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INVESTMENT IN SAUDI ARABIA:

A LEGAL AND ECONOMIC SURVEY

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<u>PRELIMINARY REMARKS</u> (Thomas Stern)

The "Kingdom of Saudi Arabia" is the largest country of the Arabian Peninsula (2.149.690 km²) and due to its vast petroleum resources one of the richest countries in the world. At present Saudi Arabia is the third largest oil producer in the world (1986: 247.6 million tons) and disposes of the largest deposits of crude oil in the world (proven reserves 1986: 23.082 million tons, almost a quarter of the world's total known reserves)[1], which affords Saudi Arabia a dominant position over the world oil scene for the next few decades.

With a GDP of US-$ 93,65 billion (1985) and 11,5 million moslemic inhabitants Saudia Arabia has a per capital-GDP of approximately 8100 dollars. Under the Saudi Arabian Constitution of 1926 the King, as the Protector of Faith, was established as the ultimate source of authority with respect to all legislative, administrative and judical issues. Later, in 1953, the Kingdom established a Council of Ministers presided over by the King.

The Saudi Arabian economy is definitely dominated by the oil sector, which contributes more than two thirds to the GDP, approximately 70 % of the State revenues and nearly 95 % of the proceeds from exports. In order to diversify its economy, Saudi Arabia is trying to broaden its industrial base, increase its technological capacities and modernize the agriculture and local industry. To provide the basic infrastructure for the modern and industrialized Saudi Arabia, the two first five-year development programmes were designed and startet in 1970 (expenditure budget more than US-$ 30

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[1] Source: FAZ Blick durch die Wirtschaft, 21. 4. 1987.

billion) and 1975 (budget approximately US-$ 350 billion). In addition to the industrial development, special emphasis was put on the improvement of educational system, public health and traffic and transport system. The third five-year-plan, beginning in 1980, had a budget of over US-$ 400 billion and laid particular stress on diversification of production. For example huge investments were made in projects of electric power stations, water supply, canalization, road and housing construction, agriculture, mining and petrochemical industry. The large scale projects were undertaken by SABIC (Saudi Arabian Basic Industries Corporation, founded in 1976) and Petromin (States General Petroleum and Mineral Organization, founded in 1962) in cooperation with foreign companies. The last plan was set in force by King Fahd in 1985 and is designed to pursue the last plan but giving more priority to social services and regional development.

Saudi Arabia is a member of the UN, IBRD, MIGA, IWF, UNCTAD, FAO, OPEC, OAPEC, GCC, AIGC and the League of Arab States.

Saudi Arabia is comprised to the "General Duty Preferential Agreement" of the EC. Furthermore, there exists a "Treaty of Friendship" of the 26 of April, 1929 (most-favored nation treatment clause), an Agreement for Enforcement of Law in Case of Private Guaranteed Investment (2nd of February of 1979, in force since 15th of March of 1980) and an "Agreement of Scientific Technological Cooperation" (24th of March of 1982) with the Federal Republic of Germany.

PART A: LEGAL VIEW (Thomas Stern)

1. Investment Legislation

1.1 General

The official law of the land within the traditional sphere (e.g. criminal law etc.) is the Shari'ah with particular reference to the Hanbali-Wahhabi school of law. The new aspects of law (such as investment, tax, oil, gas, company law) are subject to provisions contained in Royal Decrees and delegated orders, codes and by-laws.

The main source of law in the investment sector is the "Foreign Capital Investment Law" (FCIL) of 1979[2], which based on Art. 12 superseded the former "Foreign Capital Investment Law" of 1964[3]. According to Art. 11 of the FCIL of 1979 the Ministry of Industry and Electricity enacted the "Rules for Implementation of the Foreign Capital Investment Decree"[4], which stipulate definition of foreign capital, application for licencing, granting of tax examptions and organisation of "Foreign Capital Investment Committee" (FCIC) and "Investment Office" (IO).

In order to incorporate a company or acquire an equity state in an already existing company by way of foreign capital investment, Art. 2 FCIL of 1979 requires that the licence be obtained from the FCIC of the Ministry of Industry and Electricity.[5] Normally the required permission will only be

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[2] Decree-Law No. M/4 of 1978 (1399 H) was published in Official Gazette no. 2757 of 27th of January 1979 (28. 2. 1399 H); printed in bfai no. 112, Anh. B.

[3] Royal Decree No. 35 of 24th of February 1964 (11. 3. 1383 H).

[4] Decree No. 323 of the Ministry of 7th of May 1979 (10. 6. 1399 H); printed in bfai Rechtsinformation No. 118, Anh. B, p. 128.

[5] Found and established acording to Art. 4 FCIL of 1979.

given in respect of enterprises which are considered by the Ministry to be essential to the development of the country.[6]

The law stipulates as a precondition to obtaining the Ministry's licence that the foreign capital, which includes investment by way of cash, assetts or facilities[7] owned by a non-Saudi, must be invested in development projects (<u>other than petroleum or mining projects</u>),[8] and must be accompanied by foreign technical know-how and expertise. This criterion is difficult to interprete precisely. "Development projects" are determined by the Ministry of Industry and Electricity in accordance with the proposal of the FCIC.[9] It seems, however, that certain projects which would appear to fall outside the literal meaning of "development project" such as in manufacturing industry, may in fact be licenced if they carry out their acitivities in such a manner as to satisfy the preconditional requirements.[10]

Once the required licence is obtained the enterprise concerned is entitled to the same privileges in respect of industrial projects as Saudi enterprises, such as exemption from certain custom duties and from limitation or in some cases total prohibition on competitive imports.[11] The enterprise is also entitled to own real estate in accordance with the "Law for Non-Saudi Ownership of Real Estate" (see below 2. Technology Transfer Legislation, Industrial Property).

Failure to comply with the terms of the licence may result in the licence being revoked.[12]

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[6] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 12.

[7] The term "foreign capital" is definated in Art. 1 FCIL.

[8] See: 1.2. Sectoral Investment Legislation.

[9] C.f. Art. 3 FCIL.

[10] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 13.

[11] See more detailed: 1.4. Incentives for Foreign Investment; 5. Taxation, Fiscal Stimulants, Tax Treaties.

[12] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 13; more detailed: bfai-Rechtsinformation No. 118, p. 9.

1.2. Sectoral Investment Legislation

As mentioned above, capital invested in mining or petroleum projects is not subject to the FCIL of 1979. Basic law for the mining sector is the "Mining Code" No. 21 of 1972[13]. The most important provisions are:

- Term of licence is four years (double prolongation of 2 years at times);
- Licence area of maximum 10 000 km^2;
- Exploration concession for 30 years, with option for 20 more years;
- No fees for rent of real estate during the exploration period;
- No customs for equipment;
- Selection between licence fees or profit sharing;
- Right of the Government for participation.[14]

In the petroleum sector (including natural gas and radioactive substances) concession agreements are authoritative. The contracts have to be negociated between the foreign investor and the Ministry of Petroleum and Mineral Resources. The Government of Saudi Arabia has acquired for example 100 % equity ownership in ARAMCO, the largest oil company operating.

1.3. Investment Guarantees

1.3.1. Treaties

As already mentioned above, there exists no bilateral Investment Protection Agreement with the Federal Republic of Germany. However, an Agreement for the Enforcement of Law in Case of Private Guaranteed Investment was concluded in 2nd of February of 1979. This agreement is the basis for covering political risks by the national insurance agency "Treuarbeit AG" of

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[13] Decree-law No. 21 of 20th may of 1392 H; published in Official Gazette.

[14] Deutsche Bank: Saudi Arabia, p. 15.

the Federal Republic of Germany.[15] Saudi Arabia also concluded "The Agreement on Guaranteed Private Investment" with the United States of America in 1975.[16]

Furthermore, Saudi Arabia has concluded several "Treaties of Friendship" with western industrial states,[17] which are mainly of declaratoric nature.

Saudi Arabia has signed the "Convention on the Arab Investment Guarantee Corporation" on 15th of June of 1971, the "Convention on Investment of Arab Capital and its Transfer among the Arab States" (dated 15th of July of 1971) and finally the MIGA-Convention on 8th of April of 1986.

1.3.2. Municipal Law, Nationalization

There are several laws existing for the encouragement of national industry, for example the "Ordinance for the Protection and Encouragement of National Industry", which provides privileges enjoyed by national capital.

There is no constitutional guarantee for foreign investment in Islamic jurisprudence. However, in principle, the status of private property in Islamic law is well recognized and established, provided that it is not utilized for purposes violating the teachings of Islam. Foreign investment only may be expropriated or nationalized for public purposes, provided that adequate and effective compensation be paid. So, foreign private investment in Saudi Arabia enjoys full protection against expropriation and nationalization, subject to the limitations imposed by the law. Even in the rare case of nationalization of ARAMCO, the nationalization measure was implemented gradually within the time limit envisaged by the text governing the transaction and the long-run relationship.[18]

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[15] Langefeld-Wirth, K.: Investieren in Saudi-Arabien, RIW/AWD 82, p. 718.

[16] The agreement was signed at Washington, D.C. on 27th of February of 1975 and entered into force on 26th of April of the same year; text in: U.S.T.I.A., vol. 26, part 1 (1975), p. 459.

[17] In May 1974, Saudi Arabia signed an important economic and military cooperation agreement with the U.S.

[18] El Sheik, F.R.A.: The Legal Regime of Foreign Private Investment in the Sudan and Saudi Arabia, p. 91, 92.

Under the Participation Agreement of 22th of December of 1972, a 25 % interest in the ARAMCO concession was transferred to the Government of Saudi Arabia. This was to increase gradually to 51 % in 10 years but by mutual agreement was accelerated to 60 % in 1974 (no document was signed regarding this increase, but all parties accepted it and operated on a basis of 60 % Government ownership).[19]

During 1980, payments were completed to ARAMCO to provide 100 % Government ownership.[20] The agreement included a role for the four ARAMCO owners - Exxon, Texaco, Socal and Mobil - to continue lifting Saudi Arabia's oil production.

1.4. Incentives for Foreign Investment

As already mentioned above (1.1.), Art. 7 FCIL provides several privileges for foreign enterprises which have fulfilled the conditions of the law. If the enterprise has at least a 25 % Saudi capital stake the enterprise is also entitled to exemption from income tax and company tax over a ten year period for industrial or agricultural projects and 5 years in other cases (Art. 7). The enterprise is also entitled to own real estate in accordance with the law for Non-Saudi ownership of real estate (see below).[21]

In some cases, however, it is expedient to increase the Saudi capital stake to 50 % because of a "priority system" existing in dealings with the government. Art. 1 of the Royal Decree No. M/14 (Procurement of Government Purchases and Execution of its Projects and Works Regulation) stipulates that such companies shall have priority in dealings with the government against companies with lower Saudi capital stake.[22]

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[19] Barrows, T. H.: Worldwide Concession Contracts and Petroleum Legislation, p. 232.

[20] The payments are representing an up-dated book valuation.

[21] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 13.

[22] Langefeld-Wirth, K.: Investieren in Saudi-Arabien, RIW/AWD 82, p. 719.

Moreover the "Saudi Industrial Development Fund" (SIDF)[23] encourages industrial investment by offering tariff exemptions, financial incentives and grants. Interest-free loans of up to 50 % of a project's capital, with repayment spread over 5 to 15 years, are offered, also a small commission of 2 % p.a. is charged.[24] Besides this the SIDF makes consulting in business, technical and administrative fields available to industrial firms.

Finally Saudi Arabia grants several customs incentives[25] and prepares developed industrial areas for low rents, especial industrialized estates such as Jeddah, Riyadh and Dammam.

1.5. Applicable Law and Dispute Settlement

The law governing the deeds of concession is determined in the deeds themselves; the deeds often contain an expressed choice of law provision, which specifically regulates the law of contract.

By the Royal Decree No. M/51 (1982) the Board of Grievances was constituted as an independant judicial authority to judicate over all disputes between the Government and third parties.[26] Included in the jurisdiction of the Board are: the constitutionality and legality or otherwise of administrative rulings, government contracts and other administrative acts. Thus, in Saudi Arabia not only does the law applicable to State liability differ from the law applicable to the private sector, but also when a question of State liability is raised the case must be heard by an Administrative Court, and not by ordinary courts. In this way, except for acts connected with the sovereignity of the State on the one hand and judical decisions (whether pronounced by the courts or administrative tribunals) on the other hand, all disputes to which the Administration is a party will be heard by the Board of Grievances.[27]

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[23] Founded by Royal Decree No. M/3 of 20th of March 1974 (26. 2. 1394 H).

[24] Amin, S. H.: Middle East Legal Systems, p. 306.

[25] C.f. more detailes 5. Taxation, Fiscal Stimulants, Tax Treaties.

[26] The Council of Ministers, in Decision No. 58, dated 25th june of 1963, established that the Board of Grievances has jurisdiction over all disputes arising from governmental contracting with a Saudi or foreign party.

[27] Amin, S. H.: Middle East Legal Systems, p. 321.

Ministerial Resolution No. 58 of 1963 (1383 H) prohibits any government body from agreeing to jurisdiction clauses which would exclude the jurisdiction of the grievances board and reserves to that by-jurisdiction in all disputes between third parties and government bodies or agences.[28] However, as the Saudi Arabian government ratified the ICSID (International Center for the Settlement of Investment Disputes) convention in june 1980, it is now possible for foreign investors (including foreign-controlled local companies) to refer disputes with the Saudi Arabian government to ICSID.

In private contracts arbitration by such well-known bodies as the International Chamber of Commerce is often selected.

A commission, known as the "Commission for the Settlement of Commercial Companies' Disputes", composed of three specialist members, is the competent authority in Saudi Arabia for settling disputes arising from the application of the Companies Law (as amended in 1978) and the imposition of penalties prescribed therein.[29] This very important Board, set up under the terms of Art. 232 of the Companies Law, follows a procedure of its own and is usually very time-consuming.

Saudi Arabia has signed the "Convention of the Settlement of Investment Disputes between Host States for Arab Investment and Nationals of Other Arab States", dated 15th of July of 1978.[30]

2. Other Relevant Legislation

2.1 Technology Transfer Legislation, Industrial Property

Imports are following the principle of "Open General Licence", which means that all import is fundamentally free for all Saudi Arabian firms

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[28] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 19.

[29] Amin, S. H.: Middle East Legal Systems, p. 322.

[30] El Sheik, F.R.A.: The Legal Regime of Foreign Private Investment in the Sudan and Saudi Arabia, p. 316.

incorporated in trade register[34] and licenced for foreign trade. Besides this principle, there are several specific regulations, which have to be observed.[31] It is possible to obtain import restrictions for competitive products in order to receive market protection by special decision of the Council of Ministers.

Saudi Arabia has no special patent laws as yet, and it is, therefore, not possible to have letters patent issued by the Kingdom. In order to protect patent rights one may publish cautionary notices in the local press and in Uma Alquran (Official Gazette) mentioning details of patent obtained and warning that patent rights will be enforced. Such a publication discloses the fact that an application for patent has been made which usually acts to warn off applicants for similar patents. It also establishes the claim of ownership and makes such a claim public and noticeable, so as to enable the owner to assert his patent rights in case of infringement, on the basis of proprietorship i. e. priority of possession or continuous use. In the absence of patent this is all that can be done.[32]

Registration of trade marks in the Kingdom is made at the Trade Mark Registration Office of the Ministry of Commerce and if the trade mark has already been registered in the country of origin, evidence of that registration is required.[33] Trade mark protection is for 10 years, renewable for a further 10 year period.[34]

There are at present no laws or regulations in force regarding copy-rights.

2.2. Real Estate Transactions by Foreigners

The ownership of real estate in the Kingdom by Non-Saudis is governed by Law M/22 of 1970 (1390 H) which in general prohibits Non-Saudis from acquiring ownership of Saudi real estate. There are a number of exceptions

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[31] C.f.: Deutsche Bank AG, Saudi Arabia, p. 30.

[32] Kolick, G.: Digest of Commercial Laws of the World - Patent and Trade Marks: Saudi Arabia, p. 1.

[33] Registration of Trade Marks, c.f. Law No. 8762 of 1947 (1358 H).

[34] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 10.

to the general position in the case of foreign embassies, uncultivated agricultural land and private dwellings provided Ministerial consent is obtained and, in the case of private dwellings, Royal Decree. Furthermore, the law makes no reference to rights to use property and it is on this basis that many Non-Saudis acquire interests as tenants from Saudi landlords although their legal entitlement to do so is not free from question.[35]

Foreign companies licenced under the FCIR (see above) are, in certain cases, permitted to own real estate in the Kingdom although the foreign organisation requires permission to do so from the Ministry of Industry and Electricity: Without such permission the Notaries Public Department will refuse an application to register and certify the company's title to the land.[36] To obtain the requisit permission the foreign organisation must show that the real estate is required solely for the purpose for which the licence permitting the establishment of the organisation in the Kingdom was granted. The site should therefore correspond to the actual needs of the organisation and if the land is to be used as the site of a factury reasons must be provided for not leasing existing property on an industrial estate.[37]

In view of the time sometimes required to obtain the necessary permission for the ownership of real estate, foreign companies have on occasion been tempted to seek an alternative solution such as providing for a Saudi national to hold the land as nominee for the foreign company.[38]

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[35] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 20.

[36] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 20.

[37] The application will first be reviewed by the "Real Estate Committee" before approval can be granted by the Ministry of Industry and Electricity. The Ministry's approval takes the form of an order to the local Notary's Public Department to register and certify the relevant transfer documents.

[38] Such arrangements may be a breach of Saudi law and the Ministry of Interior Circular No. 38/10538 of 1975 (1395 H).

2.3 Company Law, Commercial Law

The Company Law is governed by the "Company Regulations (CR)" Act of 1965 (1385 H).[39] Art. 2 of the regulations envisaged eight different forms of business entities, most of which enjoy the corporate personality and limited liability aspects.[40]

It appears, that only the "joint venture", the "limited liability partnership" and organisations licenced under the FCIL are of relevance to the foreign company intending to set up in the Kingdom.[41]

The joint venture is not really a company at all although it is dealt with as such in the regulations. It is a partnership which is not disclosed to third parties and has no legal personality (Art. 40 CR). Thus, in practice it is used for activities which could not be carried out through one of the other forms of company.[42] For example, the joint venture enables Non-Saudis to participate in land development, where the Saudi partner is the registered owner, and fulfills the regulations of land law.

The limited liability partnership consists of two or more partners whose liability for partnership debts is limited to the extent of their shareholdings (Art. 157 CR). The minimum share capital is S.R. 50.000 and although the shares must be of equal value there is no minimum par value (Art. 158 CR).[43] The limited liability partnership more frequently attracts

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[39] This Code bears a clear similarity to French legal concepts; it is issued under Council of Ministers Decision No. 185 dated 15th of July 1965, sanctioned by Royal Decree No. M/6, dated 10th of July 1965; published in Official Gazette No. 2080 of 23 of July 1965 and No. 2083 of 13th of August 1965, printed in: Foreign Tax Law Association: Commercial Laws of the World, Saudi Arabia, p. 1.

[40] Amin, S. H.: Middle East Legal Systems, p. 315.

[41] Other categories are: 1) general partnership, 2) limited partnership, 3) joint stock company, 4) partnership limited by shares.

[42] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 30.

[43] Deutsche Bank AG: Saudi Arabia, p. 25; in case of participation of foreign partner the Investment Committee of the Ministry of Industry and Electricity generally demands higher equity.

foreign companies, because it has a less complicated structure and registration formalities are simplified in that no Royal Decree is required.

Finally two general points: The Regulations contain specific provisions for the convertion and amalgamation of companies, the winding up of companies and the variation of company capital. The Regulations prohibit a person, who is also a partner in a competitor company, from passing confidential information to the competitor organisation (see, for instance, Art. 23, 39 and 69 CR).[44]

Commercial law is based on "The Law of the Court of Commerce of the Kingdom of Saudi Arabia" ("Commercial Code").[45] It stipulates that merchants, including branches and agencies of foreign companies established in the Kingdom are required to register at the Commercial Registration Office of the Ministry of Commerce within one month of starting business.[46]

The concept of agency is recognized in Saudi law in the form of the commission agent who practises trade under the authority of this principle, operating either in his own name or that of this principle. Only Saudi nationals are entitled to be commercial agents in the Kingdom.[47] Special rules operate where a foreign contractor or consultant has a contract with the Saudi Government as Law No. 2 of 1977 (1398 H) requires such a contractor or consultant to have a Saudi service or consulting agent.[48]

The "Maritime Law" of 1930[49] deals in detail with the rights and duties of shipowners, master and crew.

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[44] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 8.

[45] Law No. 32 of 1931 (1350 H).

[46] C.f.: Law No. 54 of 1955 (1375 H).

[47] Law No. 11 of 1962 (1392 H).

[48] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 9.

[49] Law No. 32 of 1930 (1350 H).

In common with many other Arab countries, Saudi Arabia has prohibited all fiscal and commercial transactions with Israel through the "Israel Boycott Law".[50]

Application for authorization to carry on the business of banking must be made to the Central Bank, the "Saudi Arabian Monetary Agency" (SAMA).[51]

Two aspects are of particular significance in any discussion of Saudi banking law: First, the policy of "Saudisation", and second, the complex reserve requirements which affect all banks set up in the Kingdom. The Saudisation policy, which reflects the government's objective of ensuring a majority Saudi stake in this important industry, requires that at least 60 % of a bank's capital be Saudi owned.[52]

2.4 Taxation, Fiscal Stimulants, Tax Treaties

Income tax was introduced in Saudi Arabia by Royal Decree in 1950 (1370 H)[53] and has been the subject of numerous amending decrees. Saudi tax law distinguishes between Saudis and Non-Saudis and for this reason taxation in the Kingdom operates under two quite different sets of rules.

Only Saudi nationals and Saudi firms are subject to a special type of income tax, the "Zakat". Non-Saudis have no right to request substitution of this tax for other types of taxes and Saudis are not entitled to request application of other types of taxation in lieu of this one. The "Zakat" is due on the total income and capital that have been retained for one year or over, and is charged at the rate of 2.5 % of the total income.[54]

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[50] Law No. 28 of 1962 (1382 H).

[51] Final determination will have the Ministry of Finance and National Economy (law No.. 5 of 1966 (1386 H)).

[52] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 11.

[53] Royal Decree No. 3321 dated 2nd of November 1950 (21 of January 1370 H).

[54] Rafei, N.: Income tax in Saudi Arabia, p. 482.

Non-Saudi nationals are liable for income tax[55] which is subdivided into company tax and personal income tax.[56]

The Regulations deal in detail with assessment to tax, rates of tax and so on, but the following points are of particular importance: Where a company is jointly owned by Saudis and Non-Saudis the profits on which company tax will be payable by the foreign partner are apportioned on the basis of equity stake; Zakat is not paid on the foreign element;[57] there is no personal income tax levied on foreign employees; where at least 25 % of a joint venture is Saudi-owned a 10 year tax holiday is allowed in industrial or agricultural projects, or 5 years in other projects (Art. 7 IFCL of 1979). There is also no possibility of carrying losses forward into the coming year.

Administration of the tax system is through the "Department of Zakat and Income Tax" (DZIT) and it is this body which is responsible for the interpretation of tax law.

Finally, it should be noted that the profit element of fees paid in return for technical assistance and know-how is taxable to the extent to which such profit relates to services performed in the Kingdom. Assessment of the profit element is normally a matter for negociations with the DZIT on a case-by-case basis.[58]

ARAMCO is paid a service fee net of Saudi taxes and will continue to explore and operate on behalf of the Saudi government. The fee is per barrel and consists of two elements: a basic operating fee of orginally US ct 15 (now about US ct. 47 due to inflation) and an exploration fee of

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[55] The decree differentiates between three major types of income: 1) income from work (= personal income), 2) income from capital investment or capital investment joined with work, 3) income from financial firms (joint stock companies or joint ventures); see Rafei, N.: Income tax in Saudi Arabia, p. 483.

[56] An "additional income tax" is levied on petroleum and hydrocarbon producing companies (Rafei, N.: Income tax in Saudi Arabia, p. 482).

[57] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 17.

[58] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 18.

around US ct. 6. The fee fluctuates with ARAMCO's cost efficiency performance and the degrees of success of its exploration programme, and the initial US 6 ct. exploration fee rises or falls in direct relation to the actual volumes of new reserves discovered. The service fee of each barrel of production is computed net after Saudi taxes and is payable on total production, not only on ARAMCO's owner's liftings. The companies supply entitlements include some long-term crude purchase obligations for the life of the existing concession to the year 1999. Companies are subject to certain penalties if they are unable to meet their purchase obligations because of future price or market conditions, but a reasonable lifting flexibility is allowed.[59]

Customs duties are in practice used in the Kingdom to control trade rather than as means of raising revenue. Imports of consumer commodities such as foods and medicines and machinery and raw materials essential to industrial development are free from duty whilst products for which the Saudi authorities believe there to be strong local competition are liable to duty at 20 %. In practice the majority of products are liable to a 3 % import duty although there are special exemptions and reduced rates for imports from other Arab League States. Duty is levied on the CIF price calculated at the exchange rate prevailing on the date of entry.[60]

Saudi Arabia has not concluded "Treaties to Avoid Double Taxation" with other states,[61] so there is no possibility of tax credit for taxes paid in the foreign country for the same income.[62]

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[59] Barrows, T. H.: Worldwide Concession Contracts and Petroleum Legislation, p. 232.

[60] Keesee, A. P. K.: Commercial Laws of the Middle East: Saudi Arabia, p. 18.

[61] Deutsche Bank AG: Saudi Arabia, p. 23.

[62] American Bar Association: Current Legal Aspects of Doing Business in the Middle East, p. 138.

2.5 Foreign Exchange Control Regulations

There is no exchange control law in Saudi Arabia. Bills of exchange, promissory notes and cheques are dealt with by the "Negociable Instrument Regulation" of 1967 (1389 H).

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PART B: ECONOMIC VIEW

1. Direct Investment in Saudi Arabia.

1.1 Direct Investment and the Capital Account.

Direct investment in Saudi Arabia exhibited very much the same structure as in the high-absorbing OPEC countries Venezuela and Nigeria, i.e. it was following the development of the oil price (with a lag of 1 or 2 years). This may also be referred to foreign companies investing in the vertical integration of Saudi Arabian oil industries, i.e. in the petrochemical sector. By absolute numbers, direct investment flows to Saudi Arabia made up for about 80 % of of total direct investment flows to OPEC countries, thus for about 30 % of world's total direct investment in developing countries.[1]

Table 1: Direct Investment Flows to and from Saudi Arabia (Million US-$, Saudi Arabian Capital Export indicated by Minus Sign)

	1979	1980	1981	1982	1983	1984	1985
SAUDI ARABIAN DIRECT INVESTMENT ABROAD, TOTAL	...	...	...	...	...	...	...
FOREIGN DIRECT INVESTMENT IN SAUDI ARABIA, TOTAL	-1381	-3140	6343	11088	4950	4998	2721
EQUITY CAPITAL	--	--	--	--	--	--	--
REINVESTMENT OF EARNINGS	--	--	--	--	--	--	--
OTHER LONG-TERM CAPITAL	-1381	-3140	6343	11088	4950	4998	2721
IN OIL-SECTOR							
ACCRUED TAXES AND ROYALTIES PAYABLE TO SAUDI ARABIA	-2608	...	...	...	...	...	...
OTHER	374	...	...	...	...	...	...
OTHER SECTORS	854	...	...	...	...	...	...
SHORT-TERM CAPITAL	--	--	--	--	--	--	--

Source: International Monetary Fund, Balance of Payments Statistics.

[1] See International Monetary Fund, Balance of Payments Statistics.

1.2 Direct Investment in Saudi Arabia (Sectoral).

Direct investment in Saudi Arabia has largely taken place in the oil producing and in the petrochemical sector, reflecting these sectors' dominance in the Saudi Arabian economy in general. The principal oil producing company are the purely Saudi Arabian PETROMIN and the Arabian American Company (ARAMCO).[1]

1.2.1. The Arabian American Company (ARAMCO)

The combination of Aramco's oil reserves plus the Kingdom's share of reserves in the Neutral Zone adds up to about 26 per cent of the world total, making Saudi Arabia the country with the largest oil reserves in the world.

From 1968 onwards a main aim of the Saudi Government's oil policy was to achieve state participation in the upstream operations of Aramco, whose production exceeded 3,000,000 b/d in 1970 (having reached 1,000,000 b/d in 1956 and 2,000,000 b/d in 1965). By February 1972 talks on this subject had lead only to an offer by the parent companies to concede 50 per cent state participation in the future development of certain unexploited proved reserves within their concession area, the Government's rejection of which was accompanied by a threat to secure "effective participation" in Aramco's existing operations through unilateral legislative action. The Aramco parent companies subsequently accepted the principle of minority state participation and entered into wider negotiations leading to the signature in October 1972 of the General Agreement on Participation in respect of oil concession in Arabian peninsula OPEC countries. A national agreement between Saudi Arabia and Aramco, concluded on Dec. 20, 1972, provided for 25 per cent state ownership of the company's upstream producing assets with effect from Jan. 1, 1973, to be acquired at the cost of 510 million US-$ (representing an updated book valuation of these assets). It was agreed that the ownership of Aramco's shares should remain wholly in the hands of the US parent companies.

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[1] See for the following OPEC, OPEC Member Country Profiles, Vienna 1983, pp.114 ff, and Evans, J., OPEC, Its Member States and the World Energy Market, London 1986, pp.296 ff.

A new policy of taking "immediate" majority control of Aramco's operations was announced by the Saudi Government in mid-November 1973, and an interim agreement was signed on June 10, 1974, to increase the level of state participation to 60 per cent with effect from Jan. 1, 1974. No additional payments were made to the parent companies at this stage, and negotiations continued with the aim of agreeing terms for full state control.

In late November 1974, after strong pressure from the Saudi Government, the Aramco parent companies accepted the principle of 100 per cent participation, and by early 1977 they had reached agreement with the Government on the main conditions under which Aramco's role was to be changed to that of a contractor, and its concessionaire status terminated, with effect from Jan. 1, 1976. The parent companies then received additional payments which were understood to represent the difference between the net book value of 60 per cent of Aramco's upstream producing assets and the earlier payments which had been made by Saudi Arabia in August 1973 on the basis of the updated book value of 25 per cent of these assets. Negotiations between the parent companies and the Government on most outstanding issues were completed in 1980, when final payments were received by the companies in respect of the net book value of their remaining 40 per cent interest in Aramco's producing assets. However no formal agreement was signed, certain unspecified aspects of Aramco's future role beeing subject to further negotiation.

The following broad principles were understood to apply to Aramco's contract operations: (i) the company retained functional responsibility for oilfield management in return for a per-barrel service fee which varied in line with a monthly IMF-index of wholesale prices in various countries; (ii) Aramco's parent companies had preferential access, at official prices, to exportable production which was not required to fulfil state export contracts, with regular reviews of the total volume available and the procedures for its purchase; and (iii) various incentives were introduced to encourage Aramco to share the cost of new investment in exploration work. The individual parent companies' long-term purchasing entitlements were allocated in proportion to their shareholdings in Aramco, anticipation of this arrangement having reportedly been a factor in inter-company negotiations leading to an agreement of April 1975 whereby Mobil's shareholding was increased to 15 per cent by 1979. Aramco's service contract was understood to cover the whole of its former concession area as defined in 1973 (i.e. some 220,150 sq km in the east of the kingdom, including about 31,000 sq km offshore), within which the company produced around 97 per cent of total Saudi Arabian oil output (with the balance coming from the Saudi share of Neutral Zone production). The world's largest single oilfield (Ghawar) and largest offshore (Safaniya) together accounted for more than two-thirds of Aramco's output.

In 1980, Aramco produced an average of 9,631,366 barrels of crude oil per day, and its total production during the year reached 3.53 billion barrels. This represented about 17 percent of the total world oil production. Aramco's cumulative crude oil production from 1938 to the end of 1980 totaled 49.6 billion barrels. Aramco's crude oil production in 1980, with Saudi Arabia's share from the Saudi Arabian/Kuwait Partitioned Neutral Zone, enabled the Kingdom to maintain its position as the largest oil-producing country in the Middle East and the second largest, after the Soviet Union, in the world.

Aramco's liquid natural gas (NGL) production from gas associated with crude production averaged 369,232 b/d, for a total production of 135 million barrels in 1980.

Two concessions were awarded in the Partitioned Zone between Saudi Arabia and Kuwait, one to Pacific Western Oil (later the Getty Oil Company) in 1949, in which the company struck oil in commercial quantities in 1957. In the same year, the Japanese were succescful in obtaining an offshore concession, also in the Partitioned Zone, and oil was discovered in 1961. Aramco holds a five-tract concession of 220,000 sq km in the eastern area of the Kingdom. There are now almost 40 discovered fields in the Aramco concession alone - including the immense Ghawar, the world's largest - of which 26 are onshore, 12 are offshore and two straddle land and sea. It should be noted that the Aramco concession belongs to the Saudi government.

Aramco's main downstream asset, a 450,000 b/d refinery complex located at Ras Tanura (Saudi Arabia's principal oil port), was acquired by the Government in 1980 but remained under the operational management of the company (which had previously retained 100 per cent ownership). The Aramco complex was partly export-orientated, as were the two Neutral Zone refineries at Mina Saud (Getty - capacity 50,000 b/d) and Ras al Khafji (AOC - capacity 30,000 b/d).There are at present six export oil refineries in the Kingdom, as shown in Table 2. The largest is Aramco's Ras Tanura refinery, which with an initial capacity of 450,000 b/d, processed 419,000 b/d during 1980. The Yanbu export refinery (capacity 250,000 b/d, partner Mobil) came on stream in August 1984 and the Jubail refinery (capacity 250,000 b/d, partner Shell) in June 1985.

Table 2 : Export Refineries Capacity 1980 - 1986 (1000 b/d crude input)[3]

REFINERY	PETROMIN PARTNER	1980	1981	1982	1983	1984	1985	1986
NEW REFINERIES								
JUBAYL	SHELL	--	--	--	--	--	205	250
YANBU	MOBIL	--	--	--	--	250	250	250
RABIGH	PETROLA	--	--	--	325	325	325	325
EXISTING REFINERIES								
GETTY OIL	-	50	50	50	50	50	50	50
ARABIAN OIL	-	30	30	30	38	30	30	30
ARAMCO[4]	-	450	450	450	450	450	450	450
TOTAL		530	530	530	855	1,355	1,355	1,355

Source: OPEC, Opec Member Country Profiles, Vienna 1983.

1.2.2. The General Petroleum and Minerals Organisation (PETROMIN)

As state corporation, the General Petroleum and Mineral Organization was established in November 1962 with a board of directors chaired by the Minister of Petroleum and Mineral Resources. The corporation was given wide powers to engage in all phases of commercial and industrial activity connected with petroleum and minerals both inside and outside Saudi Arabia, either on its own account or in collaboration with other companies or organizations. Petromin's initial operations were mainly in the area of

[3] Design capacity at end of year.

[4] Serves for export and home purposes.

domestic product distribution and marketing, hitherto controlled by Aramco. The Aramco bulk storage and distribution facilities serving western Saudi Arabia were purchased by Petromin in 1964 and the main facilities serving the remainder of the country in 1967. Petromin's first upstream investments took the form of 51 per cent shareholdings in two specialized service companies - the Arabian Drilling Co. and the Arabian Geophysical and Surveying Co. - which were established in 1964 and 1966 respectively in partnership with French interests.

Petromin is setting up several new oil refineries. These include one domestic refinery at Yanbu' and three export refineries, one each at Yanbu', Jubayl and Rabigh. The Yanbu' domestic refinery will have a capacity of 170,000 b/d, the Yanbu' and the Jubayl export refineries each have a capacity of 250,000 b/d, while the one at Rabigh has a capacity of 325,000 b/d[5]. In addition, two lubricating oil refineries, one at Yanbu'with a capacity of 5,000 b/d and the other at Jubayl with a capacity of 12,000 b/d, were planned to be built and completed by 1984 and 1986 respectively. A blending plant is also being planned for Jubayl.

The world's largest lube oil refinery had been planned for Jubail as a joint venture between Petromin (50 per cent), Texaco (25 per cent) and Chevron (25 per cent), while the plant at Yanbu was to have been built as a 50-50 joint venture between Petromin and Ashland Oil. Work on an additional Lubref (Petromin/Mobil) plant, under development at Yanbu to serve both domestic and export markets, was suspended in late 1985 for financial reasons.

[5] See also 1.2.1.

Table 3: Petromin Refinery Capacity 1979 - 1985 (1000 b/d crude input)[5]

REFINERY	CONSTRUCTION TYPE	1979	1980	1982	1985
JEDDAH	-	100	110	110	110
RIYADH	Expansion	20	20	120	120
YANBU' (PHASE 1)	New	-	-	170	170
YANBU' (PHASE 2)	Expansion	-	-	-	250

Source: OPEC, OPEC Member Country Profiles, and Middle East Economic Survey.

The East-West Crude Oil Pipeline (PETROLINE) was completed during 1981. Built at a cost of $1.6 billion, the pipeline covers a distance of about 1,200 km, linking the oil fields in the East with Yanbu'on the west coast. It has an initial conveying capacity of 3.70 million barrels a day. This pipeline, along with the East-West NGL/ethane pipeline which runs parallel to it, will transfer oil and gas from the producing points to Yanbu'on the Red Sea for export, and thereby cut substantially the shipping distance for importers from the Western countries. In addition, the two pipelines will serve as the lifeline of the Yanbu' industrial city by providing the feedstock for the two refineries currently under construction and the petrochemical complex to be built there by SABIC and foreign interests.

The 140 km Khurais Riyadh refinery pipeline has also been completed with an initial throughput capacity of 200,000 barrels of crude oil aday which can be raised later to 300,000 b/d. This pipeline will supply crude oil to the Riyadh Refinery and meet the requirements of the Riyadh Electric Company, Qasim Electric Company and industrial projects in Riyadh and Qasim areas for crude oil to generate power.

1.2.3. The Saudi Arabian Basic Industries Corporation (SABIC)

Responsibility for the development of hydrocarbon-based manufacturing was held by the Saudi Arabian Basic Industries Corporation (Sabic, established in 1976), whose planning, focused mainly on the new industrial cities of

[5] Design capacity at end of year.

Jubail in the east and Yanbu in the west, was carried out in close co-operation with Petromin. Sabic's investments in the period to 1985, totalling about $ 10,700 million, were predominantly in gas-based petrochemical plants, the main exception beeing a 90 per cent interest in a gas-fuelled iron and steel complex which went into production at Jubail in 1983.

A National Plastic Co. (Ibn Hayyan), owned 85 per cent by Sabic and 15 per cent by Lucky Group of South Korea, was due to begin operating in 1986 at Jubail with an annual capacity of 300,000 tonnes of vinyl chloride monomer and 200,000 tonnes of polyvinyl chloride. Sabic held a one-third interest in Gulf Petrochemical Industries Co. (an equal partnership with Kuwaiti and Bahraini state corporations), which brought a plant into production in Bahrain in late 1985 with a capacity of 330,000 tonnes of ammonia and 330,000 tonnes of methanol. Also in late 1985, the Saudi Yanbu Petrochemical Co. (Yanpet, a 50-50 joint venture between Sabic and Mobil) went into production at Yanbu with a capacity of 455,000 tonnes of ethanol, 220,000 tonnes of ethylene glycol, 205,000 tonnes of linear low-density polyethylene and 91,000 tonnes of high-density polyethylene.

Sabic's remaining first-phase petrochemical investments were all planned as 50-50 joint-venture projects at Jubail, although one such venture - the development of a 506,000-tonne ethylene plant by Arabian Petrochemical Co. (Petrokemya) - came under the sole ownership of Sabic after the withdrawal at an early stage of the foreign partner concerned (the US company Dow Chemical). The other Jubail projects were implemented as equal joint ventures by the following companies:

- Saudi Methanol Co. (Ar Razi); partner a Japanese consortium led by Mitsubishi; annual capacity 600,000 tonnes of methanol.

- National Methanol Co. (Ibn Sina); partners Celanese and Texas Eastern; annual capacity 700,000 tonnes of methanol.

- Jubail Fertilizer Co. (Samad); partner Taiwan Fertilizer Co.; annual capacity 500,000 tonnes of urea.

- Saudi Petrochemical Co. (Sadaf); partner Pecten Arabian Ltd (an affiliate of Shell's US subsidiary); annual capacity 656,000 tonnes of ethylene, 454,000 tonnes of ethylene dichloride, 295,000 tonnes of styrene, 281,000 tonnes of ethanol.

- Jubail Petrochemical Co. (Kemya); partner Exxon; annual capacity 260,000 tonnes of linear low-density polyethylene.

- Eastern Petrochemical Co. (Sharq); partner a Japanese consortium led by Mitsubishi; annual capacity 130,000 tonnes of linear low-density polyethylene and 300,000 tonnes of ethylene glycol.

1.3 German Direct Investment in Saudi Arabia.

German direct investment in Saudi Arabia has developed along the lines of German direct investment in other OPEC member countries.[7]

1.4 German Direct Investment in Saudi Arabia (Sectoral).

German direct investment in Saudi Arabia could not be identified disaggregated by sectors.

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[7] See Table 4.

Table 4: German Direct Investments in Saudi Arabia from 1979 to 1985

	Year	World	OPEC[8]	Saudi Arabia[8]
GERMAN DIRECT INVESTMENTS ABROAD (MILLION DM) END-OF-PERIOD STOCKS	79	70330	2024 (2.87)	139 (0.19)
	80	84485	2215 (2.62)	199 (0.23)
	81	101918	3013 (2.95)	210 (0.20)
	82	109234	3269 (2.99)	213 (0.19)
	83	123497	3707 (3.00)	387 (0.31)
	84	145605	4179 (2.87)	432 (0.29)
	85	147794	2445 (1.65)	301 (0.20)
NUMBER OF FIRMS	79	11180	269 (2.40)	22 (0.19)
	80	12256	282 (2.30)	32 (0.26)
	81	13084	311 (2.37)	37 (0.28)
	82	13618	319 (2.34)	41 (0.30)
	83	14044	314 (2.23)	45 (0.32)
	84	14657	325 (2.21)	51 (0.34)
	85	14964	313 (2.09)	52 (0.34)
BALANCE-SHEET-TOTAL, EXCLUDING BANKING SECTOR[9] (MILLION DM)	79	235500	6900 (2.92)	400 (0.16)
	80	281500	8000 (2.84)	800 (0.28)
	81	337500	10500 (3.11)	1000 (0.29)
	82	353500	11300 (3.19)	1000 (0.28)
	83	387500	11500 (2.96)	1200 (0.30)
	84	453000	12800 (2.82)	1300 (0.28)
	85	459400	9200 (2.00)	1000 (0.21)
ANNUAL TURNOVER-SALES (MILLION DM)	79	275300	6300 (2.28)	800 (0.29)
	80	325300	7100 (2.18)	1100 (0.33)
	81	400500	10100 (2.52)	1600 (0.39)
	82	419400	9900 (2.36)	1800 (0.42)
	83	436100	8700 (1.99)	1700 (0.38)
	84	522900	9000 (1.72)	1500 (0.28)
	85	562200	9500 (1.68)	1400 (0.24)
EMPLOYEES (THOUSANDS)	79	1651	58 (3.51)	4 (0.24)
	80	1743	61 (3.49)	5 (0.28)
	81	1762	66 (3.74)	5 (0.28)
	82	1690	49 (2.89)	6 (0.35)
	83	1617	47 (2.90)	6 (0.37)
	84	1697	44 (2.59)	6 (0.35)
	85	1785	42 (2.35)	5 (0.28)

Source: Deutsche Bundesbank, Die Kapitalverflechtung der Unternehmen mit dem Ausland nach Ländern und Wirtschaftszweigen 1979 bis 1985

[8] Percentages of world in paranthesis.

[9] No detailed data available for Banking Sector.

2. Macroeconomic Development.

Saudi Arabia is significantly characterized by the dominating petroleum sector. Though there are attempts to reduce the importance of this sector for the Saudi Arabian economy, still over the last few years GDP was largely determined by nominal (oil-) exports following the development of the oil price.[10]

2.1 The Role of the Government, Development Plans[11]

The First Development Plan 1970-75

When the First Plan (1970-75) was laid down in the late 1960s, the Kingdom was beset with difficult financial problems. There was a large balance of payments deficit in 1968 and again in 1969, leading to a loss of about 30 per cent of the Kingdom's foreign exchange reserves. The First Plan was, therefore prepared in a climate of financial and foreign exchange constraints and consequently modest targets were initially set. Conditions, however, changed dramatically before the end of the First Plan. Due to the sharp rise in world oil prices, increased financial resources became available to Saudi Arabia for the Second Plan.

The Second Development Plan 1975-80

The Second Five-year Plan (July 1975 to May 1980) produced in July 1975, called for a total expenditure of US-$ 142 billion over the period; a level of investment nine times higher than that proposed in the First Development Plan. The 1975-80 Plan aimed at achieving a high rate of growth, reduced dependence on oil and diversifacation of the productive base of the economy, development of human resources, and physical infrastructure.

The Third Development Plan 1980-85

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[10] See Table 6.

[11] See for the following OPEC, OPEC Member Country Profiles, Vienna 1983, pp.102 ff.

The third Plan, for the five year period 1980/81 - 1984/85 placed principal emphasis on:

- developing the productive sectors of the economy in order to reduce the country's heavy dependence on oil exports;

- effectively increasing productivity of Saudi manpower in order to reduce the dependence on expatriate labour.

By comparison, the major emphasis of the first two Plans was laid on building the basic infrastructure. The total spending envisaged during the period of the Third Plan amounted to SR 783 billion (US-$ 230 billion) excluding transfer payments, foreign aid, and national defence.

Table 5 : Development-Spending during the first three Plans (Billion Saudi Riyals)[12]

	FIRST PLAN[13]		SECOND PLAN[13]		THIRD PLAN[14]	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
ECONOMIC RESOURCE DEVELOPMENT	6.0	13.9	92.1	21.9	261.8	33.4
HUMAN RESOURCE DEVELOPMENT	10.2	23.6	80.1	19.1	129.6	16.6
SOCIAL DEVELOPMENT	2.4	5.6	33.2	7.9	61.2	7.8
PHYSICAL INFRASTRUCTURE	14.1	32.2	112.9	26.9	249.1	31.8
TOTAL DEVELOPMENT	32.7	75.7	318.3	75.8	701.7	89.6
ADMINISTRATION	10.5	24.3	38.2	9.1	31.4	4.0
CONTINGENCY RESERVES AND SUBSIDIES	-	-	63.5	15.1	49.6	6.4

Source: OPEC, OPEC Member Country Profiles, and Middle East Economic Survey.

[12] Does not include: a) transfer payments; b) non-civilian sectors, and c) foreign aid.

[13] Based on 1974/75 prices.

[14] Based on 1979/80 prices.

2.2 Saudi Arabian Trade.

Saudi Arabian exports consist basically of Petroleum, Petroleum Products and Petroleum Related Materials (SITC 33, 26274.9 million US-$ to OECD in 1984). Total exports accordingly developed along the lines of OPEC's oil exports over the recent years.

Saudi Arabian imports consist of Cereals and Cereal Preparations (SITC 04, 923.5 million US-$ from OECD in 1984), Chemicals and Related Products (SITC 3, 1359.6 million US-$ from OECD in 1984), Manufactured Goods (SITC 6, 4834.0 million US-$ from OECD in 1984), Machinery and Transport Equipment (SITC 7, 11277.1 million US-$ from OECD in 1984), of which: 2252.1 million US-$ SITC 74 (General Industrial Machinery and Equipement), 1112.2 million US-$ SITC 76 (Electrical Machinery, Apparartus and Appliances), 1626.5 million SITC 77 (Telecommunications), and 2432.9 million US-$ SITC 78 (Road Vehicles).[15]

The Euromoney Trade Finance Report states " 'Irrevocable Letters of Credit' and 'Cash against Documents'" as usual. Also, "secured terms" are advised.[16]

2.3 The Role of the Banking Sector.

The Saudi Arabian banking sector consists of 23 home and 10 foreign banks. 10 of the home banks are general banking institutes, 6 are special development banks[17].

2.3.1. Commercial banking institutes

The most important banks in 1983 were the

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[15] See OECD, Foreign Trade by Commodities, Paris 1986.

[16] See Euromoney, Euromoney Trade Finance Report, Dec.86.

[17] See for the following Field, P., Moore, A. (eds.), Arab Financial Markets, Euromoney Publications, London 1981, pp. 101 ff, and IfO-Institut für Wirtschaftsforschung, Die Arabischen Banken, Fata Morgana oder erwachende Konkurrenz, IfO-Schnelldienst 10, 11/86.

- National Commercial Bank (Jeddah, net assets of estimated 14835 million US-$ in 1983, 100% Saudi nationals)

- Riyad Bank (Jeddah, net assets of estimated 7799 million US-$ in 1983, 100% Saudi nationals)

- Saudi International Bank (London, net assets of estimated 4087 million US-$ in 1983)

- Saudi American Bank (Riyadh, net assets of estimated 3093 million US-$ in 1983, 60% Saudi nationals, 40 % Citibank, U.S.)

- Al Bank Al Saudi Al Fransi (Jeddah, net assets of estimated 2846 million US-$ in 1983, 60% Saudi nationals, 40 % Banque de l'Indochine et de Suez, France)

- Saudi Cairo Bank (Jeddah, net assets of estimated 2388 million US-$ in 1983, 60% Saudi nationals, 40 % Banque de Caire, Egypt)

- Al Bank Al Saud Al Hollandi (Jeddah, net assets of estimated 2043 million US-$ in 1983, 60% Saudi nationals, 40 % Algemene Bank Nederland, Netherlands)

- Arab National Bank (Riyadh, net assets of estimated 1704 million US-$ in 1983, 60% Saudi nationals, 40 % Arab Bank Limited, Jordan)

- Saudi British Bank (Riyadh, net assets of estimated 1760 million US-$ in 1983, 60% Saudi nationals, 40 % British Bank of the Middle East, U.K.)

2.3.2. Special credit institutions

The commercial banks are complemented by six specialized credit institutions. They were established by the government to grant concessionary medium and long-term funds to various sectors of the economy. The three most prominent institutions, by volume of disbursements, are

- The Real Estate Development Fund (REDF) which was established in 1974 to lend to private and commercial real estate projects. The Fund disbursed a record of SR 9 billion in 1977. The volume, however, declined in 1979 to a low of SR 6 billion, as a result of a housing surplus.

- The Saudi Industrial Development Fund (SIDF), also established in 1974, to provide financing to the private industrial sector. Disbursements increased from SR 35 million in 1975 to SR 7 billion in 1979.

- The Public Investment Fund (PIF), which was founded in 1971, and provides equity and loans to to public sector projects. In 1979, disbursements reached SR 4 billion as against SR 263 million in 1974.

The loans advanced by these institutions usually carry an annual service charge to cover administrative expenses or a very low interest rate or even no charge at all.

The remaining three specialized institutions are: the Saudi Agricultural Bank which, as the name signifies, provides credit for the agricultural sector; the Saudi Credit Bank, which extends interest free loans to lower income groups; and the Credit Fund for Contractors, which grants loans for the import of equipement and materials. The amount disbursed by these three institutions in 1979 was SR 780 million, of which 90 % was attributable to the Saudi Agricultural Bank, 7 % to the Saudi Credit Bank and 3 % to the Credit Fund for Contractors.

The total amounts of credit provided by these specialized institutions in 1979 was SR 17 billion, a decline of 12 % over the preceding year, but an increase of 196 % since 1976. Over the period 1976-79, these institutions pumped SR 58 billion into the economy. Their ability to increase lending is clearly limited by the absorptive capacity of the Saudi economy, and by the social costs created by rapid industrialization.

2.3.3. Specialized consortia

There are three major specialized consortium institutions in the Kingdom:

- The Saudi Investment Banking Corporation (SIBC) which provides medium-term financing for industrial and agricultural projects; SIBC was established by a multinational consortium, 35 % of which is non-Saudi;

- The Arab Petroleum Investments Corporation (APICORP) founded by members of the Organization of Arab Petroleum Exporting Countries to finance and develop oil related projects;

- The Arab Investment Company (TAIC), owned by 15 Arab countries, to promote economic development in the Arab world.

2.3.4. Saudi banks overseas

The overseas presence of Saudi banks is still small by any standard. NCB has branches in Bahrain and Beirut. It also has representative offices in Frankfurt, London, Singapore and Manila and plans to establish a presence in the United States. Riyad Bank has a 60 % stake in the Gulf Riyad Bank, the Bahrain-based offshore banking unit, and Crédit Lyonnais holds the remaining 40 %. Among the Saudi banks headquartered outside the Kingdom, the most prominent is the Saudi International Bank (SIB). Established in London in 1975, the bank is 50 % owned by SAMA. It is managed by Morgan Guaranty Trust of New York, which has a 20 % stake. SIB is cautiously playing an increasingly important role in the international market. It still relies largely on non-Saudi staff for its operations. Unlike other institutions, the Saudi banks have generally been selective in participating in syndicated loans and are almost absent from the bond market.

2.3.5. The Saudi Arabian Monetary Agency (SAMA)

The Saudi financial sector revolves around the Saudi Arabian Monetary Agency, which has been entrusted with managing the country's reserves, stabilizing the value of the Saudi Riyal, handling the government's receipts and disbursements, issuing currency and regulating the commercial banking system.

Sama's policy has been to foster competition among the banks and encourage them to expand their branches in urban and rural areas. Sama also dictates the fees and commissions charged by bank on various services such as opening letters of credit, foreign exchange transactions, transfer of funds in and out the country, etc. The Agency has discouraged efforts to internationalize the Saudi Riyal. The absence of a secondary market for fixed income instruments has somewhat reduced Sama's effectiveness in controlling the level of money supply. Sama implements its monetary policy through government spending, changes in the reserve and/or liquidity requirements, and placement or withdrawal of deposits with the banking system.

Sama has followed a conservative investment policy, restricting its lending to prime borrowers. It has undertaken several private placements with triple-A borrowers and has occasionally bypassed the traditional financial intermediaries by lending directly to sovereign and corporate entities. The Agency's deposits are held with a selective number of banks, and part of its investments are channelled through specialized portfolio managers. Unlike some countries in the Gulf area, Sama has avoided equity participation or real estate investments, and does not maintain a direct presence overseas.

2.4 Foreign Exchange.

Currency is the Saudi Riyal (= 100 Halalas). It has shown to be of limited flexibility in terms of its US-Dollar exchange-rate, the latter ranging from about 3.3 to 3.7 Riyal/US-$ over the last 15 years [18].

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[18] See Table 6.

Table 6: Macroeconomic Development

	1973	1974	1975	1976	1977	1978
FOREIGN EXCHANGE						
PAR/MARKET CONVERSION FACTOR (RIYAL/US-$)	3.70659	3.55000	3.51761	3.53000	3.52506	3.39956
SAUDI ARABIAN TRADE ACCOUNTS AND OIL SECTOR (BILLION RIYAL)						
EXPORTS	28.92	126.74	104.47	136.34	153.81	138.24
TOTAL IMPORTS,VALUE	7.310	10.149	14.823	30.691	51.662	69.180
PETROLEUM EXPORTS	28.92	126.46	104.05	135.91	153.47	127.11
CRUDE PETROL.EXPORTS	26.55	118.93	97.26	127.73	146.00	120.16
REFINED PETROL.EXPORTS	24.6	7.53	6.78	8.18	7.47	6.94
CRUDE PETROLEUM EXP.VOL. (1980=100)	75.8	85.6	71.3	87.0	93.0	83.2
CRUDE PETROL.PRODUCTION (1980=100)	76.5	85.4	71.3	86.6	92.7	83.6
CRUDE PETROLEUM PRICE (US-$/BARREL,1980=100)	9.80	34.92	37.55	40.17	43.03	44.08
PETROL LT.FOB (RAS TANUR,US-$/BARREL)	2.70	9.76	10.72	11.51	12.40	12.70
SAUDI ARABIAN CURRENT AND CAPITAL ACCOUNTS (MILLION US-$)						
CURRENT ACCOUNT INCL. EXCEP.FINANCING	2520	23025	14385	14360	11991	-2212
DIRECT INVESTMENT	-626	-3732	1865	-397	783	556
PORTFOLIO INVESTMENT	-283	-5101	-9922	-9456	-8258	2256
OTHER LONG-TERM CAPITAL	-3	-39	-1080	-1303	-28	-1032
OTHER SHORT-TERM CAPITAL	-691	-3764	3811	523	-1791	-6267
SAUDI ARABIAN NATIONAL ACCOUNTS (BILLION RIYAL)						
EXPORTS OF GOODS & SERV.	30012	85682	114461	120284	140321	140762
GENERAL GOVT.CONSUMPTION	5335	9864	15911	28883	41033	47034
GROSS FIXED CAPITAL FORM.	5694	8400	17699	33540	51191	66891
INCREASE IN STOCKS	-113	835	748	780	838	5958
PRIVATE CONSUMPTION	7896	9828	18039	23903	34372	54607
IMPORTS OF GOODS & SERV.	8272	15293	27257	42863	62699	91505
NET FACTOR PAYM.ABROAD	10457	16965	14201	-867	-2667	-1780
GROSS NATIONAL PRODUCT	30094	82350	125399	165393	207723	227182
GROSS DOMESTIC PRODUCT	40551	99315	139600	164526	205056	225402
GR.DOM.PROD.1980 PRIC.	214863	247270	247903	269299	309990	328440
MONEY (M1)	5285	7333	14181	24271	38414	49209
CONSUMER PRICES (1980=100)	40.2	48.8	65.6	86.4	96.2	R 94.7
POPULATION (MILLION)	6.76	6.97	7.25	E 7.62	E 8.06	E 8.49

Source: International Monetary Fund, International Financial Statistics.

Table 6: continued

	1979	1980	1981	1982	1983	1984	1985
FOREIGN EXCHANGE							
PAR/MARKET CONVERSION FACTOR (RIYAL/US-$)	3.36084	3.32674	3.38251	3.42817	3.45476	3.52381	3.62214
SAUDI ARABIAN TRADE ACCOUNTS AND OIL SECTOR (BILLION RIYAL)							
EXPORTS	213.18	362.89	405.48	271.09	158.44	129.79	--
TOTAL IMPORTS,VALUE	82.223	100.350	119.298	139.335	135.417	118.737	
PETROLEUM EXPORTS	197.02	337.40	377.30	251.16	147.89	120.73	--
CRUDE PETROL.EXPORTS	186.03	320.45	359.56	235.21	142.15	114.57	--
REFINED PETROL.EXP.	10.99	16.95	17.74	15.95	57.41	61.60	--
CRUDE PETROLEUM EXP.VOL. (1980=100)	95.3	100.0	97.6	61.0	43.0	34.6	30.2
CRUDE PETROL.PRODUCTION (1980=100)	96.0	100.0	98.3	65.3	46.0	45.7	41.2
CRUDE PETROLEUM PRICE (US-$/BARREL.1980=100)	60.26	100.00	113.09	116.14	100.25	98.49	97.04
PETROL LT.FOB (RAS TANURA,US-$/BARREL)	17.26	28.67	32.50	33.47	29.31	28.47	
SAUDI ARABIAN CURRENT AND CAPITAL ACCOUNTS (MILLION US-$)							
CURRENT ACCOUNTS INCL. EXCEP.FINANCING	11167	42754	41129	-193	-16953	-18395	12512
DIRECT INVESTMENT	-1351	-3192	6448	11128	5039	5227	2512
PORTFOLIO INVESTMENT	-649	-23594	-32804	-14104	5824	14578	8672
OTHER LONG-TERM CAPITAL	-1149	-595	-1419	--	--	--	--
OTHER SHORT-TERM CAPITAL	-7785	-11435	-3836	-6908	4677	-2501	2455
SAUDI ARABIAN NATIONAL ACCOUNTS (BILLION RIYALS)							
EXPORTS OF GOODS & S.	147236	258488	368425	354919	219445	168420	133995
GENERAL GOVT.CONSUMPT.	71904	77563	81915	128526	126854	121803	115869
GROSS FIXED CAP.FORM.	76654	97068	106376	122315	115454	110095	96646
INCREASE IN STOCKS	-7384	-17346	6427	-19802	-2559	3334	7743
PRIVATE CONSUMPTION	68608	102385	114905	126514	137304	143449	141051
IMPORTS	107479	132351	157459	187754	181267	175855	156084
NET FACTOR PAYM.ABROAD	-6639	-4747	-12162	-1817	18156	12182	
GROSS NATIONAL PRODUCT	256178	390554	532751	526536	397074	359064	
GROSS DOMESTIC PRODUCT	249539	385807	520589	524719	415230	371246	339220
GR.DOM.PROD.1980 PRIC.	350391	385807	416362	423255	377766	374874	357010
MONEY (M1)	54704	58955	72981	83779	84934	82975	81826
CONSUMER PRICES (1980=100)	96.4	100.0	102.7	102.1	101.5	100.3	97.0
POPULATION (MILLION)	8.93	9.37	9.80	10.23	10.66	11.09	11.54

Source: International Monetary Fund, International Financial Statistics.

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