



Ministry of Foreign Affairs

Doing Business in Saudi Arabia

Commissioned by the Netherlands Enterprise Agency

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International.*



Ministerie van Buitenlandse Zaken

Doing Business in Saudi Arabia

The Gulf region (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) has experienced high economic growth in recent decades, due largely to their vast oil and gas reserves. Trade between the Netherlands and the Gulf States has increased remarkably and Dutch businesses have built an excellent reputation. In 2018, the export of goods from the Netherlands to the Gulf reached €8 billion. Diversification efforts in the Gulf countries – aimed at reducing dependency on oil and gas, and increasing the share of the private sector in the economy – offer new opportunities for Dutch companies. Especially so in the areas of megaprojects, agriculture and horticulture, (renewable) energy, transport and logistics, aviation and health care.

The Kingdom of Saudi Arabia's modern economic history began with the discovery of oil in 1938. Since the oil boom of the 1970s, it has rapidly developed a modern infrastructure. Despite having developed such infrastructure and being the country with the world's largest proven oil reserves, the population keeps steadily growing. In light of economic diversification and long-term prosperity, Saudi Arabia has recently embarked upon a new economic journey with high ambitions: *Vision 2030*.

One of the major goals of Vision2030 is to diversify the economy from an oil-based economy. Therefore, Saudi Arabia is building complete new tourism, entertainment and technology hubs such as NEOM, Red Sea Islands project and Qiddiyah. These megaprojects entail several opportunities for Dutch stronghold sectors such as infrastructure, water management, transport and logistics and energy. Many tenders will be announced in the future.

Reason for establishing such transformative policies is the fact that the powerful Gulf Kingdom is facing various challenges, which include demographic issues such as a large, young population; fertility rates of almost 6 children per woman and a large expatriate population. The total population is expected to increase from the current 33 million to 39.5 million in 2030.

In Saudi Arabia almost half of the population is under 30, and the unemployment rate is about 12.5%. The government responds to this by providing considerable subsidies. Furthermore, the Kingdom of Saudi Arabia is trying to stimulate growth in the private sector to boost employment rates.

The Kingdom is increasingly becoming accessible for foreign investors. To keep the government expenditure high, the country enacted a VAT of 5% on products and cut subsidies on products. Despite the fact that Saudization policies will reduce the total number of foreign workers, foreign investment will likely increase due to government initiatives which stimulate doing business in Saudi Arabia.

Water management

Scarcity of freshwater resources represents one of the major challenges facing the world in general and Saudi Arabia in particular. Suffering from absolute water scarcity, Saudi Arabia is witnessing decreasing availability of water per capita, in addition, to continuously increasing water consumption due to population growth, changing patterns in household consumption, and growing production. Over 80% of all freshwater consumption goes to agriculture.

As a result, the Kingdom reacted by resorting to desalination and recently started various initiatives to encourage Saudi agricultural investments abroad. In 1969, the first desalination plant was built and currently, desalinated water contributes to meeting 50% of Saudi Arabia's water needs. Innovation in water desalination is needed to comply with future demand. Dutch scientists lead the research on this topic in Saudi Arabia and set up a water desalination and reuse center at KAUST University. The Kingdom continues to invest in opportunities leading to alternative water resources. In addition, the mega projects in Saudi Arabia entail big water infrastructure, coastal protection, land reclamation and freshwater projects.

Healthcare

The government funds the demand for healthcare capital and operating expenditures. Analysts expect that the government will be unable to continue meeting this demand. These analysts conclude that increasing the participation of the private sector in the healthcare system is the only way the Saudi nationals' health needs can be ensured and the economic progress stays unaffected. The government has recognized this and identified healthcare as one of the key target sectors in its wide-ranging privatization program.

The Saudi healthcare sector is the largest in the Middle East and has potential for further development. Factors such as the highest population growth rate in the GCC, an increase in life expectancy, a rising GDP per capita and a high incidence of lifestyle-related diseases consequently lead to a demand for healthcare services. The Kingdom is planning to build medical cities worth of \$4,3 billion, 38 new health centers which have to provide 9.1 million extra hospital beds. Furthermore, the Kingdom aims to realize 23 to 27 hospital beds per 10.000 citizens, high-income countries have 54 hospital beds per 10.000 citizens. The following sectors are considered growth areas within Saudi Arabia:

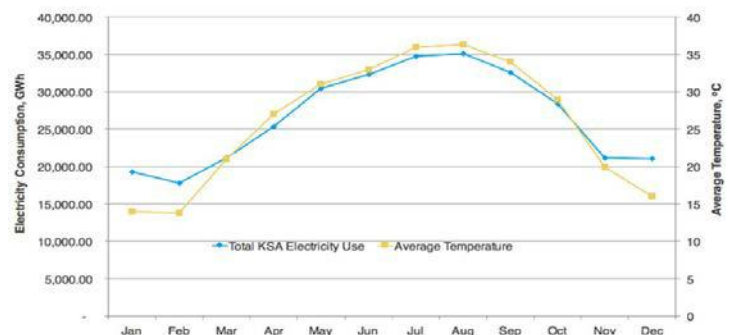
- Generic pharmaceuticals
- Healthcare IT
- Medical Education Facilities

This sector is currently not fully open to foreign investors. Foreign investment is only possible in hospitals with at least 100 beds and to be in line with Vision 2030, these hospitals are permitted to be 100% owned by foreign investors.

Energy

Approximately 25% of the total production in petroleum and gas of Saudi Arabia is consumed domestically. Buildings, ground transportation and industry consume a combined 90% of total energy consumption. In particular, air conditioning is one of the main energy consumers in Saudi Arabia. It accounts for roughly 70% of electricity consumption in residential, commercial, and government sectors during summer peak hours. Because of the use of air conditioning, the total electricity use in Saudi Arabia is correlated with the average temperature and, hence, shows seasonality (figure below). Given the high energy consumption, there is a need for both a sustainable and an efficient use of energy.

Energy efficiency



Energy efficiency investments in buildings, industry and transport are economically beneficial. Most investments have short payback periods – less than 3 years - with annualized rates of return after 10 years ranging from 30% to over 100%.

Renewable energy

Accelerating the Kingdom's renewable energy deployment program is a key component of economic transformation and Vision 2030. The Renewable Energy Project Development Office (REPDO) is responsible for all initiatives related to renewable energy in Saudi Arabia. Intermediate goals are to achieve a total renewable energy production of 3.45 GW by 2020, and 27.3 GW by 2023, 4% and 30% of the Kingdom's total generation capacity for the two years.

The focus is on solar, wind and waste-to-energy. Projects are open for both local and international investors with significant expertise, where the project is awarded to the investor with the lowest cost of electricity. Energy generated at the sites will be sold to a limited liability company, guaranteed by Saudi Electricity Company (SEC).



Agriculture

As the most populous country in the region (65% of the total GCC population), Saudi Arabia accounts for 59% of the total GCC food consumption. About 80% of all food is imported. Saudi Arabia aims to scale up local food production, to realize food security. Due to harsh weather conditions and lack of water resources, the Kingdom is turning to advanced water-saving agricultural solutions. Examples of advanced agriculture are greenhouse technologies and irrigation management solutions. The Ministry of Environment Water and Agriculture (MEWA) started a program with 7 initiatives that aimed to provide advanced solutions in a public-private partnership approach, focusing on the following sub-sectors: agricultural information, water, marketing of fruits and vegetables, poultry, dates, sheep husbandry, and fish and shrimp production.

Dutch companies and institutions are successful in tendering on these initiatives, additional promising opportunities for Dutch agro-food businesses are in Horticulture, Aquaculture and Poultry.

Horticulture

Water-saving horticulture in Saudi Arabia reached a production output of 1.7 million tons for grains, fruits and vegetables in 2017, which represents an increase of 1.3% over the previous year in volume terms. The Saudi Agriculture is searching for land and water-saving technologies which have the potential to help produce enough food with less water "more crop per drop". Under Vision 2030, Saudi agriculture sector target is to reduce renewable water used for agriculture from now 416% to less than 191%.

Aquaculture

Saudi seafood market size was about 340K tons in 2017 and estimated to reach 781K tons by 2030. The National Fisheries Development Program sets a budget of SAR 1.3 billion (US\$ = SAR 3.75 SAR) to unlock the aquaculture sector by investing in infrastructure, R&D and marketing campaigns. Furthermore, the Ministry is working on an ambitious plan to use the 1.800 km coastline of the Red Sea, to make Saudi Arabia a quality seafood exported to the GCC markets.

Poultry

The number of poultry farms in the Kingdom is expected to experience rapid growth. Under the Saudi Vision 2030 and the National Transformation Plan (NTP), the government aims to boost broiler production self-sufficiency from 42% in 2016 to 60% by 2020. To help farmers meet the goal, authorities raised customs duties on poultry meat imports from 5% to 20% in 2017. This government policy means soaring demand for poultry feed; breeding, hatching and poultry housing; farming solutions; slaughterhouse and product processing equipment.

Green Cities & other mega-projects

NEOM

The acronym NEOM means 'New Future' and is to be the world's first independent international zone spanning three countries, including North-Western Saudi Arabia, Egypt and Jordan. Upon finalization, NEOM will comprise a total area of 26,500 km² (twice the size of Belgium). Companies and organisations based in NEOM will not have to comply with the Kingdom's existing governmental framework, excluding sovereign laws, regarding taxation, customs, labor laws, and other legal parameters pertaining to businesses. NEOM will be backed by more than \$500 billion over the coming years. These funds will come from the Public Investment Fund (PIF) of KSA, and from local and international investors.

As the masterplan will be launched around summer 2020, the second stage of developments will be kicking off. Companies can now register with NEOM in order to gain access to tenders in later stadia. It is advised you register your interest in the near future through the following portals:

Link 1: <https://www.neom.com/en-us/invest/>

&

Link 2: <https://www.neom.com/en-us/be-part/>

There are numerous opportunities for Dutch companies as well as knowledge institutes, spread across NEOM's 16 focus sectors (NL's Embassy focus on water, energy, food, tourism and e-health).

Qiddiya Amusement Park

Al-Qiddiya project is an entertainment, sports and cultural destination located 45 km west of Riyadh. Plans include amongst others a massive theme park, a water park, and an arts center. The masterplan has been released in collaboration with Bjarke Ingels Group (BIG).

Qiddiya has an experience/visitor center in Riyadh, which can be consulted for latest updates regarding the project. Opportunities for Dutch companies are in entertainment (i.e. theme parks), and gaming industry.

The Red Sea Islands

This project is to turn Saudi Arabia's Red Sea islands into a luxurious and sustainable touristic destination (28,000 km²). Led by the Red Sea Development Company (aka RSD), the project is expected to contribute \$5.9 billion to the kingdom's GDP. A contract has been awarded to Archirodon for the construction of key sites. The first phase of 5 islands is expected to be completed by 2022. Opportunities for Dutch companies in various sectors, such as but not limited to construction and entertainment. First registration for RSD opened in Q1 2020.

Amaala

Located between NEOM and the Red Sea Islands, this project aims to establish a unique tourism ecosystem specializing in wellness, health and meditation on the red sea shores. Amaala aims to be the Riviera of the red sea and expected to generate 22.000 jobs across the hospitality and tourism industry. The masterplan has been approved by the government, and suppliers and contractors are currently being brought in to bring the vision to life. Initial funding is provided for by PIF. Opportunities for Dutch companies in tourism and entertainment sectors, mobile hotels/sanitation, constructions and logistics.

Al Ula

Al Ula is a historical area in the Tabuk region. It has sites protected by UNESCO. The government recently established a royal commission for Al Ula to manage and run the city and the sites. For the development of Al-Ula as a tourist site a budget of \$20 billion was made available. A yearly music and entertainment festival of Winter Tantara attracts thousands from many countries. Al Ula airport is currently under construction, al Ula's infrastructure is being financed by Saudi Arabia's government, along with a French cultural partnership. The royal commission offices are located in Riyadh DQ. Opportunities for Dutch companies in tourism and entertainment sectors, mobile hotels/sanitation, constructions and logistics.

Construction and infrastructure

A target of Vision 2030 is a greater private investment in non-extractive industries, including construction, infrastructure and transportation. The construction and transportation sectors have been amongst the largest recipients of investment in the Kingdom. Investment in these sectors is now expected to further increase in the years to 2030. Especially by the announced mega projects, the demand for construction and infrastructure expertise, from foreign companies, is expected to soar in the upcoming years.

Dutch investors have engaged in construction projects in the Kingdom. Looking at the future, a significant element in Vision 2030 is the construction of a 48-km bridge across the Red Sea linking Saudi Arabia and Egypt. Given the pace inherent in the NTP, it will not take long before tenders are issued and contracts are awarded. A plethora of opportunities is expected for work on a significant number of projects, ranging from mundane to significant flagship schemes.

Waste management

For its rapid industrialization, high population growth rates and fast urbanization, KSA has been witnessing increased levels of pollution and waste. Solid waste management has become a priority for the government. With a population of around 33 million, KSA generates over 15 million tons of solid waste each year. The waste generation per capita is estimated at 1.5 kg per person per day.

The Saudi government is aware of the critical demand for waste management solutions and is investing in solving this problem. A methodical introduction of modern waste management techniques like material recovery facilities, recycling infrastructure and waste-to-energy systems, can improve the situation and creates attractive investment opportunities.

Education

Ever since the establishment of the Kingdom in 1932, education has been high on the agenda. Nowadays, the Saudi Arabian education market is the largest within the GCC, accounting for over 60% of the gross enrolment within the region and meeting the learning needs of 9.4 million students at all education levels; which will continue to grow. The Saudi government highly values the education sector because of its young population (nearly half of the population is younger than 30), the need to diversify the economy and the ambition of a transition into a knowledge-based economy.

In line with the 'Saudization' policy, investors are obliged to hire Saudi nationals as a certain percentage of their staff.

Do's and don'ts in Saudi Arabia

Crucial for successfully doing business in the Kingdom is a thorough understanding of the culture and respecting Islamic law. A well-established network, including local partners, is key to doing business in Saudi Arabia and will open doors. Realize that establishing a good relationship with your business partners takes time and energy, but in this culture is crucial for a good result.

Act responsible

- Corruption can pose a serious barrier for doing business. Take into account that corruption is illegal under the Dutch law, even when it is practiced abroad. Guidelines for corruption: <https://www.oecdguidelines.nl/oecd-guidelines/c/combating-corruption>
- Make sure you do due diligence prior to entering into contacts or other commercial arrangements, in order to find the right Saudi partners
- Integrate social, environmental, ethical and human rights concerns into your business operations and core strategy

How can we support your business?

If your company is in need of support, do not hesitate to contact the Netherlands Embassy in Riyadh. In a government-dominated environment such as Saudi Arabia, we can help open doors for you.

Our main services include

- Finding potential business partners
- Providing information on sectors and rules and regulations
- Organizing meetings with relevant authorities at local, Provincial or government level
- Monitoring business opportunities
- Troubleshooting and assistance in a conflict situation
- Advising on available instruments and services
- Promoting Dutch business in Saudi Arabia
- Market Access

Relevant links and contact

Netherlands Enterprise Agency (RVO) www.rvo.nl

Saudi Arabian General Investment Authority (SAGIA)
www.sagia.gov.sa

Agriculture in the Golf region

<https://www.agroberichtenbuitenland.nl/landeninformatie/golfstaten/>

'NL exporteert' App

Download the app in the [App Store](#) (IOS) or in [Google Play](#).

Official name/capital	Kingdom of Saudi Arabia (KSA)/Riyadh
Population	32.6 million (September, 2017)
Area	2.15 million squared kilometers
Time difference	+1 (+2 during DST)
Currency	Saudi Arabian Riyal (SAR) 1 EUR = 4.16 SAR (September, 2017)
GDP growth rate	4.1% (2015), 1.7% (2017), -0.9% (2018)
GDP per capita (and PPP GDP/c)	\$20,760 (and \$54,417)
Trade volume	\$221.86 bln. (EX, 2017), \$123.4 bln. (IM, 2017)
Global Competitiveness Index	39 (out of 138)
Ease of Doing Business	92 (out of 190)
Global Corruption Index	58 (out of 180)
Main trading partners	UAE, China, India, Singapore, Japan, South Korea, Germany and Kuwait
Major exports	Petroleum (products) and gas
Major imports	Machinery, foodstuffs, chemicals, motor vehicles and textiles
Netherlands-KSA trade	Export: \$3.136 bln. (2018), Import: \$2.149 bln. (2018)
Memberships	WTO, OPEC, G-20, BIS, ICS, IOS, WCO, GCC, WBG, IMF.

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© Ministry of Foreign Affairs | September 2019

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This publication was commissioned by the ministry of Foreign Affairs.

© Netherlands Enterprise Agency | May 2020
Publication number: RVO-089-2020/RP-INT

NL Enterprise Agency is a department of the Dutch ministry of Economic Affairs and Climate Policy that implements government policy for Agricultural, sustainability, innovation, and international business and cooperation. NL Enterprise Agency is the contact point for businesses, educational institutions and government bodies for information and advice, financing, networking and regulatory matters.

Netherlands Enterprise Agency is part of the ministry of Economic Affairs and Climate Policy.