



SAUDI ARABIA
INVESTMENT CLIMATE STATEMENT
2015

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Executive Summary

Saudi Arabia offers an attractive and relatively stable market for investment, particularly for investors that are able to overcome initial barriers imposed on foreigners. Despite political upheaval across the Middle East and North Africa and the transition to a new king, Saudi Arabia's economy continues to expand at a healthy pace, achieving real GDP growth of 3.8% for CY2014. Improvement of the investment climate continues to be an important part of the new Saudi Arabian government's (SAG) broader program to liberalize the country's trade and investment regime, diversify an economy overly dependent on oil, and promote employment for a young population. The government encourages investment across nearly all economic sectors, prioritizing investments in industry, transportation, education, health, communications technology, life sciences, and energy; as well as in four "Economic Cities" that are at various stages of development.

The Saudi Arabian General Investment Authority (SAGIA) provides information and assistance to foreign investors and works to foster investment opportunities across the economy, particularly in energy, transportation, health, life sciences, and knowledge-based industries (see www.sagia.gov.sa). SAGIA also maintains and periodically reviews the list of activities excluded from foreign investment. The Saudi Industrial Development Fund (SIDF), an independent entity within the Ministry of Commerce and Industry, is one important source of financing for investors.

Saudi Arabia's foreign-direct-investment law permits foreigners to invest in all sectors of the economy, except for specific activities contained in a "negative list" that currently exclude two industrial sectors and 13 service sectors, among them real estate investment in Mecca and Medina, some subsectors in printing and publishing, audiovisual services, land-transportation services excluding inter-city transport by trains, and upstream petroleum. The complete "negative list" can be found at www.sagia.gov.sa.

Investors are not required to purchase from local sources or export a certain percentage of output, and their access to foreign exchange is unlimited. There is no requirement in place for shares of foreign equity to be reduced over time. Investors are not required to disclose proprietary information to the SAG as part of the regulatory approval process, except where issues of health and safety are concerned. Other than hiring quotas for Saudi citizens, the government does not currently impose conditions on investment, such as locating in a specific geographic area, committing to specific percentages of local content or local equity, substitution for imports, export requirements or targets, or financing only by local sources.

The SIDF will grant additional incentives and better loan terms to foreign investors who set up their manufacturing facilities in the underdeveloped provinces of Jizan, Hail, and Tabuk. American and other foreign firms are able to participate in SAG-financed and/or -subsidized research-and-development programs.

Overall, Saudi Arabia offers attractive investment opportunities for American investors, and the climate has not significantly changed from the previous year.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Improving the investment climate continues to be an important part of the SAG's broader program to liberalize the country's trade and investment regime, diversify an economy overly dependent on oil, and promote employment for a young population. The government encourages investment in nearly all economic sectors, with priority given to transportation, education, health, information and communications technology, life sciences, and energy, as well as in four new "Economic Cities" that are at various stages of development. The Economic Cities are comprehensive large-scale developments in different regions focusing on particular industries, e.g., information technology. Prospective investors will find Saudi Arabia attractive for its economic stability, large market (with a population of over 30 million), sound infrastructure, and well-regulated banking system.

In the "2015 Doing Business" report, the World Bank ranked Saudi Arabia 49th out of 189 economies in terms of ease of doing business, a significant drop from 2012 where they ranked 22nd. In its "Corruption Perceptions Index 2014" report, Transparency International ranked Saudi Arabia as the 55th-cleanest out of 175 countries in terms of perceived levels of public-sector corruption, down from 57th in 2011 but still better than in 2008, when it ranked 80th. In its 2015 "Economic Freedom Index," the Heritage Foundation gave the Kingdom a score of 62.1 out of 100, a drop of 0.1 from 2014, placing it 77th out of the 178 rated countries.

There are also disincentives to investment, including a government effort to force all employers to hire larger proportions of Saudis at higher costs, an increasingly restrictive visa policy for foreign workers, extremely slow payment under some government contracts, a very conservative cultural environment, and enforced segregation of the sexes in nearly all business and social settings. Further, although the SAG is making progress towards establishing a commercial court system, there is no transparent, comprehensive legal framework for resolving commercial disputes in accordance with international standards. The indicator that most negatively affects its World Bank "Doing Business" ranking is resolving insolvency, where it ranks 163rd out of 189.

Saudi Arabia has made progress on its World Trade Organization (WTO) commitments since joining the organization in 2005. However, the SAG has yet to initiate accession procedures to join the Government Procurement Agreement, as agreed during the Kingdom's accession process to the WTO.

Other Investment Policy Reviews

Saudi Arabia underwent its first WTO Trade Policy Review in January 2012, which included investment policy, and is expected to complete its second WTO review in late 2015.

Laws/Regulations of Foreign Direct Investment

In April 2000, the Council of Ministers established the Saudi Arabian General Investment Authority (SAGIA) to provide information and assistance to foreign investors and to foster investment opportunities (see www.sagia.gov.sa). SAGIA is headed by Governor Abdullatif al-

Othman, and its duties include formulating government policies regarding investment activities, proposing plans and regulations to enhance the investment climate in the country, and evaluating and licensing investment proposals.

SAGIA periodically reviews the list of activities excluded from foreign investment and submits its reviews to higher authorities for approval. Although these sectors are off-limits to 100 percent foreign investment, foreign minority ownership in joint ventures with Saudi partners may be allowed in some sectors. Foreign investors are no longer required to take local partners in many sectors and may own real estate for company activities. They are allowed to transfer money from their enterprises outside of the country and can sponsor foreign employees. Minimum capital requirements to establish business entities range from zero to 30 million Saudi riyals (\$8 million) depending on the sector and the type of investment.

SAGIA's Investor Service Center (ISC) offers detailed information on the investment process, provides licenses and support services to foreign investors, and coordinates with government ministries to facilitate investment. According to SAGIA's regulations, the ISC must grant or refuse a license within 30 days of receiving an application and supporting documentation from the prospective investor. SAGIA established and posted new licensing guidelines in 2012, but many companies looking to invest in Saudi Arabia continue to work with local representation to facilitate the slow and often bureaucratic licensing process. Licenses in services and agriculture must be renewed after one year and in industry after every two years. An important SAGIA objective is to ensure that investors do not just acquire and hold licenses without investing. However, the periodic license reviews, with the possibility of cancellation, adds uncertainty for investors and can provide a disincentive to longer-term investment commitments.

SAGIA has agreements with various SAG agencies and ministries to facilitate and streamline foreign investment. These agreements permit SAGIA to facilitate the granting of visas, establish SAGIA branch offices at Saudi embassies in different countries, prolong tariff exemptions on imported raw materials to three years and on production and manufacturing equipment to two years, and establish commercial courts. SAGIA opened a Women's Investment Center in spring 2003. To make it easier for businesspeople to visit the Kingdom, SAGIA can sponsor visa requests without involving a local company. Saudi Arabia is also implementing a decree stating that sponsorship is no longer required for certain business visas. While SAGIA has set up the infrastructure to support foreign investment, many companies report that the process remains cumbersome and time-consuming.

Pursuant to commitments it made when acceding to the WTO, Saudi Arabia has opened additional service markets to foreign investment, including financial and banking services; maintenance and repair of aircraft and computer reservation systems; wholesale, retail, and franchise distribution services; both basic and value-added telecom services; and investment in the computer and related services sectors.

Industrial Promotion

Government bodies such as the Royal Commission for Jubail & Yanbu and the Al-Riyadh Development Authority have actively promoted opportunities in Saudi Arabia's industrial cities and other regions. In addition to the majority-government-owned Saudi Arabian Basic Industries

Corporation (SABIC), private investment companies, such as the National Industrialization Company, the Saudi Venture Capital Group, and the Saudi Industrial Development Company, have also become increasingly active in project development and in seeking out foreign joint-venture partners.

The Saudi Industrial Development Fund (SIDF), an independent entity within the Ministry of Commerce and Industry, is an important source of financing for investors. The main objective of the SIDF is to support the development of the private industrial sector by extending medium- to long-term loans for the establishment of new factories and the expansion, upgrading, and modernization of existing ones. Foreign investors are eligible to receive low-cost financing for up to 50%, 60%, or 75% of project costs (i.e., fixed assets, pre-operating expenses, and start-up working capital) depending on the level of development of the region. Loans are provided for a maximum term of 15 to 20 years, again depending on the region, with repayment schedules designed to match projected cash flows for the project in question.

Limits on Foreign Control

There is no prohibition on foreign investment in refining and petrochemical development, and there is significant foreign investment in the downstream Saudi energy sector. ExxonMobil and Shell are both 50% partners in refineries with Saudi Aramco. ExxonMobil, Chevron Texaco, and Shell, as well as several other international investors, have formed joint ventures with SABIC to build large-scale petrochemical plants that utilize natural-gas feedstock from Saudi Aramco's existing operations at Ras Tanura. Aramco selected the Dow Chemical Company as its partner in a \$20-billion joint venture to construct, own, and operate a chemicals and plastics production complex in Saudi Arabia's Eastern Province. The national mining company, Maaden, has a \$12-billion joint venture with Alcoa for bauxite mining and aluminum production and a \$7-billion joint venture with the leading American fertilizer firm Mosaic and SABIC to produce phosphate-based fertilizers.

Joint ventures almost always take the form of limited-liability partnerships, to which there are some disadvantages. Foreign partners in service and contracting ventures organized as limited-liability partnerships must pay, in cash or in kind, 100 percent of their contribution to authorized capital. SAGIA's authorization is only the first step for setting up such a partnership. Still, foreign investment is generally welcome in Saudi Arabia if it promotes economic development, transfers foreign expertise to Saudi Arabia, creates jobs for Saudis, and/or expands Saudi exports.

Professionals, including architects, consultants, and consulting engineers, are required to register with, and be certified by, the Ministry of Commerce and Industry, in accordance with the requirements defined in the Ministry's Resolution 264 from 1982. These regulations, in theory, permit the registration of Saudi-foreign joint-venture consulting firms. As part of its WTO accession commitments, Saudi Arabia generally allows consulting firms to establish an office in Saudi Arabia without a Saudi partner. However, offices practicing law, accounting and auditing, design, architecture, engineering, or civil planning or providing healthcare, dental, or veterinary services must have a Saudi partner, and the foreign partner's equity cannot exceed 75% of the total investment.

Privatization Program

In 2002, the Supreme Economic Council announced the approval of privatization procedures, open to domestic and foreign investors, and a timetable to transfer certain public services to the private sector. Twenty state-owned companies handling water supply and drainage, water desalination, telecommunications, mining, power, air transportation and related services, railways, some sectors of roadways, postal services, flour mills and silos, seaport services, industrial-cities services, government hotels, sports clubs, some municipality services, educational services, social services, agricultural services, health services, government portions of SABIC, banks, and local refineries were slated for privatization.

As a result of the privatization strategy, the Saudi Telecommunications Company (STC) floated a minority stake (approximately 20%) on the stock market in January 2003, netting close to \$4 billion in proceeds. An additional 10% has since been offered for private ownership. The initial public offering (IPO) of 50% of the formerly state-owned National Company for Cooperative Insurance (NCCI) was completed in January 2005. The first SABIC offering went public on December 17, 2005, for 35% of the newly formed Yanbu National Petrochemical Company (YANSAB; to be capitalized at \$1.5 billion). YANSAB is SABIC's largest petrochemical complex to date, and the IPO netted \$533 million in capital.

In July 2003, the SAG took significant, long-awaited steps to lower the corporate tax rate on foreign investors to a flat 20%; however, separate rates apply to investments in hydrocarbons. The flat tax replaced a tiered system with tax rates as high as 45%. While this was a welcome step toward more balanced treatment of foreign and Saudi-owned capital, the tax structure still favors Saudi companies and joint ventures with Saudi participation. Saudi investors do not pay corporate income tax, but are subject to a 2.5% tax, or “zakat,” on net current assets.

Screening of FDI

All foreign investment projects in the Saudi Arabia must obtain a license from SAGIA. Investments in specific sectors may require additional licenses from other government authorities, including, but not limited to, the Saudi Arabian Monetary Agency (SAMA), the Capital Market Authority (CMA), or the Communications and Information Technology Commission (CITC).

As noted above, SAGIA’s Investor Service Center (ISC) offers detailed information on the investment process, provides licenses and support services to foreign investors, and coordinates with government ministries to facilitate investment. According to SAGIA’s regulations, the ISC must grant or refuse a license within 30 days of receiving an application and supporting documentation from the prospective investor. SAGIA established and posted new licensing guidelines in 2012, but many companies looking to invest in Saudi Arabia work with local representation to facilitate the slow and often bureaucratic licensing process. Licenses in services and agriculture must be renewed after one year and in industry after two years. The periodic license reviews, with the possibility of cancellation, adds uncertainty for investors and can provide a disincentive to longer-term investment commitments.

Competition Law

SAGIA and the Ministry of Commerce and Industry review transactions for competition-related concerns. Concerns have arisen that allegations of price fixing for certain products may have been used on occasion as a pretext to control prices.

Investment Trends

Despite political upheaval across the Middle East and North Africa, and the transition to a new king upon the death of former King Abdullah in January 2015, Saudi Arabia's economy continues to expand at a healthy pace, with real GDP growth of 3.8% for CY2014, and inflation standing at a moderate 2.7% at the end of 2014. Oil revenues through Saudi Aramco accounted for 85% of the Saudi Arabian government's (SAG's) total export revenue in 2014.

Notwithstanding the downturn in oil prices beginning in mid-2014, the Saudi government is committed to maintaining high levels of government spending and investment, particularly in health care, education, transportation/infrastructure, and housing.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	55 of 175	transparency.org/cpi2014/results
World Bank's Doing Business Report "Ease of Doing Business"	2015	49 of 189	doingbusiness.org/rankings
Global Innovation Index	2014	38 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 26,260	data.worldbank.org/indicator/NY.GNP.PCAP.CD

2. Conversion and Transfer Policies

Foreign Exchange

There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital, capital gains, returns on intellectual property, or imported inputs, with the exception that bulk cash shipments greater than 60,000 riyals must be declared at the point of entry or exit. Since 1986, when the last devaluation occurred, the official exchange rate has been 3.75 Saudi riyals per USD. Transactions take place using rates very close to the official rate.

Remittance Policies

There are no restrictions on converting and transferring funds associated with an investment (including remittances of investment capital, earnings, loan repayments, and lease payments) into a freely usable currency at a legal market-clearing rate. There have been no recent changes, but

press reports have quoted the Minister of Labor as saying the SAG intends to limit remittances by foreign workers at some point in the future. There are no delays in effect for remitting investment returns such as dividends, repatriation of capital, interest and principal on private foreign debt, lease payments, royalties and management fees through normal legal channels. There is no need for a legal parallel market for investor remittances.

Saudi Arabia is a member of Middle East and North Africa Financial Action Task Force (MENA-FATF).

3. Expropriation and Compensation

The Embassy is not aware of the SAG ever having expropriated property from foreign investors without adequate compensation. There have been no expropriating actions in the recent past or policy shifts that would suggest there the SAG will initiate such actions in the near future. Some small to medium-sized foreign investors, however, have complained that their investment licenses have been cancelled without justification, causing them to forfeit their investments.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

The Saudi legal system is derived from the legal rules of Islam, known as Sharia law. The Ministry of Justice oversees the Sharia-based judicial system, but most ministries have committees to rule on matters under their jurisdiction. Many disputes that would be handled in a court in the United States are handled through intra-ministerial administrative processes in Saudi Arabia. Generally, the Saudi Board of Grievances has jurisdiction over disputes with the government and over commercial disputes. The Board also reviews all foreign arbitral awards and foreign court decisions to ensure that they comply with Sharia law. This review process can take years, and outcomes are unpredictable. Currently, the Saudi Ministry of Commerce and Industry is leading an ambitious project to overhaul commercial laws. This project entails drafting new laws while modernizing current ones, along with creating an arbitration center in cooperation with the Saudi Chambers of Commerce and Industry. In several cases, disputes have caused serious problems for foreign investors. For instance, Saudi partners have blocked foreigners' access to exit visas, forcing them to remain in Saudi Arabia against their will. In cases of alleged fraud, foreign partners may also be jailed to prevent their departure from the country while awaiting police investigation or adjudication of the case. Courts can impose precautionary restraint on personal property pending the adjudication of a commercial dispute. As with any investment abroad, it is important that U.S. investors take steps to protect themselves by thoroughly researching the business record of the proposed Saudi partner, retaining legal counsel, complying scrupulously with all legal steps in the investment process, and securing a well-drafted agreement.

Saudi commercial law is still in its developing stage. In 1994 Saudi Arabia ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Saudi Arabia is also a member of the International Center for the Settlement of Investment Disputes (ICSID Convention). In 2012, the SAG revised its arbitration law to update certain provisions.

Dispute settlement and enforcement of foreign arbitral awards in Saudi Arabia continues to be time-consuming and uncertain, carrying the risk that Sharia principles can potentially trump any foreign judgments or legal precedents. Even after a decision is reached in a dispute, enforcement of a judgment can still take years. The Embassy recommends consulting with local counsel in advance of investing to review legal options and appropriate contractual provisions for dispute resolution.

The Committee for Labor Disputes (under the Ministry of Labor) and the Negotiable Instruments Committee, also called the Commercial Paper Committee) handle disputes involving private individuals. Judgments obtained in foreign courts, including arbitral awards, are not consistently enforced by Saudi courts, despite Saudi Arabia's ratification of the New York Convention. Monetary judgments are based on the terms of the contract—i.e., if the contract is calculated in USD, a judgment may be obtained in USD. If unspecified, the judgment is denominated in Saudi riyals. Non-material damages and interest are not included in monetary judgments.

In October 2007, King Abdullah issued a royal decree to overhaul the judicial system and allocated 7 billion Saudi riyals (approximately \$1.9 billion) to train judges and build new courts. To date, few changes have been implemented, although the SAG has disbursed a portion of the funds allocated for constructing new appeals courts and sending judges abroad for legal seminars. In early 2010, Saudi Arabia started the process of codifying the sharia regulations that govern the Kingdom's courts in an effort to bring clarity and uniformity to judicial rulings.

Bankruptcy

A bankruptcy law was enacted by Royal Decree no. N/16, dated 4/9/1416H in the Islamic calendar (corresponding to January 24, 1996). Articles contained in the law allow debtors to conclude financial settlements with their creditors through committees in each municipal or regional Chamber of Commerce and Industry or through the Board of Grievances. Designated as the Regulation on Bankruptcy Protective Settlement, the law is open to ordinary creditors, except in the case of privileged debts, and debts which arise pursuant to the settlement procedures. The Ministry of Commerce and Industry is revising the bankruptcy law to update key provisions and address several deficiencies in the Saudi bankruptcy regime. Potential investors should note that the indicator that most negatively affects Saudi Arabia's World Bank "Doing Business" ranking is resolving insolvency, where it ranks 163rd out of 189 countries.

Investment Disputes

The use of any international or domestic dispute settlement mechanism within Saudi Arabia continues to be time-consuming and uncertain, as all outcomes are subject to a final review in the Saudi judicial system and carry the risk that principles of Sharia law may potentially trump a judgment or legal precedent. The Embassy recommends consulting with local counsel in advance of investing to review legal options and contractual provisions for dispute resolution.

International Arbitration

The United States and Saudi Arabia signed a Trade and Investment Framework Agreement in 2003. In 2012, the SAG revised their domestic arbitration law to update certain provisions.

However, as noted above, dispute settlement and enforcement of foreign arbitral awards in Saudi Arabia continue to be time-consuming and uncertain, as all outcomes are subject to a final review in the Saudi judicial system and carry the risk that principles of Sharia law may potentially trump a judgment or legal precedent. Even after a decision is reached in a dispute, effective enforcement of the judgment can still take years.

ICSID Convention and New York Convention

The Kingdom of Saudi Arabia ratified the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards in 1994. Saudi Arabia is also a member state of the International Center for the Settlement of Investment Disputes (ICSID Convention), though under the terms of its accession it cannot be compelled to refer investment disputes to this system absent specific consent, provided on a case-by-case basis. Saudi Arabia has yet to consent to the referral of any investment dispute to the ICSID for resolution.

Duration of Dispute Resolution

Dispute resolution in Saudi Arabia is time-consuming and can last for months or years. Even after a decision is reached in a dispute, effective enforcement of the judgment can take additional years.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

The Saudi Arabia is a member of the World Trade Organization (WTO). To date, the SAG has not notified the WTO of any measures inconsistent with the requirements of the Agreement on Trade-Related Investment Measures (TRIMs), nor does it maintain any measures that are alleged to violate the WTO TRIMs text.

Investment Incentives

The government does not impose conditions on investment, such as locating in a specific geographic area, committing to specific percentages of local content or local equity, substitution for imports, export requirements or targets, or financing only by local sources. Nonetheless, the SIDF will provide additional incentives and better loan terms to foreign investors who set up their manufacturing facilities in Jizan, Hail, and Tabuk.

The government uses its purchasing power to encourage foreign investment, requiring offsetting investments equivalent to 35% of a program's value for defense contracts exceeding 400 million Saudi riyals (\$107 million). In addition to defense offsets, the SAG is also seeking FDI in various key sectors, such as oil, power generation, railways, and others, with the aim of fostering job creation.

Research and Development

American and other foreign firms are able to participate in SAG-financed and/or -subsidized research-and-development programs.

Performance Requirements

Investors are not currently required to purchase from local sources or export a certain percentage of output, and their access to foreign exchange is unlimited. While not required to procure from local sources, investors may avoid import duties on raw materials only if they can show that these are not available locally. There is no requirement that the share of foreign equity be reduced over time. Investors are not required to disclose proprietary information to the SAG as part of the regulatory approval process, except where issues of health and safety are concerned.

The government encourages recruitment of Saudi employees through a series of incentives and limits placed on the number of visas for foreign workers available to companies. The largest groups of foreign workers now come from Bangladesh, Egypt, India, Pakistan, the Philippines, and Yemen.

The SAG announced in 2002 it would ease restrictions on the issuance of visas to foreign businessmen to allow greater access and decreed in 2005 that sponsor requirements for business visas would be lifted. Difficulties remain regarding the Saudi visa procedures, however, despite the government's announcement that foreign business visitors will no longer need to provide invitation letters from Saudi businesses to receive visas. In November 2007, Saudi Arabia declared that it would begin issuing U.S. business visitors five-year, multiple-entry visas at Saudi embassies, consulates, and ports of entry, but it has not yet fully implemented this policy. One-year "business visas" are routinely issued to U.S. visitors who do not have an invitation letter from a Saudi company, and the visa applicants must provide proof that they are engaged in legitimate commercial activity. By contrast, "commercial visas" are issued by invitation from Saudi companies to applicants who have a specific reason to visit a Saudi company, and the maximum validity is five years if sponsored by Saudi Chamber of Commerce, rather than the company that issued the invitation letter.

Data Storage

Other than a requirement to retain records locally for ten years for tax purposes, there is no requirement regarding data storage or access to surveillance.

6. Right to Private Ownership and Establishment

All entities with appropriate licenses have the right to establish and own business enterprises and engage in all forms of remunerative activity, except in those sectors on the SAG's "negative list" reserved for state monopolies and Saudi citizens. Private entities generally have the right to establish, acquire, and dispose of interests freely in business enterprises.

7. Protection of Property Rights

Real Property

The Saudi legal system protects and facilitates acquisition and disposition of all property, consistent with Islamic practice respecting private property. Non-Saudi corporate entities are allowed to purchase real estate in Saudi Arabia according to the foreign-investment code, and mortgages do exist, although the recording system is reportedly unreliable. Other foreign-owned corporate and personal property is protected, and the Embassy knows of no cases of government expropriation or nationalization of U.S.-owned assets in the Kingdom without adequate compensation. Saudi Arabia does have a system of recording security interests, and has plans to modernize an archaic land registry system. For more information, please refer to Saudi Arabia's data in the World Bank Group's "Doing Business 2015: Going Beyond Efficiency" publication: <http://www.doingbusiness.org/rankings>.

Intellectual Property Rights

Saudi Arabia undertook a comprehensive revision of its laws covering intellectual property rights to bring them in line with the WTO agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) and promulgated changes in coordination with the World Intellectual Property Organization (WIPO). The SAG updated its Trademark Law (2002), Copyright Law (2003), and Patent Law (2004) with the dual goals of TRIPs compliance and effective deterrence. In 2008, the Violations Review Committee created a website and has populated it with information on current cases. Although intellectual property right reforms are slow and inconsistent in some areas, the Kingdom is progressing overall.

The current Law on Patents, Layout Designs of Integrated Circuits, Plant Varieties and Industrial Designs has been in effect since September 2004. The patent office continues to build its capacity through training, has streamlined its procedures, hired more staff, and reduced its backlog. Patents are available for both products and processes. The term of protection was increased from 15 to 20 years under the new law, but patent holders can no longer apply for a routinely granted five-year extension. In December 2009, the Saudi Council of Ministers approved the Kingdom's accession to both the Intellectual Property Owners Association Patent Cooperation Treaty (PCT) and its Implementing Regulations and the Patent Law Treaty (PLT) adopted by the Diplomatic Conference in Geneva on June 1, 2000.

In September 2009, the King approved a mechanism to protect Exclusive Marketing Rights (EMR) for certain pharmaceutical products that had lost patent protection when Saudi Arabia transitioned to a new TRIPs-compliant patent law in 2004. EMR protection in Saudi Arabia expires on the same date the patent expires in the United States or the European Union, and companies report that they have received EMR protection for accepted applications.

The SAG has revised its Copyright Law and is seeking to impose stricter penalties on copyright violators. In January 2010, the Ministry of Culture and Information referred the first-ever copyright-violation case to the Board of Grievances for deterrent sentencing. The SAG has stepped up efforts to force pirated printed material, recorded music, videos, and software off the shelves of stores, including relatively frequent raids on shops selling pirated goods. However,

many pirated materials are still available in the marketplace. The use of pirated software increases possible cyber-security vulnerability in some systems. An Islamic religious edict ("fatwa") stating that software piracy is "forbidden" has not been backed up by strong enforcement efforts. Some software utilized by the Saudi government is reportedly unlicensed or "underlicensed."

Comprehensive data on seizures of counterfeit goods is not available, but the SAG does make public announcements in local media when large seizures are made. Based on such announcements by Saudi Customs, the U.S. Embassy estimates that over \$500 million in counterfeit goods are seized on average during one calendar year.

The Rules for Protection of Trade Secrets came into effect in 2005. Trademarks are protected under the Trademark Law. Saudi Arabia has one of the best trademark laws in the region, and the Saudi Customs Authority has significantly stepped up its enforcement efforts. Saudi Arabia received anti-counterfeiting and piracy awards from the World Customs Organization (WCO) in 2009 for organizing the first Pan-Arab conference on this issue, building the capacity of the Customs Authority, and translating WCO documents into Arabic. Saudi Arabia has not signed or ratified the WIPO internet treaties.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Resources for Rights Holders

Embassy point of contact: Economic Officer Mary Jo Pham; PhamMJ@state.gov

Local lawyers list: <http://riyadh.usembassy.gov/service/country-specific-information.html>

8. Transparency of the Regulatory System

There are few aspects of the SAG's regulatory system that are transparent, although Saudi investment policy is less opaque than many other areas. Saudi tax and labor laws and policies favor technology transfer and the employment of Saudis rather than fostering competition. Saudi health and safety laws and policies are not used to distort or impede the efficient mobilization and allocation of investments. Bureaucratic procedures are cumbersome, but red tape can generally be overcome with persistence.

There are no informal regulatory processes managed by NGOs or private-sector associations. Proposed laws and regulations are not always published in draft form for public comment. Some government agencies permit public comments through their websites. Before introducing major regulatory changes, Saudi authorities are usually open to consultation with stakeholders, though the processes and procedures for doing so are not generally codified in law or regulations. There are no private-sector or government efforts to restrict foreign participation in the industry standards-setting consortia or organizations that are available.

9. Efficient Capital Markets and Portfolio Investment

Financial policies generally facilitate the free flow of private capital, and currency can be transferred in and out of Saudi Arabia without restriction. The Saudi Capital Market Authority is reportedly poised to open the stock market to qualified foreign investors in 2015; non-GCC foreign investors are currently only able to invest in the stock market through swap agreements and exchange-traded funds.

The Capital Markets Law, passed in 2003, allows for brokerages, asset managers, and other non-bank financial intermediaries to operate in the Kingdom. The law created a market regulator, the Capital Market Authority (CMA), which was established in 2004, and opened the stock exchange to public investment. As of the end of 2013, the CMA listed the number of licenses issued for various securities business activities at 514, with "Advising" activity accounting for the highest number of licenses at 83. There is an effective regulatory system governing portfolio investment in Saudi Arabia.

In 2003, the Saudi Arabian Monetary Agency (SAMA), the central bank, enhanced and updated its 1995 Circular on Guidelines for the Prevention of Money Laundering and Terrorist Financing. The enhanced guidelines are more compliant with the Banking Control Law, the Financial Action Task Force (FATF) 40 Recommendations, the nine Special Recommendations on Terrorist Financing, and relevant UN Security Council Resolutions. In 2014, King Abdullah ratified a new counter-terrorism law officially criminalizing acts of terrorism and the financing of terrorism.

Historically, credit was widely available to both Saudi and foreign entities from commercial banks and was allocated on market terms. The global financial crisis of 2008, followed by the default on \$20 billion in debt by two Saudi business concerns and the debt restructuring in Dubai, substantially reduced this availability to all parties, resulting in the delay or cancellation of some projects. Credit became somewhat more available in 2011 and 2012, but extraordinary public spending limited the demand for private lending. In addition to large-scale supplemental programs, credit is available from several government institutions, such as the Saudi Industrial Development Fund, which allocate credit based on government-set criteria rather than market conditions. Companies must have a legal presence in Saudi Arabia in order to qualify for credit. The private sector has access to term loans, and there have been a number of issuances of sharia-compliant bonds, known as "sukuk," but there is no fully developed corporate bond market. There were six public securities offerings in 2014.

In 2012, the Council of Ministers issued five long-awaited new laws concerning mortgages and the wider financial sector—the Real Estate Finance Law, Financial Lease Law, Law on Supervision of Finance Companies, Real Estate Mortgage Law, and Execution/Enforcement Law. Private-sector contacts are generally optimistic about the laws' long-term potential to enhance mortgage penetration, attract additional investment to the private housing market, and increase overall lending, but the extent of their impact remains unclear. The eventual implementing regulations for the Execution/Enforcement Law will prove especially important, given that uncertainty about enforcement of lenders' rights has been cited as a major reason for anemic mortgage lending in the Kingdom.

As part of the economic reforms initiated for accession to the WTO, Saudi Arabia liberalized licensing requirements for foreign investment in financial services. In addition, the government increased foreign-equity limits in financial institutions from 40% to 60% to entice further foreign investment.

Money and Banking System, Hostile Takeovers

In the last few years, the SAG has taken steps to increase foreign participation in its banking sector by granting operating licenses to foreign banks. As of 2014, SAMA had granted 11 foreign banks licenses to operate in the Kingdom: BNP Paribas, Deutsche Bank, Emirates NBD, Gulf International Bank, J.P. Morgan Chase, Muscat Bank, National Bank of Bahrain, National Bank of Kuwait, National Bank of Pakistan, State Bank of India, and T.C. Ziraat Bankasi A.S. The Cabinet further approved the licensing of a branch of the Chinese Bank of Industry and Commerce, although according to SAMA's website the license "has not started yet."

The legal, regulatory, and accounting systems practiced in the banking sector are generally transparent and consistent with international norms. SAMA, which oversees and regulates the banking system, generally gets high marks for its prudent oversight of commercial banks in Saudi Arabia. SAMA is the only central bank in the Middle East other than Israel's that is a member and shareholder of the Bank for International Settlements in Basel, Switzerland.

10. Competition from State-Owned Enterprises

State-owned enterprises (SOEs) play a leading role in the Saudi economy, particularly in water, power, oil, natural gas, and petrochemicals. Saudi Aramco, the world's largest producer and exporter of crude oil and a large-scale oil refiner and producer of natural gas, is 100% SAG-owned, and its revenues typically account for around 85-90% of the SAG's budget. Saudi Arabia's leading petrochemical company, Saudi Basic Industries Corporation (SABIC), is 70% owned by the SAG. SABIC's Chairman is a member of the royal family and also the chair of the Royal Commission of Jubail & Yanbu; four additional members of SABIC's seven-member board are SAG officials. The SAG tends to be similarly well-represented in the leadership of other SOEs. State-owned Saudi Arabian Airlines (Saudia) competes against Nas Air, a private, low-cost carrier, but enjoys substantial discounts on aviation fuel.

OECD Guidelines on Corporate Governance of SOEs

The Embassy is not aware of SOEs expressly exercising delegated governmental powers, though they are heavily involved in policy consultations. SOEs benefit from water, power, and feedstock sold below market rates and often receive free land from the SAG. Generally, private industries also get water, power, and feedstock at below-market prices, and the SAG often gives land as part of public-private partnerships, but fully private enterprises do not typically receive free land unless as part of a SAG effort to stimulate specific sectors. In principle, credit is equally available to private companies and SOEs. The Embassy does not believe Saudi SOEs to operate, in practice, under hard budget constraints. The detail and regularity of financial reporting by SOEs vary and do not consistently meet international financial reporting standards, including the OECD Guidelines on Corporate Governance for SOEs. It is likely that domestic courts would tend to resolve investment disputes in favor of SOEs, though there are examples of

rulings in favor of private sector claimants against SAG entities.

Sovereign Wealth Funds

In 2008, the Kingdom established a sovereign wealth fund, the Saudi Arabian Investment Company (also known as Sanabil al-Saudia), a wholly SAG-owned entity within the Ministry of Finance's Public Investment Fund. The fund began with \$5.3 billion of startup capital, but little information is available regarding the fund's organization or operations.

11. Corporate Social Responsibility

There is a dawning awareness of corporate social responsibility (CSR) in Saudi Arabia. The SAG sees CSR primarily as a component of its competitiveness vis-à-vis global economies and has knit CSR promotion to its goal of becoming a top-ten economy. In July 2008, SAGIA, the King Khalid Foundation, and the international NGO AccountAbility jointly established the Saudi Arabian Responsible Competitiveness Index (SARCI), a ranking of companies' CSR contributions. The results led to the granting of the King Khalid Responsible Competitiveness Award in several categories at the annual Global Competitiveness Forum. The Embassy believes the SAG and major corporations are fully aware of CSR but does not believe CSR currently has a broad impact on consumer perception.

OECD Guidelines for Multinational Enterprises

The government encourages foreign and local enterprises to follow generally accepted CSR principles, including the OECD Guidelines for Multinational Enterprises.

12. Political Violence

The Department of State authorized the return of staff family members to U.S. Embassy Riyadh, U.S. Consulate General Jeddah, and U.S. Consulate General Dhahran in 2010, but continues to warn U.S. citizens about the security situation in Saudi Arabia and frequently reminds U.S. citizens of recommended security precautions. In the most recent Travel Warning for Saudi Arabia, the Department of State urges U.S. citizens to consider carefully the risks of traveling to Saudi Arabia. Significant enhancements in the capacity and capability of Saudi security and intelligence forces have greatly improved the security environment, but it is important to note that there is an ongoing security threat from transnational terrorist organizations such as the Islamic State and Al Qaida in the Arabian Peninsula (AQAP).

13. Corruption

Saudi Arabia has limited legislation aimed at curbing corruption. The Tenders Law of Saudi Arabia, approved in 2004, has improved transparency in the government procurement process through the publication of tenders. Ministers and other senior government officials appointed by royal decree are forbidden from engaging in business activities with their ministry or organization while employed there. There are few cases of prominent citizens or government officials being tried on corruption charges.

Corruption has been identified by foreign firms as a barrier to investment in Saudi Arabia, nevertheless authorities have only taken modest steps toward combating it. In April 2007, King Abdullah established the National Authority for Combating Corruption that was to report directly to the king, but there was little tangible follow-through to empower this institution. The General Auditing Bureau is also charged with combating corruption. In 2011, King Abdullah reconstituted the Authority as the Anti-corruption Commission under new and more energetic leadership. Although little of its work has so far been publicized and many remain skeptical, some anecdotal evidence suggests the Commission has been active in its investigations and is not shying away from influential players whose indiscretions may previously have been ignored.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Saudi Arabia ratified the U.N. Convention against Corruption (UNCAC) in April 2013 and signed the G-20 Anti-Corruption Action Plan (ACAP) in November 2010.

Resources to Report Corruption

Options for reporting corruption to Nazaha, the National Anti-Corruption Commission:

The Anti-Corruption Committee's (ACC) physical address by post, telegram, or in person

Anti-Corruption Committee
P.O. Box (Wasl)7667
Elalia-Hiaelghader
Riyadh 2525-13311
The Kingdom of Saudi Arabia.

ACC's Fax (012645555)

Through the "Complainant Service" on the website of the National Anti-Corruption Commission:

<http://www.nazaha.gov.sa/eServices/sso/User/Complaints/Pages/SendComplaint.aspx>

14. Bilateral Investment Agreements

Saudi Arabia has Investment Promotion & Protection Agreements with Austria, Belgium, China, France, Germany, Italy, Malaysia, and Taiwan. The Kingdom has cooperation agreements of varying scope with 36 countries, including an agreement on secured private investment with the United States that has been in place since February 1975. The United States and Saudi Arabia signed a Trade and Investment Framework Agreement in 2003.

Further information on the above, and on miscellaneous additional agreements, can be found at <http://www.sagia.gov.sa/en/Investment-climate/Some-Things-You-Need-To-Know-/International-agreements/>.

Bilateral Taxation Treaties

Saudi Arabia does not have a bilateral taxation treaty with the United States.

15. OPIC and Other Investment Insurance Programs

OPIC stopped operating in Saudi Arabia in 1995 due to the government's failure to take steps to adopt and implement laws that extend internationally recognized workers' rights to its labor force. Saudi Arabia has been a member of the Multilateral Investment Guarantee Agency since April 1988.

16. Labor

The Ministry of Labor and the Ministry of Interior regulate recruitment of expatriate labor, which makes up a large majority of the private-sector workforce. The government encourages recruitment of Saudi employees through a series of incentives and limits placed on the number of visas for foreign workers available to companies. The largest groups of foreign workers come from Bangladesh, Egypt, India, Pakistan, the Philippines, and Yemen. Westerners compose less than 2% of the labor force.

Beginning with the 1969 Labor and Workman Regulations, Saudi Arabia has pursued a number of localization schemes to combat unemployment among Saudis, which the CIA World Factbook estimated at 10.5% for Saudi males in 2013, a rate believed to be much higher among women. Local bank and other estimates put the unemployment rate at as high as 25%. The employment schemes attempted to require blanket "Saudi-ization" percentages irrespective of sector or company size, failing to account for fundamental differences in organization and the nature of work. Enforcement was inconsistent. The SAG largely ignored violations by influential business owners and lacked resources to conduct sufficient inspections elsewhere, as a majority of firms were unable to meet the unreasonable requirements.

In 2011, however, the Ministry of Labor laid out a more sophisticated plan known as "Nitaqat," under which companies are divided into sectors, each with a different set of quotas for Saudi employment based on company size. Each company is determined to be in one of four strata based on actual percentage of Saudi employees, with platinum and green strata for companies meeting or exceeding the quota for their sector and size, and yellow and red strata for those failing to meet it. The Ministry of Labor set the quota for each sector so that 50% of companies were already platinum or green and the remaining 50% non-compliant. Expatriate employees in red and yellow companies can move freely to green or platinum companies, without the approval of their current employers, and green and platinum companies have greater privileges with regard to securing and renewing work permits for expatriates. The Ministry of Labor has announced the goal of reducing the expatriate population from approximately 30% currently to 20% of the total population.

Many elements of Nitaqat have garnered criticism from the private sector and parts of the government, but the SAG claims it resulted in the employment of 380,000 Saudis in its first ten months. In 2013, the Ministry of Labor and Ministry of Interior launched an ongoing campaign to deport illegal and improperly documented workers, which has resulted in higher labor costs

for many businesses. In addition, all companies operating in the Kingdom, regardless of sector or size, are now obliged to pay SR 2,400 (\$640) per year for each expatriate employee in excess of the number of the company's Saudi employees. Numerous employers, particularly in construction and other blue-collar services sectors, have vehemently criticized the SAG's new labor policies, but it appears the SAG will continue to enforce them.

Saudi labor law forbids union activity, strikes, and collective bargaining. However, the government allows companies that employ more than 100 Saudis to form "labor committees." By-laws detailing the functions of the committees were enacted in April 2002. Domestic workers are not covered under the provisions of the latest labor law, issued in 2005. The Saudi Majlis al-Shura, a consultative assembly with a role in the legislative process, has proposed a law covering domestic workers.

Overtime is normally compensated at time-and-a-half rates. The minimum age for employment is 14. The SAG does not adhere to the International Labor Organization's (ILO) convention protecting workers' rights. A July 2004 decree addresses some workers'-rights issues for non-Saudis, and the Ministry of Labor has begun taking employers to the Board of Grievances. Some of these penalties include banning these employers from recruiting foreign and/or domestic workers for a minimum of five years.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

Saudi Arabia permits transshipment of goods through its ports in Jeddah, Dammam, and King Abdullah Economic City, and it has bonded re-export zones at the Jeddah and Dammam ports. Saudi Arabia is also a member of the Gulf Cooperation Council (GCC), which confers special trade and investment privileges among the six member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE), and of the Arab Free Trade Zone, established in 2005.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2013	718,500	2013	\$748,400	www.worldbank.org/en/country

Foreign Direct Investment	Host Country Statistical source*	USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	N/A	2013	\$10,550	BEA
Host country's FDI in the United States (\$M USD, stock positions)	N/A	2013	\$0	BEA
Total inbound stock of FDI as % host GDP	N/A	2013	1.5%	BEA

Table 3: Sources and Destination of FDI

Direct Investment from/in Counterpart Economy Data

From Top Five Sources/To Top Five Destinations (US Dollars, Millions)

Inward Direct Investment			Outward Direct Investment		
Total Inward	169,206	100%	Total Outward	N/A	100%
Kuwait	16,761	10%			
France	15,918	9%			
Japan	13,160	8%			
United Arab Emirates	12,601	7%			
China, P.R.: Mainland	9,035	5%			

"0" reflects amounts rounded to +/- USD 500,000.

Source: IMF Coordinated Direct Investment Survey

Note: Data are from 2010 (latest available)

Table 4: Sources of Portfolio Investment

IMF Coordinated Portfolio Investment Survey data are not available for Saudi Arabia.

19. Contact for More Information

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P. O. Box 94309
Riyadh 11693, Saudi Arabia

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Fax: +966 11 488-3237

E-mail: office.riyadh@trade.gov