Saudi Arabia and the WTO

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February 2006

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Saudi Arabia

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Summary

As the world's largest oil exporter, the 23rd largest importer, and the largest economy in the Middle East, Saudi Arabia is a global trade power. Thus the Kingdom's absence from the World Trade Organization (WTO) has been an obvious shortcoming in the global trade system.

This was rectified on 11 December 2005 when Saudi Arabia became the 149th member of the WTO after over 12 years of negotiations. In the process of preparing for membership, Saudi Arabia enacted 42 new trade-related laws, created nine new regulatory bodies, and signed 38 bilateral trade agreements. When the Kingdom first applied for membership in the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT) in 1993, 75 percent of the Kingdom's tariffs on imported goods were at 12 percent. By 2003, 85 percent of tariffs were 5 percent or less, and the commitments made for WTO membership will now bring tariffs down further.

To become a member, Saudi Arabia made major commitments to reduce tariffs, open services sectors of the economy to greater foreign participation, and to implement all WTO rules upon membership without recourse to transition periods. This means that when Saudi Arabia became a member, it was committed immediately to an intellectual property rights environment, a foreign investment environment, transparency in trade issues, legal recourse for trade partners, and elimination of technical barriers to trade, all in compliance with WTO requirements.

Saudi Arabia also agreed to join several sectoral initiatives upon accession that lower tariffs and other trade barriers for telecommunications services, information technologies, pharmaceuticals, civilian aircraft and parts, and chemicals.

Equally important, however, is what the WTO agreement does not do. It does not require the importation of religiously banned products such as pork and alcohol, change Saudi Arabia's trade stance toward Israel, address human rights issues, require changes to Saudization policies, weaken Saudi product standards or food safety standards, require the Kingdom to charge higher domestic prices for energy and petrochemical feedstocks, or leave Saudi Arabia exposed without recourse to dumping of inferior foreign products on the market—all concerns that we have heard expressed over the years of Saudi-WTO negotiations.

Our view is that the Kingdom's membership in the WTO is broadly positive for the economy. There is no single agreement or commitment to the WTO that dramatically effects the economy. Rather, it is the cumulative impact of the hundreds of incremental changes that is broadly positive for growth. This is already demonstrated by accelerating growth of the non-oil private sector over the years of negotiation. From 1990-1995, private sector GDP growth averaged 1.7 percent per year. From 2000-2005, growth accelerated to average 5 percent per year. We believe the reform and trade liberalization of the past decade, much attributable to preparation for WTO membership, accounts for some of the higher growth rates. For the rest of this decade we believe private sector growth will range from 6-8 percent, in line or above the sustainable organic rate of growth. In addition, WTO membership furthers several primary goals of economic policy—diversification of the economy away from oil, job creation for Saudis, and attraction of foreign investment.

We are hard-pressed to identify domestic industries that would suffer significantly under the WTO environment, partly because membership comes at a time when the economy is enjoying a boom—23 percent nominal GDP growth in 2005 with no domestic inflation—and that boom is likely to continue for several years. With such an economic backdrop, domestic firms have the latitude to adjust to competitive challenges while continuing to prosper. Agriculture sees a gradual decline of government support over a 10-year period, which may affect some of the small and marginal players. There was concern that small and medium enterprises, especially in retail, would be harmed, but they remain largely protected from foreign entrants into this segment of the market.

A specific beneficiary is the Saudi petrochemical industry. Using comparative advantage rationale, the Kingdom did not have to commit to increasing prices for natural gas and natural gas liquids (NGLs) used as petrochemical feedstock to be in line with global prices, thus preserving the cost advantage of producers in Saudi Arabia. In addition, Saudi Arabia can champion from within the WTO the Chemical Tariff Harmonization Agreement, which lowers global tariffs on chemical products, including all petrochemicals exported from Saudi Arabia, to a maximum 6.5 percent.

This report is intended to fill a gap between the detailed, and lengthy and legalistic Saudi WTO Accession Protocol documents, and the more cursory media treatment of Saudi WTO membership. In this report we cover in non-technical jargon the specifics of Saudi Arabia's major commitments for WTO membership and the implications of these commitments for businesses, both foreign and domestic, and for the economy. For those interested in understanding only the most basic issues, we refer you to the final appendix where we have compiled the most frequently asked questions and answered them simply and directly.

Saudi Arabia and the WTO

Background and Introduction

In June 1993 Saudi Arabia made formal application to join the General Agreement on Tariffs and Trade (GATT). A "Working Party" comprised of any GATT members that wished to participate, was created to negotiate Saudi Arabia's membership. When the GATT became the World Trade Organization (WTO) in 1995, the GATT Working Party was transformed into the WTO Working Party and negotiations continued both bilaterally with key trade partners and through several meetings of the Working Party in Geneva until Saudi Arabia officially became the 149th member of the WTO on 11 December 2005.

Even before membership in the WTO, Saudi Arabia's economy was heavily trade-oriented. At the time of its accession in 2005, Saudi Arabia was the 13th largest merchandise exporter in the world and the 23rd largest importer. In 2004, total merchandise trade (imports and exports) was SR 640.3 billion ($170.7 billion), equivalent to 68 percent of GDP, while, for comparison, global merchandise trade represented 17 percent of global GDP.

Saudi Arabia's trade profile is healthy. It has run a current account surplus for 9 of the past 10 years. For 2005, the current account surplus was about $87 billion. In general, Saudi Arabia's imports are about one third the value of its exports. Exports are primarily crude

Saudi Imports by Origin
Billion Riyals

	2001	2002	2003	2004	% Change from '03 to '04
USA	20.8	19.7	20.8	25.6	23.1%
Japan	13.0	13.4	14.3	16.4	14.7%
UK	8.0	7.2	8.1	9.5	17.3%
Germany	9.4	10.2	12.4	13.5	8.9%
Italy	4.5	5.2	5.5	5.7	3.6%
France	4.5	4.4	5.0	5.9	18.0%
Belgium	1.9	2.1	2.3	2.2	-4.3%
Spain	1.7	1.5	1.8	2.2	22.2%
Netherlands	2.2	2.0	2.8	3.0	7.1%
Total Euro Area	**24.2**	**25.4**	**29.8**	**32.5**	9.1%
Sweden	1.6	1.5	2.1	2.8	33.3%
China	5.4	6.4	8.2	11.1	35.4%
Switzerland	2.8	2.0	2.7	3.2	18.5%
Australia	4.7	4.2	3.7	4.8	29.7%
S. Korea	3.8	4.0	5.1	6.4	25.5%
India	2.8	3.3	4.1	5.3	29.3%
Brazil	2.4	2.0	2.3	2.9	26.1%
Sixteen-country total	**89.5**	**89.1**	**100.4**	**120.5**	**20.0%**
GCC countries total	**4.6**	**5.6**	**6.1**	**8.2**	**35.9%**
Arab countries total	**8.1**	**10.4**	**10.9**	**14.2**	**30.3%**
Rest of the world	**8.9**	**13.5**	**27.3**	**33.1**	**21.1%**
TOTAL IMPORTS	116.9	121.1	138.4	167.8	21.2%

Source: Central Department of Statistics

oil, refined oil products, and petrochemicals, and imports are a diverse range of goods from many trade partners. The Kingdom tends to run a large merchandise trade surplus, and a small services trade deficit. This positive trade balance is likely to continue for several years given likely continued strength in the oil market. The Kingdom's oil revenues are the most volatile piece of its trade picture.

The Kingdom's primary sources of imports, in order by value of 2004 imports, are the US, Japan, Germany, China, and the UK. The top recipients of Saudi exports are the US, Japan, South Korea, India and China. While the US remains the largest source of imports into the Kingdom, the most dynamic change in trade patterns over the past decade has been in Saudi trade with China, in both exports of oil to China and imports of goods from China. China moved from the 28th ranked recipient of Saudi exports in 1995 to the 5th ranked in 2004, and from the 9th ranked source of imports into Saudi Arabia in 1995 to the 4th in 2004. Throughout this report are tables and charts of the trade profile of Saudi Arabia and its major trading partners.

Tariffs in Saudi Arabia have been declining for many years, and its WTO commitments will reduce them further. The Kingdom classifies goods for customs purposes into 7,177 items. When Saudi Arabia applied for GATT membership in 1993, about 75 percent of these were subject to tariffs of 12 percent. By 2004, 85 percent of these items had applied duties, due to the GCC Customs Union, of 5 percent or less. Saudi Arabia committed to further tariff reductions as part of its commitments for joining the WTO, although the tariff ceilings it agreed to are in many cases higher than currently applied tariffs.

The economic reforms and trade policy changes do not start, or end, with Saudi Arabia's membership in the WTO. The process of bringing its trade regime into compliance with its commitments for WTO membership was ongoing as negotiations continued. All existing 148 members of the WTO had to agree with Saudi Arabia's trade regime for it to get into the organization, with the important negotiating points varying from one trade partner to another. During the past several years, as the countries negotiated, Saudi Arabia established nine regulatory authorities and enacted 42 trade-related laws, partly to bring the economy into compliance with the WTO, but primarily as part of a broader commitment to economic reform and market liberalization. According to a senior official at the Ministry of Commerce, Saudi Arabia also engaged in 314 rounds of bilateral market access negotiations with WTO members and signed 38 bilateral agreements, the latest, in September 2005, and perhaps most important, being with Saudi Arabia's largest source of imports, the United States. In the process, Saudi Arabia provided over 7,000 pages of documentation, largely in answer to 3,400 questions about its trade regime.

In addition, our read of the official WTO documents on Saudi membership indicates the Kingdom has made over 50 specific commitments that have yet to be fully implemented. Thus, the largely positive impact of Saudi membership in the WTO has been building over the past many years and will continue. We have noted in previous reports that the impact of reforms that began in earnest in 1995 were starting to be manifest in higher levels of private sector GDP growth in recent years. We cover this in more detail below as we examine the full economic implications of Saudi WTO membership.

Saudi Oil Exports by Destination (2004)
(Million barrels)

	Exports	Percent of Total
Asia and Far East	1,251.1	50.3%
North America	558.4	22.5%
Europe	459.6	18.5%
Middle East	95.5	3.8%
Africa	88.7	3.6%
Latin America	22.3	0.9%
Others	11.3	0.5%
Total	**2,486.8**	**100.0%**

Source: Ministry of Petroleum and Mineral Resources

In the following pages we look first at the details of the commitments Saudi Arabia has made to join the WTO. The primary source for this information is the WTO's official protocol documents on the Saudi accession.[1] We try to explain these in precise, but non-technical, jargon. Then we offer our view of the implications of each of these commitments and changes. Separately, we step back and examine the broader macroeconomic impacts of the WTO membership. Finally, we include an appendix of frequently asked questions where we address some of the most common questions we have heard regarding what the WTO means for Saudi Arabia.

1 These original source documents can be downloaded from the Economy Watch section of www.samba.com

Trade in Goods

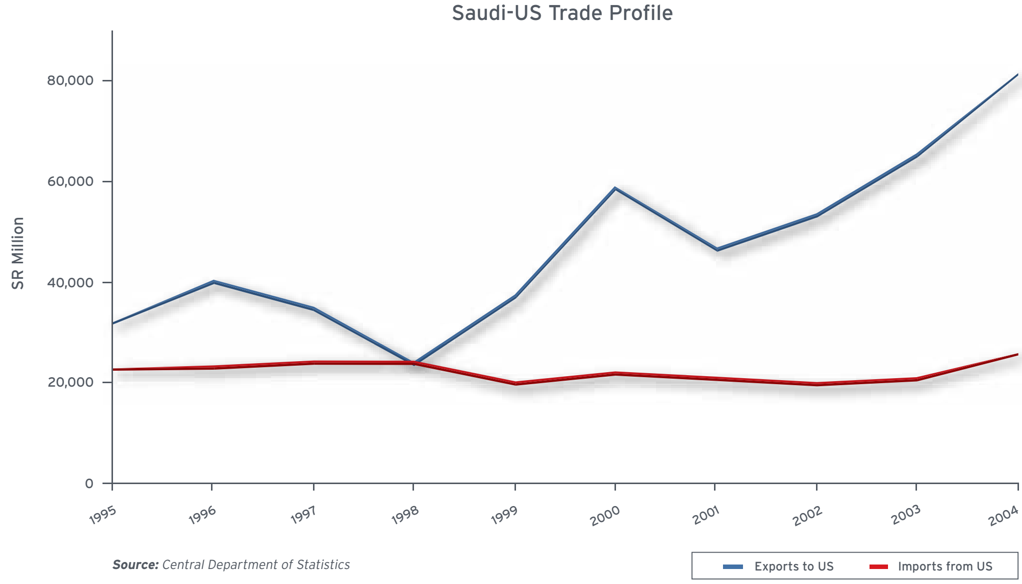
Saudi Arabia trades with most countries of the world, and, as mentioned above, the bilateral trade negotiations were an important part of the accession process, resulting in the 38 trade agreements signed by the Kingdom. Some of the important bilateral agreement included those with Japan, Canada, Australia, and most recently, the United States, thus removing the last major hurdle before accession. At the multilateral level, Saudi Arabia signed the Arab League Customs Union, the Gulf Cooperation Council (GCC) Unified Customs Agreement, and the Saudi-EU (European Union) Joint Trade Agreement.

At the heart of many of these negotiations were tariff duties that Saudi Arabia levies on imported goods. Over the 12 years of negotiations, Saudi Arabia repeatedly modified its customs system and tariff rates in response to changes in the global tariff environment or to bring its tariffs more in line with the requirements of WTO membership. Now that Saudi Arabia has formally joined the WTO, all matters concerning customs tariffs will be subject to compliance with the rules and regulations of the WTO.

Domestically, the authority for setting customs tariffs, making changes to customs regulations, or levying any surcharges rests with the Council of Ministers. Imposition, amendment or cancellation of customs tariffs requires issuance of a decree by the Council of Ministers that is endorsed by a Royal Decree.

The Saudi tariff regime operated under what was known as the Brussels Tariff Nomenclature (BTN) until 1993 when the Kingdom shifted to the more comprehensive Harmonized System Code (HS Code) which was used by most GATT members at the time. This is a global system for categorizing imports into categories, or "tariff lines." Currently Saudi Arabia uses HS 2002, under which there are 7,177 industrial and agricultural product tariff lines identified at the 8-digit level. The first six digits of a Saudi tariff line correspond to the HS Code, while the last two are specific to Saudi Arabia.

Saudi-US Trade Profile



Source: *Central Department of Statistics*

Main Exports	SR Million	Main Imports	SR Million
1. Crude oil	75,913	1. Aircraft parts	2,046
2. Natural gasoline	995	2. Chassis with engine/cabin	1,475
3. Propane	821	3. Passenger cars < 3000 CC	1,138
4. Partially refined oils	793	4. Cigarettes	1,065
5. MTBE*	684	5. Passenger cars > 3000 CC	910

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In a key document relating to Saudi WTO membership, the Schedule of Specific Concessions and Commitments on Goods, the HS code number and name of the commodity are indicated, as well as Saudi tariff rates for each commodity after accession to the WTO. The new tariff rates are also referred to as "bound" rates, or ceilings a common WTO term meaning the rates in the schedule are the maximum tariffs that Saudi Arabia will levy. These "bound" rates are not necessarily the existing applied rates. The Kingdom may lower rates below these ceilings at some point in the future, but the ceiling cannot be changed without conducting new negotiations with the WTO. These new tariff commitments were agreed to pursuant to discussions with 38 members of the organization that had requested bilateral negotiations with Saudi Arabia. Per WTO regulations, the lowest tariff rate that Saudi agreed to for each specific tariff line with any one WTO member automatically applies to all other members without regard to previous agreements.

As a result of the WTO membership and other developments, Saudi Arabia's tariffs have moved significantly downward, and will continue to do so. As mentioned in the introduction, in 1993, when Saudi Arabia filed for GATT membership for the first time, about 75 per cent of its tariff lines were subject to a 12 percent tariff, while about 6 percent of its tariff lines carried duties of 20 percent or 50 percent. Effective January 2003, Saudi Arabia applied the unified GCC tariff in implementation of the GCC Customs Union provisions. As a result, more than 85 per cent of Saudi Arabia's tariffs range between zero and 5 per cent. Of the remaining roughly 14 percent of items, 7 percent carry duties of 12 percent, while 6 percent carry duties of 20 percent. Twenty tariff lines (i.e., tobacco and tobacco related products) carry duties of 100 percent. Imports of alcohol and pork are banned for religious reasons. Later, in December 2005, customs tarrifs were abolished for 52 chemical and pharmaceutical products, following consultations with other GCC members.

There are some imports that are exempted from the regular tariffs. The Unified Customs Law of the GCC States, which went into effect in 2003, provided for tariff exemptions including for imports by diplomatic missions and personnel; imports of arms, ammunition, military equipment and other materials for use by the military and local security forces; imports by charitable organizations; returned goods previously exported or re-exported from Saudi Arabia; and finally personal effects and household items imported as passenger baggage. No other exemption of customs duty is allowed for any Saudi government agency.

Religious organizations filing for waivers are granted customs exemption provided they are registered as non-profit charitable organizations. Also, the Foreign Investment Law as amended in 2000 maintained the exemption of production inputs from customs duty.

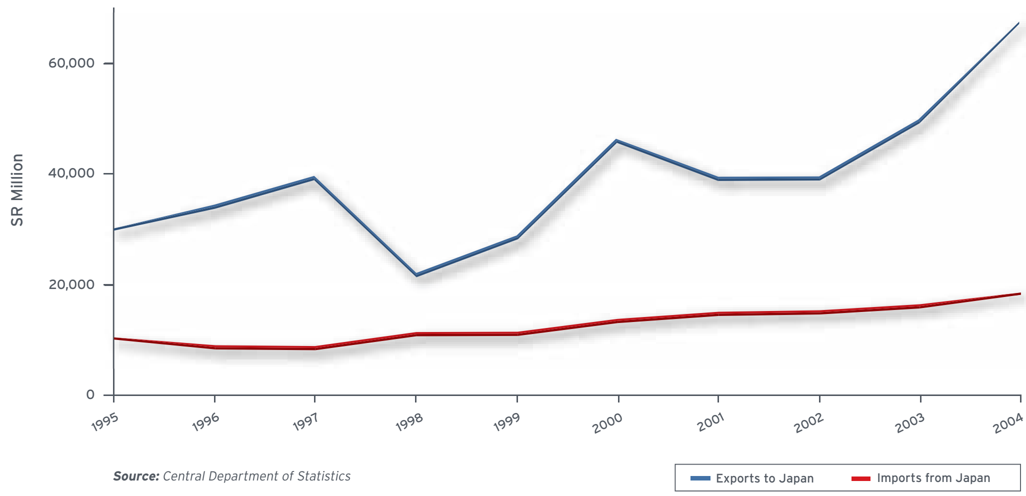
Under the new WTO agreement, current customs duties ceilings will be lowered gradually over the next five years for 870 industrial and agricultural commodities, which represents 12 percent of the commodities listed on the Saudi HS tariff schedule. Initially, upon accession, the agreement will apply to only 430 imported items, the equivalent of 6 percent of the items on its HS schedule. This number will continue to increase annually so that after 5 years all 870 commodities will fulfill the Saudi commitment for tariff ceiling reductions.

Those industries that have benefited from protective tariffs on competing imports will be affected the most by the impact of lowering tariffs, but we don't see the changes as highly disruptive. Of the 458 commodities that enjoyed customs protection at the 20 percent tariff level, 396 items were lowered to a 15 percent tariff upon accession. Commodities that enjoyed protection at the 12 percent level total 492. About 197 of these are now subject to lower tariffs of 10 percent and 6.5 percent. Protection will stay in place for some products -- mainly agricultural, poultry and milk and some dairy products.

Immediately upon accession, some tariffs at the 20 percent level decreased to 8 percent, such as those for chocolates and confectionaries. Lubricating engine oils tariffs decreased to 10 percent and tariffs on steel pipes to 8 percent. Products made of plastic, paper and metal, as well as furniture, saw tariffs go down to 15 percent. Three years after accession, all computers, computer accessories and telecommunication equipment (landline and mobile phones) will be reduced to zero. Tariffs on chemical products, such as fertilizers, paints, soap, perfumes and some plastic products will continue at their current levels, which range between 12 and 20 percent throughout a 5-year transition period, after which tariffs will decline to 6.5 percent.

There is an important distinction between "applied" tariffs, and "bound" tariff rates. The applied tariffs are the tariff rates currently applied on imported products. These are generally lower than the tariff ceilings, or "bound" tariff rates that the kingdom agreed to in WTO negotiations. Largely because of the GCC Customs Union, currently applied tariff rates are lower than most of the bound, or ceiling, rates that Saudi Arabia committed to for WTO membership. The higher tariff ceilings are available, even if tariffs are not applied at the ceiling rate, as a mechanism to combat foreign dumping, should it occur in the future. Under the agreement with the WTO, tariff ceilings for 40 percent of product items in the HS schedule have been set at 15 percent, with ceilings for the remaining 60 percent ranging from 5, 10, and 12 percent. Saudi Arabia's position is that it does not expect to raise tariffs to these maximum ceilings unless compelling economic reasons emerge, such as foreign dumping of products onto the Saudi market, or if the Kingdom deems that protection for certain products is warranted. Under the latter condition, Saudi Arabia would act collectively with other GCC members.

Saudi-Japan Trade Profile



Source: *Central Department of Statistics*

Main Exports	SR Million	Main Imports	SR Million
1. Crude oil	52,880	1. Passenger cars < 3000 CC	2,889
2. Propane	4,757	2. Jeep trucks	1,752
3. Partially refined oils	3,888	3. Tires	484
4. Gasoline	1,811	4. Pick-up trucks < 5 ton	482
5. Methanol	575	5. Passenger cars > 3000 CC	441

Customs in Saudi are levied based on the CIF (Cost plus Insurance plus Freight) value of imported goods. A full discussion of customs valuation procedures follows later in the report.

Trade Regime Structural Changes

The WTO makes a distinction between the right to import and export, and the right to provide distribution and transportation services. Saudi Arabia has committed to restructure its legal framework to accommodate this distinction. What this means is that a foreign company will be able to import products into Saudi Arabia without having a commercial registration or investment presence in Saudi Arabia to further distribute or transport the imported goods or services. Saudi Arabia would register such entities as "importers of record."

To give a concrete example, an importer of record could send a shipment of goods to Saudi Arabia without his own ability or right to further transport or distribute the goods inside the Kingdom. He might notify Saudi distributors that there is product available in Saudi Arabia, which is at the point of import and has not cleared customs, available for their distribution and sale. This structure has not, to our knowledge been common practice in Saudi Arabia, where typically licensed distributors or commercial agents have pre-arranged distribution commitments for all imported products.

Saudi Arabia made the following commitments to accommodate this WTO framework:

- Upon accession, minimum capitalization requirements and commercial registration requirements would not be necessary either to become an importer of record or to re-export goods from Saudi Arabia.

- Saudi Arabia will ensure that relevant laws, regulations and requirements would permit foreign firms not resident in Saudi Arabia and wishing to be importers of record to engage in importation and re-exportation without limitation on equity or requirement to invest in Saudi Arabia.

- Saudi Arabia will maintain the right to require importers of record who are not registered to engage in commercial distribution to provide information in customs documentation regarding the further disposition of goods once they enter Saudi Arabia.

- Existing laws, including the Law on Import Licensing Procedures, will be reviewed and amended to be in conformity with these commitments.

We don't expect these changes to have an immediate and significant impact on trade patterns to Saudi Arabia, but it will open opportunities for foreign "importers of record" and local distributors to combine to engage in an alternative method of moving goods into Saudi Arabia. In the end, this should contribute to a more smooth and efficient market for importation of goods into the Kingdom, without, in our view, putting competitive stresses on existing Saudi firms.

One of the most widespread activities for Saudi business owners is distribution and commercial agency, and Saudi commitments to the WTO in these areas could have significant impact on the business landscape in the Kingdom, separate from the issue described above of allowing for the participation of "importers of record." We address distribution and commercial agencies in detail in the Trade in Services section below.

Manufactured Goods

Manufactured and processed goods (as opposed to agriculture and services) represent the bulk of Saudi imports. Broadly broken down by type, finished goods accounted for 70 percent ($31.2 billion) of total imports in 2004, with semi-finished goods comprising 26 percent ($11.8 billion). Raw materials accounted for the remaining 4 percent of the total at $1.7 billion. A further breakdown of imports by major product group in 2004 indicates that electrical machinery and equipment ranked highest at 22 percent ($9.9 billion) of total imports, followed by vehicles and transportation equipment at 21 percent ($9.6 billion), then foodstuffs at 15 percent ($6.7 billion), then chemical products at 13 percent ($5.7 billion), base metal and related products at 10 percent ($4.4 billion) and textile and clothing at 5 percent ($2.1 billion). Jewelry and wood both accounted for approximately 1 percent of total imports.

Exports on the other hand are much more concentrated around hydrocarbons. Preliminary government statistics put total Saudi exports in 2004 at $126.1 billion. Crude oil alone accounted for 75 percent ($94.8 billion) of the total, followed by refined petroleum products comprising 12.7 percent ($15.9 billion). Petrochemical exports ranked third at 3.9 percent ($4.9 billion) of the total, then construction and building materials with 1.2 percent ($1.5 billion) of the total, and finally products of the farming industry at 0.75 percent of total exports ($938 million). Combined, crude oil, refined oil products, and petrochemicals accounted for 92 percent of 2004 exports. Given the increase in oil revenues in 2005, this percentage likely grew further.

Although still relatively small, it is noteworthy that non-oil exports have been growing by double-digit figures annually over each of the past four years for agricultural products and building materials (See table.). This may be partly attributable to the facilities made available by the Saudi Export Program, including export financing and guarantees for Saudi exporters, which totaled SR 571.7 million ($ 152.5 million) in 2004, up 53.8 percent over 2003.

Saudi Exports 2001 - 2004 ($ Million)	2001	Share of Total	2002	Share of Total	2003	Share of Total	2004*	Share of Total
Oil Exports	**59,788**	**88.0%**	**63,815**	**88.1%**	**82,271**	**88.2%**	**110,793**	**87.9%**
Crude Oil	50,815	74.8%	55,065	76.0%	70,641	75.8%	94,844	75.2%
Refined Petroleum Products	8,973	13.2%	8,750	12.1%	11,630	12.5%	15,949	12.7%
Including Ship Bunker Fuel	179	0.3%	191	0.3%	248	0.3%	335	0.3%
Non-Oil Exports	**8,185**	**12.0%**	**8,650**	**11.9%**	**10,973**	**11.8%**	**15,269**	**12.1%**
Petrochemicals	3,587	5.3%	3,648	5.0%	4,312	4.6%	4,979	3.9%
Building Materials	741	1.1%	925	1.3%	1,195	1.3%	1,461	1.2%
Agricultural & Farm Products	411	0.6%	492	0.7%	810	0.9%	938	0.7%
Others	3,446	5.1%	3,585	4.9%	4,655	5.0%	7,892	6.3%
Grand Total	67,973		72,464		93,244		126,062	

Source: SAMA 41st Annual Report (2005)
** 2004 figures are preliminary*

Following are of some of the specific issues relevant to manufactured goods and agricultural products as addressed in the WTO agreement.

Goods Subject to Price and Profit Regulation

These are products whose prices have been set by Royal Decree or Council of Ministers Resolution under the rationale that they are essential basic commodities having to do with the welfare of the citizens. As such, their prices are not left for the market to determine. Covered under this list are fuels for transportation, cooking and heating, wheat flour, and pharmaceuticals. The high profile negotiating issue with the EU of the fixed or regulated pricing of natural gas liquids (NGLs) and natural gas (ethane and methane) that are used as feedstock by petrochemical plants, is discussed separately in this report.

Prices and profit margins of pharmaceuticals are controlled by the Saudi government which has set margins for various products at rates ranging between 10, 15 or 20 percent, depending on the export price (CIF) to Saudi Arabia. Locally manufactured pharmaceutical products are subject to the same registration process, but had received an additional 10 percent margin in pricing, which Saudi Arabia committed to eliminate prior to accession. No import license is required for approved pharmaceutical and medical products, but certain medical products are subject to non-automatic import licensing (a concept discussed below). Imports of medicine for human use are not subject to import licensing as long as they have been approved by the Ministry of Health for sale in Saudi Arabia. Imports of medicines for veterinary use are subject to import licensing requirements for the purposes of guaranteeing animal health and safety.

Pharmaceutical or medical products not previously approved are subject to an approval process administered by the Ministry of Health designed to evaluate the product and ensure that the manufacturer follows Good Manufacturing Practices (GMP). This process may take up to 18 months. While some countries negotiating with Saudi Arabia were concerned about this process, the Kingdom did not commit to make any changes to it. The process for companies wishing to market their pharmaceuticals in Saudi Arabia is as follows:

- A company must complete and file the necessary registration form with the Ministry of Health.

- The Ministry of Health Technical Committee would examine the form and attachments and, upon preliminary approval, would establish an inspection group for the company and the product.

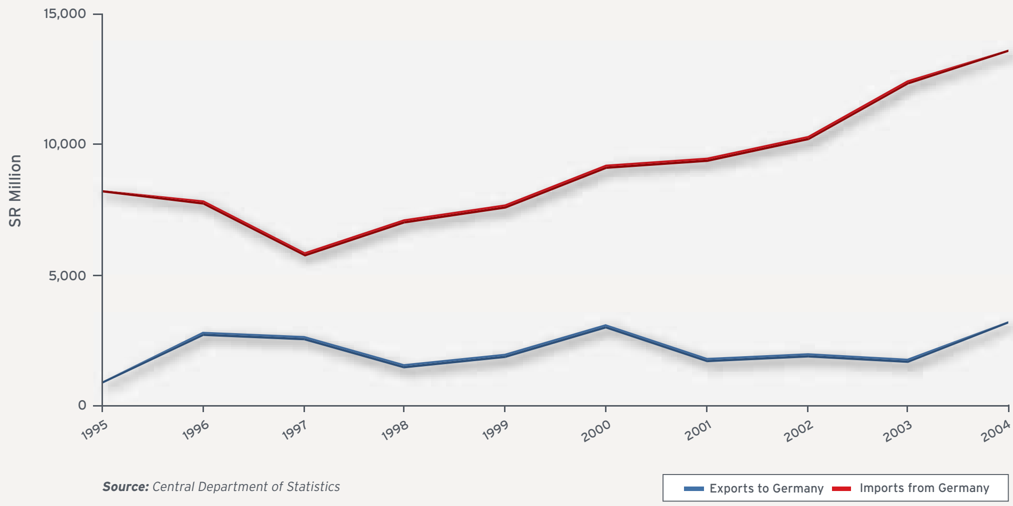
- The inspection group would visit the company and its factory to ensure that the company applied Good Manufacturing Practice.

- The final decision of the Technical Committee would be made based on the report of the inspection group.
- After approval, the company would be allowed to obtain registration of its product(s).
- There are fees of SR 1000 for pharmaceutical company registration and SR 200 for product registration.

Non-automatic Import License Requirements and Banned Imports

The rule of thumb is that all products are allowed into the kingdom automatically unless they are classified as non-automatic or listed as banned imports. Non-automatic refers to the need to obtain an import license for any of the 73 products defined as such. Most of the items appearing on the list are either of a hazardous nature, i.e. explosives, insecticides, veterinary medicines, etc., or items that could have dual civilian and military use. A few products, however, do not fall under these criteria, such as Arabian horses for which the rationale is preserving the pure linage of the domestic breed. Agricultural machinery also requires an import license, as well as appointing a local agent/distributor to guarantee the suitability of machines to the Kingdom's environment and availability of parts.

Saudi-Germany Trade Profile



Source: *Central Department of Statistics*

Main Exports	SR Million	Main Imports	SR Million
1. Crude oil	2,728	1. Mobile transmitters & receivers	682
2. Kerosene	51	2. Passenger cars	557
3. Polyethylene	50	3. Medicines containing penicillin	531
4. Terephthalic acids and nitrates	27	4. Truck chassis with cabin	491
5. Aluminum structures	4	5. Car parts	292

Seeds fall into another category requiring a license for the purpose of screening and preventing entry of rotten shipments, shipments infested with fungus or aflatoxins, and shipments that do not meet the acceptable minimal levels of weeds. A seed consignment must be inspected before shipment to confirm that it fulfills the specifications and conditions for importation.

The list of banned imports has 83 such items for which the WTO has granted exception, meaning that it has recognized and approved their status as banned from market access. Some of the obvious examples include alcohol, pork, dogs (except hunting dogs), gambling machines, and narcotics, all of which are banned on religious grounds. The rest of the items on the list are banned for security or cultural reasons, and range from satellite internet receivers to sarin toxic gas.

Items Subject to Mandatory Certification

This is another group of products that have received an exception status for which Saudi Arabia requires mandatory certification. The list is divided into five groups including toys, electrical machinery and electronics, automotives, chemicals, and others. We infer from examining the list that concern about public safety is the reason for requiring the certification.

Banned Exports

About 13 items have been identified under this category for WTO exception, mainly those products that are unique to Saudi Arabia and which it believes do not exist anywhere outside their natural habitat. These include females of purebred breeding stock of Arabian horses, race horses, ponies, bovine animals, sheep, goats, and camels. Also, the list includes date palm seedlings of types that are believed to be rare. Green fodder and hay is also banned for export, as well as antiques and archaeological and historical artifacts.

Exports Subject to Authorization/Licensing

There are 47 items on the list, but most importantly are crude oil, gases, asphalt, marble and sand, for which a license must be obtained from the ministry of petroleum prior to exportation. A few agricultural products also require a license from the Ministry of Finance, such as barley, corn, and wheat flour. Wheat requires a license from the Grain Silos and Flour Mills Organization (GSFMO) to ensure that amounts received in the way of subsidies are repaid before a license is issued. Exportation of medicines also requires a license.

Fees and Charges

Saudi Arabia noted in negotiations that it considers itself to be applying "other duties and charges" on 22 tariff lines. The Kingdom also indicated that it imposes few fees for port clearance, customs processing, customs inspection or for import or export licenses. Port storage fees are charged at SR 20 per ton if the goods are not cleared following 13 days from offloading. No fees are charged for delays caused by the customs department, for natural disasters or official holidays. Fees for loading/offloading and handling of imports/exports at ports have two components; one mandated by the government and the other determined by private sector port operators. The private operator collects the fees. Rates charged by port operators are regulated by a government agency, the Saudi Ports Authority. The rates charged are not based on the value of the imports, but rather reflect the approximate cost of the services rendered. Fees for services rendered at Saudi Arabia's oil ports and terminals have no mandated component and are fully established by the private operators of those facilities.

Other fees imposed by Saudi Arabia include those for notarization of documents and authentication of certificates of origin and of invoices by Saudi consulates and the US-Saudi Arabian Business Council. The practice of requiring these certificates of origin was deemed necessary to combat commercial fraud and to ensure that products prohibited for health reasons were not exported to Saudi Arabia. WTO members indicated that the requirement posed difficulties for exporters not operating from areas served by consular offices or the Business Council and duplicated similar reviews conducted by customs officials in Saudi Arabia at the time of importation. Saudi Arabia committed that the requirement for notarization, authentication or verification of trade documents, including certificates of origin and invoices, and the associated fees applied to all exports to Saudi Arabia would be terminated no later than 31 December 2007.

There are no fees payable for obtaining an import license. Saudi ministries, including the Ministries of Agriculture, Health, and Commerce and Industry, do not charge fees for import licensing procedures, including the application process. Companies or persons wishing to import merchandise for display at a trade fair are granted non-automatic import licenses that permit the importation of all necessary samples, subject to the condition that the samples not be offered for direct sale.

2004 Top Imports by Type

	Commodity Group	Value SR Million	As % of Total Imports
	Total Imports	166,938	100.0%
1.	Electrical Equipment and Parts	36,707	22.0%
2.	Transport Equipment	35,862	21.5%
3.	Base Metals and Articles Thereof	16,522	9.9%
4.	Chemical Products	15,285	9.2%
5.	Live Animals and Animal Products	8,397	5.0%
6.	Vegetabel Products	8,266	5.0%
7.	Textile and Textile Articles	8,052	4.8%
8.	Foodstuffs, Beverages and Tobacco	7,484	4.5%
9.	Artificial Resins and Plastic Materials	6,212	3.7%
10.	Optical, Photographic and Measuring Instruments	5,565	3.3%

Source: *Sama 41st Annual Report*

Import licenses for agricultural equipment are non-automatic and have two purposes. First, according to Saudi assurances to the WTO, they are necessary to administer a system of subsidies paid to importers of such equipment. Second, the import license was required even if the importer did not intend to apply for a subsidy payment in order to ensure that the equipment was suitable for the Kingdom's environment. Saudi Arabia committed that this requirement would not be applied as a disguised restriction to trade. An importer of agricultural machinery must be an authorized distributor or agent.

Inspection of factories to ensure use of Good Manufacturing Practice (GMP) was a part of the registration process to ensure safety and quality of pharmaceutical product imports. This registration process applies to both importers and domestic manufactures. Once a medicine for human use is registered, no further prohibitions or limitations are applied, and the product can be imported without the need for any further licensing.

In the past, imported distillation equipment had been used to produce alcoholic beverages. Saudi Arabia decided to regulate imports of distillation equipment to address this problem. There is no ban on the importation of distillation equipment, but it does require an import license from the Ministry of Commerce and Industry.

Agriculture

WTO regulations prohibit direct subsidies to exports of agricultural products because they lead to distortions of international trade, but the regulations do not mean that all forms of agricultural subsidies have been abolished. Certain indirect types of subsidies are permissible and Saudi Arabia has chosen to take advantage of some of them. Referred to as "Green Box" subsidies, these subsidies can be provided for developing agricultural infrastructure, such as for building dams, irrigation projects, and feeder agricultural roads, or for agricultural research and development or for setting up animal husbandry laboratories.

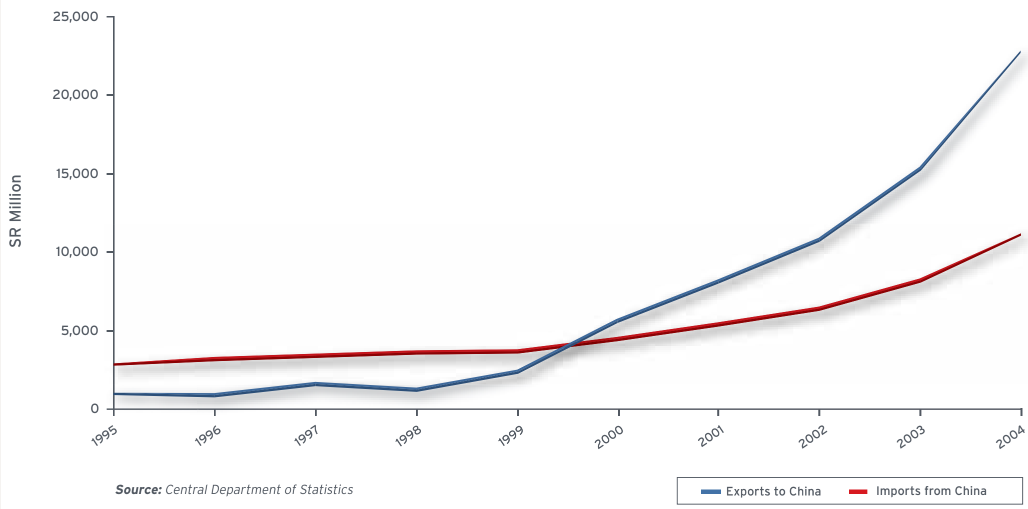
In Saudi Arabia's commitments on agricultural tariff ceilings, the tariff ceiling for 1,320 agricultural tariff lines on the HS code received an average bound or ceiling tariff of 15 percent, which is more than double that of the rate currently in effect of 7 percent on average. That means Saudi Arabia has sufficient cushion to use if deemed necessary to combat dumping, for example. Saudi negotiators maintained that 165 agricultural commodities are classified as sensitive, and thereby require higher tariff ceilings for protection against similar imported products. These include dates, wheat, poultry, eggs, pasteurized milk, vegetables and some fruits, areas that Saudi Arabia claims to have invested in heavily to develop to their current state.

Saudi Arabia, however, has been reducing its subsidies to domestic agriculture production for many years. As wheat subsidies have declined, wheat production has declined from more than 4 million tons before 1994 to 2.8 million tons in 1994, 2 million tons in 1998 and 1.8 million tons in 2001. The production of barley also has come down from 2 million tons in

1995 to 1 million tons in 1998, and to less than 200,000 tons in 2001. Domestically produced barley had been purchased by the GSFMO, and then sold to livestock producers at the fixed price of SR 400 per ton ($107 per ton). GSFMO stopped receiving domestic barley in early 2003. Farmers were advised to convert to other products that consume less water.

Even with these historical reductions, Saudi Arabia made the commitment for WTO membership that it would reduce its domestic support to agriculture by 13.3 percent over a period of ten years in equal annual steps.

Saudi-China Trade Profile



Source: *Central Department of Statistics*

Main Exports	SR Million	Main Imports	SR Million
1. Crude oil	16,132	1. Men's suits and garments	429
2. Propane	3,056	2. Women's gowns and dresses	268
3. Polyethylene	1,131	3. Tile	246
4. Styrene	704	4. Tug boats	220
5. Ethylene glycol	588	5. Computer parts	180

Sanitary and Phytosanitary Measures

Saudi Arabia has agreed to take on the obligations of the WTO agreement on Sanitary and Phytosanitary (SPS) Measures, which deals with food safety. Under the agreement, Saudi Arabia is committed to applying science-based safety standards to all agricultural goods. The WTO concern about SPS measures is that they not be constructed to keep foreign agricultural products out of the country simply to be protectionist. Thus there is an emphasis on science-based reasoning for restricting imports.

Based on comments raised by trade partners in negotiations, Saudi Arabia conducted an internal review of its SPS regime and implemented an action plan by issuance of Council of Ministers Decision No. 85 of July 2000 and Ministerial Decision No. 943 of 2.5.1424H (1 July 2003) on an SPS law entitled "Sanitary and Phytosanitary Unified Procedures." The new SPS law also incorporates revisions of the "Agricultural Quarantine Regulations" and the "Statutory Instruments of Veterinary Quarantine," ensuring conformity with the requirements of the WTO SPS agreement. The main provisions of the new Saudi Law include the following:

- Saudi Arabia will apply SPS measures consistent with the provisions of the WTO Agreement on SPS Measures.
- SPS measures will be limited to the extent necessary to protect human, animal or plant life or health.
- SPS measures will be based on scientific rules and principles and will not be maintained without sufficient scientific evidence.

- SPS measures will not be applied in a way that constitutes a disguised restriction on international trade.

- SPS measures taken by Saudi Arabia will be based on international standards, guidelines or recommendations, except where there is a scientific justification for a measure resulting in a higher level of protection.

- Saudi Arabia shall accept the SPS measures deemed appropriate by other WTO Members as equivalent where those measures achieve the protection level of Saudi Arabia.

Saudi Arabia committed to reconcile some inconsistencies between its domestic legislation and regulations and procedures implementing the WTO SPS Agreement, so that all of Saudi Arabia's laws, regulations, procedures and other requirements for importation are consistent with the provisions of the WTO SPS Agreement.

Saudi Arabia committed that SPS measures would be published in advance of their application. The Kingdom has established a system for informing governments and other standards organizations of changes. Saudi draft food standards will also be available on the Saudi Arabian Standards Organization (SASO) website: www.saso.org.sa in order to increase transparency and provide notification of future changes to SPS import requirements.

Hydrocarbons

A common concern we heard raised over the years of negotiation was that Saudi Arabia's main export, **crude oil**, is excluded from consideration by the WTO, and would not receive any advantage from the Kingdom's entry into the WTO. Oil and oil products are listed on WTO commodity schedules and are subject to the provisions of market access agreements. However, a limited group of GATT members, about 12, managed to exclude oil and oil products from their original commodity schedules. As a member of the WTO, Saudi Arabia can conduct negotiations directly with members of the group, in an effort to have such exceptions canceled and replaced by bound tariffs or tariff ceilings on oil and oil products. As a practical matter, however, there are very low or zero tariffs on crude oil imports around the world.

Also of concern to Saudi Arabia is the issue of high taxes on refined products, especially in European countries.

Premium Gasoline Prices and Taxes (Dec 2005)
($ per gallon)

	Retail Price	Tax	Tax Rate
Belgium	5.51	3.61	66%
France	5.21	3.50	67%
Germany	5.51	3.70	67%
Italy	5.50	3.45	63%
Netherlands	6.05	3.95	65%
U.K.	5.75	3.94	68%
U.S.	2.36	0.39	17%

Source: US Dept. of Energy

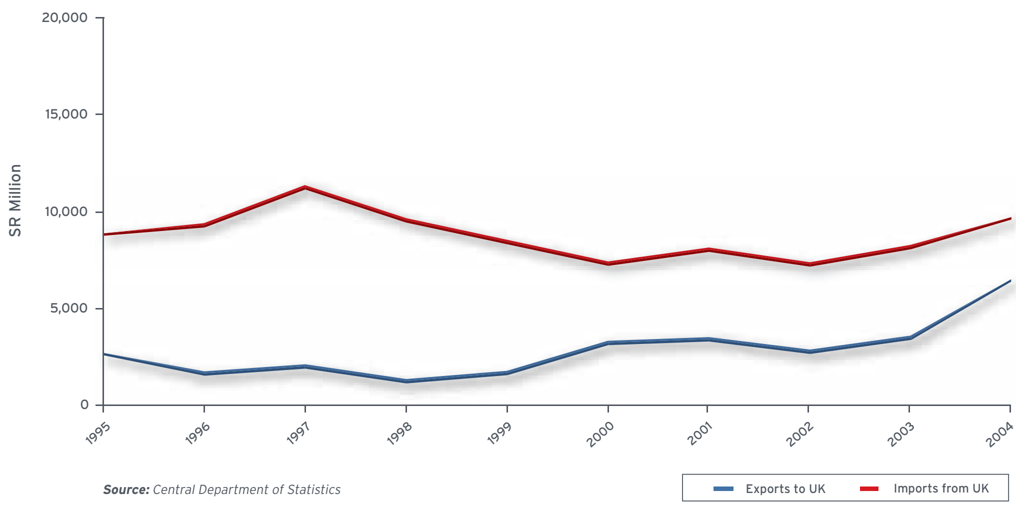
It is indeed the case that this is not generally a WTO issue, for a simple reason—the tax is not a tariff on cross-border trade in oil, but a domestic tax applied to all sources of oil, whether domestic or foreign. A central principle of the WTO is "national treatment," the concept that foreign players in a market should receive the same treatment as nationals of the country. In the case of these taxes, the principle of national treatment applies since the tax is applied regardless of the source of the oil. So, for example, oil refined and sold as petrol in the UK has taxes levied on the final sale of the petrol whether that oil comes from the UK sector of the North Sea or from a foreign source such as Saudi Arabia. Such domestic taxes are WTO-compliant as long as they are applied equally to all sources of oil, foreign or domestic.

This is primarily a concern in European countries. Europe consumes about 16 million barrels per day (b/d) of crude oil, or 19 percent of global oil consumption of 84 million b/d, and has taxes typically between 60 and 70 percent (See table.). The US, which has low taxes on final consumption of gasoline (about $0.35 per gallon), consumes 25.6 million b/d, or 30 percent of the world total. A few countries, such as China, Indonesia, Philippines and Thailand, do the opposite and subsidize the final price of gasoline and diesel. Saudi Arabia will have to rely primarily on other channels, such as direct bilateral talks and international energy forums, to try to change such tax policies in oil consuming countries.

In our view, a major winner of the Saudi entry into the WTO is the local petrochemicals industry, dominated by the **petrochemical** giant SABIC. Two advantages accrue to Saudi petrochemicals production: 1) the Kingdom made no commitment to change the pricing of feedstock, and 2) the Chemical Tariff Harmonization Agreement substantially lowers tariffs globally on chemical imports, including all of the 64 chemicals exported by SABIC affiliates. Thus, Saudi petrochemical manufacturers will retain a substantial cost advantage over their foreign competitors while gaining better market access to foreign markets as tariffs decline globally. Saudi Arabia may also use the WTO dispute mechanism to challenge the protective tariffs imposed by some countries on petrochemical imports.

The issue of Saudi pricing of feedstocks for petrochemical production was one of the most important issues and toughest negotiating points in the accession process. The European Union took the view that feedstock prices were unfairly subsidized, but in the end Saudi Arabia was not required to commit to a change in the pricing regime. The pricing is as follows:

Saudi-UK Trade Profile



Source: *Central Department of Statistics*

Main Exports	SR Million	Main Imports	SR Million
1. Crude oil	2,614	1. Aircraft parts	2,299
2. Kerosene	1,866	2. Image projectors	714
3. Polyethylene	35	3. Semi-finished steel structures	669
4. Polyester weaving threads	48	4. Cigarettes	310
5. Jet fuel	33	5. Antibiotics	191

Natural gas (ethane and methane) is sold by Aramco to consumers at a fixed price of SR 2.81 ($0.75) per million BTUs. The current price of natural gas in the US, for comparison, is over $14 per million BTUs, giving Saudi companies using natural gas a strong cost advantage over foreign competitors. Natural gas is not sold for export due to the high cost of gas export infrastructure. Previously, gas was flared as a waste byproduct of crude oil production. Based on a combination of commercial and environmental concerns, the Kingdom now sells the gas for domestic use in power generation, water desalination, cement manufacture, and petrochemicals production.

The pricing for natural gas liquids (NGLs)--propane, butane, and natural gasoline--is set based on a more complex formula of adjustments to international market prices established in 2002. These products are also exported, so trading partners raised a concern about "dual-pricing" of NGLs—a lower price in Saudi Arabia than the Kingdom charges for exports of the same products. In actuality, these products are sold domestically at a discount to the international price for naphtha, a common global petrochemical feedstock. According to the current pricing formula, NGL prices are based on international market price for naphtha and adjusted downward for the following:

- Cost savings in infrastructure. The expensive export infrastructure for NGLs is not necessary for domestically consumed NGLs.

- Cost savings in marketing. Domestic customers are committed to long-term offtake agreements, whereas foreign sales would require marketing costs.

- Commercial advantage associated with long-term contracts. There is a lack of long-term contracts in the export market of NGLs.

- Commercial value of reduced volatility. The export market is also characterized by large seasonal demand and price swings, as exported NGLs are primarily used as fuel rather than petrochemical feedstock.

- Commercial value of large-volume purchases. Domestic purchasers commit to much larger volumes than do purchasers under short-term export contracts.

In response to a concern from one trade partner, Saudi Arabia made assurances that taking these adjustments into consideration, the commercially negotiated price of NGLs as petrochemical feedstock in Saudi Arabia would still be based on full recovery of production costs and a reasonable profit. Both natural gas and NGLs are sold domestically without discrimination between Saudi- and foreign-owned firms. Currently, the price for NGLs in Saudi Arabia is about 30 percent below the naphtha price on the international market.

The implication for the petrochemical industry in Saudi Arabia is that the Kingdom's position on this issue preserves the benefit of low-cost feedstock. The petrochemical plants, both existing and planned, in the Kingdom based their economic viability on presumed continuation of low-cost feedstock throughout the life of the plant. The WTO commitments preserve these assumptions.

Trade in Services

Most of the negotiation surrounding merchandise trade has to do with tariffs, while much of the negotiation, and Saudi commitments, surrounding services businesses have to do with granting foreign services providers greater access within the Saudi market. Thus, the services negotiation had more to do with the investment environment and barriers to a foreign company's actual physical presence in the Saudi market.

Saudi Arabia made commitments in services covering 12 main sectors, 155 sub-sectors and 4 methods for administration or delivery of such services. Delivery methods for services are 1) cross-border; as is the case in telecommunications services that are provided from abroad; 2) consumption abroad, as is the case with foreign travel of Saudis, for tourism, education or medical treatment; 3) physical presence, by means of setting up shop inside Saudi Arabia; or 4) through movement of natural persons into Saudi Arabia, such as travel by a foreign professional in and out of the Kingdom to provide services, recruitment of foreign labor to provide services inside Saudi Arabia, or the ability of companies to transfer their employees to work in the Kingdom. The Schedule of Specific Commitments in Services deals with various complicated issues, such as Saudization, Foreign Direct Investment (FDI), Market Access to foreign service providers and National Treatment. Similar to the commodities schedules, services schedules are subject to the Most Favored Nation (MFN) treatment. For instance, if Saudi Arabia negotiated access to its telecommunications sector with one country allowing 60 percent maximum foreign ownership of a telecommunications company, then the 60 percent applies automatically to all other WTO members under the MFN principle.

Banking

Banking is one of the sectors that had progressively liberalized prior to actual WTO accession. The market opened to completely foreign-owned branches of banks from the GCC countries in the late 1990s, and in recent years the Kingdom began granting banking licenses to other foreign banks. The enactment of the Capital Markets Law in July 2003 also liberalized the market for investment banking, brokerage, and related services outside the existing commercial banking structure. Ten licenses have been granted to foreign banks through the end of 2005.

A key point of the WTO and banking is that the WTO does not supercede a country's right and obligation to maintain the safety and soundness of its banking sector. Thus, no country must automatically allow any bank into its market that applies for a banking license if banking authorities view this as detrimental to the sector. Since, unlike other commercial enterprises, banks are closely regulated for financial soundness and safety of depositors' money, bank regulators still play the key role in determining which banks can enter the market. Saudi Arabia thus will not experience a rush of new banks into the market due to its WTO membership.

The banking sector in Saudi Arabia comprises eleven locally incorporated commercial banks. Ten of the eleven local banks are majority privately owned. There has never been a bank failure in the Kingdom.

Saudi Commercial Banks
(ranked by assets 2004-SR Million)

Bank*	Assets	Net Profit	Branches
1. National Commercial Bank	130,414	3,531	248
2. Samba Financial Group	94,952	2,936	65
3. Al Rajhi Banking & Investment	77,855	2,006	395
4. Riyadh Bank	74,247	2,506	193
5. Arab National Bank	63,336	1,636	69
6. Saudi British Bank	57,925	1,536	58
7. Banque Saudi Fransi	59,674	1,167	117
8. Saudi Hollandi Bank	33,444	743	37
9. Saudi Investment Bank	28,544	587	15
10. Al Jazira Bank	10,722	188	17

** Al Bilad Bank began operations May 2005*
Source: *Bank results*

The liberalization of the banking sector began in 2002 following the issuance of new banking licenses to Emirates Bank, National Bank of Kuwait and National Bank of Bahrain. Deutsche Bank was the first non-GCC foreign bank to receive a license in late 2003, and BNP Paribas and JP Morgan Chase followed in 2004. Bank of Muscat, State Bank of India and National Bank of Pakistan have also received licenses along with HSBC, which has received an investment-banking license separate from its participation as a joint venture partner in Saudi British Bank. At year-end 2005, these banks were at various stages of setting up a physical presence in the Kingdom.

Foreign commercial banks can have a presence in the Kingdom in two ways—as a joint venture bank or as a branch of a foreign bank. Joint venture banks are those in which foreign banks can hold a maximum 60 percent of the equity of the bank. This is a recent increase from a previous maximum of 40 percent. Under Article 3 of the Banking Control Law, the licensing requirements for a Saudi national bank or a joint venture bank include that it must be a public Saudi joint-stock company, traded on the stock market. Upon the recommendation of SAMA, the Minister of Finance and the Council of Ministers would evaluate each recommendation to grant a license for a branch of a foreign bank, a Saudi national bank and a joint-venture bank.

There are differences between the licensing criteria for a joint-venture bank or a branch of a foreign bank. A branch does not need a local Board of Directors nor does it need two external auditors. In determining capital adequacy, the parent bank's capital would be relied on. The specific capital requirements for a foreign bank branch would differ depending on its business plans in the Kingdom. In its commitments for WTO membership, Saudi Arabia acknowledged that the regulatory regime for foreign bank branches required further development, but would be in line with commonly accepted international practice.

The liberalization of the banking sector benefits both banks and consumers alike in Saudi Arabia, and does not, in our view, constitute a challenge to the performance of the domestic banks. The opening of the market comes at a time when the economy is experiencing strong and sustained growth and deepening of capital markets, which will dampen the impact from the entrance of new players. Moreover, many of the foreign banks entering the market had already been competing with the domestic banks by serving their Saudi clients from neighboring countries, such as Bahrain. In addition, the foreign banks appear generally to be entering in niche markets, such as investment banking. The foreign competition will generally compel Saudi banks to improve product offerings and service quality to preserve market share, which will benefit consumers and foster growth in the overall banking market. Also, the opening of the Saudi market will likely make it easier for Saudi banks to obtain licenses abroad as they seek expansion.

In addition to the private sector banks, there are five government-owned specialized financial institutions in the Kingdom:

- The Saudi Arabian Agricultural Bank (SAAB) extends loans to farmers and agricultural businesses that are interest-free and repayable over a period of 15-20 years.
- The Real Estate Development Fund (REDF) grants interest-free loans for housing for up to 70 percent of the value of a home, repayable over 25 years. For non-housing projects, the fund finances up to 50 percent of the construction costs.
- The Saudi Industrial Development Fund (SIDF) provides medium and long-term credits to private sector industrial projects. Loans are available for up to 50 percent of the project cost and are available to wholly foreign-owned companies and Saudi-owned companies.
- The Public Investment Fund (PIF) finances public sector projects. For very large projects which are strategically important, but for which private sector investors on their own cannot raise financing, the PIF provides long-term financing on a commercial basis on the condition of co-financing by commercial banks. The PIF is also the custodian of shares owned by the government in publicly traded companies.
- The Saudi Credit Bank (SCB) provides interest free credit to support low- income persons for general personal needs, such as marriage, small-scale business activities and vocational training.

Under the WTO, these specialized financial institutions will continue their operations unchanged.

Insurance

The insurance industry has undergone perhaps the greatest transformation of any industry in Saudi Arabia over the past several years as the Kingdom negotiated for WTO membership. A few years ago it was a largely unregulated industry with over 100 local players operating through Saudi agents, but only one company, the government-owned National Company for Cooperative Insurance, NCCI, having a commercial registration.

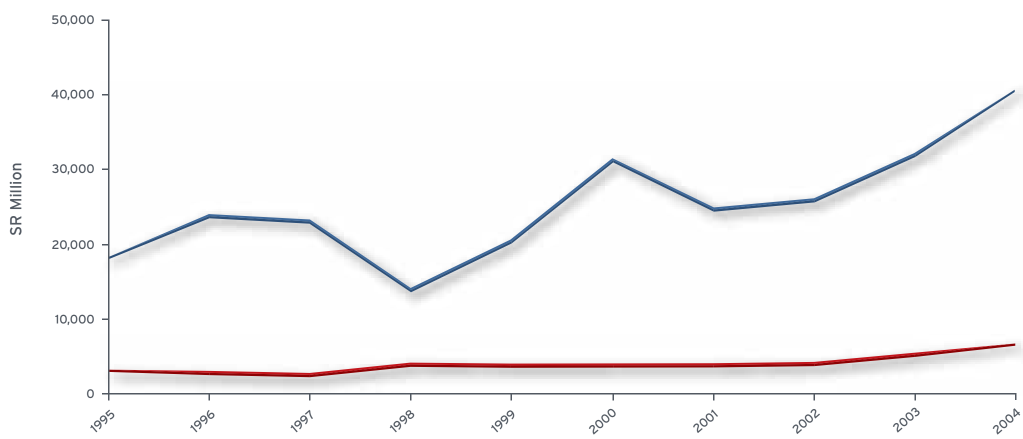
NCCI was started in 1986 by Royal Decree to be a pilot company structured as a Sharia-compliant insurance concept called "cooperative insurance," a structure in which the policyholders are also owners of the company. With the concept proven viable by NCCI, in July 2003, the Cooperative Insurance Companies Control Law was issued, and the Ministry of Finance Issued Implementing Regulations for the new law in April 2004. All foreign insurance providers operating in Saudi Arabia have 3 years from April 2005, or until April 2008, to come into compliance with the new law or with a separate Royal Decree of April 2005 that allows for establishment as a direct branch of a foreign insurance company. Saudi Arabia has acknowledged that the Implementing Regulations require some refinement to be fully compatible with its WTO commitments, and the Kingdom promised the WTO members that further necessary regulatory reform would be completed by May 2006.

By April 2008, foreign insurance providers can establish locally under the following terms:

- Either as a direct branch, or as a cooperative insurance company in Saudi Arabia with up to 60 percent ownership by the foreign partner, and 30 percent of the company floated on the stock market.

- A company may keep 90 percent of the profits and redistribute 10 percent to the policyholders, as required by the "cooperative" structure.

Saudi-S. Korea Trade Profile



Source: *Central Department of Statistics*

Main Exports	SR Million	Main Imports	SR Million
1. Crude oil	34,036	1. Passenger cars <3000 CC	788
2. Partially refined oil	2,433	2. Passenger cars, diesel fuel	333
3. Propane	1,241	3. Air conditioners	329
4. Gasoline	826	4. Passenger cars >3000 CC	194
5. Ethylene glycol	759	5. Passenger cars < 1500 CC	194

During the 3-year transition period, foreign insurance providers currently operating in the Kingdom are allowed to continue existing business without disruption and offer new products to new and existing customers in the market.

Foreign insurance providers may sell reinsurance and a number of products, mainly property-casualty products for large sophisticated customers from outside the country without establishing in Saudi Arabia.

Some trade partners in negotiations requested further easing of minimum capital requirements for foreign insurance providers. Paid-up capital must be a minimum SR 100 million, or, for a company underwriting reinsurance activities, SR 200 million. In addition there is a separate 20 percent statutory reserve that can effectively increase the capitalization requirement. Also, a 10-15 percent statutory bank deposit is required, the interest on which does not accrue to the company, but is kept by the regulator (SAMA in this case).

In addressing these concerns when it finalizes regulations by May 2006, Saudi Arabia committed to a goal of creating meaningful commercial opportunities in the Saudi insurance market. The Kingdom said reforms would be consistent with internationally recognized insurance industry standards and principles, including those of the International Association of Insurance Supervisors (IAIS), and other international insurance industry standards.

To establish a public joint-stock cooperative insurance company, a foreign insurance company must:

- Obtain a license from SAMA, who is responsible for regulatory oversight and supervision of the insurance industry,

- Obtain approval from the Saudi Arabian General Investment Authority (SAGIA),
- Apply, with a minimum of five founders, to the Ministry of Commerce and Industry for a commercial registration,
- Obtain approval of the Council of Ministers through a Royal Decree,
- Receive SAMA authorization for conducting business.

Paid-up capital is required upon issuance of the Royal Decree, and after approval by the Ministry of Commerce, the company must float a minimum 30 percent on the Saudi stock market in an IPO. The government sold 70 percent of its ownership of NCCI in an IPO in early 2005.

Although further clarification of the regulations will be forthcoming, it is clear that Saudi Arabia is creating a first-ever regulatory environment for insurance that is in line with world best practices. Our soundings in the marketplace suggest that there are over ten foreign insurance providers at this point that fully intend to register as public joint-stock cooperative insurance companies. These will be important in continuing the momentum of new IPOs in the Saudi stock market for the next several years. Currently, NCCI is the only listed company in the insurance segment of the stock market.

The insurance market is also expanding for reasons having little to do with WTO. The country will soon implement the requirement for universal medical insurance coverage for foreign workers, and third party liability auto insurance became compulsory in 2001. With the large number of megaprojects underway, especially in petrochemicals, gas, refining, and crude oil production, the market for property-casualty insurance should also see strong growth through the rest of this decade.

We think the insurance industry is one of the clear winners from the Saudi accession to WTO. Market growth will be strong for the next several years and the industry will be clearly regulated and transparent, and domestic companies are not likely to face significant new competitive challenges, as most of the foreign players have already been in the market or providing their services into the Kingdom from abroad.

The insurance experience also demonstrates an important feature of the entire WTO process: The impact of WTO membership has been occurring during the years of negotiation, as indeed Saudi Arabia was bringing its commercial and trade environment into line with WTO requirements throughout the 12 years of negotiation.

Wholesale and Retail

Significant changes will be brought about to the wholesale and retail sectors as a result of the WTO. The Foreign Investment Law that was enacted in April 2000 was designed to liberalize the market and attract greater Foreign Direct Investment (FDI), but the implementation of the law continued to exclude foreigners from wholesale and retail distribution and in 2001 both sectors were included in a "negative list" of sectors that remained closed to foreign investors. Only firms which were majority-owned by Saudis were allowed to take part in wholesale and retail trade activities. Wholesale and retail are important contributors to output in Saudi Arabia (See chart.).

Saudi Arabia's WTO commitments allow for foreign companies to participate in wholesale and retail trade services in the Kingdom. Upon accession, foreign companies can hold 51 percent of the equity in a wholesale or retail distribution business. By December 2008, the maximum foreign equity stake increases to 75 percent. There are significant minimum capital requirements imposed, however, which appear aimed at protecting domestic small and medium sized retailers from foreign competition. Each joint venture wholesale and retail distribution provider setting up business in the Kingdom will have to provide a minimum of SR 20 million ($5.3 million) in paid-up capital, and the government can specify a minimum size for outlets, and there are requirements to hire and train Saudis.

Source: *Central Dept of Statistics, Samba estimate for 2005*

Given these remaining restrictions, we expect only a gradual rise in foreign-operated wholesalers and retailers in the Kingdom. Some large chain stores that previously would not enter the Saudi market due to ownership restrictions may now start a presence here, offering more choices for consumers. The introduction of foreign supermarket and hypermarket chains in the Kingdom in recent years has raised competition and offered products and choices that were previously not available to the consumer. We expect such a trend may now accelerate modestly. There may also be some change over time in the structure of existing major distribution arrangements, in auto dealerships, for example.

Franchising

Foreigners will be able to set up franchises in Saudi Arabia as another commitment the Kingdom made for WTO membership. Before WTO membership, only Saudis were able to have majority ownership of a franchise. Under the Foreign Investment Act of 2000, a foreign franchise owner was able to apply only for a license to establish a company with a maximum 49 percent foreign ownership for the distribution of its franchised products that are internationally and locally produced.

Upon WTO accession, foreigners are able to establish franchises and, given that they attain the appropriate license to set up a company, own 51 percent of the company's equity. Three years from the date of accession the maximum equity stake increases to 75 percent. A foreign entity wanting to set up its own franchise should be authorized in its own country to practice franchising or be a partner in an authorized company for a period of no less than five years without interruption.

The franchise business in the Kingdom is popular among Saudi businessmen. Fast food franchises account for the majority of the total franchises in the market and U.S. companies represent three quarters of all franchise operations in the Kingdom.

Commercial Agencies

Some changes to the agency regime will be brought about as a result of WTO accession. Under the 1962 decree for the regulation of Commercial Agencies, foreign companies were not permitted to act as commercial agents in Saudi Arabia. Upon accession, foreign companies can become agents in the Kingdom as well as establish joint-venture partnerships with Saudi companies. Since the 1950s, agency agreements between Saudis and foreign suppliers became a central pillar of non-oil private sector activity, although the Commercial Agencies Law does not require a foreign manufacturer or supplier to appoint an agent or distributor in Saudi Arabia except for agricultural machinery. Saudi agents developed different strategies for selling imported goods. Some opted to create extensive distribution networks for their goods and others acted as wholesale importers who sold to a variety of retailers.

Ties between agents and parent companies vary. Exclusive agency agreements of different types exist on either a geographical or specific product basis. Agency agreements on pricing also vary. One Saudi agent may get products from his parent company cheaper than another agent due to performance results and total sales.

We do not anticipate a major change in the way the current agency market is structured and in its set of Saudi agents. Many Saudi agents have established a market presence supported by after-sales services, which few parent companies want to disturb. We do not anticipate immediate major changes to the current group of agents, especially those in marketing and after-sales in sensitive sectors such as consumer goods, automobiles, and foodstuffs.

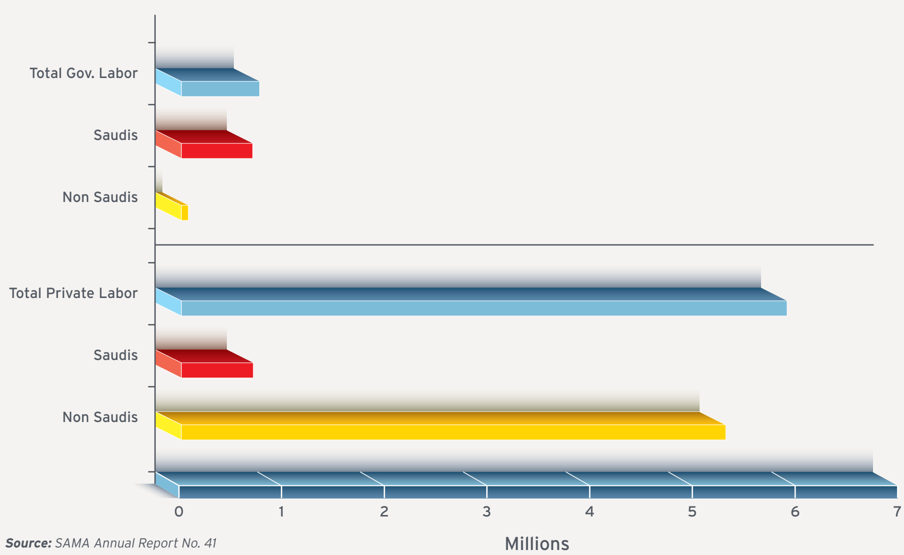
In one specific change, foreign companies no longer need to have a Saudi agent to bid for government tenders, but all non-Saudi contractors must assign not less than 30 percent of the work included in their contract to wholly owned Saudi companies. All contractors are obliged to purchase the tools and equipment that they use for performance of their contracts with the Saudi government from Saudi agents in Saudi Arabia.

Parent companies are still bound by the exit terms of the Commercial Agencies Regulations. The regulations stipulate that a foreign partner must give six months notice before terminating an agency arrangement, and the foreign partner is required to supply spare parts for one year, or until a new agent is appointed.

Saudization

The WTO will not alter the structure of the labor market and will not impact the government's Saudization plans. Labor matters do not fall within the WTO's mandate, except to the extent that labor issues affect traded goods and services across borders. However, the WTO is concerned with the degree to which foreign companies doing business with Saudi Arabia are treated equally with companies based in the Kingdom. This is the concept of "national treatment." The issue of Saudization is the one area where Saudi Arabia requested, and is granted, a "national treatment" exemption. In this regard, Saudi Arabia is imposing stricter Saudization requirements on foreign entrants into the services sectors of the economy than it is on local firms in the same sectors.

Total Labor Force in Government and Private Sector (2004)



Source: *SAMA Annual Report No. 41*

The Labor and Workers Regulations requires that for any enterprise, Saudi or foreign owned, the percentage of the Saudi workers not be less than 75 percent of the total workforce and receive at least 50 percent of the total payroll. Under the same regulations, the Minister of Labor has the authority to reduce the required percentage in circumstances where qualified Saudi workers are not available. This practice is in fact widespread in Saudi Arabia, where certain businesses, such as manufacturing in industrial zones, fall short of the

Saudization requirements and receive exemptions. It appears from the Saudi services commitments that foreign firms in services sectors will be held to the 75 percent Saudizaton requirement from the beginning of starting business in the Kingdom, and that the make-up of the remaining 25 percent of the foreign workforce of a company also has some limitations that do not apply to domestic firms, such as what percent can be executives (inter-corporate transferees) versus unskilled or semi-skilled labor.

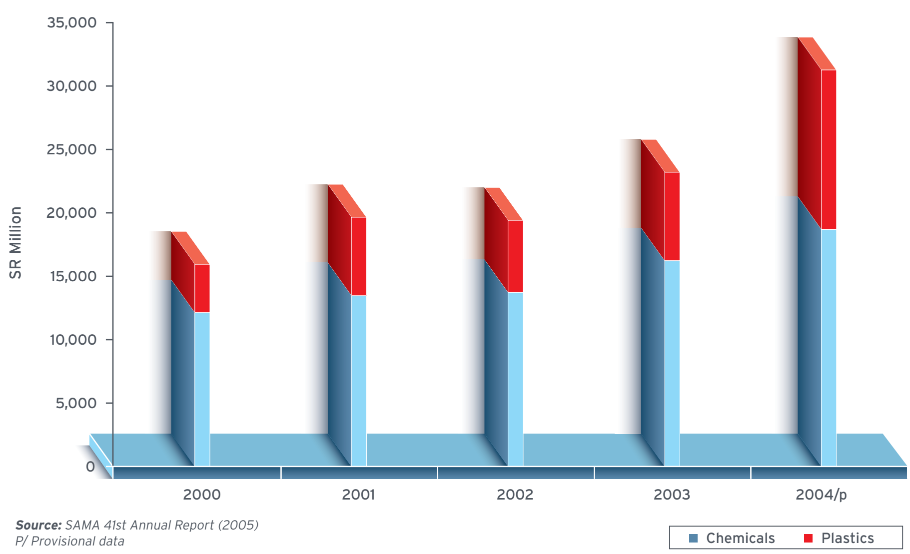
In addition, regulations require that certain job categories in a company be reserved for Saudis, including personnel and recruitment officers, receptionists, cashiers, civilian security guards and transaction follow-up clerks to government departments. This requirement applies to both foreign and local firms.

Expatriate workers will still need a work visa to work in Saudi Arabia. The sponsorship system will remain unchanged. A release letter is still required for an expatriate's transfer of employment from one employer to another within Saudi Arabia. In its services commitments to the WTO, Saudi Arabia stipulates that business visitors into the Kingdom will enter the country for no more than 180 days. Intra-corporate transferees (an employee of a multinational company transferred to work in Saudi Arabia) can stay in the Kingdom for two years after which his contract can be renewed for one-year extensions. If a company with no commercial presence has obtained a service contract in Saudi Arabia and the presence of its employees is required, then a renewable six-month visa will be issued for a variety of professions, except Umra and Hajj tour operators and travel agents.

Sectoral Initiatives

Saudi Arabia agreed to accept several "sectoral initiatives," WTO initiatives aimed at reducing tariffs and liberalizing markets for specific sectors, which go beyond the obligations of basic membership in the organization. The Kingdom agreed to join the Information Technology Agreement (ITA), which brings tariffs to zero on global trade in, for example, software and computers, by January 2008. It has also agreed to the terms of initiatives in basic telecommunications (introducing competition and foreign majority ownership into basic telecommunications services), pharmaceuticals, and civilian aircraft and parts. Specifically, Saudi Arabia agreed to open up its telecommunications sector to foreign investors provided that their ownership would not exceed 49 percent upon accession to the WTO, increasing to 51 percent after three years, and then to a maximum of 60 percent after another three years.

Saudi Chemical and Plastic Exports



Source: *SAMA 41st Annual Report (2005)*
P/ Provisional data

Perhaps most important for Saudi Arabia, however, is the Chemicals Tariff Harmonization Agreement, a sectoral initiative that is of direct benefit to Saudi Arabia's petrochemical industry. The agreement sets a bound (ceiling) tariff of 6.5 percent on some 1,100 chemicals, including all 64 chemicals currently exported by Saudi Arabia's petrochemical industry.

Saudi Arabia will use its membership in the WTO to seek to expand participation in the agreement to more countries and to ensure compliance of all current and future members to lowering their ceilings on petrochemicals tariffs to a maximum of 6.5 percent.

Intellectual Property Rights

WTO accession negotiations have brought significant changes to the way Saudi Arabia protects intellectual property rights. Concern of trade partners in the past has focused on both the legal framework in the Kingdom and perceived lax enforcement measures. As negotiations proceeded for WTO membership, the Kingdom took significant steps toward becoming compliant with the WTO's agreement on Trade-Related Aspects of Intellectual Property Rights, or TRIPS. Various pieces of legislation have been passed, and as a result, Saudi Arabia committed to full compliance with the TRIPS agreement upon accession without a transition period.

There are three main categories covered by the TRIPS Agreement:

- Copyrights are a set of exclusive rights granted by a government for a limited time to regulate the use of creative and artistic forms of work such as literary works, movies, musical works, sound recordings, paintings, photographs, software, live performances, television or sound broadcasts and in some jurisdictions industrial designs.

- Patents are a set of exclusive rights granted by a government to an inventor for a limited time, preventing others from using or selling the invention for their own benefit.

- A Trademark is a distinctive sign (logo) of some kind which is used by a business to uniquely identify itself and its products to consumers, and to distinguish itself from the products of other businesses.

The protection of intellectual property rights remains a fundamental way by which corporations, authors, artists, musicians and inventors are properly recognized and funded for their work. Profiting from a copyright or a patent helps corporations and individuals to invest in research and development (R&D) and to become more inventive. Copyright law protects, for instance, the works of Saudi authors that are published for the first time in Saudi Arabia and of Saudi authors whose work is published abroad for the first time.

Copyrights

Copyrights violation has been an ongoing concern of Saudi Arabia's trade partners. Software and audio-visual piracy have persisted over the years, but have been declining as Saudi Arabia has increasingly taken action to curtail piracy. We sense quite a sharp improvement in the protection of audio-visual materials and printed works. The one area where we perceive piracy remains more of a concern is with computer software (See table.).

Global Software Piracy (2003)

	% Piracy Rates	Value of illegal Software (US$ Million)
Algeria	84%	58.6
Bahrain	64%	18.0
China	92%	3822.5
Egypt	69%	55.7
France	45%	2310.5
Lebanon	74%	22.2
Morocco	73%	57.1
Oman	65%	10.7
Qatar	63%	13.2
Russia	87%	1013.7
Saudi Arabia	54%	119.8
Turkey	66%	127.2

Source: *Business Software Alliance (BSA) and International Data Corporation (IDC)*

Saudi Arabia enacted a new Copyrights Law in August 2003. Its aim is to bring the country into full conformity with WTO standards for protecting intellectual property. The new law provides copyright protection for print publications, lectures, audio recordings, visual displays, and works of art and computer programs. For audio and visual works, photographic works and anonymous works, protection lasts for 25 years following the date of first publication. For other creative works, protection lasts for the author's lifetime plus 50 years. The main features of the new law are:

- More explicit protection for computer software and databases.
- More protection for audio-visual works and sound recordings, including protection for 50 years after the first public display or publication of audio-visual and sound recordings.
- Protection from translations and copying.
- Adjustment of the duration of protection for all artistic and literary works according to the requirements of the 1971 Berne Convention.

Saudi Arabia signed the 1971 Berne Convention on copyright protection in December 1993. Saudi Arabia joined the Berne convention for literary and artistic works and the Paris Convention for protection of industrial property in March 2004. Importantly for WTO accession, the Kingdom agreed to extend these patent protections to individuals or firms from any member state in the World Intellectual Property Organization (WIPO).

The new Copyrights Law prescribes harsher penalties for offenders than existed previously. They include imprisonment of up to six months (which can be doubled for repeat offenders), a maximum fine of SR 250,000 (SR 500,000 for repeat offenders) and compensation for damages and defamation in violation of the TRIPS Agreement.

Patents

The 1989 patent law, implemented by a patent office under the jurisdiction of the King Abdul Aziz City for Science and Technology (KACST) established proprietary rights to most products and processes sold in Saudi Arabia. A new patent law was passed in 2004 further buttressing the patent regime in the Kingdom. Under the old law a Saudi patent was valid for 15 years with the possibility of a five-year extension. The new patent law extended the protection period to 20 years. Under the new law, industrial designs are protected. The conditions for obtaining design protection were that the design must be new, have specific features and not be contrary to the Shari'a. What remain unpatentable under the new law are plants, animals, and essentially biological processes and microbiological processes. As regards pharmaceuticals, if a patent application related to a pharmaceutical is pending with KACST, the Ministry of Health will not register a generic form of pharmaceutical unless there is no possibility that the patent would be granted.

In order for the patent to remain valid, the patent holder needs to make the necessary annual fee payments. The fee for a patent application for an establishment is SR 800. Annual fees start at SR 500 for the first year and reach SR 10,000 for the twentieth year. The fees for individuals are half those for establishments.

One trade partner viewed the lengthy time needed for patent approvals as a trade barrier. To remedy the situation, as part of its WTO commitments, KACST increased its patent examiners from 15 to 80. Also the examination procedure has been modified in order to cross-reference patents issued by patent offices of other countries so that duplication can be avoided. The Kingdom committed to clear its backlog of some 11,000 patent applications by the end of 2006.

Trademarks

As a result of the WTO negotiations, Saudi Arabia revamped its trademarks law in 2002. The law provides protection for a trademark in the Kingdom for 10 years. The new law provides for fines up to SR 1 million and imprisonment of up to 1 year for trademark infringement. If a trademark application is denied, an entity has the right to file an appeal before the Board of Grievances. The law also ensures the protection of well-known trademarks, even if they are not registered. The Ministry of Commerce and Industry periodically conducts high-profile crackdowns on trademark infringements.

The WTO recognizes that geographical indications are valuable as marketing tools in the global economy. Geographical indications identify a good as originating in a specific geographical region where a given quality or reputation of a good is attributable to that region. Examples of geographical indications from Saudi Arabia include: Hail for potatoes; Taif for grapes; and Al Qassim for dates. The new Trademarks Law contains provisions regarding protection of geographical indications. In other words, only Hail potato producers would have the right to use 'Hail potatoes' as a trademark for the region's potatoes.

Investment Regime

The WTO accession talks helped bring changes to the Kingdom's foreign investment environment. Simultaneously, competition within the GCC to attract foreign investment increased the sense of urgency for change within the Kingdom. A new Foreign Investment Law was enacted in April 2000 to replace and liberalize a 1979 foreign investment law.

Attracting foreign direct investment (FDI), which is investment by businesses in fixed assets such as buildings and equipment, versus "portfolio" investment, which is investment in financial assets, such as the stock market, is a much-needed ingredient to accelerate growth. FDI flows in because businessmen are attracted by the long-term prospects of a country and have confidence in its policies and institutions. FDI into Saudi Arabia has varied over the past few years but has increased markedly since 2002 (See table.).

Net FDI Inflows into GCC Member Counties, 1998-2004 (US$ Million)

	1998	1999	2000	2001	2002	2003	2004
Bahrain	180	545	358	92	217	517	865
Kuwait	59	72	16	-40	7	-67	-20
Oman	101	21	23	49	26	528	-18
Qatar	347	113	252	237	624	625	679
Saudi Arabia	4,289	-780	-1884	20	453	778	1,867
UAE	258	-985	260	-156	1,307	30	840

Source: UNCTAD, World Investment Report 2005

The 2000 law and other subsequent actions made considerable changes to the Kingdom's foreign investment regime in order to make the country more business-friendly and open to FDI. The old law favored joint ventures over 100 percent foreign owned projects. Under the new law, foreign investors are no longer required to take local partners. The new law provides equal treatment for non-Saudi firms. The repatriation of profits and capital are guaranteed. It offers foreign licensed companies the right to buy property for the purposes of the company and allows them to sponsor their own non-Saudi employees, previously denied. The new law streamlined the investment process by committing to respond within a specified amount of time to an investment application from the date of receipt. Appendix 1 of this report includes a table comparing in detail the old investment regime with the current one.

Other related laws and regulations in the past 5 years have added to the more liberal environment. Saudi Arabia also reduced the maximum income tax rate for foreign firms to 30 percent (from 45 percent) in April 2000, and in January 2004 a new tax law reduced the rate to 20 percent. Business travel into the Kingdom has become more relaxed with less onerous requirements for business visas. We expect that visa regulations for businessmen will be further relaxed.

To ensure compatibility with WTO rules, in April 2005 Saudi Arabia removed the minimum foreign capital investment requirements for foreign investors, which had been SR 25 million for agricultural projects, SR 5 million for industrial projects and SR 2 million for services businesses. Technology transfer was not a condition for investment under the new law.

The 2000 law established the Saudi Arabian General Investment Authority (SAGIA), which is responsible for approving foreign investment projects. SAGIA serves as the enquiry point on laws, regulations and procedures relating to foreign investment. The governor of SAGIA holds the status of a cabinet minister.

In February 2001 a "negative list" of 22 economic areas barred to majority foreign owned firms was approved as part of the investment law implementation. In August 2002 a shorter list of 18 "negative" areas replaced the original negative list. The present negative list includes oil exploration, drilling and production; real estate brokerage; land and air transport; audio-visual and media services. Saudi Arabia made a commitment in WTO negotiations to annually review the list with an eye to further reducing it.

Reflecting the impact of WTO negotiations on Saudi legislation over the past several years, Saudi Arabia confirmed to the WTO that the 2000 Foreign Investment Law is fully consistent with the WTO Agreement on Trade-Related Investment Measures (TRIMs Agreement), and that Saudi Arabia would not apply any measures prohibited by that agreement.

This agreement recognizes that certain investment measures can have trade-restrictive and distorting effects. TRIMs states that no WTO member shall apply a measure that is prohibited by the provisions of GATT Article III (regarding national treatment) or Article XI (regarding quantitative restrictions). An example of inconsistent measures includes local content requirements. The Agreement contains transitional arrangements allowing Members to maintain TRIMs for a limited time following the entry into force of the WTO (two years in the case of developed country Members, five years for developing country members, and seven years for least-developed country members). The Agreement also establishes a Committee on TRIMs to monitor the operation and implementation of these commitments.

Overall, investment in fixed assets in Saudi Arabia, whether from foreign or domestic businessmen, hovered around 18 percent of GDP for all of the 1990s. Through that decade private sector GDP growth averaged 2.1 percent, well shy of the 6 percent organic growth potential of the economy. Clearly, levels of investment were inadequate to sustain high growth, and the Kingdom's new investment law and other measures are aimed at remedying this shortfall.

Our view is that investment levels of about 25 percent of GDP are needed to support sustainable high growth. The pickup in investment, both foreign and domestic, is notable from 2004 onward, and we anticipate that investment levels will reach close to 25 percent of GDP between 2006 and 2010.

Investment (Fixed Capital Formation) and GDP (SR Billion)

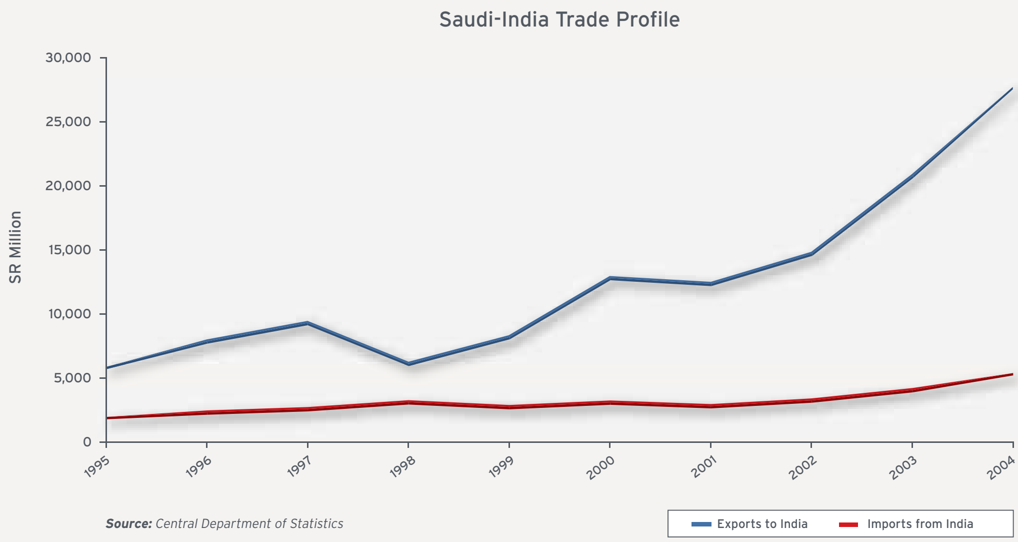
	Investment	GDP	Investment as Percent of GDP
1990	74.8	430.3	17.4%
1991	86.5	484.8	17.8%
1992	93.9	501.4	18.7%
1993	98.4	485.6	20.3%
1994	84.2	494.7	17.0%
1995	93.5	526.0	17.8%
1996	102.8	581.9	17.7%
1997	109.2	608.8	17.9%
1998	112.9	536.6	21.0%
1999	118.2	593.9	19.9%
2000	123.3	697.0	17.7%
2001	126.1	679.2	18.6%
2002	128.1	707.0	18.1%
2003	148.1	797.0	18.6%
2004	163.0	931.8	17.5%
2005E	196.0	1185.0	16.5%
	Avg:		18.4%

Source: Central Deparment of Statistics, Samba estimate for 2005

More important than FDI itself is the overall level of investment. Saudi Arabia, in our view, does not have the same compelling need for FDI as many other countries for two important reasons: 1) It does not need foreign investment as a source of foreign exchange to finance imports. The Kingdom's oil exports are triple the size of merchandise imports, so ample foreign exchange is available to the country from its exports; and 2) There is ample liquidity and savings to fuel investment in the local economy. The Kingdom is not cash-starved.

That said, there are still important advantages for Saudi Arabia to attracting FDI. As foreign money "doesn't have a passport," the degree to which it flows into the Kingdom is a measure of the relative competitiveness of the Kingdom on a global scale. If one sector attracts foreign investment and another does not, the marketplace for money is sending a message to the Kingdom about relative attractiveness of its various sectors. Also, FDI flows encourage higher levels of domestic investment and stimulate the inflow and dispersion of technology.

While the WTO primarily targets cross-border movement of goods and services, the negotiations have had a significant impact on the Kingdom's investment regime as well.



Source: *Central Department of Statistics*

Main Exports	SR Million	Main Imports	SR Million
1. Crude oil	23,002	1. Rice	1,508
2. Propane	2,238	2. Men's and boys' suits	141
3. Styrene	685	3. Black tea	113
4. Ammonium nitrate	220	4. Copper cathodes	100
5. Natural gasoline	172	5. Skin moisturizing cremes	96

Technical Barriers to Trade

Technical Barriers to Trade (TBT) and the WTO TBT Agreement deal primarily with the application of technical standards to imported products in a way that does not unfairly discriminate against imported products. Saudi Arabia committed to its trade partners that upon accession to the WTO, Saudi Arabia would comply with all provisions of the TBT Agreement. The Saudi Arabian Standards Organization (SASO), the sole standardization body in Saudi Arabia, issued a technical directive having the force of law in July 2000, updated in July 2005 that was designed to make all standards and conformity assessment procedures fully compatible with the TBT Agreement.

At issue during the negotiations was the Saudi program for testing compliance with Saudi standards known as the International Conformity Certification Program (ICCP). Under the program, foreign products were tested overseas prior to shipment to Saudi Arabia. WTO members viewed this as a "pre-inspection" regime, which is seen as non-compliant with the WTO because it imposes inspection fees and approaches not applied to domestically produced products. More WTO-friendly is a scheme whereby domestic and foreign products are randomly sampled within the country for compliance with standards.

As a result, Saudi Arabia agreed to eliminate the ICCP in September 2003 and it no longer operated from August 2004. An ICCP Replacement Committee was formed charged with establishing a replacement mechanism, which was more WTO compliant. The replacement system requires that imported products receive a "Conformity Certificate for Goods Exported to the Kingdom of Saudi Arabia." Unlike under the ICCP, there is no fee charged for this Conformity Certificate, which is granted by labs or entities authorized by competent authorities in the country of origin of the product. Saudi Arabia also committed to the WTO that the Conformity Certificate would not be needed once Saudi Arabia had established sufficient in-country capabilities for testing imported and domestic products.

The change in the standards program does not mean that imported products are subject to less rigorous standards. Saudi Arabia retains the right to impose technical standards to products that take into account the uniqueness of the harsh Saudi environment, such as tough standards for the quality of tires for automobiles to withstand the summer heat. The change is simply in the process whereby products are tested for compliance with the standards, and charged for those tests.

Customs Valuation

Customs valuation is applied to determine the customs value of imported goods. If the tariff rate is "ad valorem" (charged as percentage of the price of the product), as is the case in Saudi Arabia, determining the value of the imported product is essential to determine the duty to be paid on the product. A "specific tariff" is a tariff rate charged as a fixed amount per a fixed quantity, such as something with a tariff duty of, say, $100 per ton. The process of estimating the value of a product at customs presents problems that can be just as critical as the actual duty rate charged. The WTO agreement on customs valuation aims for a fair, uniform and neutral system for the valuation of goods for customs purposes based on commercial realities, and which prohibits the use of arbitrary customs values.

Members of the Working Party, i.e., Saudi Arabia's trade partners, expressed concern that the system of valuation as described in the documents provided by Saudi Arabia did not appear to comply fully with certain requirements of the Agreement on Implementation of Article VII of the GATT 1994 (Customs Valuation Agreement). Article VII stipulated that the value for customs purposes of imported merchandise should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise, and should not be based on the value of merchandise of national origin or on fictitious values. Members also requested that a number of areas of the customs valuation regime receive further elaboration so that they were in conformity with the Customs Valuation Agreement, such as:

- Saudi Arabia's valuation system lacked predictability and relied on the "nearest equivalent value" as an alternative to transaction value.

- The right to appeal to a judicial authority.

- Transparency.

Saudi Arabia noted to trade partners that the GCC Common Customs Law, which Saudi Arabia ratified by Royal Decree in January 2003, redressed these problems.

Concerning the right to appeal a customs decision (Article 11 of the Customs Valuation Agreement), Saudi Arabia assured trade partners that appeal rights for a relevant person before an independent judicial body was guaranteed by Royal Decree No.190 of 19 June 1989.

Concerning transparency, the Basic Law of Governance required that information be published in the official gazette, Umm Al-Qura. Moreover, Decree No. 162 issued by the Council of Ministers on 17.6.1423H (28 August 2002) provided that the Ministry of Justice and Board of Grievances should compile and publish administrative rulings and the final rulings issued by the courts and the decisions issued by competent committees. Saudi Arabia assured trade partners that this would include the publication of administrative rulings of general application giving effect to the Customs Valuation Agreement.

Saudi Arabia committed to trade partners that customs officials and brokers had been trained and that the necessary laws and regulations on customs valuation have been made public. Saudi Arabia submitted to the WTO Working Party the Common Customs Law of the GCC States and the Rules of Implementation, which contained Saudi Arabia's new system of customs valuation. Saudi Arabia applied the new Common Customs Law and the Rules of Implementation with effect from 1 January 2003, and these are, in the view of Saudi Arabia, consistent with the provisions of the GATT (now WTO) Customs Valuation Agreement.

Dispute Resolution

Should a company conducting business or trade with Saudi Arabia have a dispute with the government, the first channel for redress is to appeal to administrative bodies of the government entity concerned. For example, with regard to matters under the jurisdiction of the Customs Department, such as classification of goods and valuation of goods for assessing customs duties, there is an administrative system for appeal against rulings. If the head of the Ministry or the agency concerned upholds the decision under appeal, the foreign company has the right to appeal to the Board of Grievances. The Board of Grievances is an independent tribunal to which appeals are made regarding all governmental administrative decisions. The Board's decisions can further be challenged and appealed to higher authorities.

Should a dispute escalate to the level of a government-to-government official dispute, the WTO provides a channel for dispute resolution as an important pillar of the global trading system. The WTO has established in considerable detail the procedures and the timetable to be followed in resolving disputes. Only a member state of the WTO can take another member state of the WTO to its dispute resolution mechanism. If a case runs its full course to a first ruling, it would normally take about one year, more if the case is appealed (See table.). The timetable limits are flexible, and if the case is considered urgent, it is accelerated as much as possible. Cases can also move much more slowly.

Duration of Dispute Settlement*

60 days	Consultations, mediation, etc
45 days	Panel set up and panelists appointed
6 months	Final panel report to parties
3 weeks	Final panel report to WTO members
60 days	Dispute Settlement Body adopts report (if no appeal)
Total = 1 Year	**(without appeal)**
60-90 days	Appeals report
30 days	Dispute Settlement Body adopts appeals report
Total = 15 months	**(without appeal)**

(These approximate periods for each stage of a dispute settlement procedure are target figures.)*

The preferred solution is for the countries concerned to discuss the problems and settle the dispute among themselves. By July 2005, only about 130 of the nearly 332 disputes that had been brought before the WTO had reached the full panel process. Most of the rest have either been notified as settled by the parties or remain in a prolonged consultation phase, some since 1995. Even once the case has been decided, there is more to do before penalties in the form of trade sanctions are imposed. The priority at this stage is for the losing party in the dispute to bring its policy into line with the ruling or recommendations of the WTO.

Implications for the Economy

It is quite clear to us that Saudi membership in the WTO and the extensive reform process and legal and institutional changes that have occurred leading up to membership are strongly positive for Saudi macroeconomic performance. There is no single agreement or commitment to the WTO that dramatically effects the economy. Rather, it is the cumulative impact of the hundreds of incremental changes that is broadly positive for growth. The broad positive impacts are as follows:

- All consumers in the country have already benefited and will further benefit from access to the world's best products at the lowest prices.

- The private sector will be characterized by greater competition, which means more innovation, better prices and service for consumers, and more efficient allocation of capital throughout the economy.

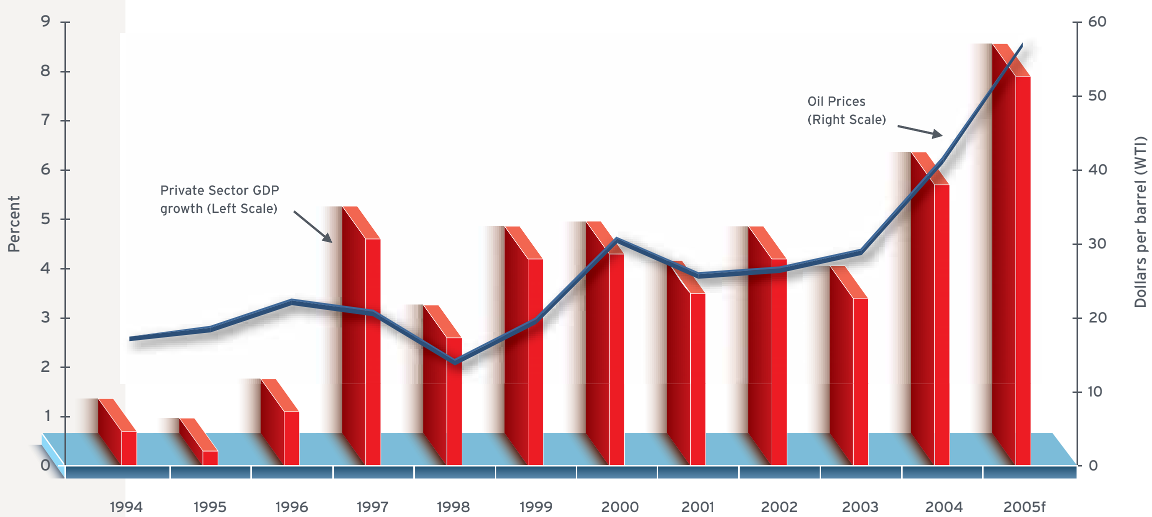
- Greater transparency in legal matters and legislation and more input from the private sector on any new trade-related legislation.

- Saudi exporters enjoy greater access on competitive terms to foreign markets.
- The Saudi government now has an official seat at the table at the WTO and will influence future global trade rules and agreements.

WTO membership should contribute to the Kingdom achieving several of its broad goals for the economy. These include diversifying the economy away from dependence on the oil sector, stimulating higher levels of job creation and private sector employment opportunities for Saudis, and encouraging foreign investment.

The real proof of the benefit to the economy of WTO membership would be higher measured rates of growth for the private sector. This indeed has been happening over the past several years as Saudi Arabia has created a more WTO-compliant economy. A broad-based economic reform program began in earnest, in our view, in 1995 and has continued steadily since then. While the reform program is broader than a focus on a WTO-compliant trade regime, the changes have been undertaken with an eye to keeping the changes consistent with WTO requirements.

Oil Prices and Private Sector Growth



Source: *SAMA Annual Report No. 41 (2005), Samba estimates*

In the six years before the reform program began, 1990-1995, private sector GDP growth averaged 1.7 percent per year. In the first five years of reform, 1996-2000, private sector growth increased to average 4.1 percent per year, and in the latest five years, 2001-2005, private sector growth has averaged 5.0 percent per year. Our forecast for 2006 is for growth of over 5 percent and private sector growth of over 6 percent per year for the rest of the decade. Our view is that a long-term organic sustainable trend rate of growth for the Saudi private sector is 6 percent. This rate of growth puts all new entrants to the labor force to work and allows for reasonable productivity gain. Saudi Arabia's average growth has approached that rate in the past 5 years and will likely exceed it in the years to 2010.

How much of the added growth in the private sector is attributable to reforms and the WTO? It is not completely clear because oil prices have risen over the past 5 years (2001-2005), and oil revenues are clearly responsible for some of the private sector growth (See chart.). In the 35-year period 1971-2005, private sector growth had a .80 correlation with oil prices. This declined, but to a still strong correlation of .66 in the most recent 10 years 1996-2005, suggesting some success is being achieved at economic diversification. With these numbers in mind, it is our sense that the WTO-oriented economic reform of the past decade has made a contribution to the total 6-7 percent growth rates of the private sector the Kingdom is currently enjoying.

This is already a significant success story for the positive impacts of the WTO. That said, there remains a high correlation between oil and private sector growth. Although the economy is currently strong, indeed booming, and likely to remain so for the rest of the decade, the major challenge for the Saudi economy is to achieve dynamism and growth of the private sector such that the next downturn in the oil cycle will have a reduced impact, with private sector growth not dropping sharply below the trend rate of 6 percent. This would be an important achievement and a departure from the 1990s when non-oil private sector growth stagnated in a stagnant oil market. The benefits of WTO membership make an important contribution toward that goal.

Who are the specific winners and losers in the Saudi economy from WTO membership? We are hard-pressed to identify any specific losers per se. Concerns expressed that the Kingdom might see widespread dumping of inferior products from abroad into Saudi Arabia, or that giant multinational companies will enter the market and put small local competitors out of business are unfounded. None of this is likely to happen, and the higher growth rates and more competitive and dynamic private sector should increase opportunities for nearly all players. In most industries affected by the WTO, the liberalization of the market and high growth rates will make room for local and foreign players to prosper.

Saudi Balance of Payments—Current Account (US$ Billion)

	2004	2005
1) Merchandise Trade		
Oil exports	110	157
Other exports	15.2	18.4
Re-exports	-2	-2
Imports	-44.7	-50.5
Merchandise trade balance	78.5	122.9
2) Services and Transfers		
Investment income	3.9	4.5
Bunker oil sales	0.3	0.3
Other receipts	5.9	6
Freight and Insurance	-3.6	-4
Oil sector payments	-4.1	-5
Private sector services	-7.3	-7.5
Government services	-14.7	-15
Private transfers	-13.6	-15
Services and transfers balance	-33.2	-35.7
3) Current Account Balance (1+2)	45.3	87.2

Note: Positive numbers represent inflows to Saudi Arabia.
Negative numbers represent outflows from Saudi Arabia.

Source: *SAMA, Samba estimates*

One of the clear winners is the petrochemical industry, as discussed above. Foreign markets for Saudi petrochemical exports will be opened further while the natural advantage Saudi Arabia provides of low cost feedstock will be preserved.

Financial services, especially banking and insurance, will be winners as well. The deepening of the financial markets will benefit all of the banks with new growth opportunities and the insurance industry, already growing strongly, will benefit from a world-class regulatory regime previously lacking.

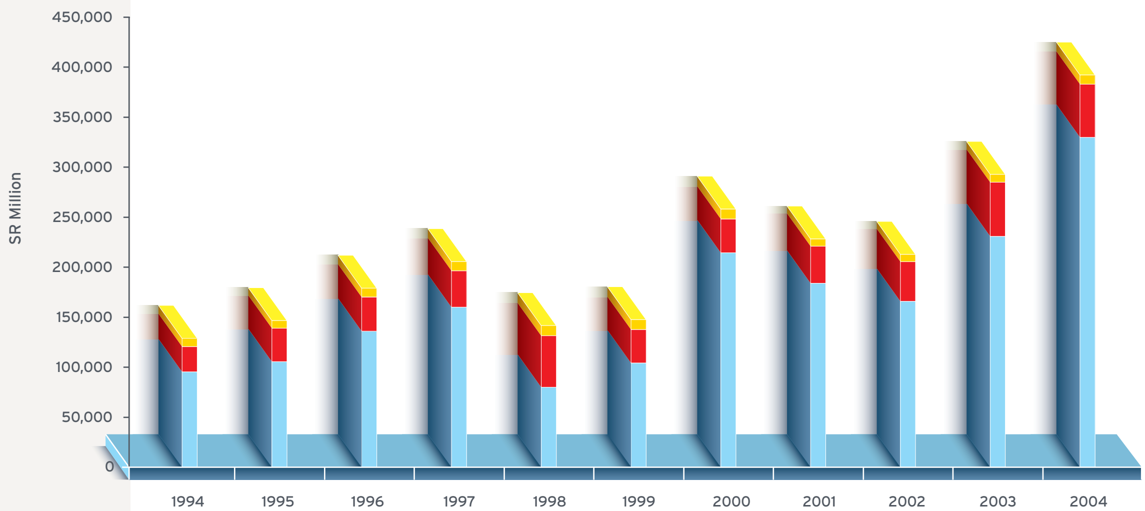
A few industries may face a greater competitive challenge, but not enough in our view to threaten their viability. Those companies locally manufacturing goods and enjoying protective 20 percent tariffs on competing imports will generally see those tariffs reduced to 15 percent upon accession. Examples of such goods are building materials such as local building stone, many agricultural products such as grains and some processed foods, and many textiles and leather goods. We don't believe that this reduction in tariffs poses such a sharp dislocation that affected local industries cannot adjust.

Another industry that will face some pressure is agriculture in general, as a result of the commitment to reduce the Aggregate Measure of Support (AMS), as discussed above, by 13.3 percent over a period of ten years, and the reduction of tariffs on many agricultural imports. Saudi Arabia has minimal agricultural exports, so enhanced global market access for agriculture will not create a compensating benefit. Again, however, we do not see the changes upon accession to create an unmanageable shock to agricultural firms. They will, over time, however, have reduced government support and higher competition from imports, which may impact performance and profitability.

Concerns have also been expressed that small and medium enterprises (SMEs) will be especially hard hit by foreign competition. We think this is unlikely. For example, the market for foreign professional service providers (lawyers, doctors, accountants, engineers, consultants, etc) is opened up, but demand growth for these professions is strong and in many cases local knowledge is an important criterion for success, so local practitioners will not necessarily suffer. In the area of retail distribution where there is a large number of local small businesses, it is likely that foreign entrants, which still must have some Saudi equity participation, will mostly target large competitors due to significant remaining capital requirements on foreign-owned distribution outlets. The SR 20 million paid-up capital requirement for foreign distribution service providers was maintained largely to protect Saudi-owned SMEs, of which there are over 600,000, from foreign competition.

A key element of the adjustment to membership in the WTO is that Saudi membership comes at a time when the economy is enjoying a boom that is likely to continue for several years. This should dampen what might otherwise in, say, the low-growth 1990s, have been a difficult environment for companies to adjust to greater competition. In the current economy, companies have the latitude to adjust to competition and, indeed, prosper.

Sources of Government Revenue



Source: *SAMA Annual Report No. 41 (2005)*

The implications of WTO membership for government finances are not significant. The loss of tariff income from the commitments to lower tariffs would, in our view, be fully offset by the higher collection of corporate income taxes resulting from higher levels of private sector GDP growth. Thus, we don't anticipate any weakening of government finances due to the reductions in tariffs or any other WTO commitments. In a recent public comment, the Finance Minister said he expects a loss of revenue from reduced tariffs of about SR 300 million ($80 million) in 2006, which is less than 0.1 percent of expected overall revenues of SR 390 billion ($104 billion).

Customs tariffs have been a small and declining source of government revenues. According to Samba calculations, over the past 10 years (1994-2004), customs tariff proceeds as a percent of total government revenue declined from 6.4 percent in 1994 to 2.5 percent in 2004. Part of the decline is due to the increase in oil revenues in recent years. Other sources of government revenue include proceeds from zakat and income tax, dividends from holdings in publicly traded companies, returns on foreign investments, and fees for government services.

A similar trend is evident when comparing customs proceeds relative to the total value of imports, which clearly demonstrates the reality of declining tariff rates, especially under the GCC customs union, which went into effect in early 2003. As a percent of nominal GDP, customs duties declined from an average 1.5 percent in the mid-1990s to 0.94 percent in 2004.

The WTO agreement does not affect the government's privatization plans. There is no specific commitment by the Saudi government to privatize any organization by a certain date. The only commitment Saudi Arabia made was to inform the WTO annually of the progress of privatization.

Customs Proceeds as Share of GDP, Revenue and Imports			
	Nominal GDP	Government Revenue	Total Imports
1994	1.65%	6.43%	9.51%
1995	1.41%	5.12%	7.13%
1996	1.50%	4.96%	8.54%
1997	1.47%	4.43%	8.45%
1998	1.83%	7.07%	8.91%
1999	1.60%	6.53%	9.18%
2000	1.37%	3.74%	8.52%
2001	1.04%	3.13%	6.10%
2002	1.04%	3.47%	6.10%
2003	1.01%	2.76%	5.84%
2004	0.94%	2.25%	5.27%

An increase in imports due to lower tariffs and the robust growth occurring in Saudi Arabia should not put stress on the Kingdom's balance of payments. The value of Saudi Arabia's merchandise exports, primarily crude oil, is roughly three times the value of merchandise imports, resulting in trade surpluses year after year. Even with the unlikely scenario of no increase in oil exports, Saudi Arabia could import substantially more goods and still maintain a healthy trade surplus.

Trade has been a major piece of the Saudi economy, and this will only grow under the WTO. As we mentioned in the introduction, total merchandise trade (imports and exports) is equivalent to 68 percent of Saudi GDP, while global merchandise trade is equivalent to just 17 percent of global GDP. As the world's largest oil exporter, a major importer from many countries around the world, and the largest economy by far in the Middle East, Saudi Arabia's non-membership in the WTO was an obvious deficiency in the global trade system. Membership now benefits Saudi Arabia and the WTO itself. As WTO Director General Pascal Lamy said celebrating Saudi Arabia's membership in the organization, "The WTO truly becomes a world trade organization."

Appendix 1:

Comparison of the Provisions of the 1979 and the 2000 Foreign Investment Laws

Authorities Providing Services to and Regulating Investors:	
New Law	**Old Law**
SAGIA Investor Services Centers (One-Stop-Shop). SAGIA comprises representatives from nine investment related ministries.	Several Ministries and Government Agencies.

Investment Fields Open to Foreign Investors:	
New Law	**Old Law**
All Fields are open for investment, except those on the Negative List.	The Old Law required that a project be a development project approved under the National Development Plan and that the project be accompanied by foreign technical skills and expertise to facilitate technology transfer and be approved as viable by the Foreign Investment Bureau.

Period on Taking a Decision on an Investment Application:	
New Law	**Old Law**
Maximum 30 days.	Not specified.

Possibility of Obtaining More than One License:	
New Law	**Old Law**
The foreign investor may obtain more than one license in diverse activities.	Restricted, had to be in the same activity.

Type of Foreign Investment:	
New Law	**Old Law**
100 percent foreign-owned projects are allowed by the New Law, in addition to joint ventures.	The Old Law favored joint ventures over 100 percent foreign-owned projects.

Incentives:	
New Law	**Old Law**
The foreign investment project enjoys all of the incentives and privileges offered to local projects.	Foreign capital enjoyed the incentives offered to national capital only in manufacturing industries. The Saudi share in ownership had to be 25 percent or greater.

Investment Guarantees:

New Law	Old Law
The foreign investor has the right to transfer his share derived from selling his equity or profits out of the Kingdom. The foreign investor may not be subject to expropriation except for in the public interest and in exchange for an equitable compensation according to regulations.	None were specified. No expropriation cases since 1957.

Real Estate Ownership:

New Law	Old Law
The foreign facility licensed under the Foreign Investment Act is entitled to any real-estate for practicing the licensed activity and for the housing of staff. Also, the Real-Estate Regulation allows foreign investment in real-estate worth SR 30 million or more.	Foreign ownership of real-estate by foreign investors was prohibited.

Penalties for Violations:

New Law	Old Law
A petition against any penalty may be brought by the investor before the Board of Grievances. Possible penalties include: - Withholding incentives offered to the foreign investor. - Imposing a fine not exceeding SR 500,000. - Canceling the license, in case of a continuing violation after a written notification to rectify the violation within a certain period specified by SAGIA.	The Kingdom could cancel the license or deny incentives after the investor received warning from the Ministry of Industry and Electricity to correct the violation within a certain period. Investors could appeal to the Board of Grievances within 30 days.

Tax Exemption:

New Law	Old Law
Taxes on profits were reduced to 20 percent and losses may be transferred to coming years.	Industrial and agricultural projects were offered a ten-year tax holiday and other projects a five-year holiday, provided that the local share formed 25 percent of the project capital. The tax on profits was up to 45 percent.

Sponsorship:

New Law	Old Law
The requirement of the old law was removed. The foreign investor and his non-Saudi staff shall be sponsored by the licensed investment project.	Foreign investors had to be sponsored by a Saudi citizen.

Appendix 2:

Frequently Asked Questions

Q. What is The World Trade Organization?

A. The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments. The goal is to help producers of goods and services, exporters, and importers conduct their business without any barriers or obstacles. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible. The result is assurance. Consumers and producers know that they can enjoy secure supplies and greater choice of the finished products, components, raw materials and services that they use. Producers and exporters know that foreign markets will remain open to them. The result is also a more prosperous, peaceful and accountable economic world.

Q. What is Saudi Arabia's agreement with WTO about?

A. It is about becoming a member of the organization to be able to take advantage of all the benefits that are available to other members, most importantly being able to trade freely with the other 148 WTO members. The agreement, which Saudi Arabia has signed, consists of three main parts, together referred to as "The Accession Protocol." The Minister of Commerce and Industry signed on behalf of Saudi Arabia, thereby formally committing the Kingdom to accepting all the requirements for accession as set forth in the Common Schedules, which are:

- Schedule of Concession and Commitments on Goods
- Schedule of Specific Commitments in Services
- Report of the Working Party

Saudi Arabia became a full member of the WTO on 11 December 2005.

Q. What does the Schedule of Concession and Commitments on Goods mean?

A. It is the first part of the agreement between Saudi Arabia and the WTO member states. The schedule identifies the commitments regarding tariffs made by Saudi Arabia in agricultural and manufactured goods (7,177 items). These commodities are listed, indicating the bound tariff rate for each item, which is the maximum tariff ceiling that Saudi Arabia cannot exceed without having to conduct new negotiations with all WTO members. These bound tariff rates (ceilings) have been reached following negotiations that resulted in the signing of 38 bilateral agreements with WTO members who requested such negotiations to reconcile their trade issues with Saudi Arabia. Accordingly, if Saudi Arabia reached an agreement with a country that determined the bound rate for a certain commodity at, for example, 20 percent, while it had agreed previously with another country that it would be 40 percent, then the lowest rate of 20 percent would apply automatically to all members based on the principle of Most Favored Nation (MFN), which all WTO members afford each other with no discrimination among themselves.

Q. What is the Schedule of Specific Commitments in Services?

A. It is the second part of the agreement between Saudi and the other WTO members. It establishes the commitments Saudi Arabia has made in services, which includes 12 main sectors, 155 sub-sectors and 4 methods for administration or delivery of such services. Delivery methods are cross-border; as is the case in telecommunications services, consumption abroad; as is the case in foreign travel, tourism, education or medical treatment, or through physical presence by means of setting up shop inside Saudi, or through movement of natural persons; such as recruitment of foreign labor to provide services inside Saudi Arabia. The Schedule of Specific Commitments in Services deals with various complicated issues, such as Saudization, Foreign Direct Investment (FDI), Market Access to foreign service providers and National Treatment. Similar to the commodities schedules, services schedules are subject to the MFN treatment. For instance, if Saudi Arabia negotiated access to its telecommunications sector with one country allowing 70 percent maximum foreign ownership of a telecommunications company, then the 70 percent applies automatically to all other members under the MFN principle.

Q. **What is the Report of the Working Party?**

A. It is the third main part of the agreement between Saudi Arabia and WTO members. The Report of the Working Party includes 313 paragraphs explaining in great detail Saudi Arabia's policies with regards to the legislative process, government hierarchy, foreign investment laws, structure of the local economy, commerce, finance, and much more. The report also sheds light on the processes of litigation, decision-making and appeal to the Board of Grievances, and all other issues relevant to the WTO agreement and its implementation. Also, the report covers the "commitments" Saudi Arabia has made and the "exceptions" it was able to obtain.

Q. **What are some of the most important commitments Saudi Arabia made, and the most important exceptions it was able to gain?**

A. Saudi Arabia made a total of 58 commitments and was able to obtain 59 exceptions. Some of the most important commitments are:

1. Implementation of nearly all WTO multilateral agreements without recourse to gradual implementation over many years, in areas, for example, such as intellectual property rights protection and opening to foreign investment. Saudi Arabia did not attempt to pick a limited number of agreements to abide by. It clearly sought to be a broad-based participant in the organization and in global trading rules.
2. Substantially reducing tariffs. Saudi Arabia is clearly moving in the direction of low cost access to the Saudi market of products from all over the world for consumers in the Kingdom.
3. Cutting back on overall support to its agricultural sector by 13.3% over a period of 10 years from the date of accession.

As for exemptions, some of the most important ones are that Saudi Arabia:

1. Takes advantage of gradual change in some areas, such as removing certain protective tariffs, and raising the ceiling on maximum foreign ownership of some sensitive service sectors, such as retail and wholesale distribution. For example, Saudi Arabia agreed to open up its telecommunications sector to foreign investors provided that their ownership percentage would not exceed 49 percent upon accession to the WTO, increasing to 51 percent after three years, and then to a maximum of 60 percent after another three years.
2. Received an exemption from the Government Procurement Agreement, which requires that government procurement not favor local manufacturers and contractors.
3. Took a "national treatment" exemption for foreign participants in services sectors, imposing more specific Saudization of the workforce requirements than it applies to local firms.
4. Maintains new bound tariff (ceiling) for many agricultural imports that are higher than currently applied tariffs, giving the Kingdom latitude to raise actual tariffs in this area if deemed necessary.
5. Will continue to exclude foreign ownership in certain service sectors, such as commercial agencies, and land transport.

Q. **Wholesale and retail distribution is now open for foreign investors. Will that lead to termination of the existing exclusive commercial agency agreements with Saudi family businesses?**

A. Wholesale and retail distribution has been opened contingent upon terms and conditions detailed in the text of this report, but summarized as follows:

1. Foreign ownership cannot exceed 51 percent upon accession to WTO, rising to a maximum of 75 percent after three years. Significant minimum capital requirements apply, effectively blocking foreign ownership of small retail shops.
2. Saudi workers must be at least 75 percent of the workforce from the date of commencing business.

This commitment will not necessarily result in cancellation of exiting agency arrangements, nor will it abolish the commercial agencies system. Per regulation, an agent must still be a Saudi national, but the law does not require that imported products have an agent at all. Also, there's nothing in the law that prohibits appointing more than one agent for the same product or company, i.e., exclusive agencies are not mandatory under the Saudi law.

Q. Why are some WTO members, such as the EU (European Union), still allowed to maintain agricultural subsidies, whereas Saudi Arabia has committed to eliminating its subsidies on agricultural exports?

A. The WTO opposes all forms of subsidies, and the current round of negotiations, the Doha round, is aimed at reducing agricultural export subsidies and import quotas completely. Saudi Arabia does not subsidize agricultural exports in any case, as agricultural development has been aimed at support for domestically consumed products. All WTO members are expected to eliminate or reduce their subsidy system in line with their stage of development. Saudi Arabia, in this regard, did not choose to take "developing country" status.

Q. What is the government doing about the risk of dumping by foreign companies?

A. Countries have the right to protect their national industries against unfair trade practices and dumping. In particular, members of the WTO can bring such violations to the attention of WTO board for the settlement of commercial disputes. In addition, a GCC regulation to combat dumping was issued in early 2004 and work on the implementing regulations is underway. Also, a royal decree has been issued to form a committee of experts from various government agencies to be chaired by the Minister of Commerce. This committee will be charged with looking into dumping and subsidies claims by Saudi companies, and defending interests of Saudi companies against dumping by foreign entities.

Q. Why is crude oil not included in the WTO agreement? And what is the status of oil vis-à-vis the Saudi-WTO agreement?

A. Oil not being included in the WTO schedules is a common myth. Similar to all other agricultural and manufactured products, oil and oil products are listed on WTO commodity schedules and are subject to the tariff commitments made by WTO members. However, a limited group of GATT members, about 12, managed to exclude oil and oil products from their commodity schedules in early GATT negotiations, an action they viewed at the time as an acquired right as founding members of the GATT Agreement prior to its transformation into the WTO. As member of WTO, Saudi Arabia can conduct negotiations directly with members of the group to have such exceptions canceled and replaced by bound tariffs or tariff ceilings on oil and oil products. As a practical matter, however, crude imports are subject to extremely low tariffs globally.

Q. How would WTO accession impact Saudi incentive programs?

A. Many current incentive programs, such as loans from the Saudi Industrial Development Fund (SIDF) are not affected because, under the new investment law, they are available equally to foreign and domestic businesses. Saudi Arabia has been able to retain the customs tariff exemption on products that are inputs for domestic manufacturing, and the priority for domestic products and services in government procurement contracts, for example. One important benefit to local business has been 20 percent tariffs on imported products that compete with similar domestically manufactured products. Almost all of these tariffs declined to 15 percent upon accession, and a few decline further over the years.

Q. Which industries are expected to benefit the most as a result of WTO accession, and which ones are expected to suffer?

A. We are hard-pressed to think of industries that will actually suffer. Saudi Arabia's membership comes at a time when the economy is booming and likely to continue growing strongly for many years. Thus, even with new competitive pressures, companies have the latitude to adjust and prosper. A clear beneficiary is the petrochemical industry. It can continue to enjoy the advantage of low cost feedstock, while at the same time seeing tariffs imposed by other countries on Saudi petrochemical exports declining, giving the industry greater global market access. Agriculture experiences a gradual, 10-year decline in government support, so the marginal players in this sector may face some pressures.

Q. Which services are open for foreign investors and how would that affect Saudi citizens?

A. The telecommunication sector (landline and mobile), wholesale and retail trade, banking and insurance are the most obvious and most important that are now open to foreign players. Examples of other services include computer consulting, research and development (R&D) firms, advertising and public relations, and professional services such as management consulting. Some of these activities, however, still require a Saudi partner, a minimum level of investment capital, or both for a foreign investor to enter the market.

Q. Will Saudi Arabia now have to do business with Israel since both are WTO members?

A. No. Saudi Arabia's trade stance toward Israel does not change due to WTO accession. The Kingdom lifted the secondary and tertiary boycott of Israel in 1995. The secondary boycott prohibited Saudi companies from engaging in business with foreign firms that contribute to Israel military or economic development. The tertiary boycott prohibited dealing with foreign firms that do business with other blacklisted companies. The primary Arab League boycott of Israel remains in place.

Q. Will household workers and the sponsorship system be affected by WTO membership?

A. No. Domestic workers, such as housemaids and drivers are not affected by Saudi commitments to join the WTO.

Q. Does WTO membership address human rights issues or establishment of labor unions?

A. No. Saudi commitments made to trade partners in order to join the WTO did not address these issues. However, a new proposal within the framework of the Doha round is currently being discussed among WTO members. This proposal deals with work standards and has a special chapter on worker unions.

Q. Does joining the WTO mean that Saudi Arabia has to import alcohol or pork, or to allow the opening of movie theaters and nightclubs?

A. No. Saudi Arabia took advantage of clauses in the WTO bylaws, which allow members to ban imports of certain products on religious or cultural grounds. Saudi Arabia exercised such rights to ban imports of pork and alcohol, for example.