are subject to the corporate income tax, which, in FY2000, will range up to 30 percent of net profits. Domestic

corporate partners are subject to a 2.5 percent tax on assets, or "zakat."

Only Saudi companies or citizens, or those from other Gulf Cooperation Council (GCC) countries (Kuwait, Bahrain, Qatar, UAE, and Oman), may currently own land or engage in internal trading and distribution activities. Similarly, only joint ventures with at least 51 percent GCC ownership interest are permitted to export duty-free to other GCC countries.

Taken together, the above conditions represent a formidable array of factors that can severely disadvantage a foreign investor attempting to operate his wholly owned company in Saudi Arabia. Pending changes could improve this climate. The formerly common practice of Saudis illegally lending their names to a foreign-owned and operated business, so-called "cover-ups," was curtailed by royal decree M/49 of May 21, 1989. Saudis and foreigners who engage in such cover-ups to evade Saudi commercial regulations are now subject to severe penalties, including imprisonment, stiff fines, and deportation for the foreigner.

While, theoretically, American and other foreign firms are able to participate in Saudi government-financed and/or government-subsidized research and development programs on a national treatment basis, the Embassy is not aware of any examples.

Among the leading obstacles to foreign investors are restrictive Saudi visa requirements regarding initial issuance, number of entries, and duration of validity. The Saudi government announced streamlined measures in 1998 for business travelers. A two-year, multiple-entry visa reciprocity agreement was signed by the U.S. and Saudi governments in September 1999. As part of the new FDI code, large foreign investors may be allowed to sponsor their own employees, but such regulations are still under review. Two-year, multiple-entry business visas may be issued to U.S. citizens on a reciprocal basis, though without a letter from the employee's sponsor specifically requesting such a visa, a three-month, single-entry visa is more likely. Saudi embassies and consulates currently are not uniform in their willingness to issue two-year visas. Businesswomen and Americans of Arab descent sometimes face difficulties when requesting visas.

For an American to work in Saudi Arabia, currently, a Saudi company must formally petition for a work visa on that person's behalf. Once formalities in Saudi Arabia are finalized, the Saudi firm then sends the approved petition to the Saudi Embassy in Washington or to the Saudi consulates in New York, Los Angeles, or Houston. The American can then apply for the visa.

Within three days of arrival in Saudi Arabia on a work visa, the American must go to the Ministry of Interior passport office and apply for a residence permit, or "iqama." The Saudi employer holds the American's passport while the American

uses the iqama for identification purposes. Whenever the American wants to leave Saudi Arabia, the sponsor must get an exit/re-entry or exit visa. The American then exchanges his or her iqama for the passport.

Since the Saudi firm holds the passport, it has the potential to exert great influence on the foreign employee's movements. Americans who come to Saudi Arabia cannot directly bring their families with them. The employee can apply for his or her family's visas only from within Saudi Arabia.

#### - Conversion and Transfer Policies

There are no restrictions on converting and transferring funds associated with an investment (including remittances of investment capital, earnings, loan repayments, and lease payments) into a freely usable currency and at a legal market-clearing rate. There have been no recent changes, nor are there plans to change remittance policies. There are no delays in effect for remitting investment returns such as dividends, return of capital, interest and principal on private foreign debt, lease payments, royalties and management fees through normal legal channels. There is no need for a legal parallel market for investor remittances.

There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, imported inputs, etc. There is, however, a tax regime currently in place of up to 30 percent (45 percent with a 15 percent rebate) on corporate profits and capital gains of the foreign partner in a joint venture.

Since 1986, when the last devaluation occurred, the official exchange rate has been 3.745 Saudi riyals per U.S. dollar. Transactions occur using rates very close to the official rate. The Saudi Arabian Monetary Agency (SAMA), the Saudi central bank, has intervened at times to keep the exchange rate fixed.

#### - Expropriation and Compensation

The Embassy is not aware of the Saudi government ever expropriating property. There have been no expropriating actions in the recent past or policy shifts that would lead the Embassy to believe there may be such actions in the near future.

#### - Dispute Settlement, including Enforcement of Foreign Arbitral Awards

Saudi commercial law is still developing. In 1994 the Saudis took the positive step of joining the New York Convention of 1958 on the recognition and enforcement of foreign arbitral awards. However, dispute settlement in Saudi Arabia continues to be time-consuming and uncertain. Even after a decision is reached in a dispute, effective enforcement of the judgment can still take

years.

The Embassy suggests that American firms investing in Saudi Arabia include in contracts a foreign arbitration clause. However, such clauses are not allowed in government contracts without a decision by the Saudi council of ministers.

Saudi litigants have an advantage over foreign parties in almost any investment dispute because of their first-hand knowledge of Saudi law and culture and the relatively amorphous dispute settlement processes. Foreign partners involved in a dispute find it advisable to hire local attorneys with knowledge of Saudi legal practices. Many Saudi attorneys, in turn, retain non-Saudi (and particularly American) lawyers to facilitate the handling of disputes involving foreign investors.

In several cases, disputes have caused serious problems for foreign investors. For instance, Saudi partners have blocked foreigners' access to exit visas, forcing them to remain in Saudi Arabia against their will. In cases of alleged fraud, foreign partners may also be jailed to prevent their departure from the country while awaiting police investigation or adjudication of the case. Courts can impose precautionary restraint of personal property pending the adjudication of a commercial dispute, according to royal decree no. M/4 of October 2, 1989. This decree has diminished the incentive for individuals to physically detain foreign partners pending the resolution of commercial disputes. Thus, it is very important that foreign investors take steps to protect themselves by thoroughly researching the business record of the proposed Saudi partner, retaining legal counsel, complying scrupulously with all legal steps in the investment process, and securing a well-drafted agreement.

There have been few investment disputes in recent years involving American or other foreign investors in Saudi Arabia. The government, due to past fiscal constraints, has fallen into arrears on payments to private contractors, both Saudi and foreign. Some companies carried Saudi government receivables without being paid for years. The government appears committed to clearing remaining arrears, although in some cases this will likely take several years. Some contractors are being paid in bonds instead of cash. Some contractors then sell these bonds at a discount to local banks.

The Saudi Arabian legal system is derived from the legal rules of Islam, known as the shari'a. The Ministry of Justice oversees the shari'a-based judicial system, but most ministries have committees to rule on matters under their jurisdiction. Generally, the board of grievances has jurisdiction over disputes with the government and commercial disputes.

Of principal interest to investors who have disputes with private individuals are the committees for labor disputes (under the Ministry of Labor, see below), and the committee for tax matters (under the negotiable instruments committee,

also called the commercial paper committee). The Ministry of Finance has jurisdiction over disputes involving letters of credit and checks, while the banking disputes committee of the Saudi Arabian Monetary Agency (SAMA) adjudicates disputes between bankers and their clients. Judgments of foreign courts are not yet accepted and enforced by Saudi courts. The Saudis' signature of the New York Convention has not yet changed this.

Monetary judgments are based on the terms of the contract; i.e., if the contract is in dollars, the judgment would be in dollars; if unspecified, the judgment is denominated in Saudi riyals.

Saudi Arabia has a commercial law that is generally applied consistently. The country has a bankruptcy law that was enacted by royal decree no. N/16 dated 4/9/1416h (corresponding to 1/24/96). Articles contained in the law allow debtors to conclude financial settlements with their creditors through committees under the Saudi chambers of commerce and industry or through the board of grievances. Designated as the regulation on bankruptcy protective settlement, the law is open to ordinary creditors except in the case of debts of expenditures, privileged debts and debts which arise pursuant to the settlement procedures. In June 1994, Saudi Arabia deposited articles of acceptance to the New York convention of 1958 on the recognition and enforcement of foreign arbitral awards. Saudi Arabia is a member of the International Center for the Settlement of Investment Disputes (ICSID, also known as the Washington Convention). Since 1996, Saudi Arabia has actively pursued its application for accession to the WTO.

#### - Performance requirement and Incentives

Under the 1969 labor and workman regulations, 75 percent of a firm's work force and 51 percent of its payroll must be Saudi, unless an exemption has been obtained from the Ministry of Labor and Social Affairs. In practice, the percentage of Saudis is far less. The number of Saudis in the private sector labor force may be under 10 percent. More Saudis work in the public sector. In 1996, the Saudi government implemented a regulation requiring each company employing over 20 workers to include a minimum of 5 percent Saudi nationals. This number increases by five percent per annum, and has now reached 20 percent of a firm's workforce.

Companies not complying with the 5 percent rule will not be given visas for expatriate workers. Few firms have been able to meet these requirements. Foreign firms are under constant pressure to employ more Saudis. The list of jobs/positions that may no longer be held by non-Saudis is expanding.

Investors are not currently required to purchase from local sources or export a certain percentage of output, and their access to foreign exchange is unlimited. There is no requirement that a share of foreign equity be reduced over time.

The government does not impose conditions on investment such as locating in a specific geographic area, a specific percentage of local content or local equity, substitution for imports, export requirements or targets, or financing only by local sources. Investors are not required to disclose proprietary information to the Saudi government as part of the regulatory approval process.

The Saudi government has made several recent changes to the foreign capital investment code, though specific enacting legislation has yet to be made public. No changes to performance requirements have yet been announced.

#### - Right to Private Ownership and Establishment

Foreign and domestic private entities have the right to establish and own business enterprises and engage in all forms of remunerative activity. Private entities generally have the right to freely establish, acquire, and dispose of interests in business enterprises. Certain activities are reserved for state monopolies.

#### - Protection of Property Rights

The Saudi legal system protects and facilitates acquisition and disposition of private property, consistent with strong Islamic teaching respecting private property. Non-Saudis are not allowed, however, to purchase real estate in Saudi Arabia, though this will likely change under the new regulations. Recent press announcements suggest that corporations with resident investments over SR eight million (\$2.1 million) may be allowed to purchase property. Other foreign-owned corporate and personal property is protected, and the Embassy knows of no cases of government expropriation or nationalization of foreign-owned assets in the Kingdom.

Saudi Arabia is currently undertaking a comprehensive revision of its laws covering intellectual property rights, with an eye toward bringing them in line with the WTO TRIPS regime of trade-related intellectual property measures. The revisions are being undertaken in conjunction with Saudi Arabia's efforts to accede to the WTO, and are being promulgated with the assistance of the world intellectual property organization (WIPO). Drafts of the new legislation have been completed, and are now under consideration by the council of ministers' board of experts.

The current patent law has been in effect since 1989. Largely due to a lack of adequate resources and technical expertise, the patent office has issued only a relative handful of patents, and has a large backlog of applications. The office has recently streamlined its procedures, and has made significant progress in reducing the backlog. Protection is available for product and product-by-process. The term of protection is 15 years, and the patent holder may apply for a five-year extension.

In addition to revising its copyright law, the Saudi government is also devoting increased resources to marketplace enforcement, and seeking to impose stricter penalties on copyright violators. The Saudi government has stepped up its efforts to force pirated printed material, recorded music, videos, and software off the shelves of stores. Despite these efforts, many pirated materials - particularly videos and software - are still available in the marketplace. The government's enforcement efforts have been strengthened by the issuance of an Islamic ruling, or "fatwa", that software piracy is "forbidden." In recognition of its work to improve intellectual property protection, in 1996 Saudi Arabia was upgraded from the special 301 "priority watch list" to the "watch list." It currently remains on the watch list. Saudi Arabia has acceded to the universal copyright convention.

Trademarks are protected under the trademark law. Currently, trade secrets are not specifically protected under any area of Saudi law, but they are often protected by contract. There is currently no specific protection for semiconductor chip layout design, although protection is provided generally under the patent and trademark laws.

#### - Transparency of the Regulatory System

There are few aspects of the Saudi government's regulatory system which are transparent, though Saudi investment policy tends to be less opaque than many other areas. Saudi tax and labor laws and policies tend to favor high-tech transfers and the employment of Saudis rather than fostering competition. Saudi health and safety laws and policies are not used to distort or impede the efficient mobilization and allocation of investments. Bureaucratic procedures are cumbersome, but red tape can generally be overcome with persistence.

#### - Efficient Capital Markets and Portfolio Investment

Financial policies generally facilitate the free flow of private capital. Currency can be transferred in and out of Saudi Arabia with no restriction.

Credit is widely available to both Saudi and foreign entities from the commercial banks and is allocated on market terms. Credit is also available from several government credit institutions, such as the Saudi Industrial Development Fund (SIDF), which allocates credit based on government-set criteria rather than market conditions.

The banking system, consisting of nine commercial banks, eight of which are joint ventures with Western banks, is sound. However, the strengths of individual banks may vary. The legal, regulatory, and accounting systems practiced in the banking sector are generally transparent and consistent with western norms.

The Saudi Arabian Monetary Agency (SAMA), which oversees and regulates the banking system, generally gets high marks for its prudent oversight of commercial banks in Saudi Arabia. SAMA is the only Middle Eastern central bank that has been invited to be a member and shareholder of the bank for international settlements in Basle, Switzerland.

There is an effective, if nascent, regulatory system governing portfolio investment in Saudi Arabia. Saudi Arabia has a small and thinly traded stock market established in 1985. At the end of 1999, total market capitalization stood at approximately \$61 billion, recovering from a significant loss in 1998.

Share trading is restricted to Saudi citizens, Saudi corporations and institutions, and the citizens of gulf cooperation council (GCC) countries. However, foreign investors are permitted to invest indirectly in Saudi equities by buying units in Saudi mutual funds.

#### - Political Violence

On November 13, 1995, a truck bomb was detonated outside a U.S. Military training headquarters in Riyadh, killing seven people, including five Americans. The bombing was the first act of political violence in Saudi Arabia in over a decade and the first terrorist incident to have specifically targeted foreigners.

The four Saudi nationals who were apprehended and executed for the terrorist attack claimed to be avenging the government's alleged incomplete application of Islamic law and principles. The government, the religious establishment, and the populace roundly condemned the attack.

In June 1996, a U.S. military housing facility was bombed in al-Khobar in the eastern province, killing 19 Americans and wounding more than 100. Since these two bombings, security has been heightened at official U.S. installations, residential compounds, and schools. The U.S. Embassy, working closely with Saudi security officials, periodically advises American citizens of potential security concerns.

#### - Corruption

Saudi Arabia has some, albeit limited, laws aimed at curbing corruption. For example, the agency law limits a Saudi agent's commission to five percent of the value of a contract.

Ministers and other senior government officials appointed by royal decree are forbidden from engaging in business activities with their ministry or government organization while employed there. There are extremely few cases of prominent citizens or government officials tried on corruption charges.

Foreign firms have identified corruption as an obstacle to investment in Saudi Arabia. Government procurement is an area often cited, as is de facto protection of businesses in which senior officials or elite individuals have a stake. Bribes, often disguised as "commissions," are reputed to be commonplace. Giving or accepting a bribe is not considered a criminal act under Saudi Arabian law.

#### - Bilateral Investment Agreements

The Saudi government appears to be moving forward in its pursuit of bilateral investment agreements. Saudi Arabia presently has bilateral agreements with France, Germany and Italy. Negotiations on bilateral agreements are likely to take place with some other western countries. At this time, however, there is no bilateral investment treaty in force or under negotiation between the United States and Saudi Arabia. GCC countries and their nationals receive favorable investment treatment derived from GCC agreements.

#### - OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) no longer provides coverage in Saudi Arabia. In 1995, OPIC removed Saudi Arabia from its list of countries approved for OPIC coverage because of the failure of Saudi Arabia to take steps to comply with internationally recognized labor standards. Details on OPIC programs and coverage can be obtained by calling (202) 336-8575 in Washington. The U.S. Export-import bank provides financing and political risk insurance in Saudi Arabia.

#### - Labor

The Ministry of Labor and Social Affairs and the Ministry of the Interior regulate recruitment of expatriate labor. In general, the SAG encourages recruitment of Muslim workers, either from Muslim countries or from countries with sizeable Muslim populations. The largest groups of foreign workers now come from Pakistan, Bangladesh, the Philippines, India and Egypt. Westerners compose less than two percent of the labor force, and the percentage is slowly dropping as they are replaced by Saudis and less expensive expatriates from developing countries.

Since September 1994, the Ministry of Labor and Social Affairs has been required to certify that there are no qualified Saudis for a particular job before it can be filled by an expatriate worker. In addition, the Ministry of the Interior must approve all transfers of expatriate workers from one firm to another. On the other hand, bloc visas are normally available for unskilled and some skilled workers recruited abroad. Saudi labor law forbids union activity, strikes, and collective bargaining. However, there is no forced or compulsory labor; any

required overtime, beyond the usual five and one-half to six-day week, is compensated normally at time-and-a-half rates. The minimum age for employment is 14. The Saudi government does not adhere to the international labor organization convention protecting workers' rights.

#### - Foreign Trade Zones/Free Ports

Saudi Arabia does not have duty-free import zones or free ports. It has begun to permit transshipment of goods through its ports in Jeddah and Dammam.

#### - Foreign Direct Investment Statistics

Accurate, up-to-date data on foreign direct invest in Saudi Arabia are difficult to obtain. Problems include double-counting in domestic/foreign joint ventures, historical versus current market valuations, domestic financing by foreign firms, difficult-to-tabulate profit reinvestments by foreign firms, and the relatively small, off-the-books investments by Asian entrepreneurs and others, often disguised under a Saudi sponsor.

Figures provided in this section are taken from the World Bank's "World Investment Report 1998," and from the IMF's "International Financial Statistics Yearbook 1999." Following are key FDI indicators as provided by these sources (all figures are in millions of U.S. dollars unless otherwise indicated):

	1995	1996	1997
FDI inflow	(1877)	(1129)	400
FDI outflow	717	(1095)	254
FDI inward stock	41164	40035	40435
FDI outward stock	1685	1865	1990
FDI inflow as percent of GFCF*	(8.2)	(4.9)	N.A.
FDI outflow as percent of GFCF*	0.1	0.8	N.A.

\* GFCF = Gross Fixed Capital Formation    1990    1996

FDI inward stock as percent of GDP	39.4	32.0
FDI outward stock as percent of GDP	1.7	1.5

## 8.: TRADE AND PROJECT FINANCING

### - Brief Description of Banking System

In general, the banking system is the strongest part of the private sector. Saudi Arabia's commercial banks have enjoyed steady profits for the last four years. In January 1999, the United Saudi Bank (USB), owned by Prince Al-Waleed

bin Talal, merged with the Saudi-American Bank (SAMBA). Nine banks remain in the banking community.

The National Commercial Bank (NCB), largest in Saudi Arabia in terms of assets, in 1999 became an exception to the general rule that banks are majority-owned private institutions. NCB sold 50 percent of its shares to the government-run Public Investment Fund (PIF) as part of a change of management and ownership. The Saudi Government (SAG) has stated its intent to sell back the shares, as the local capital markets are able to absorb them.

The banking sector enjoyed a significant boost in profits in late 1999 as a result of new regulations allowing for foreign ownership of mutual funds. Previously, only one closed-end fund, managed by SAMBA, allowed foreign ownership. Both the local stock market and share prices of the commercial banks saw a significant rise after the announcement of the new regulations, with the Saudi stock market registering a large 44 percent gain for 1999. Stock price movements correlate highly with oil price movements. If a similar opening of stock ownership follows the opening of mutual funds to foreigners, promised by the SAG, share values may be boosted further.

Although the Saudi stock market is the largest in the region in absolute terms, its capitalization to GDP ratio lags several other Middle Eastern markets. Only 74 firms are traded, with banks and SABIC ( the parastatal petrochemical company) dominating total capitalization. Greater privatization in the Saudi economy, including the creation of partial savings accounts in the two major pension systems of the country, would greatly boost the capitalization of the stock exchange, and make it a more important engine for economic growth.

The Saudi Arabian Monetary Agency (SAMA), the Saudi central bank, regulates and controls the Saudi banking sector. Financing is available to Saudi and non-Saudi businessmen and entities. Offshore banking and trust operations do not exist in Saudi Arabia, and there is no legislation that permits the establishment of these operations.

The securities market is still not highly developed, but continues to mature. Banks are the sole entities that may act as stockbrokers for publicly traded shares or for joint stock companies. The most significant recent development is SAMA's approval to allow foreigners to buy and trade shares of Saudi companies within a closed-end fund listed in the United Kingdom.

Commercial banks operating in Saudi Arabia ranked by total assets:

- |  |                          |
|--|--------------------------|
| 1) The National Commercial Bank              | 6) Arab National Bank    |
| 2) Saudi American Bank                       | 7) Saudi French Bank     |
| 3) Riyadh Bank                               | 8) Saudi Hollandi Bank   |
| 4) Al-Rajhi Banking & Investment Corporation | 9) Saudi Investment Bank |

## 5) Saudi British Bank

## 10) Bank Al-Jazira

## - Foreign Exchange Controls Affecting Trading

Saudi Arabia imposes no foreign exchange restrictions on capital receipts or payments by residents or nonresidents, beyond a prohibition against transactions with Israel. Although officially linked to the IMF's Special Drawing Rights, Saudi Arabia in practice pegs its currency, the riyal, to the U.S. dollar.

Saudi Arabia last devalued the Riyal in June 1986 when it set the official selling rate at SR 3.7400 = \$1. The Saudi Arabian Monetary Agency and all residents may freely and without license buy, hold, sell, import, and export gold, with the exception of gold of 14 karats or less.

## - General Financing Availability and Terms of Payment

Saudi policies facilitate the free flow of financial resources. Credit from the commercial banks is allocated on market terms, and foreign investors can obtain credit on the local market. The private sector has access to a variety of credit instruments.

Soft 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. The Saudi banking system is well capitalized and well provisioned. Industry sources expect that SIDF loans will be available to finance foreign-owned businesses in Saudi Arabia as soon as the new investment law is implemented.

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. Foreign participation in the Saudi Arabian Standards Organization (SASO) is not possible, although a number of foreign advisors from OECD countries assist and provide counsel to SASO.

## -Availability of GSM Credit Guarantees

GSM credit guarantees are not available in Saudi Arabia.

## - Availability of Loan Guarantees, Insurance, and Project Financing from the Export-Import Bank of the United States, OPIC and the IFIS

The U.S. Export-Import Bank and other U.S. export credit agencies have been involved in Saudi Arabia supporting trade with private Saudi companies. The

Government of Saudi Arabia may use the facilities of these export credit agencies to support major infrastructure projects.

The Islamic Development Bank fosters the economic development and social progress of member countries and Muslim communities. It participates in equity capital and grants loans for productive projects and enterprises, besides providing financial assistance to member countries in other forms for economic and social development.

Project financing is available in Saudi Arabia 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 Saudi Government does not receive project financing from multilateral institutions such as the World Bank. The Saudi Government has arranged local financing for a turnkey contract for the Shuaiba electric power plant; the Al-Rajhi Banking & Investment Corporation will finance the \$835 million project through an Islamic "istisnaa" model. The U.S. Export-Import Bank has not, so far, engaged in any project finance activities in Saudi Arabia.

The International Finance Corporation (IFC) is participating in a Saudi Government project, the Saudi Orix Leasing Corporation (SOLC), which will help finance short and medium-sized projects by making asset-backed financing more accessible. SOLC is the IFC's first joint venture in Saudi Arabia.

- Financing and Methods of Payment to Export from the Local Economy to Another Market, Including U.S. Import

Recently, the Saudi Fund for Development began to offer financing for Saudi exports to countries where there is no commercial bank coverage, no correspondent banks and/or high risk country/bank.

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) provides Export Credit guarantees on exports to member states and to companies owned/partly owned by member states. In addition, the corporation provides investment insurance and guarantees against country risks to member states.

- List of Banks with Correspondent U.S. Banking Arrangement

Because of their ownership structure, Saudi American Bank (Citibank) and Saudi Investment Bank (Chase Manhattan) have direct correspondent relationships with U.S. banks. The Embassy assumes that the other Saudi banks also have correspondent relationships with the U.S. institutions, whether the home office in the United States or branches in Europe or Bahrain.

- List of U.S. Financial/Lending Institutions Operating in Saudi Arabia

There are no U.S. financial/lending institutions operating in Saudi Arabia.

- Contact Information for Locally or Regionally Based MDB or Other IFI Offices

Islamic Development Bank

Contact: Abdul Raheem Imrana, Secretary General  
P.O. Box 5925 Jeddah 21432, Saudi Arabia  
Phone: (966 2) 636-1400, Fax: (966 2) 643-7670

The World Bank

Contact: Hafeez Sheikh, Resident Representative  
P.O. Box 5900 Riyadh 11432, Saudi Arabia  
Phone: (966 1) 483-4956  
Fax: (966 1) 488-5311

9:. BUSINESS TRAVEL

- Business Customs

The official language of Saudi Arabia is Arabic, but English is widely used in business and on signs and notices, making it easy for the non-Arabic speaker to live and work in the Kingdom. Modern Saudi Arabia has adopted many of the business methods and styles of the West, but some differences remain. Most important is that business will 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, soft drinks, and traditional Saudi coffee are usually offered. One to three cups of Saudi coffee should be taken for politeness, after which the cup should 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 Americans. For the most part travelers can rely on the usual Western manners and standards of politeness to see them through, with a few additional rules that may be observed. One should eat with the right hand and avoid sitting at any time with the sole of the foot pointed at the host or other guest. It may be discourteous to ask about a man's wife or daughters; ask instead about his family. Shoes are sometimes removed before entering a Saudi Majlis (living room). 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. Customs and manners

differ, so be observant and adapt your behavior to that of your host.

Saudi Arabia is a Muslim country that requires strict adherence to Islamic principles. Five times a day Muslims are obliged to pray in the direction of the holy city, Makkah. The prayer times are published in the newspaper and come at dawn, noon, afternoon, sunset, and evening. Stores and restaurants close for approximately one-half hour at these times. When staging promotional events or product demonstrations, one must anticipate these prayer breaks.

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.

#### - Travel Advisories and Visas

Besides alcohol products and illicit drugs, Saudi Arabia also prohibits the import, use, or possession of any item that is held to be contrary to the tenets of Islam. This includes non-Islamic religious materials, pork products and pornography. Saudi customs and postal officials widely define what is contrary to Islam, and therefore prohibited. Christmas decorations, fashion magazines, and "suggestive" videos may be confiscated and the owner may be subject to other penalties and fines. The private ownership of weapons is prohibited. Imported and domestic audiovisual media and reading matter are censored. It is advisable to carry prescription drugs in their original labeled containers. Please contact the Embassy of Saudi Arabia in Washington or one of Saudi Arabia's consulates in the United States for specific information regarding customs requirements.

Photography of sensitive installations such as airports, seaports, oil and petrochemical facilities, and military bases is prohibited, as is photography that constitutes an invasion of privacy. Theft or street crime is not a serious problem in Saudi Arabia, but normal precautions should be taken.

#### - Entry Requirements

Saudi visas in passports valid for at least six months are required for entry. Visas can be obtained for business and work, to visit close relatives, for religious visits, and for some tourists. Single entry visas are the standard, even though Saudi authorities agreed in October 1999 to issue two-year, multiple-entry business visas to U.S. citizens on a reciprocal basis. Visas are not available at ports of entry.

All visas require a sponsor, can take several months to process, and must be obtained prior to arrival. Female travelers must be met by their sponsor upon

arrival.

Expatriate residents working in Saudi Arabia generally must surrender their passports while in the Kingdom. The sponsor (normally the employer) obtains a work and residence permit for the employee and for any family members. Family members of those working are not required by law to surrender their passports, though they often do. Residents carry a Saudi residence permit (Iqama) for identification in place of their passports. The U.S. Embassy and Consulates General cannot sponsor private American citizens for Saudi visas.

Foreign residents traveling within the Kingdom, even between towns in the same province, carry travel letters issued by employers and authenticated by an immigration official or a chamber of commerce office. Police at all airports and internal roadblocks routinely arrest and imprison violators.

Visitors to Saudi Arabia generally obtain a meningitis vaccination prior to arrival. A medical report, including an AIDS test, is required to obtain a work and residence permit. This includes a medical certification. For further information on entry requirements, travelers may contact the following Saudi Government offices in the U.S.:

- Royal Embassy of Saudi Arabia  
601 New Hampshire Ave., N.W.  
Washington, DC 20037  
Telephone (202) 333-2740, Fax: (202) 944-3140  
Internet Address: <http://www.saudi.net>.
- Saudi Consulate General in New York  
866 United Nations Plaza, Suite 480  
New York, NY 10017  
Telephone (212) 752-2740, Fax: (212) 688-2719
- Saudi Consulate General in Houston  
5718 Westheimer, Suite 1500  
Houston, TX 77057  
Telephone (713) 785-5577, Fax: (713) 785-1163
- Saudi Consulate General in Los Angeles  
Sawtelle Courtyard Building  
2045 Sawtelle Blvd.  
Los Angeles, CA 90025  
Telephone (310) 479-6000/914-9011, Fax: (310) 479-2752

Most visas are single entry and allow for a maximum 90-day stay. However, as of October 1999, Saudi authorities have agreed to issue multi-year, multiple-entry visas on the basis of reciprocity. This agreement has been applied

inconsistently. Under present rules, to obtain a visitor's visa for business purposes, each U.S. company representative must have a letter of invitation from the Saudi sponsor. This letter must be in Arabic, the U.S. applicant must have the original copy (no faxes allowed), the letter must be on the Saudi company letterhead, and must bear an authenticating stamp of the local Saudi Chamber of Commerce. For other than a single entry visa, the letter must state that the applicant needs to enter the Kingdom multiple times for a stated period up to two years.

The letter should name the visa applicant, passport number, company name and address, approximate dates of visit, and reason for visit (e.g. business meetings). The U.S. visa applicant may hold the letter for up to 60 days prior to making application. It is further recommended that the U.S. applicant's company use the company's letterhead when requesting the Saudi Embassy's/Consulates' cooperation in issuing the visa. The visa applicant must apply for and receive the visa prior to departing the United States at either the Saudi Embassy in Washington or at Saudi Consulates in Houston, Los Angeles, or New York City. Once the visa is stamped on the passport, it must be used or officially canceled before a subsequent visa will be issued.

The visa may be extended at the discretion of the Saudi Embassy or Consulate prior to the expiration date. Occasionally, the Saudi consular officer may require the applicant to obtain the visa through a more time-consuming process involving approval by the Saudi Foreign Ministry. These procedures are well-known in the Kingdom and will be handled by the Saudi sponsor. Women traveling alone, Americans of Arab origin, and private consultants are often required to use this process. Resident visas also are available through a separate process.

If the U.S. applicant does not have a Saudi sponsor, the U.S.-Saudi Business Council may be able to assist (Tel: 202-638-1212). U.S. Commercial Service offices also can advise on how to make initial contacts with potential sponsors, but cannot arrange visas for unofficial business travelers.

#### - Exit Permission

Residents in Saudi Arabia may not depart the country without obtaining an exit permit prior to leaving and an exit/reentry permit if they intend to return to Saudi Arabia. One-time visitors on a single entry visa do not need an exit permit. The Saudi sponsor's approval is required for these permits. A married woman residing in Saudi Arabia with her husband must have her husband's approval to receive an exit permit. The father must approve the departure of any children.

The U.S. Embassy and Consulates General cannot sponsor private U.S. citizens for an exit permit under any circumstances. There is an airport departure fee

of Sr. 50 (\$13.30) per traveler. Members of airline crews, infants (under the age of 2), Hajj and Umrah passengers, and passengers in transit less than 24 hours are exempt from paying this fee.

The fee is payable to the travel agent through which the ticket is booked, through the airline issuing the ticket or at the airport before going to the immigration counter.

#### - Safety/Security

The U.S. Government continues to assist Saudi authorities in their investigations of the 1995 and 1996 bombings of U.S. military installations in Saudi Arabia. The U.S. Embassy continues to receive reports that suggest terrorist action against U.S. interests in Saudi Arabia remains a possibility. Because of continuing security concerns, the U.S. Embassy, Consulates General, and the U.S. military elements throughout the country routinely review their security postures and make improvements wherever possible to lessen their vulnerabilities. The Embassy strongly encourages all Americans resident in Saudi Arabia to likewise take appropriate steps to increase their security awareness and lessen their vulnerability.

The private American community should continue to exercise caution in matters concerning personal security. Americans should maintain a low profile, vary travel routes and times for all required travel, and treat any mail from unfamiliar sources with suspicion. In addition, it is imperative that any suspicious activity, individuals, or vehicles be reported to the U.S. Embassy or nearest Consulate. License numbers of vehicles and descriptions of individuals are extremely helpful for follow up. Saudi Arabian officials continue to cooperate closely with the Embassy to ensure the safety of all Americans.

The American Embassy and Consulates in Saudi Arabia inform the resident American community of security matters through a communication system known as the warden FaxNet. Persons who are residing in the Kingdom should contact the U.S. Embassy or the Consulates for information on their warden contacts. Americans arriving in Saudi Arabia are encouraged to register at the U.S. Embassy or Consulates and to obtain the most current security information.

#### - Criminal Penalties

While in a foreign country, a U.S. citizen is subject to that country's laws and regulations, which sometimes differ significantly from those in the United States and may not afford the protections available to the individual under U.S. law. Penalties for breaking the law can be more severe than in the United States for similar offenses. Persons violating Saudi Arabia's laws, even unknowingly, may be expelled, arrested or imprisoned. In Saudi Arabia, penalties for the import, manufacture, possession, and consumption of alcohol or

illegal drugs are severe. Convicted offenders can expect jail sentences, fines, public flogging, and/or deportation. The penalty for drug trafficking in Saudi Arabia is death. Saudi officials make no exceptions. Customs inspections at ports of entry are thorough. U.S. citizens are subject to the full force of Saudi law as well as that of any country in which they are traveling or residing. The U.S. Embassy and Consulates General have no standing in Saudi courts to obtain leniency for an American convicted of alcohol or drug offenses.

- Contacting the American Embassy and Consulates

Americans arriving in Saudi Arabia are encouraged to register at the Embassy or Consulates and obtain the most current security information. The Embassy in Riyadh is located at Collector Road M, Riyadh Diplomatic Quarter. The international mailing address is: P.O. Box 94309, Riyadh 11693, Saudi Arabia. The APO address is: American Embassy, Unit 61307, APO AE 09803-1307. The Embassy telephone number is (966)(1) 488-3800; the fax number is (966)(1) 488-7275.

The Consulate General in Jeddah is located on Palestine Road, Ruwais. The international mailing address is: P.O. Box 149, Jeddah 21411, Saudi Arabia. The APO address is: Unit 62112, APO AE 09811-2112. The telephone number is (966)(2) 606-2479; the fax number is (966) (2) 606-2567.

The Consulate General in Dhahran is located between Aramco headquarters and Dhahran International Airport. The international mailing address is: P.O. Box 81, Dhahran Airport 31932, Saudi Arabia. The APO address is: Unit 66803, APO AE 09858-6803. The telephone number is (966)(3) 330-3200; the fax number is (966)(3) 330-2190

- Holidays

There are two Islamic religious holidays around which most businesses close for at least three working days and all Government offices close for a longer period. During these holidays, it is very difficult to make contacts and transact business.

The Eid al-Fitr holiday occurs at the end of the holy month of Ramadan (month of fasting). Eid al-Adha celebrates the time of year when pilgrims arrive from around the world to perform the Hajj. Their timing is governed by the Islamic lunar calendar. The next Eid al-Fitr holiday will begin on or about December 23,2000 and the next Eid al-Adha holiday on or about March 8, 2001.

Business travel to the Kingdom during the holy month of Ramadan is also best avoided. During Ramadan devout Muslims abstain from food and drink during daylight hours. Office hours are shortened and shifted to the evening, and people may be affected by the fasting and customary late night social

gatherings. During Ramadan business travelers should not drink, eat, or smoke in public during daylight or in the presence of fasting Muslims. Hotels offer special daytime food services for their non-Muslim guests. This year Ramadan will start on or about November 28, 2000 and end on or about December 27, 2000. The Saudi national day is celebrated September 23. Almost all businesses and Government offices remain open on this day, with the notable exception of Saudi Aramco.

#### -Work Week

Business hours vary in different parts of the country. Saudi companies usually close for two hours in the afternoon and remain open throughout the early evening. Retail stores close for the noon prayer and reopen around 4:00 P.M.

The normal work -week runs from Saturday through Wednesday with many companies also requiring a half or full day on Thursday. Friday is the Muslim holy day.

Work Week: a. U.S. Embassy: 8:00 - 17:00 Sat. thru Wed.  
 b. Government: 8:00 - 14:30 Sat. thru Wed.  
 c. Banks: 9:00 - 12:00 and  
 17:00 - 19:00 Sat. thru Wed.  
 9:00 - 12:00 Thursdays.  
 d. Businesses: 8:00 - 12:00 and  
 16:00 - 20:00 Sat. thru Wed.  
 8:00 - 13:00 Thursdays.

#### - Business Infrastructure

The business centers of Riyadh, Jeddah, and Dammam/Al-Khobar/Dhahran have an international airports served by a variety of international airlines. Air travel is preferred for inter-Kingdom travel with public service restricted to the sole national airline, Saudia.

The Kingdom has a good highway system and rental cars and taxis/limousines are available at all airports; driving is U.S.-style, on the right. One rail line carries passengers and freight between Dammam and Riyadh. Jeddah and Dammam are the main international seaports for moving containerized and bulk cargo.

Modern communication facilities are available including telephone, fax, Internet, telex, and courier services. While V-SAT licenses may be issued shortly, the use of private satellite communication transponders is not allowed. Facsimile machines are heavily utilized in the conduct of business. A cellular phone system based on the GSM standard is highly popular, while radiophones are restricted.

Internet service is now available through some two dozen service providers,

although delays and breaks in service are common because of limited bandwidth. The Saudi Government is embarking on a large-scale telecommunications upgrade program, and the shortage is expected to be resolved by the end of 2002.

Four and five star hotel accommodations are readily available in the major business centers, and many of the better restaurants are located in the hotels. There are many excellent restaurants in the three major population centers. Well-known American fast food restaurants are also very popular. The food reflects the diversity of the country's expatriate population and generally can be considered safe. Use of bottled water is preferred although most tap water is potable in the major cities. Supermarkets are well stocked with Western products.

Housing for expatriate employees residing in the Kingdom is usually provided by the employer or through a housing allowance given to the employee. The major cities offer a wide variety of houses and apartments for rent, although the rental is considered high by U.S. metropolitan standards.

Most Western expatriates live in housing compounds that provide additional services such as cable television, recreation facilities, childcare, limousine services for women (who are not allowed to drive in the Kingdom), and security.

The quality of health care is variable, ranging from excellent to poor depending on the region, hospital, and specialty. Most Western expatriates find it adequate for routine care and minor surgery. Only a few drugs available in the U.S. are not available in Saudi Arabia.

There is a good network of private American schools serving communities with a high concentration of U.S. expatriates, including all the major business and industrial centers. In 1998, the Ministry of Education approved new rules and regulations pertaining to the licensing and operation of international schools. The new guidelines will permit foreign schools to be set up based on pre-approved curriculum. Contrary to a previous ruling, these schools will be allowed to enroll students up to Grade 12. Many expatriates prefer to send teen-age children to boarding school outside of Saudi Arabia.

#### - Temporary Entry of Goods

Temporary entry of goods is allowed provided that a guarantee of 12 or 20 percent of the value of the goods is deposited with Saudi Customs. A document and/or a participation agreement is needed to ascertain that the owner of the goods is officially participating in a trade show. If the goods are meant for demonstration purposes to a Government entity, a letter from that entity is required indicating the nature and purpose of the goods. The deposit will be reimbursed after Saudi Customs attests that the goods have left the Kingdom. Reimbursement may take somewhere between two to four weeks.

U.S. business travelers are encouraged to obtain a copy of the *Key Officers of Foreign Service Posts: Guide for Business Representatives*, available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; Tel. (202) 512-1800; Fax. (202) 512-2250. Business travelers to Saudi Arabia seeking appointments with U.S. Embassy Riyadh officials should contact the Commercial Section in advance. The Commercial Section can be reached by Telephone at (966 1) 488-3800 ext. 1527/1516, fax at (966 1) 488-3237, or E-mail at Oriyadh@mail.doc.gov. Further information on Saudi Arabia is also available at the U.S. Embassy website at [www.usembassy.state.gov/riyadh](http://www.usembassy.state.gov/riyadh).

## 10.: ECONOMIC AND TRADE STATISTICS

### Appendix A: Domestic Economy (US\$ Billions, except as noted)

	1998	1999 <sup>û</sup>	2000 <sup>ý</sup>
- GDP (current)	130.1	140.9	152.0
- Nominal GDP growth rate (percent)	-12.2	7.7	7.3
- GDP per capita	6195.0	6584.0	6972.0
- Government spending (percent of GDP)	24.0	48.3	51.8
- Inflation (percent)	-0.2	-1.2	0.0
- Unemployment (percent)	n.a.	n.a.	n.a.
- Net Foreign Assets Managed by SAM <sup>ü</sup>	53.1	46.0	n.a.
- Average Exchange Rate for \$1.0	3.75	3.75	3.75
- Debt Service Ratio	0.0	0.0	0.0
- U.S. Economic Assistance	0.0	0.0	0.0

<sup>û</sup> <sup>ý</sup> Embassy Forecasts

<sup>ü</sup> Excludes approximately \$29-30 billion in foreign assets held by autonomous Government institutions.

### Appendix B: Trade Statistics (US\$ Billions, except where noted)

	1998	1999(E)	2000(P)
- Total Country Exports	39.7	49.6	n.a.
- Total Country Imports	30.0	28.0	n.a.
- U.S. Exports *	10.5	7.9	8.0
- U.S. Imports	7.2	8.9	13.9

Sources: Ministry of Finance and National Economy; Saudi Arabian Monetary Agency (SAMA); International Monetary Fund; Department of Commerce; CS estimates;

Ministry of Industry & Electricity.

\* Does not include defense related exports.

## 11.: US AND COUNTRY CONTACTS

### - US Embassy Personnel

#### 1) US Embassy

Commercial Service (CS) - Riyadh

Contacts: Charles Kestenbaum, Senior Commercial Officer

Virginia Morris, Deputy Senior Commercial Officer

Robert Peasley, Commercial Officer

Edward Wunder, Standards Representative

Unit 61307

APO AE 09803-1307

Phone: (966 1) 488-3800, Fax: (966 1) 488-3237

#### 2) US Consulate General

CS - Jeddah

Contact: David H. Rundell, Principal Commercial Officer

Unit 62112

APO AE 09811-2112

Phone: (966 2) 606-2479, Fax: (966 2) 606-2567

#### 3) US Consulate General

Commercial Service (CS) - Dhahran

Contact: Nasir Abbasi, Principal Commercial Officer

Unit 66803

APO AE 09858-6803

Phone: (966 3) 330-3200, Fax: (966 3) 330-2190

#### 4) US Embassy Riyadh

Agricultural Trade Office

Contact: Quintin Grey, Agricultural Trade Officer

Phone: (966 1) 488-3800, Fax: (966 1) 482-4364

#### 5) US Embassy Riyadh

Economic Section

Contact: Alice Dress, Counselor for Economic Affairs

Phone: (966 1) 488-3800, Fax: (966 1) 488-3278

### - Saudi Embassy and Consulates in the US

#### 1) Royal Embassy of Saudi Arabia

601 New Hampshire Ave, NW

Washington, DC 20037

Phone: (202) 333-2740, Fax: (202) 944-3140

2) Saudi Consulate General in New York  
866 United Nations Plaza, Suite 480  
New York, NY 10017  
Phone: (212) 752-2740, Fax: (212) 688-2719

3) Saudi Consulate General in Houston  
One Westheimer Plaza  
5718 Westheimer, Suite 1500  
Houston, TX 77057  
Phone: (713) 785-5577, Fax: (713) 785-1163

4) Saudi Consulate General in Los Angeles  
Sawtelle Courtyard Building  
2045 Sawtelle Blvd  
Los Angeles, CA 90025  
Phone: (310) 479-6000/914-9011, Fax: (310) 479-2752

- US-Based Multipliers Relevant for Country

1) US-Saudi Arabian Business Council  
1401 New York Ave, NW, Suite 720  
Washington, DC 20005  
Phone: (202) 638-1212, Fax: (202) 638-2894

2) National US-Arab Chamber of Commerce  
1100 New York Ave, NW  
East Tower, Suite 550  
Washington, DC 20005  
Phone: (202) 289-5920, Fax: (202) 289-5938

3) American Business Council of the Gulf Countries (ABCGC)  
c/o Intercom International Consultants  
1101 30th Street, NW, Suite 500  
Washington, DC 20007  
Phone: (202) 887-1887, Fax: (202) 887-1888

4) ARAMCO  
1667 K Street, NW  
Washington, DC 20006  
Phone: (202) 223-7750, Fax: (202) 223-7756

5) ARAMCO Services Company  
PO Box 4534  
Houston, TX 77210-4534

Phone: (713) 432-4000, Fax: (713) 432-8566

6) Saudi Petroleum International  
527 Madison Ave  
22 & 23 Floors  
New York, NY 10002  
Phone: (212) 832-4044, Fax: (212) 446-9200

7) SABIC Americas, Inc  
2500 City West Blvd,  
Suite 650  
Houston, TX 77042  
Phone: (713) 532-4999, Fax: (713) 532-4994

8) Riyadh Bank  
700 Louisiana  
Suite 4770  
Houston, TX 77002  
Phone: (713) 224-8071, Fax: (713) 224-8072

9) Saudi International Bank  
520 Madison Ave  
New York, NY 10022  
Phone: (212) 355-6530, Fax: (212) 758-5360

- Saudi Arabian Trade Associations/Chambers of Commerce

1) Council of Saudi Chambers of Commerce and Industry  
Contact: Eng. Usama M. Kurdi, Secretary General  
PO Box 16683 Riyadh 11474, Saudi Arabia  
Phone: (966 1) 405-3200, Fax: (966 1) 402-4747

2) Riyadh Chamber of Commerce and Industry  
Contact: Hussein Al-Athel, Secretary General  
PO Box 596 Riyadh 11421, Saudi Arabia  
Phone: (966 1) 404-0044, Fax: (966 1) 402-1103

3) Jeddah Chamber of Commerce and Industry  
Contact: Dr. Majid A Al-Qusabi, Secretary General  
PO Box 1264 Jeddah 21431, Saudi Arabia  
Phone: (966 2) 651-5111, Fax: (966 2) 651-7373

4) Chamber of Commerce and Industry for the Eastern Province  
Contact: Dr. Ibrahim Abdullah Al-Mutref, Secretary General, Ext 4555  
PO Box 719 Dammam 31421, Saudi Arabia

Phone: (966 3) 857-1111, Fax: (966 3) 857-0607

5) Federation of GCC Chambers

Contact: Mohammad Abdullah Al-Mulla, Secretary General

PO Box 2198 Dammam 31451, Saudi Arabia

Phone: (966 3) 826-5943/3792, Fax: (966 3) 826-6794

E-mail: fgccc@Zajilnet

6) American Businessmen's Group of Riyadh

PO Box 8273 Riyadh 11482, Saudi Arabia

Phone: (966 1) 478-2738/1652, Fax: (966 1) 476-4363

7) American Businessmen of Jeddah

PO Box 8483 Jeddah 21482, Saudi Arabia

Phone: (966 2) 665-6359/652-1234, Fax: (966 2) 660-0389

8) American Business Association - Eastern Province

PO Box 88 Dhahran Airport 31932, Saudi Arabia

Phone: (966 3) 874-2886, Fax: (966 3) 873-8883/857-8130

- Saudi Arabian Government Agencies

1) Board of Grievances

Contact: HE Sheikh Nasser Al-Rashed, President

Riyadh 11138, Saudi Arabia

Phone: (966 1) 402-1724, Fax: (966 1) 403-4296

2) Saudi Ports Authority

Contact: HE Abdul Aziz Al-Manie, Minister of State, President

PO Box 5162 Riyadh 11188, Saudi Arabia

Phone: (966 1) 405-0005, Fax: (966 1) 405-3508

3) General Organization for Technical Education and Vocational Training

Contact: HE Mohammad Suleiman Al-Dalaan, Governor

PO Box 7823 Riyadh 11472, Saudi Arabia

Phone: (966 1) 405-2770, Fax: (966 1) 406-5876

4) General Organization for Grain Silos and Flour Mills

Contact: HE Saleh Mohammad Al-Suleiman, Director General

PO Box 3402 Riyadh 11471, Saudi Arabia

Phone: (966 1) 464-3500, Fax: (966 1) 463-1943

5) King Abdul Aziz City for Science and Technology

Contact: HE Dr. Saleh Abdel Rahman Al-Athel, President

PO Box 6086 Riyadh 11442, Saudi Arabia

Phone: (966 1) 488-3555, Fax: (966 1) 488-3756

6) King Faisal Foundation  
Contact: HRH Prince Khalid Al-Faisal, Managing Director  
PO Box 352 Riyadh 11411, Saudi Arabia  
Phone: (966 1) 465-2255, Fax: (966 1) 465-6524

7) Ministry of Agriculture and Water  
Contact: HE Dr. Abdullah Abdul Rahman Al-Moaammar, Minister  
PO Box 2639 Riyadh 11195, Saudi Arabia  
Phone: (966 1) 401-2777/403-0030, Fax: (966 1) 404-4592

8) Ministry of Commerce  
Contact: HE Dr. Oussama Jaafar Faquih, Minister  
PO Box 1774 Riyadh 11162, Saudi Arabia  
Phone: (966 1) 401-2222, Fax: (966 1) 402-6640

9) Ministry of Communications  
Contact: HE Dr. Nasser Al-Salloum, Minister  
PO Box 3813 Riyadh 11178, Saudi Arabia  
Phone: (966 1) 404-3000/2928, Fax: (966 1) 403-1401

10) Ministry of Defense and Aviation  
Contact: HRH Prince Sultan Bin Abdul Aziz Al-Saud, Minister  
Riyadh 11165, Saudi Arabia  
Phone: (966 1) 478-9000/477-7313, Fax: (966 1) 406-2146

11) Ministry of Education  
Contact: HE Dr. Mohammad Bin Ahmad Al-Rasheed, Minister  
Riyadh 11148, Saudi Arabia  
Phone: (966 1) 404-2888, Fax: (966 1) 403-7229

12) Ministry of Finance and National Economy  
Contact: HE Dr. Ibrahim Al-Assaf, Minister  
PO Box 6902 Riyadh 11177, Saudi Arabia  
Phone: (966 1) 405-0080/0000, Fax: (966 1) 405-9202

13) Ministry of Foreign Affairs  
Contact: HRH Prince Saud Al-Faisal, Minister  
Riyadh 11124, Saudi Arabia  
Phone: (966 1) 406-7777, Fax: (966 1) 402-0100

14) Ministry of Health  
Contact: HE Dr. Osama Abdul Majeed Shobokshi, Minister  
PO Box 21217 Riyadh 11176, Saudi Arabia  
Phone: (966 1) 401-2220, Fax: (966 1) 402-6395

15) Ministry of Higher Education

Contact: HE Dr. Khaled Al-Anqari, Minister

Riyadh 11153, Saudi Arabia

Phone: (966 1) 441-5555, Fax: (966 1) 441-9004

16) Ministry of Industry and Electricity

Contact: HE Dr. Hashim Abdallah Yamani, Minister

PO Box 5729 Riyadh 11127, Saudi Arabia

Phone: (966 1) 477-6666, Fax: (966 1) 477-5488

17) Ministry of Information

Contact: HE Dr. Fuad Abdul Salam Al-Farsi, Minister

PO Box 843 Riyadh 11161, Saudi Arabia

Phone: (966 1) 406-8888, Fax: (966 1) 405-0674

18) Ministry of Interior

Contact: HRH Prince Naif Bin Abdul Aziz Al Saud, Minister

PO Box 3743 Riyadh 11481, Saudi Arabia

Phone: (966 1) 401-1111, Fax: (966 1) 403-3614

19) Ministry of Labor and Social Affairs

Contact: HE Dr. Ali Al-Namlah, Minister

Riyadh 11157, Saudi Arabia

Phone: (966 1) 477-1480/477-8888, Fax: (966 1) 477-2250

20) Ministry of Municipalities and Rural Affairs

Contact: HE Dr. Muhammad Ibrahim Al-Jarallah, Minister

Riyadh 11136, Saudi Arabia

Phone: (966 1) 456-9999, Fax: (966 1) 456-3196

21) Ministry of Petroleum and Mineral Resources

Contact: HE Eng. Ali Al-Naimi, Minister

PO Box 247 Riyadh 11191, Saudi Arabia

Phone: (966 1) 478-1661/1133/7777, Fax: (966 1) 478-1980

22) Ministry of Planning

Contact: HE Dr. Khaled Al-Gosaibi, Minister

PO Box 358 Riyadh 11183, Saudi Arabia

Phone: (966 1) 401-3333/1444, Fax: (966 1) 401-0385

23) Ministry of Posts, Telephone and Telegraph

Contact: HE Dr. Khaled Al-Gosaibi, Acting Minister

Riyadh 11112, Saudi Arabia

Phone: (966 1) 463-4444, Fax: (966 1) 463-7072

- 24) Ministry of Public Works and Housing  
Contact: HRH Prince Miteb Bin Abdul Aziz Al Saud, Minister  
PO Box 56095 Riyadh 11151, Saudi Arabia  
Phone: (966 1) 405-8300, Fax: (966 1) 402-2723
- 25) Public Investment Fund  
Contact: HE Mansour Saleh Al-Maiman, Secretary General  
PO Box 6847 Riyadh 11452, Saudi Arabia  
Phone: (966 1) 478-3580, Fax: (966 1) 474-2693
- 26) Royal Commission for Jubail and Yanbu  
Contact: HE Saud Bin Thunayyan Al-Saud, Acting President  
PO Box 5864 Riyadh 11432, Saudi Arabia  
Phone: (966 1) 479-4445, Fax: (966 1) 477-5404
- 27) Saudi Basic Industries Corporation (SABIC)  
Contact: Eng. Mohammad Al-Madi, Vice Chairman & CEO  
PO Box 5101 Riyadh 11422, Saudi Arabia  
Phone: (966 1) 401-2033, Fax: (966 1) 401-3831
- 28) Saline Water Conversion Corporation (SWCC)  
Contact: HE Dr. Fahd Balghneim, Governor  
PO Box 5968 Riyadh 11432, Saudi Arabia  
Phone: (966 1) 463-1111/0503, Fax: (966 1) 463-1952
- 29) Saudi Arabian Monetary Agency  
Contact: HE Hamad Saud Al-Sayyari, Governor  
PO Box 2992 Riyadh 11461, Saudi Arabia  
Phone: (966 1) 463-3000, Fax: (966 1) 463-4262
- 30) Saudi Arabian National Guard  
Contact: HRH Prince Badr Bin Abdul Aziz Al-Saud, Vice President  
Riyadh 11173, Saudi Arabia  
Phone: (966 1) 491-2222, Fax: (966 1) 491-4429
- 31) Saudi Arabian Public Transport Company  
Contact: Dr. Abdul Aziz Al-Ohali, Director General  
PO Box 10667 Riyadh 11443, Saudi Arabia  
Phone: (966 1) 454-5000, Fax: (966 1) 454-2100
- 32) Saudi Arabian Standards Organization  
Contact: Dr. Khaled Youssef Al-Khalaf, Director General  
PO Box 3437 Riyadh 11471, Saudi Arabia  
Phone: (966 1) 452-0000, Fax: (966 1) 452-0086

33) Saudi Electric Company, Central Province Branch  
Contact: Eng. Abdul Aziz Abdul Wahed, President  
PO Box 57 Riyadh 11411, Saudi Arabia  
Phone: (966 1) 403-1033, Fax: (966 1) 405-1191

34) Saudi Consulting House  
Contact: Mohammad Al-Ali Musallam, Director General  
PO Box 1267 Riyadh 11431, Saudi Arabia  
Phone: (966 1) 448-4533, Fax: (966 1) 448-1234

35) Saudi Fund for Development  
Contact: HE Mohammad Al-Soghair, Director General  
PO Box 50483 Riyadh 11523, Saudi Arabia  
Phone: (966 1) 464-0292, Fax: (966 1) 464-7450

36) Saudi Industrial Development Fund  
Contact: Saleh Al-Noaim, Director General  
PO Box 4143 Riyadh 11491, Saudi Arabia  
Phone: (966 1) 477-4002, Fax: (966 1) 479-0165

37) Saudi National Shipping Company  
Contact: Ahmad Banaja, Chairman  
PO Box 8931 Riyadh 11492, Saudi Arabia  
Phone: (966 1) 478-5454, Fax: (966 1) 477-8036

38) Saudi Arabian Airlines  
Contact: Dr. Khaled A Al-Bakr, Director General  
PO Box 620 Jeddah 21421, Saudi Arabia  
Phone: (966 2) 686-0000, Fax: (966 2) 686-4552

39) Saudi Arabian Oil Company (Saudi Aramco)  
Contact: HE Abdallah Saleh Jumaa, President & CEO  
PO Box 5000 Dhahran Airport 31311, Saudi Arabia  
Phone: (966 3) 876-5229, Fax: (966 3) 876-6520

40) Saudi Arabian Railway Organization  
Contact: HE Naser Mohammed Al-Ajami, President  
PO Box 36 Dammam 31241, Saudi Arabia  
Phone: (966 3) 871-5151/3001, Fax: (966 3) 871-5154

41) Arab Satellite Communication Organization  
Contact: Eng. Saad Al-Badana, Director General  
PO Box 1038 Riyadh 11431, Saudi Arabia  
Phone: (966 1) 464-6666, Fax: (966 1) 465-6983

## 42) Naif Arab Academy Center for Security Sciences

Contact: Dr. Abdul Aziz Sagr Al-Ghamdi, President

PO Box 6830 Riyadh 11452, Saudi Arabia

Phone: (966 1) 246-3444, Fax: (966 1) 246-4713

## 43) Presidency of Civil Aviation

Contact: HE Dr. Ali Bin Abdulrahman Al-Khalaf, President

PO Box 887 Jeddah 21421, Saudi Arabia

Phone: (966 2) 667-9000, Fax: (966 2) 671-7376

## 44) Saudi Red Crescent Society

Contact: HE Dr. Abdulrahman Abdulaziz Al-Suwailem, President

Riyadh 11129, Saudi Arabia

Phone: (966 1) 474-0925/0027, Fax: (966 1) 474-0430

## 45) Central Department of Statistics

Contact: Abdullah Al-Othaim, Director General

PO Box 3735 Riyadh 11118, Saudi Arabia

Phone: (966 1) 401-4138, Fax: (966 1) 405-9493

## 46) Civil Defense

Contact: Major General Mohammed Ali Al-Sihaili, Director General

Riyadh 11174

Phone: (966 1) 479-2828, Fax: (966 1) 477-6579

## 47) Directorate General for Mineral Resources

Contact: Ibrahim Khaberi, Deputy Minister for Minerals

PO Box 2880 Jeddah 21461, Saudi Arabia

Phone: (966 2) 667-4800, Fax: (966 2) 667-2265

## 48) General Electricity Corporation

Contact: Fehaid Fahd Al-Shareef, Acting Governor

PO Box 1185 Riyadh 11431, Saudi Arabia

Phone: (966 1) 477-6666, Fax: (966 1) 477-5322

## 49) Economic Offset Secretariat

Contact: Major General Ibrahim Mishari, Secretary to the Offset Committee

PO Box 27040 Riyadh 11417, Saudi Arabia

Phone: (966 1) 478-4330, Fax: (966 1) 478-4123

## 50) General Presidency for Youth Welfare Organization

Contact: HRH Prince Faisal Bin Fahd Bin Abdulaziz Al-Saud, President

PO Box 7823 Riyadh 11421, Saudi Arabia

Phone: (966 1) 401-4576, Fax: (966 1) 401-0376

51) Institute of Public Administration

Contact: HE Dr. Hamad Ibrahim Al-Saloom, Director General  
PO Box 205 Riyadh 11411, Saudi Arabia  
Phone: (966 1) 476-8888, Fax: (966 1) 479-2136

52) Meteorology and Environmental Protection Agency (MEPA)

Contact: Dr. Nizar Tawfiq, President  
PO Box 1358 Jeddah 21431, Saudi Arabia  
Phone: (966 2) 651-8887, Fax: (966 2) 651-1424

53) Saudi Arabian Department of Customs

Contact: HE Saleh Al-Barrak, Director General  
PO Box 3483 Riyadh 11471, Saudi Arabia  
Phone: (966 1) 401-3334, Fax: (966 1) 404-3412

54) Saudi Electric Company, Eastern Province Branch

Contact: Fehaid Fahd Al-Shareef, Chairman  
PO Box 5190 Dammam 31422, Saudi Arabia  
Phone: (966 3) 857-2300, Fax: (966 3) 858-6060

55) Saudi Electric Company, Southern Province Branch

Contact: Eng Abdulrahman Al-Tuwaijri, Chairman  
PO Box 616, Abha, Saudi Arabia  
Phone: (966 7) 227-1111, Fax: (966 7) 227-1627

56) Saudi Electric Company, Western Province Branch

Contact: Eng. Mahmmoud Abdullah Taiba, Chairman  
PO Box 9299 Jeddah 21413, Saudi Arabia  
Phone: (966 2) 651-1008, Fax: (966 2) 653-4139

57) Saudi Telecommunications Company

Contact: Eng. Abdul Rahman A. Al-Yami, President  
PO Box 87912 Riyadh 11650, Saudi Arabia  
Phone: (966 1) 452-5000, Fax: (966 1) 452-5559

- Saudi Arabian Market Research Firms

1) Al-Saif Management and Economic Consultants

Contact: Dr. Mohammed E Ghanim, Executive Director  
PO Box 60944 Riyadh 11555, Saudi Arabia  
Phone: (966 1) 465-1982, Fax: (966 1) 464-4668

2) Business Consultants International Group

Contact: Raed Al-Khaldi, Managing Director

PO Box 91450 Riyadh 11633, Saudi Arabia  
Phone: (966 1) 478-6154/4275, Fax: (966 1) 478-3794

3) Consultancy & Research Center  
Contact: Dr. Nicos Rossides, General Manager  
PO Box 7188 Riyadh 11462, Saudi Arabia  
Phone: (966 1) 479-3321/2673, Fax: (966 1) 479-4122

4) The Consulting Center for Finance and Investment  
Contact: Dr. Abdulaziz M Al-Dukheil, President  
PO Box 2462 Riyadh 11451, Saudi Arabia  
Phone: (966 1) 478-2525, Fax: (966 1) 476-8021

5) The Economic Bureau  
Contact: Dr. Iraj Khajavi, Vice President  
PO Box 86619 Riyadh 11632, Saudi Arabia  
Phone: (966 1) 464-3938, Fax: (966 1) 465-4669

6) Arthur D Little International  
Contact: Ghassan Barrage, General Manager  
PO Box 3266 Riyadh 11471, Saudi Arabia  
Phone: (966 1) 477-0153/0227, Fax: (966 1) 477-0134

7) International Information and Trading Services Company  
Contact: Hani Zahran, General Manager  
PO Box 644 Al-Khobar 31952, Saudi Arabia  
Phone: (966 3) 894-9603/7182, Fax: (966 3) 894-7182

8) Amer/A.C. Nielsen  
Contact: Maher Obaid, General Manager  
PO Box 222 Riyadh 11382, Saudi Arabia  
Phone: (966 1) 403-2887, Fax: (966 1) 403-7491

- Saudi Arabian Commercial Banks

1) Arab National Bank  
Contact: Neemat Al-Sabbagh, Managing Director  
PO Box 56921 Riyadh 11564, Saudi Arabia  
Phone: (966 1) 402-9000, Fax: (966 1) 403-0052

2) Saudi French Bank  
Contact: Bertrand Viriot, Managing Director  
PO Box 56006 Riyadh 11554, Saudi Arabia  
Phone: (966 1) 404-2222, Fax: (966 1) 404-2155

3) Saudi American Bank

Contact: Robert S Eichfeld, Managing Director  
PO Box 833 Riyadh 11421, Saudi Arabia  
Phone: (966 1) 477-4770, Fax: (966 1) 478-0823

4) Saudi Hollandi Bank

Contact: Herman Erbe, Managing Director  
PO Box 1467 Riyadh 11431, Saudi Arabia  
Phone: (966 1) 401-0288, Fax: (966 1) 401-0968

5) Saudi British Bank

Contact: Sandy Flockhart, Managing Director  
PO Box 9084 Riyadh 11413, Saudi Arabia  
Phone: (966 1) 405-0677, Fax: (966 1) 405-0069

6) Al-Rajhi Investment and Banking Corporation

Contact: Abdallah Suleiman Al-Rajhi, General Manager  
PO Box 28 Riyadh 11411, Saudi Arabia  
Phone: (966 1) 460-1000/2015, Fax: (966 1) 460-2040

7) Riyadh Bank

Contact: Alan Thompson, General Manager  
PO Box 22622 Riyadh 11416, Saudi Arabia  
Phone: (966 1) 401-0908, Fax: (966 1) 404-0090

8) The Saudi Investment Bank

Contact: Saud Al-Saleh, General Manager  
PO Box 3533 Riyadh 11481, Saudi Arabia  
Phone: (966 1) 477-8433, Fax: (966 1) 478-1557

9) Bank Al-Jazira

Contact: Mishari Ibrahim Al-Mishari, General Manager  
PO Box 6277 Jeddah 21442, Saudi Arabia  
Phone: (966 2) 651-8070, Fax: (966 2) 653-0923

10) National Commercial Bank

Contact: Abdallah Bahamdan, General Manager  
PO Box 3555 Jeddah 21481, Saudi Arabia  
Phone: (966 2) 644-6644, Fax: (966 2) 643-7670

- Multilateral Development Bank Offices in Saudi Arabia

Islamic Development Bank

Contact: Abdul Raheem Imrana, Secretary General

PO Box 5925 Jeddah 21432, Saudi Arabia  
 Phone: (966 2) 636-1400, Fax: (966 2) 636-6871

The World Bank  
 Contact: Hafeez Sheikh, Resident Representative  
 P.O. Box 5900 Riyadh 11432, Saudi Arabia  
 Phone: (966 1) 483-4956, Fax: (966 1) 488-5311  
 - Washington-based USG Country Contacts

1) U.S. Department of Commerce  
 Contact: Kevin Brennan, Regional Director, US&FCS/ANESA  
 14th & Constitution Ave, NW  
 Washington, DC 20230  
 Phone: (202) 482-4836, Fax: (202) 482-5179

2) U.S. Department of Commerce  
 Contact: David Guglielmi, Desk Officer, MAC/ANESA/ONE, Room 2029b  
 14th & Constitution Ave, NW  
 Washington, DC 20230  
 Phone: (202) 482-1860, Fax: (202) 482-0878

3) TPCC Trade Information Center  
 Phone: 1-800-USA-TRADE

4) US Department of Agriculture  
 Foreign Agricultural Service  
 Trade Assistance and Promotion Office  
 Phone: (202) 720-7420, Fax: (202) 690-4374

5) US Department of State  
 Office of the Coordinator for Business Affairs  
 Phone: (202) 746-1625, Fax: (202) 647-3953

## 12.: MARKET RESEARCH

The following CS reports were completed in FY 2000 and are available on the National Trade Data Base (NTDB) (Tel: 202/482-1986).

Code	Report Topic	Completion Date	Drafter
POL Malas	Transition to Unleaded Gas	11/20/1999	A.
SEC Wathen	Industrial Security	12/20/1999	J.

CPT	Personal Computers	01/20/2000	T. Garfaoui
PTE	Power Transmission Equipment	02/20/2000	R. Saab
OGM	Upstream Gas Projects	03/20/2000	A. Malas
FUR	Office Furniture	04/20/2000	R. Shenouda
CSV	E-Commerce	05/20/2000	A. Khayat
WRE Saeed	Water Filtration Equipment	05/20/2000	H.
MIN	Mining Machinery	05/20/2000	A. Noman
DRG	Pharmaceuticals	06/20/2000	T. Garfaoui
APS	Auto Maintenance Franchising	06/20/2000	J. Quadri
APP	Women,s Evening Wear	07/20/2000	A. Noman
MED	Medical Laboratory Equipment	07/20/2000	M. Siblini
TEL	Switching Systems	08/20/2000	A. Khayat

The following CS reports are scheduled for completion in FY 2001 and will be available on the NTDB (Tel: 202/482-1986).

Code	Report Topic	Completion Date	Drafter
ACR	Chillers	10/30/2000	H. Saeed
INS	Medical & Life Insurance	11/30/2000	M. Siblini
APS	Refurbished Automotive Parts	12/30/2000	J. Quadri
OGM Malas	Gas Investments Initiative	01/30/2001	A.
COS	Cosmetics	01/30/2001	M. Al-Wazir
TES Saab	Telecommunication Services	02/28/2001	R.

BLD Saeed	Sanitary and Plumbing Fixtures	02/28/2001	H.
ELP	Power Generation Equipment	03/30/2001	R. Saab
SPT	Fitness Equipment (Voluntary)	03/30/2001	A. Noman
EDS Wathen	Vocational Training	04/30/2001	J.
CSF Khayat	Application Software	05/30/2001	A.
HCS Siblini	Healthcare Services (Voluntary)	05/30/2001	M.
CHM Malas	Petrochemical Industries Expansion	06/30/2001	A.
TRA	Travel Services	07/30/2001	J. Quadri
PGA Khayat	Electronic Publishing	08/30/2001	A.

The U.S. Agricultural Trade Office (ATO) produced the following scheduled reports in FY 2000:

COMMODITY	COMPLETION DATE
Grain & Feed Annual	03/01/2000
Trade Policy Monitoring Report	03/15/2000
Food & Agricultural Import Regulations Report	07/31/2000
Livestock Annual	08/01/2000
Poultry Annual	08/15/2000
Export Guide	09/30/2000
Retail Food Sector Report	11/15/2000

The U.S. Agricultural Trade Office (ATO) will produce the following scheduled reports in FY 2001.

COMMODITY	COMPLETION DATE
Grain & Feed Annual	03/01/2001
Trade Policy Monitoring Report	03/15/2001
Food & Agricultural Import Regulations Report	07/31/2001
Livestock Annual	08/01/2001
Poultry Annual	08/15/2001
Export Guide	09/30/2001
Retail Food Sector Report	11/15/2001

The above scheduled reports can be downloaded from the FAS web site at [WWW.FAS.USDA.GOV](http://WWW.FAS.USDA.GOV), 3 days after the due dates. FAS reports are also available from the Reports Office/USDA/FAS, Washington, D.C. 20250.

### 13:. TRADE EVENT SCHEDULE

Event Name: Clean Energy Initiative Mission

Event ID: N/A

Event Location(s): Riyadh + Dhahran

Industry Theme: POL, ELP, WRE, OGM

Dates of Event: October 20 - 28, 2000

Type of Event: TM

Post Recruiter/Control Officer: Riyadh - Charles Kestenbaum (01) 488-3800 ext.1517

Dhahran - Nasir Abbasi (03) 330-3200 ext.3014

Event Name: Automotive Aftermarket Industry Week

Event ID: N/A

Event Location(s): Las Vegas, NV

Industry Theme: APS

Dates of Event: October 31 - November 3, 2000

Type of Event: RTM

Post Recruiter/Control Officer: Riyadh - Jalal Quadri, (01) 488-3800 ext.1530

Event Name: Comdex Fall

Event ID: 01000383

Event Location(s): Las Vegas, NV

Industry Theme: CPT  
Dates of Event: November 13 - 17, 2000  
Type of Event: IBP  
Post Recruiter/Control Officer: Riyadh - Ahmed Khayyat, (01) 488-3800  
ext.1529

Event Name: Power Gen 2000  
Event ID: 01000384  
Event Location(s): Orlando, FL  
Industry Theme: ELP, PTE  
Dates of Event: November 14 - 16, 2000  
Type of Event: IBP  
Post Recruiter/Control Officer: Dhahran - Riad Saab, (03) 330-3200 ext.3058

Event Name: The Amusement Show  
Event ID: 01000385  
Event Location: Atlanta, GA  
Industry Theme: SPT  
Event Dates: November 15 - 18, 2000  
Type of Event: IBP  
Post Recruiter/Control Officer: Jeddah - Abdullah Noman (02) 606-2479 ext.205  
Manama, Bahrain - Lucy Fahim (973) 273-300

Event Name: ASHRAE Show  
Event ID: N/A  
Event Location: Atlanta, GA  
Industry Theme: AIR  
Event Dates: February 26 - 28, 2001  
Type of Event: RTM  
Post Recruiter/Control Officer: Riyadh - Habeeb Saeed (01) 488-3800 ext.1528

Event Name: COSMOPROF  
Event ID: N/A  
Event Location: Bologna, Italy  
Industry Theme: COS  
Event Dates: April 14 - 17, 2001  
Type of Event: RTM  
Post Recruiter/Control Officer: Riyadh - Maher Siblani (01) 488-3800  
ext.1541  
Jeddah - Mawada Alwazir (02) 606-2479 ext.204

Event Name: Wireless 2001  
Event ID: 01000394  
Event Location: Dallas, TX

Industry Theme: TEL  
Event Dates: April 2 - 4, 2001  
Type of Event: IBP  
Post Recruiter/Control Officer: Jeddah - Mayez Teriakky (02) 606-2479 ext.203

Event Name: Kitchen/Bath Industry Show  
Event ID: 01000396  
Event Location: Orlando, FL  
Industry Theme: HCG  
Event Dates: April 27 - 29, 2001  
Type of Event: IBP  
Post Recruiter/Control Officer: Riyadh - Habeeb Saeed (01) 488-3800 ext.1528

Event Name: Offshore Technology Conference (Spin-off to Oklahoma City)  
Event ID: N/A  
Event Location: Houston, TX  
Industry Theme: OGM  
Event Dates: April 30 - May 3, 2001  
Type of Event: RTM  
Post Recruiter/Control Officer: Dhahran - Ahmed Malas (03) 330-3200 ext. 3065

Event Name: Travel Industry Association (POW WOW)  
Event ID: N/A  
Event Location: Orlando, FL  
Industry Theme: TRA  
Event Dates: May 19 - 23, 2001  
Type of Event: RTM  
Post Recruiter/Control Officer: Riyadh - Jalal Quadri (01) 488-3800 ext. 1530

Event Name: Clinical Laboratory Show  
Event ID: 01000401  
Event Location: Chicago, IL  
Industry Theme: LAB, MED  
Event Dates: July 29 - August 2, 2001  
Type of Event: IBP  
Post Recruiter/Control Officer: Riyadh - Maher Siblini (01) 488-3800 ext.1541

Event Name: MAGIC Show  
Event ID: N/A  
Event Location(s): Las Vegas, NV  
Industry Theme: APP  
Dates of Event: August 27 - 30, 2001  
Type of Event: RTM  
Post Recruiter/Control Officer: Jeddah - Abdallah Noman, (02) 606-2479 ext.

205

Event Name: Print 2001  
Event ID: 01000403  
Event Location: Chicago, Illinois  
Industry Theme: PGA  
Dates of Event: September 6 - 13, 2001  
Type of Event: IBP  
Post Recruiter/Control Officer: Riyadh - Ahmed Khayyat, (01) 488-3800  
ext.1529  
Jeddah - Abdallah Hilmi ( 02) 606-2479 ext.202

Event Name: Medical Trade Mission to the Gulf States  
Event ID: 01000867  
Event Location: Riyadh  
Industry Theme: MED  
Dates of Event: TBA  
Type of Event: TM  
Post Recruiter/Control Officer: TBA

Event Name: Franchising Matchmaker  
Event ID: 01000892  
Event Location: Dhahran  
Industry Theme: FRA  
Dates of Event: TBA  
Type of Event: MKR  
Post Recruiter/Control Officer: TBA

Event Name: Supercomm 2001  
Event ID: N/A  
Event Location(s): Atlanta, GA  
Industry Theme: TEL  
Dates of Event: June 5 - 7, 2001  
Type of Event: RTM  
Post Recruiter/Control Officer: Dhahran - Riad Saab, (03) 330-3200 ext. 3058

Event Name: ASIS  
Event ID: N/A  
Event Location: San Antonio, TX (Convention Center)  
Industry Theme: SEC  
Dates of Event: October 1 - 4, 2001  
Type of Event: RTM  
Post Recruiter/Control Officer: Riyadh - Jacquie Wathen, (01) 488-3800 ext.  
1109