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## WTO Trade Policy Review: The Kingdom of Saudi Arabia\*

*Note: This text provides brief description of the conditions foreign business will encounter in trade with The Kingdom of Saudi Arabia. It is based on a WTO Trade Policy Review for The Kingdom of Saudi Arabia, early April 2016. Readers wishing for deeper analysis should turn to the original Trade Policy Review available on the WTO website. ([https://www.wto.org/english/tratop\\_e/tpr\\_e/tp433\\_e.htm](https://www.wto.org/english/tratop_e/tpr_e/tp433_e.htm)).*

*Trade Policy Reviews are an exercise, mandated in the WTO agreements, in which member countries' trade and related policies are examined and evaluated at regular intervals.*

Despite the emphasis given to diversification in successive Development Plans, the economy of the Kingdom of Saudi Arabia continues to rely on oil production, which in 2014, accounted for about 50% of GDP, 83% of exports and 90% of government revenue. In the period 2010-2014, economic growth was one of the fastest in the G-20, helped by high oil prices, and GDP per capita increased to more than US\$24,000. For most of this period, high oil revenues resulted in fiscal surpluses and total public debt declined to 1.6% of GDP while foreign exchange reserves, at US\$732 billion, were almost the equivalent of GDP or 3 years of imports.

High oil prices also contributed to the large trade-in-goods and current account surpluses, although there was a large deficit for trade in services. However, the decline in the price of oil, which started in 2014, has affected the economy and government finances: at the end of 2014, the fall in the value of exports meant the current account surplus declined by 43% (compared to 2013) to US\$77 billion, and went into deficit in the first quarter of 2015; while the fiscal deficit for 2015 was expected to be equivalent to about 20% of GDP.

For many years now, government policy, as set out in successive Development Plans, has focused on diversification and job creation. Under the Tenth Development Plan (2015-2019), the Government is seeking to diversify the economy geographically, into new sectors, and vertically through processing and manufacturing in sectors linked to oil and gas. It is also encouraging greater employment of Saudi nationals through the Nitaqat programme, which requires enterprises to meet quotas for employment, and a number of initiatives intended to

increase female participation in the workforce. Several steps have been taken to improve the investment climate as mining, petrochemicals, gas, and communications, were removed from the list of sectors where foreign investment was not allowed. In addition, in August 2015, as an aid to investment, the Saudi Arabia General Investment Agency (SAGIA) published a manual setting out requirements and fees for investment licences, and the services available for different categories of investors.

As a member of the Cooperation Council for the Arab States of the Gulf (GCC), Saudi Arabia applies GCC rules and procedures in those areas where they have been developed, such as the common external tariff, the Common Customs Law, the Unified Guide for Customs Procedures for First Points of Entry, and the Common Law on Anti-dumping, Countervailing and Safeguard Measures. Thus, trade policy is relatively straightforward: the applied tariff is essentially unchanged since the last Review in 2012 at 5% on nearly 80% of tariff lines; duty free on another 11%; and high rates are reserved for products containing tobacco. For religious and moral reasons imports of some products (about 1.2% of tariff lines) are prohibited. Saudi Arabia has never conducted proceedings or applied any contingency measures. Saudi Arabia is also a member of the Pan Arab Free Trade Area and, through the GCC, a party to the GCC-EFTA, and GCC-Singapore free trade agreements.

Although trade policy is quite straightforward, and tariffs on most products are low, procedures to import and export are complicated. Several steps have been taken to simplify compliance with customs procedures, including the Electronic Data Interchange system allowing electronic submission and processing of import declarations; and the pre-arrival document verification procedure (the Direct Clearance System) applies to some goods. Further steps are also being considered or implemented on a pilot basis, such as the single window for customs procedures which is operating in the Jeddah Islamic Sea-port Customs Office.

The Gulf Standards Organization (GSO) develops standards and technical regulations that are applicable throughout the GCC, and over half the standards applicable in Saudi Arabia were adopted from the GSO. In addition, the Saudi Standards, Metrology and Quality Organization (SASO) oversees the system for development of standards applicable within Saudi Arabia. All imports must be accompanied by a certificate of conformity or may be subjected to random sampling to ensure conformity. All imports of live animals and products of animal origin from outside the GCC must be quarantined for 21-30 days depending on the country of origin. All imports of food and animal products for human consumption are subject to import permits issued by the Saudi Food and Drugs Authority (SFDA). For imports of meat and poultry meat, a Halal Certifi-

\* Extracted from WTO Secretariat Report on Trade Policy Review: The Kingdom of Saudi Arabia

cate and an Islamic slaughter certificate are required for each consignment, in addition to other documentation generally required for customs clearance. In addition, imports of meat must be sourced from SFDA approved establishments.

Officially supported export financing and guarantees are available from the Saudi Export Programme (SEP) for exports with local value added of at least 25%. About SAR 1 billion in loans and SAR 1 billion in guarantees were approved in 2014. In addition, the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) provides export guarantees to its member States, and the Saudi Export Development Authority provides administrative, technical, and consultative assistance for marketing exports and attracting foreign investors.

There are no sales, or value-added taxes, no personal income taxes on salaries, and no excise duties applied in Saudi Arabia. Non-nationals are taxed at a rate of 20% on income from self-employment, returns from capital investment, and profits from business activities conducted in the Kingdom. Saudi nationals and nationals of other members of the GCC are subject to Zakat at 2.5% of net worth. Employers and employees also make social security contributions at 9% and 11% of gross salaries respectively.

The Kingdom has major holdings in a number of commercial companies through the Public Investment Fund, the General Organization of Social Insurance, and the Public Pension Agency. The combined holdings of these agencies is over 50% for some major enterprises including, Saudi Telecom, Riyadh Bank, the National Commercial Bank, Saudi Real Estate Company, Saudi Arabian Mining Company (MA'ADEN), and Saudi Arabia Basic Industries Corporation (SABIC). In addition, the Kingdom also directly or indirectly has holdings in several other companies while others are wholly owned, such as Saudi Arabian Airlines, and the Saudi Arabian Oil Co. (Saudi Aramco).

The Competition Law was amended in 2014 to change the fines for contravention to a percentage of turnover or a monetary range (not exceeding 10% of turnover or up to SAR 10 million for the first offence). In addition, the offending parties are obliged to refund all gains made as a result of violation. Price controls apply to a limited range of goods and services, including pharmaceuticals. The New Pricing Scheme for pharmaceuticals, effective since late-2011, bases prices for innovative products on several factors including: therapeutic importance; ex- factor, wholesale, and retail prices in country of origin; and prices in a list of 30 countries. At the end of the patent period the prices must be reduced and reduced further for generic products.

The laws and regulations on government procurement apply to all public agencies, with some exceptions. The principal selection process is public tender, although direct purchase and

other methods are permitted depending on the estimated value of the contract, the type of goods and/or services, or the urgency of the situation (such as for medical supplies). A price preference of 10% applies to domestically produced products and a preference of 5% to products from other GCC member States.

In August 2013, Saudi Arabia joined the Patent Cooperation Treaty (PCT) and the Patent Law Treaty (PLT). The Saudi Patent Office has been working on changes to the Implementing Regulations of the Law of Patents, Layout-Designs of Integrated Circuits, Plant Varieties, and Industrial Designs to harmonize domestic regulations with the PLT and PCT. These changes were notified in the official gazette on 20 November 2015 and came into effect in December 2015.

For several years now, agricultural policy has been following a consistent path towards more efficient use of resources, particularly water. The Grain Silos and Feed Mills Organization (GSFMO) stopped purchasing domestic barley in 2003, and made its last purchases of domestic wheat in 2015. In late-2015, the Council of Ministers issued a decision which approved the regulatory arrangements for the privatization of the GSFMO – which was replaced by the newly-created Saudi Grain Organization (SAGO) – and the establishment of four flour mill companies with the intention of selling them to the private sector after a trial period. Feed subsidies are provided for poultry producers and the Agricultural Development Fund provides interest free loans and a repayment subsidy of up to 25% of the loan value.

With reserves of about 267 billion barrels, petroleum production and refining are the basis for the economy. Production increased during the period under review: from about 8.2 million bbl/day in 2010 to 10.3 million bbl/day in August 2014. The state-owned Saudi Aramco is the sole concessionaire producing crude oil in Saudi Arabia, with the exception of production in the Saudi Arabia-Kuwait Divided Zone. All crude for domestic refineries is supplied by Saudi Aramco, and 95% of Saudi Arabia's exports of crude were from Saudi Aramco. Refinery capacity was about 2.9 million bbl/day in 2014 with foreign investment through joint ventures with Saudi Aramco permitted. Saudi Aramco has autonomy for operational and procurement decisions while the Government sets oil production limits. Saudi Aramco has exclusive rights for gas production, which is carried out through joint ventures with other companies. Gas is used as fuel for power production, desalination plants, and as feedstock for petrochemicals.

The contribution of construction and building to the economy has increased considerably over the past few years, rising from SAR 91 billion in 2010 to SAR 152 billion in 2014, with large-scale private and public sector projects. Although foreign investment is possible and foreign companies are present, some problems have been reported, including policies relating to foreign workers and encouraging greater participation of

### Saudi nationals.

Regulation of the financial sector by the Saudi Arabia Monetary Agency (SAMA), and the Capital Markets Authority (CMA) have helped insulate the sector from shocks and all banks met Basel III capital adequacy requirements in 2014. In principle, all banking activity in Saudi Arabia should comply with Shariah. In 2014, approximately 48% of the banking sector's assets were Shariah compliant and four out of the total of 24 banks (12 domestic and 12 commercial branches of foreign banks) are run completely in compliance with Shariah. Foreign banks may operate in Saudi Arabia either as locally incorporated joint-stock companies or as branches of international banks. Non-Saudi participation in a joint venture is permitted up to 60%.

With the two holiest sites in Islam, Saudi Arabia is the host to millions of pilgrims each year: out of a total of nearly 14.5 million visitors in 2014, 11 million were pilgrims. Although the Government does not receive revenue from pilgrimages, the economy of Saudi Arabia benefits as tourism contributes about 4.5% of GDP and 11% to employment (directly and indirectly). Real estate investment in Mecca and Medina and land transportation services (excluding intercity passenger transport by trains) are reserved for Saudi nationals.

The end of a period of high oil prices in 2014 is affecting the Saudi Arabian economy, although the low public debt and high level of reserves also mean the Government has some fiscal space. Through successive Development Plans, diversification from oil production has been a consistent objective for the Saudi Government, but the large reserves and low production costs mean it will remain dependent on oil revenues for the foreseeable future. Furthermore, despite low taxes, low tariffs, and official policies intended to encourage foreign investment, in some areas the implementation of trade and investment laws and policies, complex compliance systems, foreign investment limits, and Saudization employment requirements may reduce the attractiveness of investment in Saudi Arabia. On the other hand, a large number of initiatives have been undertaken to facilitate trade and foreign investment, including in customs procedures, and in other areas mentioned in the report, such as protection of intellectual property rights, and investment in new cities and in infrastructure.