



# Expert meeting on FDI issues in Saudi Arabia

4 October 2016

Delegation of the European Union in Riyadh

# Concept Note: Strengthening FDI in the GCC

## Roundtable Background – The rationale

During the decade of 2003-2013, increasing oil prices and a growth model based on government spending meant that the Saudi economy grew to become the 19th largest economy in the world - with GDP doubling in size and household income growing by 75%.

In the face of demographic pressure of increasing amounts of youth entering the workforce and a changing global energy market, the Saudi National Transformation Program 2020 (NPT) was adopted to fulfill the Saudi Vision 2030 that aspires to enable the country to shift to a sustainable market based growth model.

One of the main themes in the NPT is to diversify the economy by fostering non-oil sectors, privatizing public services and improving the business environment in the Kingdom. It is worth noting the more pronounced role of the private sector in the NPT, which envisages 40% of all initiatives being funded by the private sector and creation of more than 450,000 private sector jobs by 2020.

When it comes to attracting foreign investment, some of the notable targets that are to be achieved by 2020 are the following:

- Raising direct foreign investment from **SR30 billion to SR70 billion**.
- Implementing **218 administrative** and procedural reforms aimed at improving the business environment.
- Developing a unified national investment vision to promote and direct investments supporting the national economy, **resulting in SR2.3 trillion in new investment opportunities**.
- Reducing time needed to issue new business permits from **19 days to one day**.

## Roundtable Focus

Taking recent privatisations plans and initiatives to attract foreign investment as a point of departure, the meeting will focus on EU businesses' concerns in the Kingdom and what is needed to ensure necessary progress is made to improve conditions for foreign direct investment.

Topics for discussion would include among other:

- **Saudization requirements:** Against the background of the government's aggressive job creation drive and mandated Saudization requirements are foreign companies having difficulty in finding the right local talent while being barred from further hiring more expatriates?
- **Foreign investment licensing regime:** Recently, the Saudi Council of Ministers has permitted foreign entities to set up wholly-owned "trading" companies in the Kingdom. These companies may be in the form of an LLC or a branch, must have a capital of at least SAR 30 million, must commit to invest over SAR 200 million in Saudi Arabia within the first five years of operation, and must meet certain targets for the training of Saudi nationals and the localization of its activities. Some experts point out that these requirements do not fit all business models and certain sectors such as construction, where filling the Saudi quota will be challenging. Likewise, it remains uncertain how SMEs and small high-tech companies will be in a financial position to cope with some of the demands.
- **Engineering Consultancies:** In another significant development, SAGIA announced on June 2, that it was accepting proposals from international companies which wish to establish wholly owned engineering consultancies. At present, engineering consultancies, even those with foreign participation, are regulated and licensed by MOCI (as "professional companies") rather than by SAGIA, and are required to have a Saudi engineer own at least 25 percent of the company's capital. There is as yet no indication when or how the legal procedures to establish and operate wholly-owned engineering businesses will be implemented.
- **Other topics:** better access to procurement, visa issues, late payment of debt and taxes

## AGENDA

- 10h00**      **Welcome address**  
Lucie Berger, First Secretary, Trade and Economic Affairs, Delegation of the European Union to the GCC
- 10h05**      **Welcome and introduction to the Presentation of the EU-GCC Trade and Business Cooperation Facility "**  
Peter Helk, Confederation of Danish Industry (DI)
- 10h20**      **Brief introduction from participants**
- 10h45**      **Roundtable/exchange of issues in FDI and doing business in Saudi Arabia**
- 11h30**      **Wrap up - Policy recommendations and Next steps**  
Iman Awadh, DI
- 12h00**      **Lunch**

# Summary

## Short summary:

### 1. Opening address

The roundtable was formally opened by Ms. Lucie Berger, First Secretary for Trade and Economic Affairs at Delegation of the European Union to the GCC, who emphasized the need to address obstacles and barriers to FDI in Kingdom of Saudi Arabia (KSA) and the GCC region at large. In particular, the issue of tackling FDI barriers has become an increasingly pertinent discussion in light of Saudi Arabia's Vision 2030, which aims at establishing a more open economy and attracting investment to the Kingdom.

### 2. Welcome and introduction

After Ms. Lucie Berger's opening address Mr. Peter Helk provided a brief presentation of the EU-GCC trade and business cooperation facility. He the scope of the project, the EU and GCC private sector partners in the project and the vast number of businesses that they individually and collectively represent. He also highlighted key activities and events undertaken by the project and stressed that the project was demand driven based on the needs of EU and GCC private sector. In the final part of the project period, the partners will focus on various topics that address barriers to investment and sectors in the GCC countries and EU. This round table would be the first of a number of activities, where the key findings will feed into the 2<sup>nd</sup> EU-GCC business forum that will take place in Riyadh on January 2017 and later at the 3<sup>rd</sup> Business Forum, which will be held in the UAE end of 2017 or early 2018.

To illustrate how the project tackles real obstacles and barriers to trade and investment, Ms. Iman Awadh presented the results of a recent intervention undertaken by the project. Ms. Iman Awadh described how the EU-GCC Trade and Business Cooperation Facility addressed concerns of the ICT and digital industry regarding a new GCC technical regulation on low voltage product. This was done through organising a workshop with DIGITALEUROPE and key EU and GCC companies and facilitating a dialogue with the Gulf Standard Organisation. The initiative that was welcomed by the Gulf Standard Organisation, as a way to cooperate and learn from the private sector and ensure that a transition period can accommodate EU and GCC companies.

### 3. Brief introduction from participants

After the opening address, welcome and introduction, the participants were asked to introduce themselves and three key challenges operating in KSA. Although there were minor differences in the issues given there were a high degree of correlation between the concerns. The principal variation between the challenges was whether it had an operational, tactical or strategic impact and by corollary, whether it was felt in the short, medium or long term.

#### **Immediate operational challenges (short term):**

- Deferred payments
- Obtaining visas and the new increased cost of visas for outside experts

The principal operational challenges facing companies attending the workshop, were the issues of deferred payments and the cost of visa's for foreign experts. The issue of payment delays has over the past couple of years grown from being a minor problem to seriously impeding the ability of companies to operate due to the dearth of liquidity. Hence, payments are no longer deferred by weeks or months, but rather by more than six months and in several instances more than a year. Naturally, the low liquidity has far reaching side effects and can have serious implications on the entire infrastructure industry.

Furthermore, the recent increase in the cost of visas will have serious implications for companies operating in the Saudi market. With a limited and very often quite expensive local talent pool, the ability to source experts/foreign nationals to the KSA has been a key success factor for several of the companies. Increasing the visa fee will naturally force these companies to reconsider the cost of bringing in short-term experts and by corollary potentially hurt their overall ability to compete effectively.

#### **Policy Framework challenges**

- Cumbersome bureaucratic procedures for market entry and commercial licensing
- Opaque decision making and implementation of rules
- Stakeholder consultation is inconsistent
- No clear rules and guidelines on new regulations
- Saudisation
- Need for local partner

The policy framework challenges were primarily related to the uncertainty that follows from what companies called “unpredictable changes in regulation”, opaque decision making and lack of clear guidelines. Bureaucratic procedures are cumbersome, but red tape can generally be overcome with persistence and most companies have learned to adjust to the conditions and overcome initial barriers. However, many companies said that these barriers were costly and would rather see those costs removed to expand their business.

When new regulations and requirements are introduced, companies mentioned that there are no formal processes for stakeholder consultation, and many Saudi organisations do not consult business that are affected by the regulatory process. It is also often difficult for companies (in particular the smaller and medium sized companies) to find relevant information on new laws and rules.

Another issue that face European companies in Saudi Arabia, is the issue of Saudization and the transfer of technology. A few companies pointed out that in the long run, Saudization should not just be seen as a legal impediment but as an advantage for foreign companies that want to navigate in the Saudi market. However, from discussion with most companies, it was evident that the companies that were looking at turning their Saudization challenges into an advantage were achieving Saudization by expansion rather than replacing expats with locals. Many pointed out that they were looking to hire skilled Saudis, but that it was difficult to find recruit and to retain them due to the scarcity of Saudis willing to work in the private sector and the high competition among companies to hire Saudis and live up to the required quotas.

- Strategic long term challenges : Political stability and economic policies
  - Vision 2030
  - Geopolitical situation in the Middle East/Gulf
  - Low economic growth forecasts

There is no doubt that the companies no longer saw KSA as a golden egg. Hence, one participant specifically stated that his greatest challenge was to convince the mother company, and by corollary its shareholder, that the company should stay in KSA. Not only is the country not an operational or tactical place to do business in, but the regional geopolitical situation has become a concern to these stakeholders. Hence, there was an imminent need to brand the country much better from a business perspective.

The single biggest challenge, however, and one that gained traction among the participants was that it would become virtually impossible to establish and maintain a production system in the years to come. The principal reason being that it was foreseen that Vision 2030 would lead to an increased push to have a higher degree of local content. A level of content that would be impossible to attain unless the supply of skilled technical Saudi increased and more is invested into technical colleges locally. Hence, whereas it is possible to circumvent quota system and hire Saudis in white collar jobs, it will become a noose around the companies neck in the future when they have to source blue collar Saudis, if they are incapable of producing with the needed efficiency.

#### **4. Wrap up - Policy recommendations and Next steps**

The round table / discussion gave an honest insight into the barriers companies are facing every day in KSA. The companies have all of them been able to adjust to a different reality, but there are still barriers that could prove unsurmountable. Hence, there are both operational barriers that potentially could lead companies to abandon the KSA, i.e. deferred payments, but there are also the larger issues of a more strategic nature.

The only issue that attracted significant backing from all participants was the need to look at the local talent pool. Hence, it is suggested to establish a working group that can look into this issue from the viewpoint of foreign investors and local producers alike. Thus providing a possible framework that eventually will allow companies not to hire because of a quota, but because they wish to engage these competencies.



# Participation List

1. **Lucie Berger**, First Secretary, Trade and Economic Affairs, Delegation of the European Union to Saudi Arabia, Bahrain, Kuwait, Oman, Qatar and the GCC
2. **Dr. Kurt Altmann**, Commercial Counsellor, Austrian Embassy Commercial Section
3. **Khaled Lkkis**, Branch Director Middle East, CMI DEFENCE LLC
4. **Jacques Valentin**, General Manager, CMI DEFENCE LLC
5. **Michael Lauko**, Sales Development Manager ME, Airbus
6. **Jan Brouwer**, Director Transport & Planning, Royal HaskoningDHV
7. **Antonio Lo Gelfo**, Executive Manager, InterConsulting Arabia
8. **Ahmed Osman**, Finance & Administration Manager, Pizzarotti - Rizzani De Eccher Saudi Arabia
9. **Stefano Bologna**, Selex ES, Leonardo Finmeccanica
10. **Peter Helk**, Project Manager, EU-GCC Trade and Cooperation Facility, Confederation of Danish Industry
11. **Iman Awadh**, Consultant, EU-GCC Trade and Cooperation Facility, Confederation of Danish Industry
12. **Katerina Belko Hansen**, Consultant, EU-GCC Trade and Cooperation Facility, Confederation of Danish Industry
13. **Basil Al Awami**, Foreign Affairs Director, Federation of GCC Chambers

# About the EU-GCC Trade and Business Cooperation Facility

A consortium of leading EU and GCC private sector institutions with a total membership base of 2.5 million companies will manage the project. The partners of the project are Confederation of Danish Industries (DI), Federation of GCC Chambers (FGCCC), BUSINESSEUROPE, and Venture Scout.

The EU-GCC Trade and Business Cooperation Facility is a new three year project aimed at strengthening trade, investment and business cooperation between the EU and the GCC through business networks, mutual understanding and dialogue.

The project will embark on various activities in GCC and EU cities including high-level annual Business Conferences, policy working groups and round tables aimed at EU and GCC business communities, policy makers, opinion leaders and media.

## Project Partners:



Federation of Gulf Council  
Chambers of Commerce



For more information, visit our website: [EU-GCC.org](http://EU-GCC.org)

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