SAUDI ARABIA

TRADE SUMMARY

The U.S. goods trade deficit with Saudi Arabia was $11.2 billion in 2009, down $31.0 billion from 2008. U.S. goods exports in 2009 were $10.8 billion, down 13.5 percent from the previous year. Corresponding U.S. imports from Saudi Arabia were $22.0 billion, down 59.7 percent. Saudi Arabia is currently the 20th largest export market for U.S. goods.

U.S. exports of private commercial services (*i.e.*, excluding military and government) to Saudi Arabia were $4.3 billion in 2008 (latest data available), and U.S. imports were $527 million. Sales of services in Saudi Arabia by majority U.S.-owned affiliates were $1.5 billion in 2007 (latest data available), while sales of services in the United States by majority Saudi Arabia-owned firms were $3.7 billion.

The stock of U.S. foreign direct investment (FDI) in Saudi Arabia in 2008 was $5.4 billion (latest data available), up from $5.0 billion in 2007. 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 5 percent for most products, with a limited number of GCC-approved country specific exceptions. Saudi Arabia's 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.

The vast majority of food products are subject to a 5 percent import duty. However, selected processed food products are assessed higher import duties. Saudi Arabia ties 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. Imports of rice, baby milk, and animal feed are subsidized while coffee, tea, and fresh red meat enter the country duty-free. Saudi Arabia has no tariff-rate quotas.

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.

Import Prohibitions and Licensing

In Saudi Arabia, the importation of certain articles is either prohibited or requires special approval from the appropriate authorities. The importation of alcohol, firearms, pork products, and used clothing is prohibited. Imports of certain products, including agriculture seeds, live animals, 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, horses, radio-controlled model airplanes, products containing alcohol, natural asphalt, and archaeological artifacts require special approval. 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. Pursuant to commitments made in its protocol of accession to the World Trade Organization (WTO), Saudi Arabia eliminated the requirement to authenticate import documentation as of December 31, 2007.

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 where no Saudi-owned company can provide the goods and services necessary to fulfill the procurement requirement. Procurement regulations require preferential treatment for products of Saudi origin that satisfy the requirements of the procurement. In addition, Saudi Arabia gives priority in government purchasing to GCC products. These items receive up to a 10 percent price preference over non-GCC products in all government procurements in which foreign suppliers participate. Most Saudi defense contracts are 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 gives preference to companies that use Saudi goods and services. For large military projects, there is frequently an offset requirement, which 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 required increased transparency in government procurement. The procurement information to be made public must include the names of the parties, financial value, brief description, duration, place of execution, and a point of contact.

In its accession to the WTO, Saudi Arabia committed to initiate negotiations for accession to the Agreement on Government Procurement (GPA). Although Saudi Arabia became an observer to the WTO Committee on Government Procurement in December 2007, it has not yet begun accession negotiations. Saudi Arabia, however, published revised government procurement procedures to bring them in line with GPA requirements in August 2006.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

In February 2010, the United States announced that Saudi Arabia would be removed from the Special 301 Watch List in recognition of significant progress that Saudi Arabia had made in the protection and enforcement of intellectual property rights, including addressing concerns identified in the 2009 Special 301 Report. An Out-of-Cycle Review focused on three specific issues: (1) deterrent level penalties for violations of Saudi copyright law, (2) action to reduce the use of unauthorized copies of software within the Saudi government, and (3) adequate protection for patented pharmaceutical products. The United States will carefully monitor Saudi Arabia's progress in continuing to improve its IPR regime.

As part of the GCC Customs Union, the six Member States are preparing a common trademark law, as well as a common unfair competition law to protect from unfair commercial use undisclosed information submitted for marketing approval of pharmaceutical products. The United States is engaged in a dialogue with GCC technical experts to ensure that the trademark law and unfair competition law will facilitate Member States' implementation of international and bilateral obligations.

SERVICES BARRIERS

Insurance

In recent years, Saudi Arabia has implemented a series of laws regulating the insurance sector requiring certain types of insurance coverage within the country. 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 floated on the Saudi stock market), and to operate on a cooperative or mutual basis (*i.e.*, requiring that the profits be distributed between policy holders and the insurance company).

The Saudi Arabian Monetary Agency (SAMA) began accepting applications for insurance operations in November 2003 and a royal decree was promulgated in April 2005 to implement Saudi Arabia's WTO commitment allowing foreign insurance companies to operate in Saudi Arabia through direct branches. For a transitional period of three years, foreign insurance companies operating through an agent were allowed to continue operations in Saudi Arabia pending the issuance of insurance branching regulations.

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. 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.

INVESTMENT BARRIERS

All foreign investment into Saudi Arabia requires a license from the Saudi Arabian General Investment Authority (SAGIA). 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. Although SAGIA is taking steps to address these impediments and streamline the process, companies can also experience bureaucratic delays after receiving licenses from SAGIA, for example, in obtaining a commercial registry or purchasing property. Foreign investment is currently prohibited in 15 manufacturing and service sectors and subsectors, including oil exploration, drilling and production, and manufacturing and services related to military activity.

The 2004 Capital Markets Law allows for the creation of financial intermediaries and created an independent stock market and an independent stock market regulatory body. The maximum equity share allowed for foreign partners in joint ventures is 60 percent. Direct foreign participation in the Saudi stock market is prohibited, though foreigners can purchase shares in bank-operated investment funds. Foreign participation in these funds is limited to 10 percent of the total value of the fund.