EU-GCC
TRADE AND BUSINESS
COOPERATION FACILTIY

Expert meeting on FDI issues in Saudi Arabia

4 October 2016

Delegation of the European Union in Riyadh

European Commission

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 fulfil 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 of Saudi Arabia. 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 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

Participants

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

Summary

1. Opening address

The roundtable was formally opened by Ms. Lucie Berger, First Secretary, Trade and Economic Affairs, Delegation of the European Union to the GCC, who talked about the need for a discussion regarding the barriers to FDI in Kingdom of Saudi Arabia (KSA) and the region in general. However, it was a discussion that was particular pertinent vis-à-vis KSA taking into account Vision 2030. It is accordingly foreseen, that if implemented this will substantially alter how European companies will engage with KSA.

2. Welcome and introduction

After Ms. Lucie Berger's opening address Mr. Peter Helk provided a run-down of the EU-GCC trade and business cooperation facility. He presented the partners in the project and the vast number of businesses that they individually and collectively represent. He presented key events undertaken by the project and stressed that the project was demand driven. A key focus in the final part of the project, however, will be on barriers to investment in the GCC countries and vice versa. This round table would be the first of a series that will feed into the business forum that will take place in Riyadh, January 9-10, 2017 and later on at the 3rd Business Forum to be held in the UAE late 2017 or early 2018.

After the introduction by Mr. Peter Helk, Ms. Iman Awadh described the results of one of the interventions undertaken by the project. Ms. Iman Awadh described how the project approached Digital Europe and helped them liaise with the Gulf Standard Organisation to ensure that the new Low Voltage Directive would not become a barrier to trade between the EU and the GCC. An initiative that was welcomed by the Gulf Standard Organisation, as a way to cooperate and learn from the private sector.

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 names 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.

- **Operational challenges (short term):**
  - Deferred payments
  - The cost of visas for outside experts

The principal operational challenges facing companies attending was the question of deferred payments and the cost of visas for outside experts. The former has over the past couple of years grown from being a minor problem to seriously impeding the companies' ability to operate. 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, this has serious implications for the companies' ability to finance their operation.

The recent increase in the cost of visas will have serious implications for companies attending. 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.

- **Tactical challenges (medium term)**
  - Administrative challenges vis-à-vis licensing
  - Opaque decision making
  - Need for local partner
  - No clear rules
  - Saudisation

The tactical challenges were primarily related to the uncertainty that follows from having opaque decision making and no clear rules. Hence, this does, as an example, opens up a Pandora box of challenges for instance undertaking licensing or for that sake identifying the right local partner. However, it was not something that the companies spent much time on; they had learned to adjust to the conditions, but if they had a choice, they would have preferred not to have these challenges.

One reason why the companies decided not to spend time discussing these challenges were that various systems have evolved to handle these. A system for instance exist that see to that the companies are able to live up to the quotas of Saudis employed by the companies. Hence, what could have been an impediment to do business has merely become an irritation.

- **Strategic challenges (long term)**
  - Vision 2030 and local content.
  - Geopolitical situation in the Middle East/Gulf
  - To convince shareholders of the return in KSA

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 were it not exactly an operational or tactical haven, but the geopolitical, regionally, were equally of 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 more is invested into technical colleges locally. Hence, whereas it is possible to circumvent quota system, it will become a nose around the companies neck in the future when they have to source local staff that is incapable of producing with the need 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

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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

Dansk Industri

BUSINESSEUROPE

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