SAUDI ARABIA

Overview

In 1998, Saudi Arabia's gross domestic product (GDP) fell about 10.8 percent at current prices. Total GDP was estimated at $130.1 billion in current prices. Actual Government revenues in 1998 were 20 percent lower than budgeted revenues, while the Government reduced its spending by a modest 3.6 percent, ending the year with a fiscal deficit of $12.3 billion or 9.5 percent of GDP. Public sector debt now exceeds GDP.

The non-oil industrial sector achieved a relatively good growth rate in 1998 of 5.5 percent, reflecting continued investments and expansions in the Saudi petrochemical industry. The oil sector, however, contracted by almost 35 percent in current prices during 1998. Due to lower oil prices, which are expected to continue throughout 1999, Saudi Arabia will have another large deficit in 1999. The 1999 deficit is projected at $11.7 billion. This is mainly due to a projected 32 percent drop in revenues.

The 1999 budget is relatively austere, cutting nearly every category of expenditure. The Saudi Government will have difficulty financing its 1999 deficit and will have to continue borrowing heavily in domestic financial markets. There is dwindling liquidity in the banking system, and local bankers are concerned about Saudi Government debt.

On the other hand, the Saudi Government is studying a new investment law and a new company law, both of which are intended to encourage more foreign and Saudi investments in the country. However, the changes are unlikely to have much economic impact in 1999. The sharp drop in oil prices during 1998 pushed the current account deficit to $13.1 billion, or 10 percent of GDP. The expected 1999 current account deficit will probably be financed through several means. An interesting variable is foreign holdings by private Saudis, estimated at $400 billion, or more than three times greater than GDP. These accounts were drawn upon earlier in the decade to help address current account deficits. The Government will probably repatriate some of its overseas holdings. Since 1991, the Saudi government has been negotiating for accession to the World Trade Organization.

Defense Industry Environment

The United States and Saudi Arabia have enjoyed a strong, close relationship since the establishment of diplomatic relations in 1933. Located between two of the world's most critical waterways -- the Arabian/Persian Gulf and the Red Sea -- Saudi Arabia is key to controlling the movement of world oil trade and a large amount of commercial and military traffic, both at sea and in the air.

The Saudi Government's budget for 1999 is $44 billion, of which $19.2 billion reportedly is for defense, security and related programs. The total budget is 18.7 percent lower than in 1998. The Kingdom's defense and security budget accounts for approximately 15 percent of

GDP, one of the highest rates in the world, and oil export earnings dictate, to a large extent, Saudi defense purchases.

The United States has a large Foreign Military Sales (FMS) program in Saudi Arabia, including the F-15 fighter, AWACS aircraft, tanks, missiles, air defense systems, military vehicles, and other equipment. A U.S. Military Training Mission provides training and support for these weapons and other security-related services to the Saudi armed forces. A similar program assists the Saudi Arabian National Guard. Saudi and American security interests coincide in support of a stable and peaceful Middle East region, ensuring economic development and prosperity for all concerned parties.

Saudi Arabia wants to strengthen its self-defense capabilities. In addition, Saudi Arabia and the other countries of the Arabian Gulf remain committed to ensuring the smooth flow of oil to world markets. However, international terrorist elements continue to seek to destabilize countries in the region.

Three independent bodies are charged with security: the Ministry of Defense and Aviation, which uses four uniformed services to protect against external military threats; the Saudi Arabian National Guard, which is responsible for defending vital internal resources (e.g., oil fields and refineries), providing internal security, and supporting the Ministry of Defense and Aviation as required; and the Ministry of Interior, which is charged with internal security, police functions, and border protection.

Offsets

Local manufacturing is limited, and its growth is linked to greater Saudi participation. Large defense contracts often require some sort of "offset" program. Offsets generally require that 30 percent of the value of the imported component of a major defense purchase be reinvested in commercially-viable businesses in the Kingdom. Some of the existing offset programs are proving to be difficult and cumbersome to implement, but others are going well. These programs include a U.S. program, Peace Shield I, which spawned the Boeing Industrial Technology Group, thereby fulfilling offset requirements. Under the Saudi Offset Program, the following U.S. corporations have offset obligations.

Lucent Technologies
Boeing
General Electric
General Dynamics
United Technologies
Hughes Aircraft Company
General Dynamics
Northrop Grumman Corporation
Smith Industries

These U.S. firms, plus British Aerospace and Thomson-CSF are among key participants in the Saudi offset program. Other contractors are added and/or obligations increased based on awards of major government contracts. From the beginning of the offset program in 1984 to the end of 1996, U.S., British, and French defense contractors have incurred a total of $4.4 billion in offset obligations. At the end of 1996, these defense contractors had reportedly fulfilled only 10 percent of their obligations.

In 1985, the Saudi Government reached an agreement with American contractors under the Peace Shield defense procurement program for "offset" joint venture investments equivalent to 35 percent of the program's value. One Peace Shield offset program, the Al-Salam Aircraft Company in Riyadh, which performs maintenance on civilian and military aircraft, received FAA certification in September 1994. AT&T (now Lucent Technologies) undertook the first nondefense offset project in connection with the $4 billion Sixth Telephone Expansion Project-6 (TEP-6).

Further details on the Saudi Offset Program can be obtained directly from the following sources:

- Brigadier Gen. Ibrahim Mishari
  Secretary to the Offset Committee
  Economic Offset Secretariat
  P.O. Box 27040, Riyadh 11417, Saudi Arabia
  Tel: (966-1) 478-4330, Fax: (966-1) 478-4123

- Mr. Robert Dunn
  The Carlyle Group (Consultant to Economic Offset Secretariat)
  1001 Pennsylvania Avenue, N.W., Washington, D.C. 20004-2505
  Tel.: 202-626-1245, 1269, Fax: 202-347-1818

- Mr. James L. Greenberg
  DevCorp International
  P. O. Box 1580
  Riyadh 11445, Saudi Arabia
  Tel.: (966-1) 478-3800
  Fax: (966-1) 474-2813

The British Al-Yamamah II Program is moving forward with a number of investments. The French offset program seems to have been delayed.

Major Defense Suppliers

The United States, the United Kingdom, and France dominate the supply of arms and training to Saudi Arabia. However, U.K. and French arms suppliers do not yet have a significant presence in all branches of the Saudi armed forces. France, which buys one quarter of its oil from Saudi Arabia, is the Kingdom's third biggest arms supplier. France has heavy influence in the Royal Saudi Naval Forces (RSNF), the Royal Saudi Air Defense Forces (RSADF), and the

Ministry of Interior (MOI), having sold frigates to the RSNF, SAM missiles to the RSADF, and various personal weapons to the MOI. The U.K. influence is most visible in the Royal Saudi Air Force (RSAF), following its sale of Tornado and Hawk aircraft in 1986 under the U.K. offset deal, Al-Yamamah I.

In 1997, the Saudi defense minister visited South Africa and Spain for discussions on military cooperation. Sources indicate that Saudi Arabia and South Africa have discussed an arms deal through which Riyadh will buy artillery, anti-fighter missiles, and helicopters.

U.S. defense firms providing major systems or hardware to Saudi Arabia include:

- General Dynamics Land Systems -- MlA2 main battle tanks
- Boeing-- F-l5S fighter aircraft
- Hughes -- Peace Shield II radar installations
- Raytheon -- Patriot missile systems
- United Defense/FMC -- Bradley armored fighting vehicles.

Defense Opportunities

Budgetary constraints have reduced the Saudi Government's ability to fund the purchase of equipment and services to meet existing and pending defense requirements. At the moment, the best opportunities lie in maintenance, servicing, and training on newly-acquired weapons. Saudi military officials continue to examine possible new equipment purchases and services, contingent on a turnaround in the economy. Major new U.S. Foreign Military Sales (FMS) defense program sales are likely to be limited through 1999 and 2000 until the outstanding uncollected payments for FMS, totaling about $8 billion, are drawn down. There are, of course, possibilities in certain areas for direct commercial sales outside FMS that several major contractors are pursuing. American defense firms seeking business in 1999 and 2000 need to be on the ground in Saudi Arabia.

The Royal Saudi Air Force (RSAF) has a Technical Support Program including management, technical support, and training for the RSAF C-l30 fleet as well as the RSAF F-5B/E/F fleet.

The Ministry of Defense and Aviation seeks to modify and/or sell the national carrier (Saudi Arabian Airlines) fleet of L-1011 Tristar aircraft. Approximately 17 L-1011 aircraft need modification to either a hospital or airfreight configuration.

The Royal Saudi Land Forces (RSLF) is still taking delivery of 400 armored fighting vehicles from General Motors (Canada), 315 MlA2 tanks from General Dynamics and 200 Bradley armored personnel carriers from FMC, all under the U.S. FMS program. The RSLF is also considering the purchase of 44 search and rescue helicopters under a direct sale arrangement.

The RSAF has been taking delivery of 72 F-15S fighter aircraft at the rate of 12 per year. In addition, the RSAF has considered the purchase of six KC-130J tanker aircraft on a commercial basis. Such sales would trigger more expenditure on servicing and maintenance as well as training for Saudi personnel. The Royal Saudi Air Defense Forces (RSADF) plans to acquire additional Patriot missile units, setting aside necessary funding for facilities construction.

Because of the shortfall in funding, several programs have been delayed. They include additional purchases of MlA2 tanks and AWACS aircraft, replacement of the C-130 and the F-5B/E/F fleets, and naval modernization.

The Ministry of Interior seeks to develop a border security surveillance and monitoring system and purchase items such as armored personnel carriers, personal protection clothing and gear, 4,000 four-wheel vehicles, and 2,000 personnel vehicles.

Defense Procurement Process

Decisions regarding the procurement of major systems typically are made at the highest levels of the Saudi Government. The Foreign Procurement Department of the Saudi Ministry of Defense and Aviation (MODA) oversees the details of procurement of military systems and hardware.

Regulations require that foreign companies that win contracts with the Saudi Government have to appoint a Saudi local partner or service agent. As a general rule, most service agents do not undertake substantive tasks on behalf of the foreign company. The primary function of the service agent is to provide a vehicle for the foreign company to obtain the temporary commercial registration required to perform the project in the Kingdom and to assist with other administrative matters such as visas, work force recruitment, and housing.

A service agent may not be needed and no commission is required if the contract relates to "armaments or related services" or if a government-to-government (Foreign Military Sales, or FMS) transaction is involved. Under such circumstances, the foreign company without a Saudi partner may file a statement with the Ministry of Commerce that the project is for armaments or related services and therefore does not have a Saudi agent. The Service Agents Regulation does not define the term "armaments and related services," and foreign businesses should consult legal advisors or MODA when considering contracts that might involve armaments. Generally, the Ministry of Commerce takes a narrow view of what constitutes "armaments or related services."

Although U.S. major weapons contracts to the Kingdom are handled via FMS channels, many service contracts on a commercial basis present future potential opportunities for bidders. Some of these contracts are in command, control, and communication systems design and integration; maintenance and training on newly-acquired weapons; and upgrading of existing military hardware.

Diversification and Commercial Opportunities

The United States is Saudi Arabia's leading trading and investment partner. The United States also continues to be the leading supplier of defense equipment and services to the

Kingdom. U.S. exports for 1997 stood at about $8.5 billion, with approximately another $3 billion in services, and another $3 billion in military equipment and supplies through the government-to-government Foreign Military Sales (FMS) program. Through November of 1998, U.S. exports stood at $9.6 billion, a 50 percent increase over the same period in 1997.

Despite decreases in military spending, Saudi Arabia provides many business opportunities for U.S. firms. Below are some of the sectors that offer good prospects for U.S. companies.

Computer Software

Saudi computer software vendors estimated the software market at $400 million in 1997 with a 10 percent growth over the next three years. Key factors to the growth of Saudi computer software are (1) the Saudi Government commitment to enforce regulations aimed at curbing illegal reproduction of computer software and other intellectual property rights (IPR) products; (2) local establishment of Business Software Alliance (BSA) to support and train Ministry of Information personnel on latest techniques for detection of software piracy; and (3) ongoing re-engineering in various sectors of the Saudi economy, which helps create demand for information technology in general, and computer software in particular. The recent advent of Internet service in Saudi Arabia will also increase the demand for software and associated services. Finally, year 2000 (Y2K) adjustments will also boost the demand for computer systems and software. Smaller businesses are acquiring and installing efficient client/server configurations to help them increase work productivity and cut communication costs.

Computers and Peripherals

The Saudi market for computers and peripherals remains the largest in the Middle East. The Kingdom's computer market was estimated at $240 million in 1997 and is expected to grow seven to eight percent annually over the next two years. The recent introduction of Internet service will generate even more opportunities for U.S. hardware and software firms.

IBM-compatible personal computers (PCS) represent 40 percent of installed units, but only 20 percent of total import value. There are more than 30 brands of PCS available in the Saudi market including: IBM, Zeos, HP, Digital, AST, Acer, Mitac, Siemens Nixdorf, Gateway 2000, Compaq, Dell, Apple, Twinhead, and Leo, among others.

Vendors are fighting for better positions in various niches by offering more technologically advanced computers with added features. Several third-country manufacturers, especially from Southeast Asia, are fiercely competing with American firms, while many American manufacturers have set up manufacturing facilities in Southeast Asian countries. There are more than 300 local computer dealers selling various computer brands throughout Saudi Arabia.

Auto Parts and Service Equipment

Saudi Arabia is the largest and most sophisticated car market in the Middle East. With the projected downturn in the economy, new car sales will slump, and consequently average car age will thus increase from five to almost ten years during the next few years. With this increase in automobile life, the market for aftermarket parts is expected to expand, and industry sources estimate a six percent growth in this area.

Imports are likely to reach $615 million in 1999, excluding tires and tubes. The future composition of Saudi Arabia's car market will, to a large extent, dictate the mix of the auto parts industry. As more car makes and models are introduced, the Saudi spare parts market will expand. The market is already very competitive, with a growing demand for original and quality spare parts as opposed to counterfeit. Moreover, local and international auto spare parts suppliers are aggressively campaigning against counterfeit automotive parts.

Medical Equipment

Saudi Arabia is the largest market for medical equipment and supplies in the Middle East. Industry sources estimate that the market was about $252 million in 1996 and $269 million in 1998, an increase of seven percent over 1996. U.S. suppliers account for more than half of all Saudi medical imports and the U.S. share is expected to grow at an average annual rate of three percent.

The growing demand is linked to a rising number of private hospital and clinic expansions and upgrades and the constant need for advanced equipment.

There are currently 285 general and specialized hospitals in Saudi Arabia, with a total capacity of 41,916 beds. Of these hospitals, 175 are run by the Saudi Ministry of Health, 36 by other Government agencies, and 74 are owned by the private sector. In addition, approximately 1,800 primary health care centers and polyclinics are scattered Kingdom-wide. The Ministry of Health continues to convert these polyclinics into 30-50 bed general hospitals to gradually replace existing mobile clinics. Approximately 45 percent of the hospitals are located in the Western Region, while 35 and 20 percent are found in the Central and Eastern Regions, respectively.

Telecommunications Equipment

The Saudi telecommunications market will continue to expand. The Government is already expanding the telecommunications network under Telephone Expansion Project-6 (TEP-6) and is evaluating plans for further expansions under TEP-7 and TEP-8. The cellular network is already functional and is also being expanded. The long-awaited corporatization of the Telecommunications Ministry has begun, and privatization plans are being drawn up. The new company will present opportunities for acquisition of both infrastructural and consumer equipment. The introduction of Internet service will provide additional market opportunities for U.S. firms supplying telecommunications and computer equipment and parts. The prospects for Saudi Arabia are encouraging and a sustained growth in the demand for telecommunications products is likely. Except for fiber optic cables, local manufacturing of telecommunications equipment is non-existent. One license, however, is pending for the assembly of telephone sets and small PBX units. Another producer was awarded a $100 million contract by Lucent Technologies to manufacture circuit boards for TEP-6.

Water Desalination Equipment

Saudi Arabia is the world's largest producer of desalinated water with 23 plants scattered along the Red Sea and the Persian Gulf. The Kingdom produces 520 million gallons per day (MGD), representing 30 percent of the world's desalinated water capacity.

The Saudi Water Conversion Corporation (SWCC) is the only Government agency responsible for design, construction, operation, and maintenance of desalination plants. There are other plants that fall under the jurisdiction of the Ministry of Defense and Aviation and the Royal Commission for Jubail and Yanbu.

Given that water is a scarce resource, the Saudi Government implements a “national water plan”. The Ministry of Water and Agriculture is overseeing the plan and the Government has allocated $4.3 billion to be able to provide water to all regions of the Kingdom over the next 10 years.

The Government has already spent $20 billion on desalination projects. In addition to the $4.3 billion mentioned above, the Government plans to spend another $3 billion in the next several years to raise the Kingdom’s capacity to 1.3 billion gallons a day.

Electrical Power Systems

Demand for electrical power is increasing at an average annual rate of 11-12 percent. More than $2.9 billion has already been approved by the Ministry of Industry and Electricity for various electricity projects up to the year 2000. A number of power projects are under way including the construction of a 1200 MW power plant in Riyadh (PP9), and a 2400 MW plant in Ghazlan, while a decision on the Shuaiba plant in the Western region is expected in mid-2000. An additional six new major projects are expected to be awarded in the next two years, for a total capacity of 4480 MW. Projects include the Shuaiba expansion for an additional 1800 MW capacity and the Shuqaiq expansion for an additional capacity of 1200 MW.

Pollution Control Equipment

Urban development and industrial growth have compounded Saudi Arabia's environmental problems. Population growth, a huge construction market, continuing growth of Saudi Arabia's oil, gas and petrochemical industry, the rising level of ground water, an insufficient sewage system, and increasing air pollution and solid waste have all contributed toward making the Saudi environmental technology market a promising one. This market size was estimated at $42 million in 1997, and is expected to grow by an average of ten percent annually over the next two years.

Education and Training Services

Manpower training requirements are expected to double over the next two to three years as a result of the Saudiization program being implemented by the Government. There are an estimated four million foreign workers, and the Government seeks to replace 60 percent of these with Saudi nationals over the next several years. In 1996, the Government published a regulation requiring each company with over 20 employees to include a five percent minimum of Saudi nationals, and to increase the number of Saudi nationals by annual increments of five percent. In addition, certain job positions may no longer be held by non-Saudis. These rulings are now being implemented and companies are being penalized for non-compliance.

Oil and Gas Equipment and Services

Saudi Arabia produces 8 million barrels of crude oil per day, and 90 percent of that is exported. The Kingdom's state-owned oil company, Saudi Aramco, plans to carry out the following projects in the oil and gas sectors:

- Construction of a grassroots gas treatment plant in Hawiya; auxiliary facilities; sulphur recovery facilities; and utilities. The cost of this project is $2 billion. The expected completion year is 2001.

- Construction of a second gas-oil separation plant at Haradh.

- Upgrade and expansion of Rabigh Oil Refinery. The cost of this project is $1.8 billion. The expected completion year is 2002.

The cost to undertake the three above projects is projected at $5 billion. U.S. companies should have good prospects in design engineering, project management, and construction.

Petrochemical Production Machinery

Saudi Arabia is the region's dominant producer of petrochemicals. The Saudi Basic Industries Corporation (SABIC), the largest Government parastatal company, is one of the largest petrochemical companies in the world. SABIC is already undertaking its third major expansion program, which will increase its total output to 28 million tons a year by 2000. The company produces basic petrochemicals such as methanol, ethylene, propylene, butane, benzene, butadiene and xylene. Toluene will be produced in the year 2000.

Capacity at SABIC's plants increased four percent in 1996 to about 23 million metric tons. Its latest annual report revealed that close to 74 percent of its capacity was exported as follows: petrochemicals and chemicals (49 percent), fertilizers (16 percent), plastics (13 percent), industrial gases (5 percent) and polyester (1 percent).

The following is a list of planned expansion projects at SABIC facilities as of December 1999:

Name of Company	Product	Expansion (1000 M.T.)	Completion Year
National Industrial Gases	Oxygen	438	1999
	Nitrogen	500	1999
Saudi Arabian Fertilizer	Ammonia	500	1999
	Urea	600	1999
Eastern Petrochemical Co.	Ethylene glycol	500	2000
	LLDP	300	2000
National Chemical. Fertilizer Co.	Sulfuric acid	887	2000
	Phosphoric acid	265	2000
	Aluminum fluoride	16	2000
Saudi-Yanbu Petro-Chemical Co.	Ethylene	800	2000
	Propylene	250	2000
	Polypropylene	260	2000
	PE	535	2000
	Ethylene glycol	410	2000
Arabian Petrochemical Co.	Ethylene	800	2000
	Propylene	275	2000
Saudi-European Petro-Chemical Co.	Polypropylene	200	2000

In the private sector, Saudi companies are also moving forward with a number of projects to manufacture solvents, butadiene, formaldehyde, polystyrene materials, polyester and epoxy resins, latex, and titanium dioxide. The Saudi private sector has undertaken additional projects to produce propylene, polypropylene, para-xylene, soda ash, linear alkyl benzene (LAB), and maleic anhydride. Industry sources estimate total investment of the Saudi private sector in petrochemical industries to reach $2 billion.

Doing Business in Saudi Arabia

Only Saudi nationals are permitted to engage in trading activities. All industrial enterprises are open to non-Saudis, and they can also trade in the products they manufacture. Non-Saudis are not permitted to register as commercial agents. The U.S. & Foreign Commercial Service, through its U.S. district offices, export assistance centers, and overseas posts offers a variety of services to assist U.S. firms in selecting a reputable and qualified representative. A complete "Guide to Agency/Distributor Regulations in Saudi Arabia" is available through the National Trade Data Bank in CD-ROM format. Telephone 202- 482-1986 for details.

The establishment of branch offices is open to wholly foreign-owned entities, and requires approval of the Ministry of Industry and Electricity's Foreign Capital Investment Committee (FCIC). However, branch offices are usually approved only for foreign defense contractors. For others, a liaison office may be established to supervise work in the Kingdom and to facilitate coordination between the Government and home offices. The Saudi Arabian Monetary Agency (SAMA) is the Saudi central bank. It regulates and controls the Saudi banking sector. Financing is available to both Saudi and non-Saudi entities. Offshore banking and trust operations do not exist in Saudi Arabia, and there is no legislation that permits the establishment of these operations. The securities market is still not highly developed. Banks are the only entities that may act as stockbrokers for publicly traded shares or for joint stock companies. Only Gulf Cooperation Council (GCC) nationals -- Saudi Arabia, Kuwait, Qatar, Bahrain, Oman, and the United Arab Emirates -- are permitted to buy and trade shares in Saudi companies.

Commercial Disputes Settlement

Saudi Arabia has signed the New York Convention on the Arbitration of Commercial Disputes. This is an encouraging step, but arbitration has yet to be tested in practice. Government agencies are not allowed to agree to international arbitration without the concurrence of the Council of Ministers.

Business Visas

All visitors to Saudi Arabia must have a Saudi sponsor in order to obtain a business visa to enter Saudi Arabia. Visas tend to be for only one entry and for a short duration. The Saudi who agrees to act as a sponsor accepts certain legal obligations including personal liability for the actions of the visitor. Therefore, a Saudi rarely assumes sponsorship unless he has a personal interest in the proposed visit. In practice, this makes it very difficult for American business people to travel to Saudi Arabia to investigate the market or to select a local representative without incurring some type of obligation to his sponsor, i.e., right of first refusal on any business opportunity developed.

Delayed Payments

Much of the Kingdom's budgetary problems stem from consistent borrowing since 1983, and the Gulf War, which reportedly cost the Saudis at least $50 billion in payments to its allies. Apparently, Saudi Arabia is carrying much lower balances in its U.S. Foreign Military Sales (FMS) program trust fund than in previous years. This is a major concern for U.S. firms in the Kingdom. In the current recession, some Saudi Government agencies have delayed payments from 6 to 12 months. Lengthy payment delays, especially from Government ministries and agencies, have long been a disincentive to doing business in the Kingdom. This issue stems partly from a traditional Saudi reliance on slow payments in order to manage cash flow, and partly from a bureaucratic reluctance to make final payments. Companies should check with the U.S. Embassy or Consulates for an assessment on the current arrearage situation.

The Government continued in 1997 to clear arrearage to private sector contractors. The most notable move was a $4.3 billion loan package brokered by J.P. Morgan to cover payments to Boeing for aircraft purchased by the national airline, Saudi Arabian Airlines (previously Saudia). The Government has raised the prospect of privatizing Saudi Arabian Airlines, although no clear decision has been made.

Due to accounting procedures used by the Saudi Government, the Department of Income Tax will impose taxes even on payments which have not been received, arguing that the fact of non-payment is essentially immaterial in the tax liability determination process. Given the Saudi Government's current fiscal position, this problem is likely to continue during 1999.

Intellectual Property Protection

The Saudi legal system protects and facilitates acquisition and disposition of all property rights, including intellectual property. The Saudi Government has acceded to the Universal Copyright Convention. Implementation began in July 1994, but is not complete.

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

Although Saudi copyright law does not extend protection to works first displayed outside of Saudi Arabia unless the author is a Saudi citizen, the Government maintains that its adherence to the Universal Copyright Convention is sufficient to extend protection to foreign works. The Saudi Government has taken actions to enforce copyrights of U.S. firms, and pirated material has been seized or forced off the shelves of a number of stores. Overall, however, piracy remains a problem.

Trademarks are protected under the Trademark Law. Although trade secrets are not specifically protected under Saudi law, they are often protected by contract. There is no specific protection for semiconductor chip layout design; it would be protected under the Patent Law and Copyright Law.

Arab League Boycott

Although the Gulf Cooperation Council (GCC) announced in the Fall of 1994 that its members would no longer enforce the secondary and tertiary aspects of the Arab League Boycott, actual termination of the boycott has been fully implemented in Saudi Arabia.

Protective Tariffs and Non-Tariff Trade Barriers

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

- Preferences for national and Gulf Cooperation Council (GCC) products in government procurement;

- 30 percent of contract value "set-aside" for local contractors on major government projects;

- A requirement that foreign contractors obtain their imported goods and services exclusively through Saudi agents;

- A reservation of services such as insurance and air transport for government-owned companies; and

- An economic offset requirement mandating reinvestment of a portion of contract value in indigenous industries for certain high value government contracts, particularly in defense.

All merchandise moving through Saudi customs ports is appraised by the Department of Customs of the Ministry of Finance. Import valuation is primarily used for collection of import duties and often does not reflect the actual transaction value. Saudi customs valuation procedures are not World Trade Organization (WTO) consistent, nor are they based on invoice value (Saudi Arabia is still negotiating accession to the WTO). For statistical purposes, the valuation of imported merchandise is the costs-insurance-freight (CIF) value. The value of exported merchandise is based on freight-on-board valuation (FOB). The Saudi tariff nomenclature is consistent with the Harmonized System.

The following documents are required for importing goods into Saudi Arabia:

- A notarized certificate of origin authenticated at a Saudi diplomatic mission and local chamber of commerce or U.S.- Arab Chamber;

- A similarly authenticated invoice (in triplicate) which must state the country of origin, name of the carrier, brand and number of goods, and description of the goods including weight and value;

- A clean bill of lading;

- Documents indicating compliance with health regulations (if applicable);

- Insurance documents if shipments are sent CIF (the original documents must be accompanied by an Arabic translation);

- A Saudi Arabian Standards Organization certificate (if applicable); and

- A Radiation Certificate (if applicable).

The Saudi Arabian Standards Organization (SASO) is actively pursuing the promulgation of over 1000 Kingdom draft standards including the GCC countries. The development of product standards inconsistent with those in the United States has been a significant barrier to U.S. exports to the Kingdom, blocking sales of an estimated $100 million to $500 million in previous years.

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

In November 1995, SASO, in cooperation with the Ministry of Commerce, issued guidelines to control the quality of certain products imported into Saudi Arabia. The resultant International Conformity Certification Program (ICCP) applies to 76 regulated products as a first phase. The ICCP program requires certificates to be issued by one of SASO's 13 appointed laboratories in the United States for compliance with either SASO or internationally recognized standards. In either case, the issuance of certificates must be obtained through Inchcape Testing Services at:

- SASO Program Manager
  Inchcape Testing Services
  3741 Red Bluff Road
  Pasadena, TX 77503
  Tel: (713) 475-2082
  Fax: (713) 475-2083

This program is under constant revision and complete details and costs have not been finalized.

Points of Contact

U.S. Government

- U.S. Embassy

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  - Army Aviation Commander: Brig. Gen. Humood Al-Rashoodi
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  - Foreign Procurement Department: Maj. Gen. Abdel Aziz A1-Hussain, Director; Ext. 3117, Direct: 402-9206
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