

**Council for Australian-Arab
Relations (CAAR)**

**Australia Arab Chamber of
Commerce and Industry (AACCI)**

Business Guides to the Arab Gulf

The Kingdom of Saudi Arabia

Prepared by

Bayliss Associates Pty Limited

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Part I: Overview of Saudi Arabia

The formation of Saudi Arabia

The modern Kingdom of Saudi Arabia traces its roots back to the earliest communities that inhabited the region around the country's present-day capital of Riyadh. The Al-Saud family were tribal leaders in this region, and came to prominence in the mid 18th Century, around the same time that they were influenced by the teachings of a revered Islamic scholar, Muhammad ibn Abd-al-Wahhab, who sought to return the practice of Islam to its original precepts.

Muhammad ibn Abd-al-Wahhab and Muhammad ibn Saud, the head of the house of Saud, vowed in 1744 to spread the practice of the faith with renewed vigour. *Wahhabism* is a term frequently used to describe this conservative profession of the Sunni form of the Islamic faith that is practised in Saudi Arabia and also in parts of the United Arab Emirates, including the emirates of Abu Dhabi and Sharjah.

In 1932, the principal regions of Al-Hasa, Qatif, Nejd and Hejaz were finally unified by Abdul Aziz Al-Saud to form the Kingdom of Saudi Arabia. It was not until 1938, however, when oil was discovered in vast quantities, that the Kingdom began to experience the first taste of the prosperity and the international recognition that is its endowment in the present day.

The Kingdom of Saudi Arabia is the centre of the Islamic world, and guardian of the Islamic holy cities of Mecca and Medina, which are visited each year by millions of pilgrims during the Hajj period.

Saudi Arabia established the basis of a strong American alliance, when in 1933 Abdul Aziz Al-Saud granted an oil concession to the Standard Oil Company of California (now known as Chevron Oil). From that joint venture sprang Saudi Aramco, the government-owned enterprise that controls the world's largest petroleum reserves. The Saudi Government nationalised Aramco and the Saudi oil industry in 1975.

The Government of Saudi Arabia

The Kingdom of Saudi Arabia is an absolute monarchy ruled by the sons and grandsons of Abdul Aziz Al-Saud. Estimates vary, but it is widely assumed that there are as many as 5,000 to 10,000 Al-Saud princes, with an extended family numbering between 20,000 and 27,000 direct descendants of the royal line.

The central institution of Saudi Arabian Government is the monarchy. The Qu'ran (Koran), the holy text of Islam, provides the basic precepts of the constitution of the country and the legal framework is based on sharia law, developed from the teachings of the Prophet Muhammad.¹

The Head of State and Prime Minister is King Abdullah Bin-Abdul-al-Aziz Al-Saud. King Abdullah succeeded the late King Fahd, his half-brother, in August 2005.²

¹ See the GCC Overview document for further background on Islam

² Extracted from BBC Country Profile, October 2008

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The legislative branch of government is the Consultative Council or Majlis al-Shura, established in 1993. The Council of Ministers announced in October 2003 its intent to introduce elections for half of the members of local and provincial assemblies and a third of the members of the Majlis al-Shura, incrementally over a period of four to five years, but to date no elections have been held.³

Saudi Arabia is a member of the Gulf Cooperation Council (GCC), which also includes Bahrain, Kuwait, Oman, Qatar and the United Arab Emirates (UAE). Further detail on the GCC can be found in the GCC Market Overview, which is first in this series of *Business Guides to the Arab Gulf*.

Saudi Arabia is also a member of:

- The Arab League
- The Organization of the Islamic Conference (OIC),
- The Organization of Petroleum Exporting Countries (OPEC),
- The World Trade Organization (WTO), and
- The United Nations (UN).

Saudi Arabia is a major aid donor, active in the World Bank and IMF as well as supporting humanitarian and development programs through the Saudi Red Crescent, the Saudi Development Fund and other agencies. Aid donations account for 4% of GDP — one of the highest levels of international development assistance.

The Saudi Economy

Basic demographics

- Population: 28 million – including 5.5 million expatriates⁴ (July 2008 estimate)
- 38% of the population are aged 0-14 years⁵
- Median age – 21.5 years⁶
- Population growth rate – 1.95% (2008 estimate)⁷
- Composition of GDP
 - agriculture: 3.0%
 - industry: 61.8%
 - services: 35.2% (2007 est.)

GDP trends

Saudi Arabia's real GDP growth was 3.4% in 2007 and the current account surplus was US\$95 billion (24.9% of GDP).⁸

³ CIA *World Fact Book* - [CIA](#)

⁴ CIA *World Fact Book* - [CIA](#)

⁵ Op cit

⁶ Op cit

⁷ Op cit

⁸ July 2008 Monthly Bulletin – Jadwa Investment.

The Economist Intelligence Unit (EIU) in London has estimated a GDP growth figure of 6.5% for 2008, but against the backdrop of the global credit crisis, has adjusted their forecast to 3.2% in 2009.⁹

Economic trends

The non-oil sector grew by 5.8% in 2007, the second-highest growth rate since 1982. Sectors benefiting from liberalisation and the investment boom - transport and communications, construction and manufacturing - were the best performing.

Non-oil exports grew by over 20% for the fifth consecutive year to \$27.9 billion.

Inflation reached double-digit levels for the first time since the late 1970s. Year-on-year inflation climbed to 10.5% in April 2008, from 9.6% in March 2008. However, inflation is expected to fall to single-digit levels in 2009 as a result of the fall in global commodity prices and declining EPC (engineering, procurement and construction) costs.

High oil prices produced a strong performance, with major projects contributing to solid GDP growth and strong investment trends.

The importance of oil

Saudi Arabia holds 25% of the world's confirmed oil reserves, which at 2007 rates of extraction are estimated to last at least another 80 years. Oil has made Saudi Arabia the most strategically important country in the Arab world. Massive oil revenues have funded the construction of extensive national infrastructure and a comprehensive social welfare program for a country with a resident population of over 28 million people, of which some 22.5 million are Saudi Arabian citizens.

The capital, Riyadh, an oasis town of 60,000 people in the 1950s, was transformed in the oil boom years of the 1970s to become a modern metropolis. Riyadh now has nearly five million residents, and is the largest population centre in the Gulf.

Jeddah, the major Red Sea port, and Al-Khobar and Dammam on the Gulf are also important mercantile centres.

The petroleum sector accounts for some 75% of budget revenues (and if petrochemicals are added the contribution is around 90%). The petroleum sector accounts also for around 45% of GDP, and 90% of export earnings. About 40% of GDP comes from the private sector. Approximately 5.5 million foreign workers perform key roles in the Saudi economy, particularly in the oil and service sectors.

Saudi Arabia's hydrocarbon sector is dominated by Saudi Aramco, the world's largest oil company in terms of proven or "booked" reserves and production of hydrocarbons. Saudi Aramco is planning to invest US\$90 billion over the next five years (2008-2012) to expand crude and refining capacity.

By 2009, Saudi Arabia's sustainable oil production capacity is forecast to grow to around 12 million barrels per day (bpd), while the company's worldwide refining capacity will almost double from three million bpd to about six million bpd.¹⁰

Saudi Arabia has also invested heavily in the petrochemicals sector, principally through Saudi Basic Industries Corporation ([SABIC](#)), the government-owned

⁹ EIU Viewswire.

¹⁰ Doing Business in Saudi Arabia. US Commercial Service 2008.

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petrochemical company, which is one of the world's leading manufacturers of chemicals, fertilisers, plastics and metals.

Part II: The Market environment

The economy of Saudi Arabia is built on oil. The first wells flowed in 1938 and full-scale production began after World War II. While the Kingdom has sought to diversify the economy, the hydrocarbon sector is dominant.

Economic reform and privatisation programs have been introduced but change has been gradual. The government is committed to a program of expansion of the non-oil sector; however, much of this will remain oil-related, both the upstream gas sector and downstream power and water.

Characteristics of the Saudi Arabian market

- The largest market in the Gulf Cooperation Council (GCC)¹¹ with GDP per head of US\$13,850.¹²
- A sound economy, with a fast-growing and young population
- A well-managed banking system
- Modern infrastructure – hotels, air travel and telecommunications
- Generally low import duties and barriers, although strict attention must be paid to documentation and labelling
- A business community that is familiar with Western practices
- A complex market, with limited transparency in a number of areas, notably government tenders
- Extremely competitive
- A wide selection of potential agents and distributors, requiring time and care to screen and appoint
- Decision cycles can be lengthy and protracted and payment terms require careful attention.
- Conservative family-based business models remain strong across a wide range of industries in Saudi Arabia.

Investment environment

Saudi Arabia has experienced strong growth in foreign direct investment (FDI) since liberalising its investment regime in 2000. Investment policies have been designed to diversify the economy, which is highly dependent on the hydrocarbon sector, and also to promote employment for the country's very youthful population.

The Saudi Arabian General Investment Authority ([SAGIA](#)) was established in 2000, and is responsible for issuing licences under the foreign investment legislation.

Since the 2000 liberalisation and Saudi Arabia's accession to the WTO in 2005, FDI has grown strongly from an annual average of US\$245 million between 1990 and 2000 to reach US\$24.3 billion in 2007, up by 33% on the 2006 level.¹³

¹¹ See the Overview document for further background on the GCC.

¹² The Economist *Pocket World in Figures*, 2009 Edition, p206.

¹³ World Investment Report 2008 – UNCTAD.

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Foreign companies may invest in all areas of the economy, except for those activities that are contained in a “negative list.” Foreign companies may also now hold 100% equity in a Saudi Arabian company and the minimum capital requirements for establishment have been eased.

Consultants, including architects and engineers, are required to register with the Ministry of Commerce and Industry and in many cases, are required to have a Saudi partner with maximum foreign equity of 75%. This extends to companies engaged in law, accounting, healthcare and financial services.

While the investment regime has undergone many positive changes, regulatory procedures in some areas remain opaque and visas for visiting staff may be difficult to obtain. There is pressure in many areas to employ more Saudi nationals in view of the high level of (youth) unemployment. This national policy, referred to generally as *Saudisation*, is designed to encourage the employment of Saudi nationals in the private sector, which currently employs large numbers of expatriate workers, particularly from South and Southeast Asia.

In the first half of 2007, unemployment among Saudi nationals stood at 11.2%, or some 454,000. It is estimated that 44% of the jobless are men and women are between the ages of 20 and 24 years. The Saudi Government has decreed that the level of Saudisation in private industry should be raised to 30% in 2009.

Protection of intellectual property is an area where care is required; however Saudi Arabia's accession to the WTO has resulted in major revisions of the country's trademark, copyright and patent laws.

Incentives are available to investors, particularly those who invest in the new manufacturing zones. Incentives include credit facilities and 'offset' purchasing arrangements, notably in the defence industry.

The World Bank's annual “*Ease of Doing Business Survey*” is a primary indicator of whether a country's regulatory environment is conducive to business operations. The index covers factors such as the ease of opening a business, permits, paying taxes, enforcing contracts and several other factors.

Saudi Arabia made a substantial gain in the latest survey, achieving a ranking of 16th for 2009 – from a rank of 24th in 2004. The rankings cover the period from April 2007 to June 2008. Australia ranks at 9th place for 2009¹⁴.

Foreign trade

Saudi Arabia's imports are expected to increase by more than 23% reaching US\$82 billion in 2007, while Saudi exports will hit an all-time high of US\$230 billion, 9.6% more than in 2006.¹⁵

Australian bilateral relations

Australia enjoys sound bilateral relations with Saudi Arabia. The Kingdom is Australia's largest export market in the Middle East, with merchandise exports of A\$2.5 billion in 2008. Australian imports from Saudi Arabia in the same period were A\$897 million¹⁶.

Visit the [DFAT](#) website for more background on the bilateral trade relationship.

¹⁴ Doing Business 2009 – World Bank.

¹⁵ Doing Business in Saudi Arabia. US Commercial Service 2008.

¹⁶ DFAT statistics.

Part III: Doing business in Saudi Arabia

Business systems in Saudi Arabia appear less than transparent from the outside.

Once inside the country and with good local advice, business does become much easier. Commitment, patience and learning are still critical to long-term success.

The influence of Islamic law on business and social life in the Kingdom means that Australian businesspeople should have an understanding of the religious traditions and customs of Saudi Arabia. (Further detail on these subjects can be found in the GCC Market Overview, which is first in this series of *Business Guides to the Arab Gulf*.)

Visitors must respect the customs of Saudi Arabia, particularly in the areas of deportment, dress, language and behaviour.

Most leading Saudi businessmen are Western-educated and have travelled extensively. They are comfortable dealing with visiting businesspeople. Like other Arabs, Saudis are hospitable and place a great deal of emphasis on an outward expression of politeness and quiet demeanour. Aggressive and demonstrative behaviour will not be well received and can rapidly diminish any chance of meaningful business engagement.

For women, however, the business environment is challenging and visa formalities can pose difficulties. Single females, for example, are not able to travel freely within the country. An option to consider may be initiating business contacts in Saudi Arabia through a male member of your company. This having been said, Australian women are known to have successfully transacted business in Saudi Arabia, but it must be recognised that, for women, establishing those business links is generally more difficult in Saudi Arabia than it is in other markets.

Practical advice on entering the market

Developing a strategy

Several characteristics of the Saudi Arabian market impact on strategy development:

- statistics and market data are frequently imprecise
- transactions tend to take longer than expected
- time and care are needed to assess the claims of prospective agents
- when relationships are established, principals may want to move quickly, sometimes on no more than a handshake
- more frequent and longer market visits are required, at least initially
- complex business procedures are common.

Components of a successful strategy

A sound business plan for Saudi Arabia will:

- include a wide variety of sources of information
- take advice from seasoned practitioners
- incorporate realistic budgets and allow more time for travel
- use conservative timelines and factor in slippage
- use a sequential approach to determine 'go' or 'no go'
- avoid open-ended commitments (particularly for after-sales service)

- clearly define each partner's roles and responsibilities.

The price factor

Saudi Arabia often exemplifies this more than any other market.

Saudi customers will frequently bring your proposition back to price, no matter how hard you sell the benefits.

Price drives most Arab business negotiations. (Further background can be found in the GCC Market Overview, which is first in this series of *Business Guides to the Arab Gulf*.)

Competition will usually be intense.

Re-tendering in the public sector is common. Companies should be prepared for lengthy and protracted negotiations.

A first visit to Saudi Arabia

The first-time visitor should consider taking advantage of an Austrade-escorted visit program. This is an effective way of maximising face-to-face time with Saudi business prospects who have been pre-qualified by Austrade for interest and potential suitability.

Under an Austrade program you can also arrange to have an experienced business development manager escort you and provide translation services where appropriate. The Austrade adviser accompanying you can also provide valuable insights into the company and also possibly the client's reaction.

Prior to booking your flights to Saudi Arabia, however, you should consult first with Austrade to determine:

- the lead-time and cost of developing your program;
- the suitability of the time you have selected for the visit, to ensure especially that there is no conflict with holiday periods or times of religious observance, and
- whether a business development manager would be available at that time to accompany you on your program.

On your first visit, if unescorted, it is also important to bear in mind that the geography of the major cities is complex and road signs are in Arabic. Many taxi drivers of Asian origin do not read Arabic, but will rely on landmarks to get you to your destination. The process of finding your own way around can be a frustrating and time-consuming if your directions are imprecise.

If you have no assistance in arranging your program and pre-screening your calls, meeting with unqualified contacts can prove a waste of valuable in-market time.

In addition to Austrade, details of other possible service providers are available on the [AACCI website](#).

Finding opportunities

Many export opportunities develop through sheer chance. This particularly applies in the less-structured markets of the Arab world.

A lead may come from a friend or colleague, a chance meeting in an airport lounge, a magazine item, an unsolicited enquiry from a trader or advice from a Chamber of Commerce or trade development agency.

Developing an extensive network for business opportunities is critical. A blended opportunity flow is necessary to build a portfolio of qualified leads.

Expanding your contact base in Australia and offshore to expose your company to a variety of sales leads is also highly recommended.

Early leads need to be transformed into qualified opportunities by further analysis and follow up. Pursuing these leads is invariably expensive and requires the commitment of valuable resources.

Some companies pursue poorly defined opportunities in their enthusiasm to chase what they believe is a hot prospect.

When you receive an enquiry from Saudi Arabia, the following tips may help:

Contact the buyer quickly

Try to speak to the specifier and determine who will be making the buying decision. Often communication is through an agent, so getting to the source is not always easy.

Present your company effectively

- Send a confident introduction, tailored to the buyer's needs.
- Don't overload the buyer with data-be brief.
- Demonstrate the relevance of your experience in similar locations.

Visiting Saudi Arabia

The Australia Arab Chamber of Commerce and Industry (AACCI) website provides helpful and current advice on obtaining a [business visa for Saudi Arabia](#).

Visas must be arranged in advance through the written sponsorship of a Saudi citizen, company or Government instrumentality on a prescribed 'Invitation Letter' which must be an original letter, in Arabic, on the sponsoring company's letterhead.

Visas will be endorsed in passports by the Royal Embassy of Saudi Arabia in Canberra after sponsorship has been obtained and all forms have been lodged.

With effect from 5 May 2008, the Royal Embassy of Saudi Arabia in Canberra will no longer receive visa applications to its office. Instead, all visa applications, accompanied by the relevant documents, MUST be forwarded to the office of a registered agent for processing of the visa.

For updates on business visas for Saudi Arabia we recommend that you visit the website of the [Saudi Arabian Embassy in Canberra](#) on a regular basis.

Saudi Arabia Chambers of Commerce

Each major business centre in Saudi Arabia has a Chamber of Commerce. Their powerful membership embraces the local business community. Chamber functions provide useful networking opportunities for companies new to the market.

The Australia Arab Chamber of Commerce and Industry provides an interface with its Saudi Arabian counterparts and can advise on contacts, visiting trade missions and associated events.

Translations

Translations for business meetings are not required but there is often a requirement for company documentation to be translated, particularly for government permits and registrations.

There are many translation services in Saudi Arabia; however, it is best to check the credentials of translators with Austrade.

Phone numbers-get them and keep them

The Saudi phone system is efficient. Nevertheless seek and record the mobile numbers for your prime contacts that is generally the best way to reach them.

Hire cars

Hire cars are numerous and service is high standard. Most major car rental agencies offer chauffeured cars. Hotels will assist with this service. A good driver will save you valuable time and reduce frustrations by getting you to your calls on time.

Taxis

Taxis are plentiful, air-conditioned and some are metered - but bargaining is possible. Before embarking on a trip to a client, ensure you have clear directions, emphasising local landmarks.

Health and safety

Public health standards in Saudi Arabia are high. In the event of illness, there are many doctors, mostly expatriates, as well as private hospitals. It is important to carry travellers' medical insurance as costs can be high in the event of hospitalisation or evacuation.

People to help you

There is an [Australian Embassy in Riyadh](#) and [Austrade offices](#) in Riyadh (attached to the embassy) and in Jeddah.

Prior to travel please register your travel details online at: www.orao.dfat.gov.au.

Also please consult the Department of Foreign Affairs and Trade website at [Smartraveller](#) before planning a visit.

Import Procedures

Customs and import regulation

The general import tariff rate in Saudi Arabia is 5%. Some commodities are duty-free while other products may attract a protective tariff, usually between 12% and 20%.

[Saudi Arabia Customs](#) publishes duty rates on its website, which is easy to use. The website also provides information on documentation required for exports. Saudi Arabia has about 600 tariff items that are well above the 5% tariff rate.

All products containing alcohol or pork are banned.

As a WTO member, Saudi Arabia is expected to bind its tariffs ('binding' means the tariffs are committed and difficult to increase) to result in lower rates for both industrial goods and agricultural products.

The Austrade website on [Doing business in Saudi Arabia](#) provides further useful information on general import procedures.

Import documentation

Accurate trade documentation is critical. Inconsistencies and omissions can result in lengthy and costly delays at Saudi Customs.

Saudi Arabia has explicit requirements for export documentation, requiring legalisation, arranged through the AACCI. Detailed instructions on procedures and the processing of documents is available on the [AACCI](#) website.

The AACCI has several locations where export documents can be processed.

Packaging and labelling

Saudi Arabia has strict labelling requirements. Regulations are administered by the Saudi Arabian Standards Organisation - [SASO](#) and Government Quality Laboratories at ports of delivery.

Stringent labelling and some registration standards apply to food, pharmaceuticals and personal care products. There are also strict requirements for expiry dates.

Products may be rejected if less than half the time between production and expiration date remains.

Labelling for food products is particularly stringent and must be carefully followed to avoid rejection at the point of entry.

The Austrade website mentioned above, [Doing business in Saudi Arabia](#), also provides details of labelling stipulations, including expiry and use-by dates as well as halal certification.

Agency representation

Companies can make direct sales to the private sector from outside Saudi Arabia. In practice, however, appointing an agent or distributor is the most common procedure for companies entering the Saudi market.

Australian companies planning to enter into an agreement with a Saudi company should seek independent advice from an experienced law firm, and may wish to consider alternatives to formal agency appointments.

Any agency/distributorship contract should follow the standard format approved by the Saudi Ministry of Commerce and Industry.

Terminating an agency agreement in Saudi Arabia for underperformance, for example, can be both protracted and expensive. Saudi laws are being liberalised in this area; however the appointment of an effective agent remains one of the key success factors for doing business in Saudi Arabia.

Representation alternatives

There are several alternatives for establishing a business presence in Saudi Arabia. Appointing a Saudi representative as an importer / distributor is the most common.

Alternative	Pros	Cons
Importer/distributor	Quick – inexpensive.	Disputes can be expensive. Agent expects strong support.
Representative or liaison office	Strong corporate presence ensures sound market intelligence.	Expensive. Usually for companies with Government contracts. Cannot trade on own account.
Joint venture	Commitment by partner to a long-term engagement and presence.	More expensive. Hard to unwind.
Branch office	Flexibility. Now easier to establish.	Expensive. Requires license.
Technical service office	Supports agent. Enhances brand and ensures agency staff are well trained.	Expensive. Cannot trade.

Building a sound business partner relationship

Building new business with a business partner takes a great deal of effort on both sides. Time taken in researching and verifying the qualifications of a potential agent is a sound investment.

Austrade provides services for background checking of Saudi companies that can accelerate the process. Business consultants, banks and accounting firms may also be able to provide references on the companies with which you propose to deal.

Saudi representatives will generally expect strong market development support from their principals, including joint financing of promotional programs, after-sales technical service and product training.

This checklist may help in assessing agents.

- Undertake a standard commercial review—how long established, number of staff and financial statistics if available.
- Is their size the right fit? A small exporter may be swamped by a large company that has many principals to service.
- What other companies does the agent represent? Are their interests complementary and reinforcing?
- Crosscheck with foreign principals on the agent's credentials and performance. It may be wise to ask the Saudi company first before contacting their overseas principals, unless you know them.
- Does the company have the depth of knowledge to promote your product in the market? Check for skills and resources.
- Pay particular attention to regional coverage. Don't grant an all-of-country agreement to discover later that your agent does not have a strong presence, for example, in the eastern province.
- Are government tenders an important part of your business? This is a highly competitive and complex area where companies often 'over-claim' ability. Ask for factual data on what contracts they have secured for other principals.
- Be wary of claims of 'impeccable' credentials. As elsewhere, there are large numbers of people who may claim to have special access at senior level, but in fact have varying degrees of influence and business skills. Always check with appropriate third parties to verify credentials.

- Over-emphasis on connections should always be viewed with caution. Any good representative in Saudi Arabia will have good connections, but they must be backed by commercial skills, resources and a strong track record.
- Resist the natural inclination to appoint an agent or representative quickly to start business flowing. A well-researched appointment will probably take months — and several visits.
- Plan your trips in stages, leaving final confirmation of an agreement until you are sure of the fit.
- Ensure you set firm timelines and negotiate decisively. Any impression of ‘dithering’ will be seen as a sign of weakness and lack of commitment.
- Determine who will be the prime person within the representative company for your product or service, and take time to train them. Build strong relationships with frontline sales staff and accompany them on client calls to embed your marketing strategy.

Representation appointments

There are three major distribution and sales regions in Saudi Arabia:

- the Western Region, with its commercial centre the Red Sea port of Jeddah;
- the Central Region, where the capital Riyadh is located, and
- the Eastern Province, where the oil and gas industry is most heavily concentrated, and includes such centres as Dammam and Al-Khobar..

Each region has a distinct business personality and many Saudi companies will not have an equally strong presence in each region.

It is possible to appoint different agents, representatives or distributors for each region however managing multiple agents can be complex and create potential for overlaps and dispute. Appointing a ‘master agent/representative’ with sub-distributors is an option, but is also likely to prove difficult to manage.

If an agency appointment is made, the Saudi Ministry of Commerce and Industry will generally wish to see all arrangements being exclusive with respect to either the product line or geographic region.¹⁷

Trading in Saudi Arabia

Until quite recently only Saudi nationals were allowed to engage in trading activities and only Saudis were permitted to register as commercial agents.

These restrictions have been eased and foreign individuals and companies are now permitted to engage in trading activities through a joint venture partnership with a Saudi individual or entity, holding 25% of the equity. The Saudi holding is to be raised to 75% after three years of incorporation.¹⁸

¹⁷ USFCS Country Commercial Guide 2008.

¹⁸ USFCS Country Commercial Guide 2008.

Distribution

Saudi distribution channels are relatively short. In some cases, direct sales to Saudi companies are possible; however sales are more likely to be conducted through a Saudi intermediary.

Imports are usually on a CIF or C&F basis with mark-ups applying on the landed cost for direct sales and sales via wholesale distributors. In most cases, there will be no more than two steps in the distribution chain, and sometimes one for industrial products and capital equipment.

In common with the rest of the Gulf, price will always be a primary factor in negotiations. Benefit comparisons are more common; however price will usually remain the lynchpin of most transactions.

Mark-ups vary considerably, depending on the product and sales channel, with industrial products usually bearing a lower mark-up than consumer goods. End prices will, however be determined by prevailing market conditions that dictate mark-ups from the landed price. Listing fees are applied in the larger supermarket outlets and can be a significant cost element.

Services transactions may be more complex; however price will still be the primary backdrop.

Brand and experience will play an important role in buying decisions for professional services and an ability to reference a well regarded client base will be an important consideration.

Logistics

Saudi Arabia's transport systems are quite efficient, with major centres well connected by road and air and increasingly by rail.

The Saudi Government plans to build more than 3,800 kms of new railway lines. (Please see the following section on Transport for further details.)

Major industry sectors in Saudi Arabia

Oil and petrochemicals

The oil sector is Saudi Arabia's largest industry. Downstream expansion in petrochemicals has been dramatic and has also been a key factor in developing the country's major industrial zones.

Industry sources estimate the total value of Saudi Aramco's planned projects for the next 20 years to be around \$80 billion dollars.¹⁹

Major expansion planned for oil production, refining and petrochemicals produces opportunities for direct sale of goods and services for specialist suppliers; however there are significant infrastructure 'spin-off' opportunities being created by these developments.

Accessing Saudi 'mega-projects' is not easy. Some Saudi representatives will expect an Australian company to be able to compete with larger multinationals on similar

¹⁹ USFCS Country Commercial Guide 2008.

terms - this is often not feasible. References from other companies within the oil industry count for much in this sector.

The Austrade website provides a brief on the [oil and gas sector](#) in Saudi Arabia.

Finance

Saudi Arabia has a sophisticated financial sector with 11 [commercial banks operating](#) in the Kingdom. Proposed liberalisation of the banking sector may provide greater opportunities for the entry of foreign financial institutions.

Any liberalisation can be expected to be gradual, like most reforms in Saudi Arabia, and will of course be impacted by the current global financial crisis.

As around half of the major banks in Saudi Arabia operate on the basis of specific Islamic banking practices, it would be useful to refer to the section on Islamic banking in the GCC Market Overview, which is first in this series of *Business Guides to the Arab Gulf*.

Engineering services

Saudi Arabia is the largest market in the Gulf region for engineering and contracting services.

Australian consulting engineers have enjoyed a reasonable degree of success in Saudi Arabia. Once again, the key to business is a combination of demonstrated performance in similar markets, as well as the judicious choice of a local representative.

Health care

The Government of Saudi Arabia provides an extensive healthcare system. In 2006 there were 386 hospitals in the Kingdom with provision for almost 57,000 beds. About 90 of these hospitals are operated by the private sector. The major medical facility, *King Fahd Medical City*, includes several hospitals, all well equipped. In the equipment sector, US, European and Japanese firms are dominant.

Australian expatriates are active in health care services as doctors, nurses and medical technicians. The Kingdom's health services are heavily dependent on expatriates, who are estimated to provide about 80% of medical staff.

Medical insurance has been mandated for the 5.5 million expatriates in the Kingdom. This provides an excellent market opportunity for providers of health insurance programs and ancillary services.

Developing business in this area needs a determined, long-range strategy. An association with other Australian companies and institutions will help in providing Saudi clients with a comprehensive service offering. Austrade in Riyadh provide a market brief on [health and medical services](#) in Saudi Arabia

Infrastructure

Saudi Arabia has been one of the world's greatest markets for infrastructure development. While much of the infrastructure is in place, there are continuing opportunities for new projects as well as for the management of existing assets.

Transport

Saudi Arabia has an efficient network of roads, marine ports and airports. The 'missing link' is rail and there are ambitious plans to connect the Kingdom's major commercial centres with new track infrastructure.

The Saudi Arabian Railways Authority is planning to spend US\$4.5 billion over the next five years creating a new domestic rail network.

The most important project is the *Saudi Land Bridge* line, which will link Jeddah to Dammam through Riyadh. Another line will stretch from Qurayyat in the North to Riyadh in the South, passing through Hail and Buraydah. Other lines linking Jeddah with the holy cities of Mecca and Medina are also planned.

Two elevated metro systems are being planned for Riyadh, which will link Northern and Southern Riyadh, and another will connect the western and eastern sectors of the city.²⁰

Water

Saudi Arabia is a large consumer of water and there are extensive plans for additional desalination plants to conserve limited groundwater resources.

Information technology

The Kingdom's first *Knowledge Economic City* (KEC) is being established in Madinah (Medina). It will have a technological and economic information node, a campus for medical research and biosciences and a centre for studies in Islamic civilization.

The project is expected to attract investments worth more than US\$ 5 billion and create nearly 25,000 new jobs. KEC will have a range of complementary zones -- a technology zone; an advanced IT studies institute; an integrated medical services zone; a retail zone; and a business district.

In 2008 there were an estimated 6.2 million internet users in Saudi Arabia, representing a 22% national penetration rate.²¹

Building and construction

Saudi Arabia is a robust market for building products and services and is fiercely competitive. Many Saudi and joint-venture companies produce a range of products locally. Unless an imported product can be differentiated from its competitors, prospects will be limited without some degree of local production.

Agriculture

Ten per cent of the Saudi workforce is engaged in agriculture, producing wheat, fruit and vegetables, barley, eggs and poultry. Only about 1% of the Kingdom's area (amounting to 5 million hectares) is farmed. Irrigation is essential in a desert environment.

There are about ten major agricultural development companies as well as smaller private companies farming areas in the range of 10,000 to 20,000 hectares.

²⁰ USFCS Country Commercial Guide 2008.

²¹ [Internet - ITU](#)

A number of Australian companies have been involved in developing agricultural projects in Saudi Arabia over the past 20 years and Australian expertise is well known and respected.

Food

Australia enjoys a strong reputation for foodstuffs, derived from a long history of supply of grains (wheat, barley and rice), dairy products, meat and live sheep.

Saudi Arabia has major manufacturing plants for dairy products, meat processing, snack foods, beverages, bread, biscuits and confectionery.

Some Australian food products enter via the UAE. For exporters who have a UAE agent with established Saudi connections, this may be a convenient distribution channel.

Austrade provides a brief on [processed food](#) in the Saudi market.

The retail sector

Saudi Arabia is the largest retail market on the Arabian Peninsula. The size of the population, the high proportion of young people and levels of disposable income make Saudi Arabia the fastest growing fast moving consumer goods (FMCG) market in the region.

The increasingly young population is contributing to expansion in Saudi Arabia's retail sector. The recent establishment of its first shopping malls has transformed the Kingdom's retail landscape.

A more open foreign investment policy has encouraged international retailers to enter the Saudi market. The industry is rationalising, with a decline in the number of small grocery businesses and a corresponding increase in more sophisticated supermarkets; however, national chains are under-developed and the industry is fragmented when compared to that in Australia.

Automotive

Australia's export of passenger motor vehicles to the Gulf, notably Saudi Arabia, has been a remarkable success story. Holden and Toyota are the market leaders, with exports exceeding A\$1 billion per year. Sales have doubled since 1999 and the Australian makes have enjoyed strong market acceptance, both for personal use as well as taxi fleets.

As these vehicles move out of warranty, a good auto aftermarket is developing, but generic imports from low-cost countries provide strong competition to branded Australian products.

Education and training

Students from Saudi Arabia are increasingly investigating graduate and post-graduate education in Australia. Since 11 September 2001, many Saudi families have sought locations other than the USA for their children's education.

A major area for development is vocational and technical training. This is closely related, of course, to the large number of young Saudis entering the workforce at a time when advancement to management positions is no longer automatic.

Given the government's policy of Saudisation, many technical and related jobs will need to be filled by Saudi citizens if unemployment concerns are to be addressed.

Mining

Saudi Arabia has extensive mineral deposits, many of which remain undeveloped. Extensive geological surveys indicate most minerals are in the western and northern regions of the country.

Over 30 commercial minerals have been identified, ranging from copper and gold to clays and industrial minerals.

The government-owned mining company, Ma'aden (established in 1997), is responsible for the development of the Kingdom's mineral resources. Ma'aden is slated for eventual privatisation.

Projects under assessment include phosphate deposits at Al-Jalamid in the north.

Extensive exploration and testing have been conducted on the bauxite deposits of Al-Zabirah, about 650 kilometres northwest of Jubail.

The mining code has extended a number of incentives to investors. Exploration licences guarantee the exclusive right to explore within the licence area, and the exclusive right to obtain a mining lease.

Austrade provides a [market brief on mining](#) in Saudi Arabia.

Australian services opportunity grid-Saudi Arabia

Service	Market needs	New business potential
Engineering	Consulting services	Moderate - emphasis is on oil, gas and desalination projects. Intense competition. Good local associations are crucial. Registrations can be complex.
Building services	Contracting	Moderate - a track record in the region is critical, as are sound local partners.
Business services	Management consulting Project management ICT Communications Recruitment Training	Sound opportunities but market development times are lengthy. Sound referrals required.
Entertainment	Major national and regional events	Potential limited to major national, municipal events and commemorations.
Sports & recreation	Sports training and development	Moderate potential.
Building	Facility management Landscaping Surveying Asset management	Early introductions with prime contractors are necessary. Selective and specialised opportunities provide better potential than public tenders.
Health	Nursing Training Hospital and clinic management Medical technology Surgery in Australia Personnel supply Health insurance	Moves to mandatory health insurance will create opportunities. Success requires strong commitment.
Education	Graduate courses Post graduate courses Vocational training	A high potential area for development, with many associated benefits. Vocational and technical training is a high-need sector.
Hospitality	Training Food and beverage services Restaurant design Facility management	Limited potential with demand mainly met from low-cost supplier countries.

Service	Market needs	New business potential
Service	Market needs	New business potential
Transport	Rail Maritime Air services Highway design	Rail will provide business potential as networks are planned to expand the existing limited track network.
Social services	Health insurance Program design Training	Australian health insurance models are most appropriate. Training will continue to be a high potential area.
Tourism	Outbound tourism	Strong word-of-mouth influence in choice of destination. Selective promotion to elite decision-makers is appropriate.
Franchises	Fast food Hairdressing Coffee shops Health and fitness	The second tier franchise market is established but innovative concepts may have potential. Pay particular care to legal aspects of franchise agreements and payments.
Environmental management	Water Solid waste Air pollution Shoreline restoration	A fertile field where 'name' global companies are active. Sound local relationships are essential for market entry.
Agricultural technology	Farming systems	Good potential. Australians have worked well in this area in Saudi Arabia and established a sound reputation. Local agricultural policies require adaptation.