SAUDI ARABIA

TRADE SUMMARY

The U.S. goods trade deficit with Saudi Arabia was $33.7 billion in 2011, up $13.8 billion from 2010. U.S. goods exports in 2011 were $13.8 billion, up 19.6 percent from the previous year. Corresponding U.S. imports from Saudi Arabia were $47.5 billion, up 51.1 percent. Saudi Arabia is currently the 25th largest export market for U.S. goods.

U.S. exports of private commercial services (*i.e.*, excluding military and government) to Saudi Arabia were $4.5 billion in 2010 (latest data available), and U.S. imports were $504 million. Sales of services in Saudi Arabia by majority U.S.-owned affiliates were $2.2 billion in 2009, while sales of services in the United States by majority Saudi Arabia-owned firms were not available in 2009 ($2.8 billion in 2007, latest data available).

The stock of U.S. foreign direct investment (FDI) in Saudi Arabia was $8.0 billion in 2010 (latest data available), roughly the same as in 2009. U.S. FDI in Saudi Arabia is concentrated mostly in the nonbank holding companies sector.

IMPORT POLICIES

Tariffs

As a member of the Gulf Cooperation Council (GCC), Saudi Arabia applies the GCC common external tariff of five percent for most products, with a limited number of exceptions. These exceptions include 666 products that may be imported duty free, including aircraft and most livestock. Saudi Arabia applies a 12 percent tariff on 294 products, in some cases to protect local industries. Certain textile imports are among the products to which the 12 percent rate applies. Higher rates are applied to a smaller group of products: 15 percent for items including tents, aluminum bars and rods and furniture; and 20 percent on plastic bags and matches, among others.

The vast majority of food products are subject to a five percent import duty. However, higher import duties are applied to certain types of processed food products. Saudi Arabia ties the level of import duties to the level of local production of similar products. As a general rule, a maximum import tariff rate of 40 percent is applied when local production of a food or agricultural product exceeds a self-sufficiency level. Currently, a 40 percent import duty rate applies to fresh, dried, and processed dates. Confectionary products with cocoa and other bulk cocoa products are subject to a 15 percent tariff. Nine types of fresh or chilled vegetables (tomatoes, onions, carrots, cucumbers, marrow, okra, watermelons, melons, and potatoes) are subject to a 25 percent tariff on a seasonal basis. Saudi Arabia also imposes a 100 percent tariff on cigarette and other tobacco imports.

According to the WTO, Saudi Arabia’s simple average applied tariff is 5.6 percent for agricultural goods and 4.7 percent for non-agricultural goods as of 2009.

Import Prohibitions and Licensing

In Saudi Arabia, the importation of certain articles is either prohibited or requires special approval from the appropriate authorities. Importation is prohibited for alcohol, firearms, pork products, used clothing, and automobiles and automotive parts over five years old. Imports of certain products require special approval, including horses and other live animals, agriculture seeds, books, periodicals, audio or visual media, religious materials that do not adhere to the state-sanctioned version of Islam or that relate to a religion other than Islam, chemicals and harmful materials, pharmaceutical products, wireless equipment, radio-controlled model airplanes, products containing alcohol, natural asphalt, and archaeological artifacts. Importation of some media products is subject to censorship.

Documentation Requirements

Some products, most notably agricultural biotechnology products, require a certificate authenticated by the local chamber of commerce in the country of origin attesting to the product's fitness for human consumption and to its sale in the country of origin.

GOVERNMENT PROCUREMENT

Several royal decrees apply to Saudi Arabia's government procurement. Under a 1983 decree, contractors must subcontract 30 percent of the value of any government contract, including support services, to firms that are majority-owned by Saudi nationals. An exemption is granted when no Saudi-owned company can provide the goods or services necessary to fulfill the procurement requirement. Procurement regulations require preferential treatment for products of Saudi origin that satisfy the requirements of a procurement. In addition, Saudi Arabia gives up to a 10 percent price preference for GCC products over non-GCC products in all government procurements in which foreign suppliers participate. Most Saudi defense procurement is not subject to the general procurement decrees and regulations; instead, they are negotiated on a case-by-case basis.

Foreign suppliers that participate in government procurement are required to establish a training program for Saudi nationals. In addition, the government may favor joint venture companies with a Saudi partner and give preference to companies that use Saudi goods and services. For large military projects, there is frequently an offset requirement that is determined on a project-by-project basis.

Foreign companies can provide services to the Saudi government directly without a local agent and can market their services to other public entities through an office that has been granted temporary registration. Foreign suppliers working only for the government, if not already registered to do business in Saudi Arabia, are required to obtain a temporary registration from the Ministry of Commerce and Industry within 30 days of signing a contract.

In 2003, the Saudi Council of Ministers increased the transparency of government procurement. It required procurement information, including the names of the parties, financial value, a brief description, duration, place of execution, and a point of contact, to be made public.

In its accession to the WTO, Saudi Arabia committed to initiate negotiations for accession to the WTO Agreement on Government Procurement (GPA) once it became a WTO Member. Although Saudi Arabia became an observer to the WTO Committee on Government Procurement in December 2007, it has not begun GPA accession negotiations, stating that it would begin accession when agreement had been reached on a revision of the GPA. Given that agreement was reached in December 2011 on the revision of the GPA text, it is expected that Saudi Arabia will begin its GPA accession negotiations early in 2012.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

In February 2010, the United States removed Saudi Arabia from the Special 301 Watch List in recognition of the significant progress that Saudi Arabia had made in the protection and enforcement of IPR. The United States will carefully monitor Saudi Arabia's progress in continuing to improve its intellectual property rights (IPR) regime.

The six Member States of the GCC are working to harmonize their IP regimes. In connection with that effort, the GCC recently approved a common trademark law. Each Member State is expected to adopt that law. The United States has established a dialogue with GCC technical experts to discuss this law and other Customs Union efforts regarding IPR.

SERVICES BARRIERS

Insurance

In October 2003, the government enacted the Control Law for Co-Operative Insurance Companies, which requires all insurance companies operating in Saudi Arabia to be locally incorporated joint-stock companies (foreign equity is limited to 60 percent, and the remaining 40 percent must be sold in the Saudi stock market) and to operate on a cooperative or mutual basis (*i.e.*, requiring that the profits be distributed between policyholders and the insurance company).

Banking

Saudi Arabia limits foreign ownership in commercial banks to 40 percent of any individual bank operation. In the last few years, Saudi Arabia has taken steps to open up investment banking by granting operating licenses to foreign banks. The Saudi Arabian Monetary Agency (SAMA) granted 10 foreign bank licenses to operate in Saudi Arabia in December 2005. The 2004 Saudi Capital Markets Law provides for the creation of investment banks and brokerages in Saudi Arabia, with foreign participation in these ventures capped at 60 percent. Saudi Arabia passed a regulation in August 2008 allowing nonresidents to invest in swap agreements in the Saudi Stock Exchange, while local brokers and bankers retain legal title to traded shares. Since 2010, nonresidents have also been able to access the market through exchange-traded funds, and many experts believe the market will open to foreign qualified institutional buyers in early 2012.

INVESTMENT BARRIERS

All foreign investment into Saudi Arabia requires a license from the Saudi Arabian General Investment Authority (SAGIA), which must be renewed annually or biannually, depending on the sector. While SAGIA is required to grant or refuse an investment license within 30 days of receiving a complete application, bureaucratic impediments arising in other ministries sometimes delay the process. Companies can also experience bureaucratic delays after receiving licenses from SAGIA, for example in obtaining a commercial registry or in purchasing property. SAGIA is developing an automated system that it intends to launch in 2012 to streamline the process and reduce delays. Foreign investment is currently prohibited in 16 manufacturing and service sectors and subsectors, including oil exploration, drilling and production; and manufacturing and services related to military activity.

Direct foreign participation in the Saudi stock market is prohibited, except that citizens of other GCC countries are treated as nationals. Foreign investors are permitted to purchase shares in bank-operated investment funds, though total foreign participation in these funds is limited to 10 percent of the total value of the fund. Equity held by foreign partners in a joint venture business is limited to 60 percent.