



Doing Business in the Kingdom

Investment Climate

- Investment Incentives
- Exceptions List
- Economic Offset Program
- Regulations on Exchange Transactions

Getting Started in Saudi Arabia

- How to Operate in Saudi Arabia
 - Direct Exports
 - Commercial Exports
 - Commercial Agency Regulations
- The Model Contract
- Franchises
- Branch Offices
- Joint Ventures
- Government Contracting in Saudi Arabia

Business and Law in Saudi Arabia

- The Law of Saudi Arabia
 - Labor Law
 - Tax Law
 - Intellectual Property Law
- Resolution of Disputes
 - Saudi Tribunals vs. Courts in Other Nations
 - The Saudi Judicial System
 - Arbitration

Market and Sales Strategy

- Distribution Channels
- Marketing and Advertising
- Product Pricing
- Customer Support and Service

Leading Sectors for U.S. Exports and Investment



Investment Climate

Saudi Arabia's investment environment reflects the country's traditions of liberal, open-market private enterprise policies. There are no restrictions on foreign exchange and no restrictions on the repatriation of capital and profits. In April 2000, the Saudi Government approved a new foreign investment law, significantly revising the way foreign investment has been conducted in the Kingdom for more than 20 years.

Saudi Arabia's foreign investment law allows international companies the possibility of 100 percent ownership of the projects and the property required for the project itself, while enabling them to retain the same incentives given to national companies. Projects, for instance, that are 100 percent foreign-owned are eligible for loans from the Saudi Industrial Development Fund. Investors are also allowed to hold investment licenses in more than one type of activity. The law brought significant changes to the previous sponsorship regulations. Foreign investors and their non-Saudi employees can be sponsored under the new licensed firm. Another significant change is the reduction in the corporate tax rate for foreign companies. A new income tax law passed in January 2004 cut taxes on corporate profits to 20 percent from 45 percent.

Concurrent with the passage of the new investment law was the establishment of the Saudi Arabian General Investment Authority (SAGIA). SAGIA is responsible for proposing and implementing policies to promote foreign investment in Saudi Arabia, and for issuing investment licenses, visas, residence permits, and other related papers to foreign investors. SAGIA has streamlined the foreign investment application process by creating investor service centers. The centers are required to respond to investment applications within 30 days. If SAGIA does not make a decision within that time frame, the license will be issued. If SAGIA declines the application, the foreign investor may appeal the decision. Foreign investment in Saudi Arabia has been rising steadily. U.S. companies are the leading foreign participants in joint ventures, with 357 projects through March 2004, valued at \$21.9 billion. From its inception in April 2000 to May 2004, SAGIA has issued licenses for 2,280 projects for a total value of \$15.4 billion, 82.7 percent of which included foreign investors from 64 different countries. Other major investors in Saudi Arabia are Japan, the United Kingdom, France, Germany, India, and Canada.

In July 2003, Saudi Arabia and the United States signed an agreement to further develop trade and investment between the two countries. As part of the agreement, the two sides established a Council on Trade and Investment, which will be chaired by the Saudi Ministry of Commerce and Industry and the Office of the U.S. Trade Representative. The purpose of the Council is to monitor trade and investment relations and look for opportunities for expanding trade between the two countries. The agreement recognizes the need to eliminate non-tariff barriers to facilitate greater access to the markets of both countries, and provides measures for the protection and enforcement of intellectual property rights.



Investment Incentives

Saudi Arabia is a member of the Multilateral Investment Guarantee Agency (MIGA) and other regional institutions. All approved ventures are entitled to the same treatment, protection, and incentives accorded to national capital, including:

- *Pre-Investment Assistance:* The government will assist in providing information and statistics for investment projects that are within the scope of Saudi Arabia's development plans to facilitate the preparation of feasibility studies for industrial projects. SAGIA provides assistance to foreign investors interested in investing in Saudi Arabia.
- *Land:* Available land is located throughout Saudi Arabia in different industrial cities at nominal charges. Land for other uses is available on lease or sale.
- *Services:* The government provides electricity, water, and other fuels to industrial projects at low prices. The industrial parks are equipped with public utilities such as roads, desalinated water, sewage, electricity, and telephone and central services such as mosques, clinics, fire stations, restaurants, post offices and police stations.
- *Customs Duties:* Duties range from 5 percent to 20 percent on some imports. All commodities entering the country as input for industrial production, along with some basic foods, are exempted from customs duties.
- *Utilities:* Electricity, water, gas, and fuel are available at competitive, low prices.
- *Industrial Loans:* The Saudi Industrial Development Fund provides soft medium and long-term loans to industrial establishments for up to 50 percent of the total cost of the project. The payback period is up to 15 years, with a two-year grace period from the start of production.
- *Government Procurement Preference:* The current system of government procurement is under review. Under the current system, the Saudi Government gives preference to national products, and joint ventures.



Exceptions List

The government maintains a list of sectors temporarily excluded from foreign investment. This list is periodically reviewed by the government for possible removal of sectors from the list. As of August 2004 the exceptions list includes the following:

- Petroleum exploration, drilling and production, except services related to the mining sector listed at 5115 and 883 in international industrial classification codes
- Manufacturing of military equipment and uniforms
- Manufacturing of explosives for civilians
- Catering services for military sectors
- Investigative and security services
- Real estate projects in Makkah and Madinah
- Tourist services related to Hajj and Umrah
- Manpower and expatriate work agencies
- Printing and publishing, except the following activities:
 - Pre-printing services internationally classified at 88442
 - Printing presses internationally classified at 88442
 - Drawing and calligraphy internationally classified at 87501
 - Photography internationally classified at 875
 - Radio and television broadcast studios internationally classified at 96114
 - Foreign media offices and correspondents internationally classified at 962
 - Promotion and advertising internationally classified at 871
 - Public relations internationally classified at 86506
 - Publication internationally classified at 88442
 - Press services internationally classified at 88442
 - Production/sale & rental of computer software Inter. classified at 88
 - Media consultancies and studies internationally classified at 853
 - Typing and copy services



- Distribution services, wholesale and retail trade including medical retail services and private pharmacies. Commercial agencies, except franchise rights listed at 8929 by international industrial classifications, with foreign ownership not exceeding 49 percent, and the granting of one franchise to each area.

- Audiovisual and media services

- Telecommunications services, except the following activities:
 - Telex services internationally classified at 7523
 - Telegraph services internationally classified at 7522
 - Electronic data interchange internationally classified at 7523
 - Enhanced/value-added facsimile services, including storage, forwarding, & retrieving internationally classified at 7523
 - VSAT services internationally classified at 7529
 - Fax services internationally classified at 7529 and 7521
 - GMPCS services internationally classified at 75299
 - Internet service providers internationally classified at 75299
 - Electronic mail internationally classified at 7523
 - Provision of online information and database retrieval internationally classified at 7523
 - Information provision and online retrieval and/or processing, including transaction processing internationally classified at 843

- Land and air transportation services

- Satellite transmission services

- Services related to fisheries

- Services provided by midwives, nurses, physiotherapists and paramedics: SITC code 93191

- Poison centers, blood banks, and quarantine facilities

- Real estate brokerage



Economic Offset Program

Some government contracts require the winner to reinvest a portion of the award in the local economy. The Offset Program covers military and some major civilian contracts, and encourages firms from the U.S., Britain, and France to set up local high-tech plants in joint ventures with Saudi companies. The program creates new diversified industries, increases training and productivity, facilitates technology transfers, and stimulates economic growth which is fueled by the private sector. Proposals are evaluated by the Saudi Economic Offset Committee at the Ministry of Defense and Aviation (MODA).

Typically, the Offset Program requires an investment of about 35 percent of contract value, giving the foreign company 10-12 years to identify potential investment projects, receive approval, find Saudi partners, and initiate operations. Among the major American companies involved in the program are Boeing, General Dynamics, General Electric, United Technologies, and Lucent Technologies. Boeing, through its subsidiary holding group, the Boeing Industrial Technology Group, has formed four high-technology firms capitalized at over SR325 million. Lucent Technologies has an offset investment requirement for viable industrial joint ventures and has been an active participant in the Kingdom's ongoing telecommunications expansion program.

Regulations on Exchange Transactions

The Saudi economy is based on the principles of free enterprise. There are no restrictions on the transfer of capital, or on exports and imports of goods and services. Therefore, there are no taxes, subsidies, or restrictions on converting or transferring funds associated with an investment (including remittances of investment capital, earnings, loan repayments, lease payments). There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, and returns on intellectual property or imported inputs. Investors are not required to purchase from local sources or export a certain percentage of output, and their access to foreign exchange is not linked to the level of their exports. In addition, the government does not impose conditions on investment such as locating in a specific geographic area, a specific percentage of local equity, substitution for imports, export requirements or targets, or financing only by local institutions. Investors are not required to disclose proprietary information to the Saudi Government as part of the regulatory approval process. The text of the Executive Rules of the Foreign Investment Law is located in Appendix 2.



GETTING STARTED IN SAUDI ARABIA

Saudi Arabia presents a wide variety of business opportunities for U.S. companies. To be effective and successful, an executive must have a basic knowledge of the business community in Saudi Arabia and the Saudi legal system. The first decision for any business is the type of operation to establish. Because a great deal of business in Saudi Arabia involves government contracting, a foreign company should be aware of the basic rules and practices for this area. Before a business establishes its presence, it should develop a basic understanding of the laws governing its operations. Finally, a business should know how to resolve legal disputes if and when they arise.

How to Operate in Saudi Arabia

A company may do business in Saudi Arabia in a variety of ways. The options range from informal contractual relationships to direct investment in the economy. Most businesses require some form of license from the Saudi Government, and some require the investment or employment of Saudi citizens. The optimal form will depend on a variety of factors, including the type of business, the duration of the involvement, and the nature of the transactions.

Direct Exports

The simplest form of doing business in Saudi Arabia is direct export into the country. A company generally may sell its goods directly to Saudi Arabian customers, assuming the goods meet the applicable health and safety standards. Hiring a local agent is not a requirement of doing business. However, most companies have a local presence to sell their goods effectively.

Commercial Exports

A commercial agent may be more familiar with the local market and may be able to facilitate certain transactions. A company should choose its agent carefully; terminating or changing agents can be a difficult process. The term commercial agent describes a variety of roles and responsibilities. Some commercial agents sell goods; others sell services. Some commercial agents buy goods directly from the manufacturer and resell them; others sell goods for the manufacturer and receive a commission. All are covered by commercial agency law in Saudi Arabia, which is currently under review.

The Saudi Ministry of Commerce and Industry must approve the agreement between the U.S. company and the Saudi commercial agent. The Ministry provides a model agency agreement (see below), but most western companies find it necessary to amend and augment the model agreement. A company can negotiate its own agreement, but the Ministry is more likely to approve one that resembles the model agreement.

Any termination or change of a commercial agent must be fair to the old agent. Under some circumstances, the failure to renew an agent may be considered a form of termination. Wrongfully terminating an agent may expose a company to liability and may make it more difficult to obtain government approval of a replacement agency agreement.



As a result, the termination section of any agency agreement must be carefully spelled out and should generally provide for fair treatment of all parties upon termination.

Commercial Agency Regulations

No one can act as a commercial agent unless his name has been entered into the Register maintained by the Ministry of Commerce and Industry. According to the Ministry of Commerce and Industry's Implementation Rules:

- Saudi distributors are responsible for registering each foreign contractor they represent. Copies of the agency agreement must be filed with the registration application in order to avoid fines and to provide the Saudi distributor with protections built into the regulations
- For the term of the agency agreement and for the earlier of one year after a contract's termination or until appointment of a new agent, the agent must provide consumers with necessary spare parts and maintenance at reasonable prices, available within 30 days of request.
- Commercial agency contracts must include certain basic terms (parties, subject matter, term, termination procedure, etc.) and any other matters not inconsistent with the regulations in force in Saudi Arabia. A model contract (originally issued in 1981 but revised in 1983) was recommended by the Ministry of Commerce for this purpose.

The Model Contract

In 1983, the Ministry of Commerce issued a Revised Model Contract for Agents and Distributors (the Model Contract) as a guideline to help the parties involved meet the minimum standard requirements. Use of this form is not required. However, if the agency contract differs substantially from the provisions in the Ministry's form, the Ministry may not register the contract.

The major provisions of the 1983 Model Contract include the following:

- Saudi agents/distributors need not accept goods that do not meet Saudi Government specifications.
- The foreign supplier must supply spare parts and maintenance for one year after the contract terminates or until appointment of a new agent.
- The Model Contract's section on disputes serves only as a guide to dispute resolution. Disputes under distributorship agreements should be settled amicably if at all possible. If the parties are unable to settle amicably, the dispute will be submitted to the Saudi Board of Grievances for resolution, unless arbitration within or outside the Kingdom is specified in the distributorship agreement. In November of 1993, Saudi Arabia acceded to the New York Convention on International Arbitration. It is therefore likely that if a New York Convention recognized venue is specified in the agreement, the settlements made will be recognized in the Kingdom.



Text of 1983 Saudi Arabian Model Contract

**Kingdom of Saudi Arabia
Ministry of Commerce
Internal Commerce Control**

Contract of Agency or Distributorship

On this day _____ / _____ /14 _____ (H) corresponding to
_____ / _____ /19 _____ this agreement has been made
by and between:

(1) _____ whose place of business is
in _____ C.R. No. _____ dated _____ city of
_____ represented herein by _____
(hereinafter referred to as the First Party/Principal):

and

(2) The Agent/Distributor _____ whose place of business is in
_____ C.R. No. _____ dated _____ city
of _____ represented herein by _____ (hereinafter
referred to as the Second Party/Agent):

Recitals

WHEREAS, both parties desire to enter into an agency or distributorship arrangement to serve their mutual interests and to specify the rights and obligations of each party in such arrangement; and,

WHEREAS, the Second Party (Saudi) desires that such relationship conforms to the requirements of regulations with regard to foreign trade (import and export), specifically the Commercial Agencies Regulations and amendments thereto in the Kingdom of Saudi Arabia, which regulations require a direct relationship between the business agent or distributor of products and the originator company abroad. Non-Saudis are prohibited from engaging in import and export businesses and commercial agencies in the Kingdom of Saudi Arabia.

Both parties hereby agree as follows:



General Articles

Article (1) The above recitals shall be considered an integral part of this contract.

Article (2) Both parties agree that the Second Party, as Agent or Distributor (Agent) for the First Party in the Kingdom of Saudi Arabia, shall negotiate and conclude any agreements concerning the products or services subject to this distributorship agreement on behalf of _____ and in the name of _____.

Article (3) The scope of this agency contract covers the products and services provided by the First Party as hereunder specified. The products included in this agency contract are:

Article (4) The geographic area covered by this contract shall be _____ (specify whether throughout the Kingdom or for a certain region).

Article (5) The term of this contract shall be _____ effective as from _____ renewable automatically for another period unless either party gives at least three months prior written notice of his intention to terminate the contract.

Reciprocal Obligations

Article (6) Because the Second Party is obligated under Saudi law to guarantee the quality of the products and materials which form the subject of this contract and to provide necessary maintenance and spare parts at reasonable prices when required by consumers, the First Party shall also be obligated to the Agent for the same obligations in accordance with the requirements of the consumers and shall provide such maintenance on such dates and shall provide such spare parts in such amount as may be specified by the Agent. In addition, the First Party shall provide to the Second Party at reasonable prices such spare parts and necessary maintenance through the date one year following the expiry date of this contract or from the time of appointing another agent.

Article (7) The Second Party is obligated under Saudi law to provide under this contract only products and materials that are compatible with the approved standard specifications in the Kingdom. The First Party shall guarantee the quality of these products and materials and insure that they conform to approved standard specifications in the Kingdom; the Agent shall not be obligated to receive, or be responsible for distribution of, any quantities received from the First Party that are contrary to such required standard specifications.

Article (8) Both parties shall execute this contract in accordance with acknowledged business practices and good faith. Such obligation shall extend to include all activities rendered as part of the contract requirements under generally accepted business practices.



Special Obligations

Article (9) The Second Party shall undertake to:

- (a) Provide the premises required for the Agent to run his business in the Kingdom with his own staff, exercise all reasonable care and diligence, and be entitled to make use of the services and technical expertise of the First Party as and when required.
- (b) Perform all works necessary to execute contracts locally for promoting and marketing the products, make available suitable storage areas, open new distribution centers as may be necessary and provide local services within the area covered by the contract. The Second Party shall, in the performance of this contract, be entitled to use the First Party's trademark but without any additions or modifications. He shall also exert his best efforts to make such trademark known throughout the area.

Article (10) The First Party shall undertake to:(a) Pay the Second Party a commission in the amount of _____ of the value of the items sold within the contract area even if the sales were made directly to a Third Party by the First Party. Schedule of payments shall be as follows: _____(b) Execute the contract with diligence whether as to observation of good quality products and materials which form the subject of the contract, or to insure safe and good delivery to the Second Party, or to fulfill obligations regarding quantities and dates specified in the Second Party's orders.(c) Bear responsibility for the faults of himself and his employees, when such fault results in damage to the Second Party.

Expiry, Cancellation and Compensation

Article (11) This contract shall be terminated if performance by either party is rendered impossible, or, upon the death or the loss of competency, or the bankruptcy of either party. This contract may also be terminated by revocation upon a substantial failure in execution by the other party.

Article (12) The Agent shall be entitled to compensation for damages which may arise out of the Principal's inability to meet his commitments, according to the contract or to business customs.

Article (13) If the Principal refuses to renew or continue work under this contract, the terminated Agent shall be entitled to reasonable compensation for his activities that may have resulted in the apparent success in the business of the terminated Agent. Specifically, the terminated Agent shall be entitled to compensation for his promotional activities and efforts at client relations that result in goodwill that may accrue to the new Agent.

Article (14) The Principal may claim compensation from the Agent for damages caused as a result of the Agent's abandoning this Agency prior to the expiry of this contract or as a result of any breach of this contract by the Agent.



Article (15) Should this contract be improperly terminated or revoked, as a result of which either party sustains damages, the party improperly terminating the contract shall be obliged to compensate the other party for the damages such party sustained, taking into account the extent of efforts made and material and nonmaterial capabilities provided to serve the Agency prior to such improper termination.

Concluding Articles

Article (16) Disputes arising between the parties hereto as a result of the performance or nonperformance under this contract shall be settled amicably. Should this not be possible, the matter shall be referred to the Board of Grievances (Diwan Al-Mazalem), Commercial Circuit in the Kingdom of Saudi Arabia or to an arbitration committee, inside or outside Saudi Arabia, in accordance with the regulations for arbitration. In case of a dispute between the Principal and the Agent, a new Agency Contract may be granted to a new Agent within the Agency area for the same products or services only after the authority considering the dispute shall have made a final award or decision.

Article (17) This contract has been executed in three copies, with each party receiving one copy. The Second Party shall present a certified copy to complete the contract registration in the Commercial Agencies and Distributors Register with the Ministry of Commerce of the Kingdom of Saudi Arabia.

First Party (Principal) Second Party (Agent)

Name: _____

Name:

Signature: _____

Signature:



Franchises

Franchising is an increasingly popular form of doing business in Saudi Arabia. A number of American franchise companies already exist in the Kingdom, including such well-known firms as Hertz, Baskin Robbins, and Pizza Hut. The U.S. accounts for about 40 percent of the current franchise market in Saudi Arabia. A franchise offers greater flexibility than commercial agency agreements but does not require the resources of a branch office or joint venture.

To establish a franchise, the foreign franchisor must select a franchisee and register the franchise. The franchisor must be the original franchisor and may not be a third-country sub-franchise. The parties may negotiate their own franchise agreement. The government provides a model franchise agreement, but the parties are not required to follow the government's model. After the parties have signed the agreement, the Ministry of Commerce and Industry must approve it. Saudi commercial agency law applies to the franchise agreement.

The franchise law has been effective since 1992. Because commercial agency law applies to franchises, many of the same concerns may arise regarding the potential wrongful termination of a franchisee. In order to avoid later difficulties, a foreign corporation should consult an attorney familiar with Saudi franchise law before entering into a franchise agreement or terminating a franchisee.

Branch Offices

A branch office involves a more direct presence than a commercial agent. As with the commercial agent regulation, the branch office regulations are currently under review. Under current regulations, the branch office is largely restricted to an administrative role and may not engage in trading activities. Nevertheless, a branch office can be very useful as a liaison presence for a U.S. company. Relatively easy to establish, branch offices offer the benefits of a physical presence without the more formal requirements of a joint venture company. For a U.S. company to open an independent branch office without a Saudi partner, the parent company must accept full responsibility for all work undertaken by the branch office within the Kingdom.

Joint Ventures

In 2000, Saudi Arabia completely revised its regulations for foreign investment. The new Foreign Investment Act created the Saudi Arabian General Investment Authority (SAGIA), which is responsible for reviewing and approving investment applications. Under the law, the amount invested should not be less than SR2 million (\$533,000) on agricultural projects, SR5 million (\$1.3 million) on industrial projects, SR30 million (\$8 million) on real estate, and SR2 million (\$533,000) on other projects. The government amended its regulations for foreign investment in June 2002 to make them more business-friendly. The changes to the Executive Rules of the Foreign Investment Law provide more flexibility to foreign investors and strengthen the legal framework of investor rights in Saudi Arabia, especially in relation to property ownership, parity with national companies, and avoiding double taxation. The full text of the Executive Rules of the Foreign Investment Law can be found in Appendix 2.



Government Contracting in Saudi Arabia

There is no central tender board and every government agency has contracting authority.

In 2001, the Saudi Council of Ministers repealed the 25 year-old law requiring foreign contractors to have a Saudi agent in order to bid for contracts. Under the old law, foreign contractors designated a Saudi citizen or Saudi company to serve as a representative of the foreign firm in Saudi Arabia for such activities as bidding for a tender or other government contract. Within the system, the foreign company was obliged to pay 5 percent of the awarded contract amount to the Saudi agent. Usually, any violations to those rules resulted in that company's exclusion from continuing business activities in the Kingdom. Now foreign companies who wish to operate in the country without a Saudi agent can open offices and appoint representatives in order to pursue business with various government departments directly.

Under its policy of Saudization, the Saudi Government strongly favors companies with extensive Saudi participation or investment. Some contracts will require a minimum amount of subcontracting with Saudi companies. The government may favor companies of which a majority is Saudi-owned and companies which use Saudi-manufactured goods and services. Accordingly, a foreign company may improve its position by allying itself closely with Saudi interests when bidding for a government contract.

In June 1999, the government decided that contracts signed by Saudi Government departments and public corporations with foreign governments, international organizations or companies must include the development of training programs for Saudi nationals. In addition, whenever there is need for foreign experience or consultation, priority should be given to universities and specialized institutes and scientific centers in the Kingdom.

A bidder on a government contract also must provide certain bank guarantees. At the bidding stage, a company must guarantee one percent of the total amount bid. If the government awards the contract to the company, the company must guarantee five percent of the total contract amount. A foreign company working under a Saudi Government contract may receive payments in advance, during progress on the project, and upon completion of the project. The Saudi Government often will advance up to 10 percent of the contract price if the contractor provides a bank guarantee for the full amount of the advance payment. A company can reduce the guarantee as the project progresses.

Any payment disputes between the contractor and the government will be resolved by the Saudi Board of Grievances. For a more complete discussion of the Board of Grievances, see the section below entitled Resolution of Disputes in Saudi Arabia.



BUSINESS AND LAW IN SAUDI ARABIA

Once a company has decided on the type of business presence in Saudi Arabia, it must also be aware of a variety of laws that regulate that business, including labor law, tax law, and intellectual property law. These laws are all currently in the process of being revised, as part of the government's efforts to attract foreign investment and pursue its economic development goals.

The Law of Saudi Arabia

As in other Islamic nations, the fundamental source of law in Saudi Arabia is the Islamic Law (the Sharia). The Sharia consists of the Holy Qu'ran, the teachings of the Prophet Muhammad (the Sunnah), and the writings of legal scholars.

Several other sources of law elaborate on the Sharia and govern commercial relations. Royal Decrees are adopted by the Saudi Council of Ministers and provide broad rules for a particular area such as taxes or labor relations. Regulations, often issued by government agencies, elaborate on these rules and provide more specific requirements.

Labor Law

Labor relations in Saudi Arabia are heavily controlled by Saudi labor law. Saudi labor law determines whom a company may hire and the terms of the employment. A new labor law is currently under review by the Saudi Government.

Employment contracts receive special scrutiny in Saudi Arabia. While employers may enter into employment contracts, the terms of the contract must adhere to the Saudi Labor Law. Employers should be careful before terminating an employee. Even if an employment contract provides that an employee may be terminated at will, the company may not terminate an employee unfairly. A wrongfully terminated employee may sue the employer before the Primary Commission for the Settlement of Labor Disputes.

In 2001, the Ministerial Council approved a regulation allowing workers to form labor committees in companies that employ 100 or more workers. The purpose of these committees is to provide suggestions to management about issues relating to work conditions and production and ways to improve production.

Tax Law

Saudi Arabia does not tax personal income. Saudi citizens are subject to a religious tax, known as Zakat, essentially on the net worth of their working assets, but employers are not responsible for withholding this tax. As part of the Kingdom's economic reform program, a new income tax law on foreign businesses was passed in January 2004 and took effect in July 2004. Under the new law, the ceiling on taxes on foreign commercial activities dropped from 45 percent to 20 percent. Foreign shareholders in local companies are also subject to the tax, whether they reside in the Kingdom or not, as are Saudi citizens who live abroad but conduct business and generate income inside Saudi Arabia. Saudis who have companies registered abroad that conduct business in the Kingdom are subject to the income tax because their businesses are considered foreign. See Chapter 6 for tax rates.



Intellectual Property Law

Trademarks. Saudi Arabia instituted a new trademark law in August 2002 providing trademark protection for letters, names, drawings or other distinguishing symbols, including service marks, on a par with international practices. Any words, models or pictures that violate Islamic principles, as well as flags and emblems of Saudi Arabia or other countries, will not be given trademark protection. In order to receive trademark protection, the applicant must be a Saudi citizen or legal entity (such as a limited liability company) or must reside in a country that offers the same protection to Saudi Arabians. If the trademark is registered in another country, the company may file a priority claim. Approved trademarks are protected for a ten-year renewable period. While the registration is pending, a foreign company may still obtain some protection for its trademark by entering into licensing arrangements with local merchants. The new trademark law also states that refusals of trademarks can be appealed to the Minister of Commerce and Industry within 60 days, and further appeals can be lodged with the Board of Grievances.

The new trademark law also contains provisions to assist with enforcement of trademarks, which has become more effective in recent years. Saudi courts and government officials have punished or brought charges against local merchants violating the trademark law. If a company suspects that its trademark is being violated, it may be able to obtain an attachment order. The attachment order will require an inventory of the alleged violator's assets and may restrict their use during the proceeding. The new law allows for significant increases in the penalties for trademark infringement, and the procedures for seizing goods infringing on trademarks have been enhanced.

Copyrights. Saudi Arabia passed an updated copyright law in June 2003. Consisting of 25 articles, the law protects intellectual property rights in the fields of literature, arts and science, computer programs, DVDs, and designer clothes. It details the rights of copyright owners and the means for transferring those rights. In addition, it outlines enforcement and penalties for copyright violations, and an arbitration process for disputes. The length of the copyright protection depends on the type of work; written works, movies and computer programs are protected for 50 years after the author's death, while artistic works are protected for 25 years after they are first released. Exempted from the new law are judicial rules and daily items published in newspapers, magazines and at broadcast stations. Folklore is also exempt, as it is considered to be publicly owned. The new law is consistent with the provisions of the World Trade Organization's agreement on Trade Related Aspects of Intellectual Property Rights, and is an important step toward the Kingdom's accession to the WTO. Saudi Arabia is a member of the Universal Copyright Convention and the Berne Convention for the Protection of Literary and Artistic Works.

As with the trademark laws, copyright laws have been enforced more vigorously in recent years as the government has cracked down on copyright violators.

Patents. Saudi Arabia adopted a new patent law in September 2004 that conforms with the provisions of the World Trade Organization. It replaces the old patent law enacted in



1989. The law covers four categories of intellectual property: patents, layout designing of integrated circuits, variety of plants in the field of agriculture, and industrial design. A patent may be issued for a product, an industrial process, or improvements to either.

Applications are submitted to the King Abdul Aziz City for Science and Technology (KACST). The inventor generally must exploit the patent on a full industrial scale within two years of the grant. Once issued, a patent is effective for 20 years, up from 15 under the old law, and may be renewed.

The new patent law also contains much more stringent enforcement mechanisms and harsher penalties for infringement. If a complaint is issued, KACST will form a committee to investigate the matter. If a violation is found, the committee will impose a fine not to exceed SR100,000 (\$26,667) for the first violation. The fine will be doubled for repeat violations. If the committee feels the patent infringement is serious and criminal in nature, the case will be referred to the Board of Grievances for more severe punishment, which could include imprisonment. Both Saudi and non-Saudi patent holders can sue through the committee at KACST.

The passage of this new patent law is part of Saudi Arabia's preparation to meet all the requirements to sign the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement, which is required for the country to join the WTO.

Resolution of Disputes in Saudi Arabia

If a dispute arises, a company may sue – or be sued – in Saudi courts. As a result, it is important for a company to understand, before entering into a transaction, how potential disputes will be resolved. This involves three important considerations: whether to use Saudi courts or courts of other countries, the type of Saudi tribunal in which the dispute will be resolved, and the possibility of arbitration.

Saudi Tribunals vs. Courts in Other Nations

If a dispute arises between a foreign company and a Saudi party, the foreign company should consider suing the party in Saudi Arabia. In some cases, Saudi law requires the suit to be brought in Saudi Arabia. For example, Saudi law prohibits government agencies from disputing a contract in another country. If the other party's only assets are in Saudi Arabia, the foreign company must ensure that any judgment will be enforced there. Bringing a suit directly in Saudi Arabia provides the best assurance that a favorable judgment will be enforced.

Before suing a Saudi in another country, a foreign company should learn whether Saudi Arabia has a reciprocal enforcement treaty with that country. If a company sues a Saudi in a non-treaty country and attempts to enforce a judgment in Saudi Arabia, the Board of Grievances would review the judgment to make sure that it does not violate Saudi public policy. No such treaty exists between the United States and Saudi Arabia.

The Saudi Judicial System

In resolving disputes in Saudi Arabia, the foreign company might appear before a variety of tribunals. The Saudi judicial system consists of both general courts and specialized



tribunals. The courts and tribunals may consist of a combination of judges and non-judges. Decisions may occur quickly or may take several years. In some cases, decisions may be appealed.

The Sharia courts are the courts of general jurisdiction in the Saudi judicial system. Sharia judges preside over almost any dispute unless Saudi law provides otherwise. Sharia judges apply Islamic Law to decide a case. Sharia courts decide a case usually within a few months. Unlike some other legal systems, such as that of the United States, there is no time limit within which a party must bring a lawsuit. All decisions of Sharia courts may be appealed.

The Board of Grievances has the exclusive power to decide disputes over Saudi Government contracts and may decide some types of commercial disputes. The Board of Grievances often uses outside technical experts to decide cases, which may be helpful for complex cases. Unlike the Sharia and other Saudi courts, the Board of Grievances observes a system of precedent. Decisions of the Board of Grievances may be appealed.

Several other tribunals resolve disputes in specialized areas of Saudi law. The Civil Rights Directorate has primary responsibility for enforcing the judgment of a Saudi Arabian court or tribunal. The Negotiable Instruments Committee decides cases involving bills of exchange, promissory notes, and checks. The SAMA Committee resolves certain disputes between banks and their customers. The Conciliation Committee at the Chamber of Commerce assists in settling problems that arise when a foreign company attempts to change commercial agents. Finally, the Primary Commission for the Settlement of Labor Disputes hears all matters related to labor and employee relations.

Arbitration

Arbitration presents a viable alternative to resolving disputes through the Saudi judicial system. Before agreeing to arbitration, however, a company should be aware of the rules in Saudi Arabia governing arbitration. A company also should investigate whether the decision of a particular arbitration can be enforced in Saudi Arabia.

Arbitration is an accepted practice for resolving disputes in Saudi Arabia. Arbitration must conform to a detailed set of requirements that govern the selection of arbitrators, the length of the arbitration, and review of the arbitrators' decision. The chairman of the arbitrators must be expert in Sharia or Saudi commercial law. Unlike some other countries, Saudi Arabia requires a court to approve the arbitration award.

Once the arbitrators have reached a decision, a company must also consider how it will enforce the decision. In the case of arbitrations within Saudi Arabia, the Civil Rights Directorate enforces all arbitration awards. To enforce an arbitration decision, a party may have to petition a court to order the sale of the opposing party's assets. Saudi Arabia is a party to the New York Convention on Foreign Arbitral Awards. While this generally requires a Saudi court to honor the award of arbitration in another country, there are two conditions under which a court may refuse to enforce the award. Under Royal Decree No. M 11/1994 of January 21, 1994, Saudi Arabia made the reciprocity reservation limiting



recognition of awards under the Convention to those rendered in the territory of another contracting state. In addition, the Convention will not be applied retroactively to disputes initiated prior to ratification.

Saudi Arabia has also ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. However, Saudi Arabia entered a reservation to the effect: The Kingdom reserves the right of not submitting all questions pertaining to oil and to acts of sovereignty to the International Center for Settlement of Investment Disputes, whether by way of conciliation or arbitration. The Kingdom is a member of this associated International Center for Settlement of Investment Disputes (ICSID).

In July 1995, an Agreement on Legal Protection for Guaranteed Foreign Investment between the Multilateral Investment Guarantee Agency (MIGA) and the Kingdom of Saudi Arabia was signed. MIGA has its own Arbitration Rules incorporated into its standard Contracts of Guarantee, based on ICSID rules.

Market and Sales Strategy

The Saudi market represents both a challenge and opportunity for foreign businesses. By itself, the Kingdom is not an overly large market, with a population of approximately 24 million by mid-2003. It does, however, lie at the heart of a far larger regional market that includes the GCC, the wider Arab world, and the Indian subcontinent. The Saudi market is also characterized by consumers with high disposable income. The large percentage of the population aged under 20 is likely to substantially increase the demand for a wide range of consumer goods and products in the coming years.

Distribution Channels

The Kingdom's commercial regions are divided into three primary markets: the Western Region, with the city of Jeddah as the main commercial center; the Central Region with the capital, Riyadh; and the Eastern Province, where a high concentration of oil and gas industry business occurs.

Many companies import goods for their own use or for direct sales to end-users, making the location and number of retail outlets an important factor. When conducting business in different regions, U.S. exporters find it useful to appoint different agents or distributors. Multiple agents or distributors are also helpful in handling diverse product lines. Although there is no requirement for exclusive distributorship, the Saudi Ministry of Commerce and Industry prefers that such arrangements be exclusive with respect to either geographic region or product line.

The diverse nature of Saudi companies is a driving force in the variety of product lines they produce or represent. A Saudi agent will typically expect the foreign supplier to assume many of the market development costs, such as the hiring of a dedicated sales staff. Foreign suppliers often assign a sales person to the Saudi distributor to provide training, marketing, and technical support. Without such an arrangement, firms should



travel to Saudi Arabia regularly to support their Saudi distributor. Many Saudi companies are active in numerous product lines.

Marketing and Advertising

Advertising and marketing firms are beginning to refocus their established techniques. Direct marketing previously was not a widely used technique in Saudi Arabia. Personal relations between vendors and customers were, and in some cases still are, extremely important in the Kingdom.

However, advertisers and marketers have come to recognize the demographic shift in Saudi Arabia. These fields are currently beginning to concentrate and incorporate into their strategies two new, growing targets. The first of these new targets is a growing and more dynamic private sector. The private sector is broadening and deepening the arena for corporate and retail marketing, along with media. The growing private sector has increased product and service participation in the country's economic development. Therefore, with this increase in business there is a need for more ad campaigns and marketing support. Along with more foreign products and services and the introduction of foreign-owned companies competing in local markets, the Kingdom will experience more aggressive marketing plans using an increasingly sophisticated means of media. A stronger private sector will also mean more business-to-business communication. The second target is the massive youth population, which will become an increasingly receptive audience. According to the Central Department of Statistics, more than 45 percent of the Saudi population is under the age of 14, and more than 72 percent of the population is under the age of 29.

Many types of direct marketing practiced in other countries are not practiced in Saudi Arabia due to Islamic practices concerning gender segregation and privacy in the home. Limitations of the Saudi postal system are also a factor. Businesses and private citizens use post office boxes because home delivery and postal insurance are not available. Limited direct marketing is being conducted through commercials on satellite television by providing consumers with a local telephone number to arrange purchase and delivery.

Advertising is a rapidly expanding business in the Kingdom and is crucial in gaining retail sales and market share. According to *Gulf Marketing Review*, approximately \$400 million a year is spent on advertising in Saudi Arabia. Pan-Arab advertising, including Saudi Arabia, is close to a \$1 billion annual market. Most companies now choose to advertise in a wide range of media, including television, newspapers, trade magazines, billboards, and trade promotion events. Companies lately have been advertising through national festivals, events, and sweepstakes drawings that occur usually in malls and shopping centers. Television commercials are broadcast on the two Saudi channels during limited periods of the day. Both channels are broadcast over the entire Kingdom, one in English and the other Arabic. Contents of commercials must conform with religious and moral codes.

Satellite television is a major contributor to the growth in Saudi Arabia's per capita advertising expenditure. Opportunities are available to advertise through international TV



channels such as CNN, the Middle East Broadcasting Corporation (MBC), and Arab Radio & TV (ART). MBC and Al-Arabiya are similar to CNN with a variety of interesting programs. ART covers more entertainment and sports. Other Arabic satellite channels such as Al-Jazeera have been launched and are attracting numerous advertisers. Orbit, a Saudi-owned satellite service, has a number of different channels that present American movies and various other programming.

Print advertising is also important. Among the popular magazines in the Kingdom are Al-Majallah, Al-Yamamah, and Sayidati. Newspaper advertising is carried out in local English and Arabic papers. Advertising rates vary greatly, but the rates are considerably lower than in the U.S., largely because of a much smaller readership. Two local dailies published in English have circulations between 50,000 and 75,000: Arab News (Jeddah) and Saudi Gazette (Jeddah). The leading Arabic newspapers have nationwide distribution and circulation of between 70,000 and 100,000: Al-Sharq Al-Awsat, Okaz, Al-Hayat, Al Jazira, and Al Riyadh. Um Al Qura is the official government newspaper. Other relevant newspapers have lower circulation and at times only regional distribution: Al Bilad, Al Madina, Al Nadwa, and Al Youm. Another publication, the Al Iqtisadiyah economic daily, focuses on business issues.

Product Pricing

The exchange rate has been fixed at 3.75 riyals to the dollar since 1986. Reasonable interest rates have greatly facilitated market penetration. Consequently, Saudi importers expect U.S. producers to have a more stable pricing policy than their foreign competitors. Products are usually imported on a CIF basis, and mark-ups depend largely on what the vendor feels that the market will bear. No standard formula exists for determining mark-up rates. For the U.S. supplier, some give-and-take is expected in preliminary negotiations. The asking price is often reduced, to entice the client and because of the Saudi interest in bargaining and personal exchange.

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

Customer Support and Service

Saudi Arabia has an open and very competitive market. American and European products must compete with products from the Far East that flood the Saudi market. As a result, above average sales, service, and customer support are important factors in winning and maintaining new clients.

A foreign firm's physical presence in the Kingdom is viewed as a symbol of their long-term commitment to doing business in the area. Prompt delivery of goods and the presence of qualified support technicians are becoming more important, and they influence business much more now than was the case five or ten years ago. Government agencies normally require equipment suppliers to commit to providing maintenance and spare parts for an average period of three years.



Leading Sectors for U.S. Exports and Investment

Saudi Arabia seeks to attract capital-intensive and highly automated industries. Other important characteristics are that the projects incorporate technology transfer, import substitution, and transfer of management expertise.

According to the U.S. Department of Commerce's *Saudi Arabia Country Commercial Guide* for fiscal year 2005, the top sectors for U.S. investment and exports in the Kingdom are:

- 1. Electrical Power Systems** Saudi Arabia has one of the highest per capita power consumption rates in the world, and demand continues to grow at a rapid pace. The Saudi Government plans to invest \$30 billion to increase electrical capacity by 20,000 MW by 2010. Private investors are also expected to participate in this growth. In the area of power transmission, the Saudi Government approved the formation of the Gulf Interconnection Authority (GCIA) in 2001, which will connect the power grids of the GCC states. The project took a major step forward in 2004 when a funding plan was approved.
- 2. Water Resources Equipment** Saudi Arabia is the largest producer of desalinated water in the world. Desalination meets approximately 70 percent of Saudi Arabia's present drinking water needs. The country's 30 desalination plants produce more than 600 million gallons of water per day (over 1 billion cubic meters per year). Per capita water consumption in Saudi Arabia is among the highest in the world. Industry sources expect desalination to remain a major industry in Saudi Arabia for quite some time. The Saudi Government plans to build 16 desalination facilities worth \$14 billion over the next 17 years. In an effort to bring private investment into this sector, the government is reassessing water tariffs and is developing a national water plan to encourage foreign investment in Saudi water projects. There are currently four Independent Water and Power Plants (IWPPs) up for bid at Shouaiba, Shuqaiq, Ras Al-Zour, and Jubail.
- 3. Oil and Gas Equipment and Services** Saudi Aramco, the largest oil company in the world, continued its exploration and production activities throughout 2002 and 2003. Large-scale projects worth hundreds of millions of dollars were completed to sustain the company's crude oil production capacity of 10 million barrels per day. The company's management continues to invest in new production programs to secure cost-effective supplies of crude oil for the future.
- 4. Security and Safety Equipment** Imports of industrial security equipment into Saudi Arabia in 2002 totaled \$164 million, a 13 percent increase from 2001. Heightened security concerns are likely to ensure the continued increase in security imports by approximately 11 percent per year over the next few years. While physical security projects are ongoing in oil companies, industrial facilities and airports, the major focus is now on personal protection. Many facilities are examining and improving road blockers, tire killers, x-ray equipment and personnel protection items. A major project under discussion is the transformation of several military airbases into civilian airports. If this project goes ahead, security will form a major part of the work. The Saudi Government



and heavy industry consider U.S. security products to be among the best available. However, European suppliers are making considerable inroads into sections of the market previously considered U.S. strongholds. American companies must be aggressive in order to retain their market share.

5. Chemical Production Machinery The Saudi Arabian Basic Industries Corporation (SABIC), one of the world's largest petrochemical companies, underwent major restructuring measures to increase efficiency and improve customer service. The overall petrochemicals market in Saudi Arabia is expanding because of an increasing number of private joint ventures that are expected to come on stream over the next three years. U.S. manufacturers/suppliers of industrial equipment to the petrochemical industry may find excellent opportunities evolving from new projects undertaken by SABIC and private sector entities in the Saudi market. Joint ventures will continue to be a viable strategy for Saudi Arabia's petrochemical industry.

6. Medical Equipment Saudi Arabia's medical equipment market is large and growing. Saudi Arabia accounts for 65 percent of total imports to the GCC countries. This growth is influenced by an increasing number of hospitals and clinics, as well as hospital expansions and upgrades, and the constant need for advanced equipment for both diagnostic and therapeutic applications. The Ministry of Health is the largest provider of health care services in Saudi Arabia, and the government allocated \$4 billion for the health care sector in 2003.

7. Telecommunications Equipment and Services Telecommunications services remain one of the most dynamic sectors in Saudi Arabia. Since its privatization in 1998, the Saudi Telecom Company (STC) has been carrying out major telecommunications projects throughout the country. New telecommunications regulations will facilitate the deregulation of this industry and ultimately create a second telecom operator. Opportunities for U.S. firms exist in the broadband sector where STC has ambitious plans to expand and upgrade its telecommunications services based on the latest broadband technologies. These services include fast Internet services and digital subscriber lines (DSL).

8. Education and Training Services The Saudi Government recently passed a law allowing foreign educational institutions to set up schools and colleges in the country. In 2002, the Saudi Government issued 19 licenses for international schools, and also approved the establishment of 36 colleges. Training needs are becoming increasingly important as more high school and university graduates enter the labor market. Industry sources expect training requirements to grow 5 percent per year over the next three years. Among the factors contributing to this rapid increase is the Saudi Government plan to replace 60 percent of the estimated six million expatriate workers with Saudi nationals by 2005.

9. Auto Parts and Service Equipment Saudi Arabia remains one of the largest import markets for motor vehicles, auto parts and service equipment in the Middle East. Saudi Arabia has an extensive road network, a population of over 24 million and an estimated



8.2 million registered vehicles. Most Saudi households have at least two vehicles, one of which normally accommodates a large family. Vans and carryalls are popular with Saudi families, as are four-wheel drive recreational vehicles. Declining per capita income and the high cost of new cars have increased the demand for used vehicles. The market for auto parts has also grown dramatically, and industry sources believe that the Saudi market for automotive after-market parts is expected to continue to grow by approximately 4.6 percent per year. As more car makes, models and advanced technology are introduced, the Saudi spare parts market will also evolve.

10. Insurance Services New health insurance and automobile insurance requirements in Saudi Arabia represent favorable opportunities for U.S. firms. According to local insurance experts, the health insurance market in Saudi Arabia is expected to grow to \$40 billion over the next five years. There are over 70 foreign companies selling insurance in Saudi Arabia and in 2001, these companies generated an annual turnover of \$800 million. Several international companies have entered into negotiations with Saudi partners to open offices in the Kingdom. In July 2003, the Saudi Cabinet issued a new cooperative health insurance law. The law has been implemented gradually and will eventually require all employers to pay for insurance coverage of foreign workers and dependent family members.

11. Air Conditioning and Refrigeration Equipment Saudi Arabia remains one of the fastest growing markets for air conditioning and refrigeration equipment. American and Japanese manufacturers have traditionally controlled the market, although Korean brands, especially the split system, are gaining ground. After a relatively flat year, the market is expected to pick up again in 2004, reaching the \$1 billion mark. U.S. suppliers dominate the packaged and central units, which are usually associated with large construction projects. Local manufacturing consists mainly of window-type units, which has the highest turnover in the Saudi market. In the refrigeration sector, there is ample and continuous need for cold storage facilities, both stationary and mobile.

12. Computers and Peripherals The information technology (IT) market is expected to see an average growth rate of 8.3 percent in the 2002-2005 period. Total IT spending in Saudi Arabia is about \$3 billion a year and represents 50 percent of total GCC spending. The hardware market constitutes the largest percentage of IT expenditures in Saudi Arabia. PC shipments dominated the hardware market, representing 78 percent of total hardware shipments during the first quarter of 2003, while laptops accounted for 19 percent of PC shipments. Good growth is expected in notebook sales with easier Internet access through wireless hot-spot connections. Some vendors report that there is growing demand for Gigabit Ethernet solutions, while enterprises with multiple affiliates or groups are investing in metropolitan area networks (MANs), migrating to 10 Gigabit Ethernet. Wireless is extremely popular in Saudi Arabia since fiber is proving to be costly.

13. Franchising The Saudi franchise market is still lucrative and remains untapped in many sectors. There are already a large number of U.S. fast food restaurants in the country, but a relatively young population is always seeking new and trendy brand



names. U.S. companies control the Saudi market, though the non-food franchise market share dropped in 2003 and now represents half of the 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.

14. Drugs and Pharmaceuticals The latest figures indicate that Saudi Arabia spends more than \$1 billion a year on drugs and pharmaceuticals. The Saudi public sector represents 40 percent of the demand for pharmaceuticals, while private hospitals and households account for the balance. The share of local manufacturers has grown in recent years from 20 percent in 2001 to more than 25 percent in 2002, when it reached a three-year high of \$339 million. Saudi Arabia has more than 4,600 registered drugs, both generic and patented. Many of the generic drugs are manufactured locally under license. There are around 200 local pharmaceutical companies registered with the Saudi Ministry of Health. U.S. firms could find their best opportunities in joint ventures with local partners or licensing arrangements, in addition to the supply of raw material to the local pharmaceutical industry.

15. Mining Equipment The Saudi Government is committed to the development of the mining industry and places major emphasis on the need to implement programs of mineral exploration and mining development. The government is encouraging the private sector to take the lead in partnership with international companies to satisfy local mineral demand and increase mineral exports. The Saudi Government expects the minerals sector to become a major export revenue generator. The Al-Jalamid phosphate project along the Jordanian-Iraqi border will position Saudi Arabia as the third largest producer of phosphate in the world. Investment in this site is expected to reach \$2 billion. Saudi Arabia also mines gold, silver, copper, tungsten, nickel, zinc, lead, uranium, bauxite, and magnesium.

16. Aviation Services As part of its privatization efforts, the Saudi Government passed a resolution allowing private companies to operate domestic flights. Since 1945, Saudi Arabian Airlines (Saudia) has been the only carrier to fly to and from Saudi destinations. In recent years, there have been a number of private aviation companies which lease aircraft and provide charter flights, especially for business people. In 2002, Saudia carried more than 31 million passengers, up four percent from 2001. Domestic passengers represented more than 20 percent of that total, or 6.4 million passengers. Industry analysts predict that private companies will be able to capture close to 30 percent of the domestic passenger load.

17. Financial Services In June 2003 the Saudi Cabinet approved the Capital Markets Law, which provides a legal and regulatory framework for investment banking and a more sophisticated structure for the Saudi stock market. The new law calls for the creation of a Saudi Stock Exchange and the Saudi Capital Market Authority. The Authority will be responsible for issuing new licenses to non-bank financial intermediaries and authorizing shares trading and listing. Industry sources expect the



new law to provide for a more efficient and transparent stock market, thus encouraging more listings and raising the capital to finance major projects underway in the country.

In addition, according to the U.S. Department of Commerce, the best prospects for agricultural production are:

Corn Corn is primarily produced in the Kingdom for poultry feeding and livestock rations. Large to medium-sized poultry producers have been expanding in recent years, increasing the country's self-sufficiency level to about 60 percent in 2003. U.S. corn exports to Saudi Arabia decreased 40 percent in 2002, totaling \$51 million. The decline was mainly as a result of the availability of more competitively priced imports from Argentina.

Soybean Meal Similar to corn, soybean meal is used for poultry feeding and livestock rations. The continued expansion in local poultry production has increased the demand for soybean meal by more than 8 percent per year in recent years. However, the huge price difference between Brazilian and U.S. soybean meal has drastically reduced imports from the United States recently. In 2002, soybean meal imports totaled \$85 million, with imports from the United States at \$31 million.

Rice In 2002, rice imports decreased by more than 9 percent, mainly as a result of lead scares from American rice. India accounts for more than 70 percent of Saudi rice imports and has been the primary beneficiary of the growing Saudi rice market over the past few years. The United States has remained the second largest rice supplier to Saudi Arabia despite declining U.S. market share in recent years.

Processed Fruits and Vegetables The Saudi market for processed fruits and vegetables is massive. 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 increased over the past five years. However, 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.

Snack Foods (Excluding Nuts) The latest official figures indicate that more than 60 percent of the Saudi population is under 20, which as a group, represents heavy consumption of snack foods. Local snack food production has drastically increased in the past few years, accounting for more than 50 percent of local consumption in 2002. There is a general decline in imports of corn and wheat-based snacks. Candies and chocolates are also being locally manufactured on a large scale. Exporters may also look into supplying raw materials for the fast growing snack industry. Snack food imports from the United States accounted for 13 percent of total imports in 2002. Products focusing on Saudi consumers' preferences, which tend to favor sweeter items, generally find better market reception.