SAUDI ARABIA

TRADE SUMMARY

U.S. goods exports in 2014 were $18.7 billion, down 1.5 percent from the previous year. Saudi Arabia is currently the 20th largest export market for U.S. goods. Corresponding U.S. imports from Saudi Arabia were $47.0 billion, down 9.2 percent. The U.S. goods trade deficit with Saudi Arabia was $28.4 billion in 2014, a decrease of $4.5 billion from 2013.

U.S. exports of services to Saudi Arabia were $9.2 billion in 2013 (latest data available), and U.S. imports were $1.4 billion. Sales of services in Saudi Arabia by majority U.S.-owned affiliates were $3.2 billion in 2012 (latest data available), while sales of services in the United States by majority Saudi Arabia-owned firms were $1.6 billion.

The stock of U.S. foreign direct investment (FDI) in Saudi Arabia was $10.6 billion in 2013 (latest data available), up from $9.5 billion in 2012.

TECHNICAL BARRIERS TO TRADE / SANITARY AND PHYTOSANITARY BARRIERS

Technical Barriers to Trade

Saudi Arabia is developing new energy and fuel efficiency standards for a variety of products that could affect imported products including vehicles, air conditioners and electronic appliances. For instance, Saudi Arabia issued new automotive fuel efficiency standards in December 2014 mandating that manufacturers' light-duty vehicle fleets return an average of approximately 28.2 miles per gallon by 2020. In the process of developing these regulations, Saudi officials worked extensively with private sector stakeholders.

U.S. and Saudi officials continue to work to develop mechanisms for stakeholder consultation in regulatory decision-making, including to ensure that interested parties have opportunities to provide comments on draft regulations and to provide a reasonable time for those comments to be taken into account.

In December 2013, the six Member States of the Gulf Cooperation Council (GCC), working through the Gulf Standards Organization, issued regulations on the GCC Regional Conformity Assessment Scheme and GCC "G" Mark in an effort to "unify conformity marking and facilitate the control process of the common market for the GCC Members, and to clarify requirements of manufacturers." U.S. and GCC officials are discussing concerns about consistency of interpretation and implementation of these regulations across all six GCC Member States, as well as the relationship between national conformity assessment requirements and the GCC regulations, with a view to avoiding unnecessary duplication.

Sanitary and Phytosanitary Barriers

Saudi Arabia banned imports of all U.S. beef and beef products in 2012 following an atypical case of bovine spongiform encephalopathy in the United States. U.S. and Saudi officials continue to work to lift this ban to provide U.S. beef exporters with access to the Saudi market – valued at $30 million for U.S. products.

Approved poultry and poultry product imports from the United States have been suspended due to detections of Highly Pathogenic Avian Influenza (HPAI) in backyard/pet poultry flocks and commercial poultry flocks beginning in December 2014. USDA is working to resolve trade-related issues associated with HPAI.

GCC Member States have notified the WTO Committee on Sanitary and Phytosanitary (SPS) Measures of their intention to implement a new "GCC Guide for Control on Imported Foods" by June 2015. As currently drafted, stakeholders have raised concerns that the requirements outlined in the Guide will impede trade beyond the extent necessary to protect human or animal health. The requirements also will impose burdensome and disproportionate demands regarding requirements for certification or forms of recognition or acceptance of foreign food safety systems. The Guide as currently drafted does not provide scientific justification for requiring exporting government officials to certify and attest to statements that are inconsistent with guidelines established by the Codex Alimentarius and the World Organization for Animal Health. The United States has raised specific concerns about the Guide and has requested that GCC Member States delay entry into force of the Guide until food safety experts have an opportunity to discuss these concerns.

IMPORT POLICIES

Tariffs

As a member of the GCC, Saudi Arabia applies the GCC common external tariff with a limited number of GCC-approved country-specific exceptions. Tariff rates on the majority of goods subject to duties are 5 percent, though higher rates, ranging from 6.5 percent to 40 percent, are imposed on goods that compete with domestic industries. Tobacco products face a tariff rate of 100 percent.

Saudi Arabia endorsed the second phase of the GCC common external tariff for agricultural products in 2012. In doing so, Saudi Arabia agreed to abolish duty rates of 12 percent, 20 percent, and 40 percent for various food products, as well as the 25 percent seasonal duty imposed on imports of some fruits and vegetables. Saudi Arabia now imposes a 5 percent import duty on most imported agricultural and food products, though duties for some products grown domestically (*e.g.*, dates) range as high as 40 percent. The current GCC tariff schedule allows duty-free importation of 344 food and agricultural products. There are no tariff quotas, no applied seasonal tariffs, and no other duties and charges on imports. Saudi Arabia does not impose VAT, excise duties or any other internal tax or charges on domestically produced or imported products.

Import Prohibitions and Licenses

Saudi Arabia prohibits the importation of alcohol, pork products, used clothing, automobiles and automotive parts older than five years and firearms. Special approval is required for the importation of live animals, horticultural products, seeds for use in agriculture, products containing alcohol, chemicals and harmful materials, pharmaceutical products, wireless equipment, radio-controlled model airplanes, natural asphalt, archaeological artifacts, books, periodicals, audio or visual media, and religious materials that do not adhere to the state-sanctioned version of Islam or that relate to a religion other than Islam. Some media products that are imported are subject to censorship.

GOVERNMENT PROCUREMENT

Contractors must subcontract 30 percent of the value of any government procurement, 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 requirements of a tender. Foreign suppliers are also required to establish a training program for Saudi nationals. Saudi Arabia provides a 10 percent price preference for GCC goods for procurements in which foreign suppliers participate. 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 from the Ministry of Commerce and Industry. Foreign companies solely providing services to the government, if not already registered to do business in Saudi Arabia, are required to obtain a temporary registration from the Ministry within 30 days of signing a contract.

Most defense procurement is not subject to the general procurement decrees and regulations; instead, tenders are negotiated on a case-by-case basis. For defense sales, U.S. contractors are subject to an offset rate of 40 percent of the total value of the contract and must ensure that at least half of all offsets be direct.

U.S. private sector companies have reported long delays and difficulty in receiving payments for services rendered to the Saudi Arabian government and regional government entities. Some delays have lasted over two years.

Saudi Arabia is an observer to the WTO Committee on Government Procurement. Although Saudi Arabia committed to initiate negotiations for accession to the Agreement on Government Procurement when it became a WTO Member in 2005, it has not yet begun these negotiations.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

Saudi Arabia was removed from the Special 301 Watch List in 2010. The United States continues to carefully monitor the adequacy and effectiveness of intellectual property rights (IPR) protection and enforcement in Saudi Arabia, including the imposition of deterrent level penalties for violations of Saudi copyright law, action to increase the use of legal software within the Saudi government, and adequate protection for patented pharmaceutical products.

Currently, IPR enforcement responsibilities are scattered across several Saudi ministries and offices. The Ministry of Culture and Information supervises copyrights, the King Abdulaziz City for Science and Technology supervises patents, and the Ministry of Commerce and Industry supervises geographical indications and trademarks, which are also supported and enforced through Saudi Customs and the Ministry of Finance.

In 2014, Saudi Arabia, Bahrain, and Qatar approved the GCC Trademark Law. Kuwait, Oman and the United Arab Emirates are expected to approve the law in 2015, after which implementing regulations will be issued. As the six GCC Member States explore further harmonization of their intellectual property rights (IPR) regimes, the United States will continue to engage with GCC institutions and the Member States and to provide technical cooperation on IPR policy and practice.

SERVICES BARRIERS

Audiovisual Services

Saudi Arabia has long banned foreign and Saudi citizens from investing in, constructing, or operating public cinemas. Beginning late-2014, the Saudi General Commission of Audiovisual Media has been consulting with various ministries to explore the possible issuance of licenses for the construction and operation of public cinemas.

Banking

Saudi Arabia limits foreign ownership in commercial banks to 40 percent of any individual bank operation. The 2004 Saudi Capital Markets Law provides for the creation of investment banks and brokerages in Saudi Arabia, with foreign equity limited to 60 percent.

Insurance

The 2003 Control Law for Co-Operative Insurance Companies requires that all insurance companies in Saudi Arabia be locally incorporated joint-stock companies, with foreign equity limited to 60 percent. The remaining 40 percent must be sold in the Saudi stock market. Insurance companies must operate on a cooperative or mutual basis, in effect requiring distribution of any profits between policyholders and the insurance company.

INVESTMENT BARRIERS

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. All foreign investment in Saudi Arabia requires a license from the Saudi Arabian General Investment Authority (SAGIA), which must be renewed periodically. While SAGIA is required to grant or refuse an investment license within 30 days of receiving a complete application, bureaucratic impediments arising from SAGIA and other agencies sometimes delay the process. Companies can also experience bureaucratic delays after receiving their license, such as when obtaining a commercial registry or purchasing property. SAGIA has been working to develop an automated system to streamline the process and reduce delays.

Direct foreign participation in the Saudi stock market is limited, except for GCC citizens. Since 2008, non-GCC foreign investors have been permitted to purchase shares in bank-operated investment funds, though foreign participation in these funds is limited to 10 percent of the total value of the fund. Non-GCC investors can also participate through swap agreements. Equity held by foreign partners in a joint-venture business is limited to 60 percent.

In July 2014, the Capital Market Authority (CMA) announced that it would allow foreign investors to buy shares listed on the Saudi Arabia *Tadawul* stock exchange directly in 2015. The proposed reforms stipulate that foreign investors must meet the “qualified foreign investor” (QFI) requirements proposed in CMA’s draft rules, which were open for consultation through the end of 2014. Per the draft rules, investments can only be made by QFIs, who can hold no more than five percent of any individual company. Furthermore, cumulative foreign ownership cannot exceed 10 percent of the total *Tadawul* market capitalization or 49 percent of any one company. In order to qualify as a QFI, an applicant must be a bank, brokerage/securities firm, fund manager or insurance company that is duly licensed or otherwise subject to oversight by a regulatory body with standards equivalent to those of the CMA; have assets under management of at least $5 billion (subject to discretionary reduction to $3 billion by the CMA); and have been engaged in securities/investment-related activities for at least five years. The draft rules are expected to be finalized and implemented in 2015.

OTHER BARRIERS

Subsidies

Saudi Arabia heavily subsidizes electricity and water rates for domestic residential consumers, and while the government claims that it sells gasoline and natural gas at or above the production cost, the prices are far below world-market levels. The country consumed 2.9 million barrels per day of oil in 2013, almost double the consumption in 2000. Demand is driven by population growth, a rapidly expanding industrial sector led by the development of petrochemical cities, and high demand for air conditioning during the summer months. Due to the significant increase in domestic energy consumption, Saudi Arabia has discussed lowering subsidies on electricity and water, at least for government, industrial and commercial customers. Saudi Arabia also maintains an unquantified amount of subsidies for basic food products, such as rice, barley and baby formula.