

Saudi Arabia



2013 | 2014 Discovering Business

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Allurentis is delighted to have been involved in association with UK Trade & Investment and the Committee for International Trade on this, the first edition of Saudi Arabia - Discovering Business, and would like to thank all sponsoring organisations for their kind contributions. Saudi Arabia is a hugely exciting market and with our deep rooted relationship the potential for business is vast. We are confident that this publication will raise awareness with all readers and prove to be an invaluable resource.

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HRH Prince Mohammed bin Nawaf Al Saud: Kingdom of Saudi Arabia's Ambassador to the UK



Saudi Arabia is the United Kingdom's largest trading partner in the Middle East and North Africa region (MENA). Our long standing good friendship is underpinned by a thriving historic trading relationship as well as our common interests in international stability and security.

This new publication *Discovering Business in Saudi Arabia* highlights this trading relationship and the huge opportunities for British business in the Kingdom in all sectors: from oil, gas, construction and finance to education, health, and housing.

Saudi Arabia is the largest economy in the MENA region and a member of the G20, OPEC and, since 2005, of the WTO. According to the World Bank we are the 13th most economically competitive country in the world. We are an emerging regional market in the midst of a massive development programme, building new industrial cities as well as further developing our current infrastructure to meet the needs of the 21st century and of our growing young population.

We want to see UK businesses and investment at the heart of that development. Our industry is focused around our natural resources. Saudi Arabia is the world's

largest producer and exporter of oil and holds the largest proven oil reserves. We are continually growing and developing plans to expand and diversify our economic and industrial base. It is an exciting time to be doing business in Saudi Arabia. We are already involved in more than 200 joint ventures with UK companies. They include a growing number of 'blue chip' British companies working in law, mining, the railway sector, water and engineering and there is room for more.

The figures speak for themselves, ours is already a proven business relationship; we want it to be even better. As the Saudi Committee for International Trade (SCIT) recently told a delegation of businessmen and parliamentarians visiting the Kingdom, we want to see more British involvement in the large scale projects in the Kingdom.

Alongside the SCIT the Embassy will provide you with the bridge to doing business in the Kingdom. The Commercial Office at the Embassy of the Kingdom of Saudi Arabia in London welcomes enquiries from new and long standing business partners. Come and do business with us and you will be welcomed as friends. ■

Sir John Jenkins KCMG LVO:

British Ambassador to the Kingdom of Saudi Arabia



I am delighted to have been invited to provide a foreword to the 2013 edition of *Discovering Business in Saudi Arabia*.

The UK has a strong and historic relationship with Saudi Arabia. The Kingdom remains our largest trading partner in the Middle East. With a population of some 28 million and GDP increasing by some 6% a year, the Saudi market is an important source of high value opportunities.

UK companies are already pursuing a wide range of investment opportunities in Saudi Arabia in a range of sectors including education, healthcare, infrastructure and financial services.

Britain is the Kingdom's second largest cumulative investor, with approximately 200 joint ventures worth an estimated £11.5 billion. UK exports of goods to Saudi Arabia amounted to some £3.26 billion in 2012: an increase of 6% on the previous year: with an estimated further £3 billion in exports of services. There is considerable Saudi investment in the UK. Saudi exports to the UK rose by 42% to £1.75 billion during the same period.

I am pleased that many new UK companies are now setting up operations here in response to the opportunities available. Maximising local content and employment of Saudi nationals is increasingly the route to successful business here.

'*Discovering Business in Saudi Arabia 2013*' will reach a strong target audience of companies and individuals interested in doing business in the Kingdom. This publication will be distributed at major conferences, trade missions and road shows relating to Saudi Arabia and will also be available online. The overviews of key sectors and business opportunities provide up to date information about high value projects and signpost readers to sources of information, advice and support.

I also encourage companies to contact my experienced UK Trade & Investment team in Saudi Arabia which is well equipped to advise British companies wishing to enter and compete in the Saudi market, as well as to help Saudi companies looking for UK partners.

I hope you will find this Guide useful. Good luck in your endeavours here! ■

Saudi Arabia - a story of continuing economic development

Fortified by record hydrocarbon revenues and massive financial reserves of more than US\$500 billion, Saudi Arabia has the ability to continue spending heavily on developing its economy for many years ahead, regardless of the price of oil.

Within the next three years new phosphates, aluminium and iron smelting industries will add billions of dollars annually to the economy. Much of this new industrial and business development in the Kingdom is intended to be led or achieved in partnership with both domestic and foreign investors.

Prospects for increased trade and investment between the UK and Saudi Arabia are significant and growing as a result. The Kingdom is ranked eighth among the world's ten high growth economies by the International Monetary Fund (IMF).

Regular visits at Prime Ministerial and Ministerial level underline the importance of the bilateral relationship, while continuing close contact between the British and Saudi Royal families highlights the depth of the relationship.

The country's 2013 national budget illustrates the need for Saudi Arabia to remain a key target for British export efforts. It envisages State spending of US\$218.7 billion, 19% up on 2012, with revenues projected to reach US\$330.5 billion.

The Kingdom intends to spend more than US\$367 billion over the next ten years on a wide range of infrastructure investments. Ambitious

plans include thousands of kilometres of new roads and railways, as well as airport expansion, new urban transport systems, investments in water, sewerage, electricity plants, telecoms and the IT sector and the construction of four million new homes.

Leading investment areas also include development of oil & gas facilities, the petrochemicals sector, mining and the development of new economic cities.

The non-oil economy is of growing importance, with petrochemical sales at around US\$12 billion a year. Saudi Basic Industries Corporation (SABIC) has achieved production in excess of 50 million tonnes a year of chemicals and intermediates, industrial polymers, fertilisers and metals and is a significant force in the global petrochemicals market.

SABIC, is 70% government owned and the Kingdom's biggest and most diversified manufacturing company, active in chemicals and intermediates, industrial polymers, fertilisers and metals.

A joint venture of the country's oil producer, Saudi Aramco and Dow Chemical, will add to petrochemical output when a US\$20 billion integrated complex comes on stream in an expanded Jubail Industrial City in 2016. This venture, known as Sadara Chemical Company, is forecast to become one of the world's largest industrial companies.

The Government is focusing a large part of its spending plans on development of an ambitious industrial diversification strategy. This is

“Saudi Arabia is pursuing investments and reforms that the Government is determined will position the Kingdom as one of the world’s most competitive economies by the beginning of the next decade”.

based on the creation of new economic cities and industrial clusters in sectors unrelated to oil production. The strategy seeks to promote regional economic development and generate hundreds of thousands of new jobs for the local population.

The projects are not only aimed at nurturing new industries but also at providing attractive residential communities, with social and educational infrastructure developed to international standards, where people will want to settle for lifestyle and jobs.

As more globally integrated ways of conducting business become the norm, it is expected that much more Foreign Direct Investment (FDI) will be attracted to the Kingdom, especially in the new cities which represent the key to the Kingdom’s economic development and diversification.

All of this offers a range of long term opportunities for British companies. UK visible and invisible exports are currently valued at more than US\$9 billion and the Kingdom is by far the UK’s largest market for goods and services outside the OECD and the most significant trade and investment partner in the Middle East.

Britain is also the second largest foreign investor in Saudi Arabia after the US, with around 200 UK/Saudi joint ventures. A broad spectrum of British companies are active in the Kingdom, including BAE Systems,

Rolls-Royce, Shell, HSBC, Tate & Lyle, GlaxoSmithKline (GSK), Marks & Spencer (M&S) and Harvey Nichols.

In addition, an estimated 6,000 UK companies export to Saudi Arabia and there is room for many others to join them, given the expansion of the economy and the Kingdom’s increasing merchandise imports.

Invisible trade is an increasingly important element in bilateral trade and likely to grow as the Saudi banking and insurance sectors seek to expand. Education and training is also a fast growing area. The Foreign & Commonwealth Office (FCO) says there are 22,000 Saudi students in the UK, nearly one third of them women, many funded by the King Abdullah Scholarship Programme.

The Saudi Government is especially keen to address the problems associated with a disproportionately high youth population and mitigate unemployment among this group. There is a growing requirement for suppliers of vocational training and scientific education.

The record 2013 National Budget continues the Kingdom’s expansionary plan to diversify and grow the country’s economy but also to raise social standards, particularly in education and healthcare.

Saudi Arabia has allocated US\$100 billion for a five year healthcare improvement programme and the UK is making efforts to contribute to

this development. In 2011, the Department of Health signed a Memorandum with the Saudi Ministry of Health to enhance cooperation. This is intended to establish clinical partnerships and train Saudi postgraduate medical staff.

The Kingdom, which is the world's largest producer of desalinated seawater, is also seeking expertise to address an urgent need to economise on the use of water through new technologies and management methods.

Electricity generation also needs to grow substantially to cope with the demands of an expanding population and industrial development. This is creating opportunities along the whole supply chain for engineering procurement, equipment suppliers, sub-contractors and consultants. An estimated US\$90 billion is expected to be invested in water, sewerage and power projects over the next ten years.

Long discussed improvements to urban transportation are also likely to go ahead. Finance Minister, HE Dr. Ibrahim Al-Assaf, says that US\$53 billion from the country's 2012 surplus is to be allocated to additional transport spending in 2013, mainly on mass transport systems for Riyadh, Jeddah, Dammam and Mecca. These are huge projects and will create multiple contract opportunities over several years for suitably qualified UK companies.

One sector where British firms are clearly leaders in the Saudi market is defence. For almost half a century following the supply of British Lightning fighters in the 1960s, defence sales have constituted one of

the pillars of UK/Saudi relations. The Al Yamamah military agreement to supply the Royal Saudi Air Force (RSAF) with Tornado aircraft in 1985 represented the largest ever export contract won by the UK.

This relationship, augmented by investment offset agreements, was reinforced with the signing of the Al Salam contract in 2008, to provide Typhoon fighters and other equipment to the RSAF.

Saudi Arabia continues to spend heavily on the modernisation and expansion of its armed forces and security agencies. In 2012, BAE Systems signed a US\$3 billion contract to supply 22 Hawk trainer jets to the Saudi Air Force.

Defence and internal security remain major areas of opportunity, with an increasing emphasis on technologies, where UK companies have proven abilities. Anything that plays to the "Saudisation" agenda and domestic manufacturing is favoured, whether civil or military. The Al Salam defence deal, for example, stipulates that an aircraft production line for the Typhoon will be established in Dhahran.

Offset investment deals related to previous defence contracts have seen a number of joint ventures, civil and military, established in the Kingdom, including a Tate & Lyle sugar refinery and a GSK pharmaceutical manufacturing plant.

Such investments blend well with the Saudi Government's wish to develop a broader and more private-sector based economy and equip graduates who are currently unemployed with the right skills.

The proportion of private sector schemes is likely to rise in future as the Government seeks greater private sector participation in project development. This is likely to be reflected in private sector power developments, water and wastewater projects and in real estate development.

The accession of Saudi Arabia to the World Trade Organisation (WTO) in December 2005, set the stage as the Government indicated that subsidies to state owned industries were to be scaled back and management of utilities gradually handed over to the private sector.

Saudi Arabia is pursuing investments and reforms that the Government is determined will position the Kingdom as one of the world's most competitive economies by the beginning of the next decade.

In 2011, the Kingdom achieved its aim of attaining a top ten ranking in the World Bank's "Doing Business" Report, which tracks 183 economies and monitors how easy it is in them, to start medium to small scale enterprises.

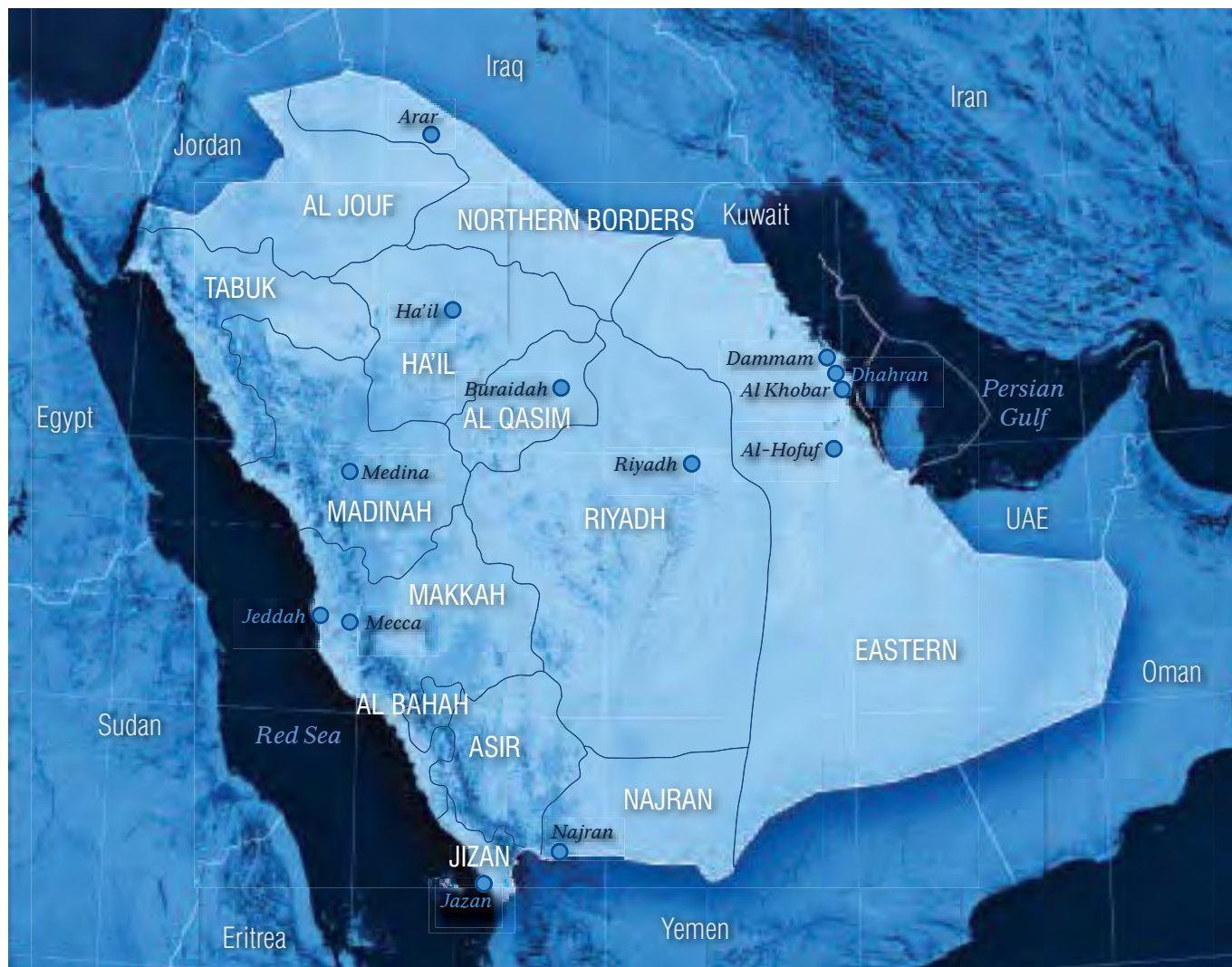
While this ranking has since slipped slightly, Saudi Arabia General Investment Authority (SAGIA) is now also seeking a top 15 ranking for the Kingdom in the World Economic Forum's "Global Competitiveness" Report.

These ambitions are indicative of how the business environment in Saudi Arabia is gradually improving for foreign investment. The result is an increasingly competitive market.



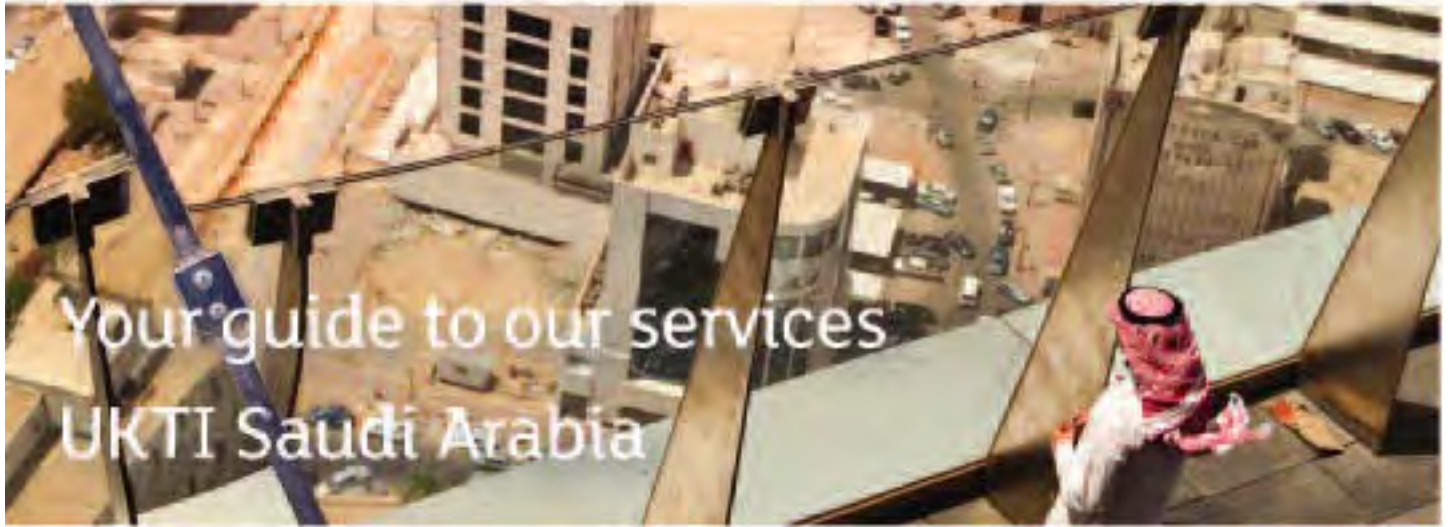
While abundant opportunities lie ahead for British firms, contracts are seldom easily won in Saudi Arabia. Building relationships requires patience and perseverance in a country that, while modernising and expanding its economy, is deeply conservative. Traditional norms apply and business is not concluded quickly. However, the rewards for those willing to run the course are likely to be immense and long lasting. ■

Map of cities & provinces





UK Trade & Investment



www.ukti.gov.uk

Who are UKTI?

UK Trade & Investment (UKTI) works with UK-based businesses to ensure their success in international markets, and encourages the best overseas companies to look to the UK as their partner of choice.

UKTI offers expertise and contacts through our extensive network of specialists in the UK, and in British embassies, and other diplomatic offices around the world.

We support British companies with a range of expert services tailored to your needs to maximise your international success.

Based in the UK and want to expand?

Get in touch with your local International Trade Advisor (ITA) for more information on which markets could be of great interest to you. To identify your local ITA, go to:

www.ukti.gov.uk/export.html

Do you have an office in the Middle East or North Africa?

If you already have an office within the MENA region and would like to expand further, get in touch with our UKTI Regional Hub on: uktihub.dubai@fco.gov.uk for more information and advice.

We can:

- Provide a validated list of companies best suited for your product or service
- Introduce your company to local contacts and provide you with feedback
- Arrange meetings for you with local companies interested to work with you
- Publicise your company, product or service through our local press and trade publications contact
- Host events, networking receptions or product launches within prestigious British Embassy Residences or grounds



UK Trade
& Investment

How UK Trade & Investment can help

Chris Innes-Hopkins, Commercial Counsellor and Director, UK Trade & Investment, Saudi Arabia

The Saudi economy, buoyed by high oil prices, is currently witnessing a period of rapid growth, with large scale infrastructure and social welfare projects being implemented alongside an equally ambitious industrial diversification programme. Opportunities exist across a range of sectors for quality UK exporters, and there is strong demand for relevant UK expertise particularly in engineering design, project management, financial services, and education and training.

Our UK Trade & Investment teams in Riyadh, Jeddah and Al Khobar have identified high value opportunities for UK companies in the following sectors:

- **Airport development:** Major new airports such as King Abdulaziz International Airport in Jeddah and Medina Airport are under development, and others such as King Khaled International Airport in Riyadh are being expanded and modernised.
- **Railway development:** Over £30 billion is being invested in development of a world class rail network, with work underway on the Saudi Landbridge, North-South Rail (NSR) and Haramain High Speed projects. Ambitious plans for new metro and light rail systems in Riyadh, Mecca and Jeddah are also being implemented.

- **Water and waste water:** Investment of over £10 billion is needed to meet increased consumption caused by rapid population and industrial growth. Many new water, sewerage and desalination projects are underway.

- **Healthcare:** A budget of £16.6 billion has been allocated to healthcare development in 2013. Opportunities exist for specialist equipment, hospital operation and management, and training. A Saudi/UK MOU is in place to support exchanges of clinical expertise and training.

- **Sadara Petrochemicals and Aramco Red Sea exploration:** The £14 billion Sadara petrochemicals project has a range of subcontract opportunities for UK companies, and Saudi Aramco is keen to benefit from UK deep sea drilling technologies in their future exploration programme.

We have specialised trade teams in place in the UK and Saudi Arabia to help UK companies to access these and other opportunities. Please do use our market introduction services which are accessible through UKTI International Trade Advisors in the UK, as well as directly. We can also host company launches and events for you, and introduce your company to potential clients and partners.

“The pace of economic and social reform in Saudi Arabia is increasing, and the UK is well placed to be a trusted partner given the historical links between our two Kingdoms”.

Saudi Arabia is a market which repays patience and persistence. Saudi clients like to get to know you first, and are looking for evidence of long term commitment as well as skills and technology transfer. Dealing with the market from a distance is not usually an option, and frequent visits are necessary.

I am glad to say that a number of quality UK companies have recently established Saudi subsidiaries, some as 100% owned companies and others as joint ventures with Saudi partners. Choosing the right partner is crucial and our advice to UK companies is not to rush into this. A non-exclusive partner on a project-specific or regional basis can be one option.

UK companies also need to be aware that a key national priority for the Saudi Government is to get more Saudis, particularly women, into private sector employment. An ambitious Saudisation programme has been launched, together with plans to substantially increase the number of school leavers going into vocational and technical training. UK technical colleges and training providers are well placed to help with this, and skills transfer and local content need to be reflected in tender proposals. A number of UK advisers and welfare to work providers are already working with the Saudi Ministry of Labour on the roll-out of employment and training centres. We are also exchanging experience with the Saudi Government on SME development and entrepreneurship.

It is good to see substantial UK engineering and design input into current mega-projects such as the King Abdullah Financial District in Riyadh and the new King Abdulaziz International Airport in Jeddah. UK project managers are also involved in the construction of the planned one kilometre high Kingdom Tower in Jeddah. Other quality UK companies are active in museum development and heritage conservation as Saudi Arabia opens up to tourism. Exchanges of expertise and development of pilot projects can be good routes to follow-on business but competition is increasing particularly from Korean and Chinese companies.

New companies entering the market can also benefit from assistance from UK trade associations such as the Arab-British Chamber of Commerce and the Middle East Association, as well as British Business Groups in Riyadh, Jeddah and Al Khobar. The Saudi British Joint Business Council which works closely with the Council of Saudi Chambers can also be of assistance.

In short there can be no substitute for regular visits and personal contact. The pace of economic and social reform in Saudi Arabia is increasing, and the UK is well placed to be a trusted partner given the historical links between our two Kingdoms. We look forward to seeing you in Saudi Arabia. I wish you luck with your future business, and I do hope UKTI services can be of assistance to you. ■



The Saudi Committee for International Trade: Building bridges and expanding trade

The United Kingdom and the Kingdom of Saudi Arabia have enjoyed a longstanding partnership based on a host of shared interests, a cornerstone of which is the commercial relationship across both the public and private sectors. The expansion of these business ties is the focus of the Riyadh-based Committee for International Trade (CIT). The committee, a private sector initiative founded in 1983 within the Council of Saudi Chambers (CSC), consists of leading business people who work to improve the Kingdom's worldwide trade relationships.

CIT aims to build strong and sustained trade relations by: engaging with key institutions of civil society; creating an environment for productive and positive dialogue on political, economic and cultural matters critical to Saudi Arabia; promoting economic growth and diversification domestically and abroad; and affirming Saudi Arabia's commitment to being a responsible and constructive member of the global community. The committee builds and nurtures bilateral trade ties through close coordination with a number of key UK Government and private sector agencies and business development organisations.

CIT regularly organises and sponsors events to inform, inspire, and enable business leaders from both sides to create investments and partnerships. It mounts trade missions, business opportunities forums, exchanges and outreach programmes that bring Saudi business

leaders to engage with international partners as well as hosting visiting delegations. CIT enjoys close relationships within the key economic ministries and agencies in the Kingdom enabling it to present top-level, high impact events that combine the tools and access to getting business done in Saudi Arabia, along with access to the insights of officials who are making the critical policy decisions.

Among its regular activities is its role in the vitally important "Opportunity Arabia" series in UK, organised by the Middle East Association (MEA) each autumn. This well attended day-long symposium, provides delegates the opening to talk with leading figures from the UK and Saudi trade promotion and business sectors; insights and perspectives on trends and opportunities and the chance to make important contacts at CIT and in the Saudi Arabian business community.

At events like these, business people are introduced to the excellent opportunities for investment in the Kingdom; the number one economy in the Middle East and the leading destination in the region for British trade and investment. The pace of modernisation and expansion in Saudi Arabia offer a seemingly limitless range of opportunities for UK businesses and the CIT is keen to be the springboard for getting started and sustaining commercial relationships. Of course British firms have an advantage in the Kingdom through the experience of its business



CIT meeting with British Parliamentary delegation, 12 March 2013

people, who have lived and worked in the Kingdom for decades and the natural networks that have grown among Britons and Saudis educated in the UK are enhanced by the proximity of the markets.

There are a growing number of blue chip British companies working in the Kingdom now in law, mining, the railway sector, water, engineering and so on; and plenty of room for more. But the opportunities in Saudi Arabia are not reserved for the large scale enterprises. CIT recognises that small and medium enterprises (SMEs) in Saudi Arabia and in the UK are driving a significant portion of their respective economies and work to encourage business development in this end of the business spectrum as well. Indeed, Saudi Arabia's commercial expansion has been driven to a great extent by the role of SMEs in the economy and CIT recognises and emphasises their participation in connecting business people with opportunity.

An example of the scope of CIT's role in developing trade relationships between Saudi Arabia and UK businesses was the recent British Parliamentary delegation visit to Riyadh and the event hosted by CIT.

There were a number of areas where the participants sought to make progress in business relationships. The Saudi side encouraged expanded British involvement in the large scale projects underway in the Kingdom and to compete aggressively with other international investors such as those from the United States, South Korea, Japan and China. The availability of the Saudi Government's online tendering system and the prospects of enhanced coordination and cooperation through the Business Council were discussed. The Saudi side raised the issue of UK taxation as an investment obstacle, noting some Saudis had closed their businesses in Britain citing the lack of clarity in resident versus non-resident status. The participants also talked about areas where cooperation would be increased: expanded involvement in SMEs; trade missions focused on joint ventures; and a larger focus on the education and healthcare sectors.

CIT recognises that Saudi Arabia's global economic, financial and commercial partnerships are also influenced by social and political considerations; that the ample and accurate flow of information combined with ongoing and candid dialogue are intrinsic to building durable trade and investment ties with the United Kingdom as well as other nations. To that end, CIT emphasises the importance of the relationship through its sponsorship of the Saudi British Relations Information Service (www.SaudiBrit.com), an online venue and social media project that provides articles, interviews, reference material and event information.

The Committee for International Trade (CIT) was established to be the business bridge builder connecting Saudi Arabia with international partners like its UK colleagues. This close history has positioned both Saudi and British businesses to expand and improve the commercial relationship moving forward. ■

Saudi Arabia: Creates major opportunities for investors



Hani Ashkar
KSA Country Leader, PwC

Overview

No Middle East strategy would be complete without a major focus on the Kingdom of Saudi Arabia. A member of the G20, the Kingdom has been an integral pillar of the Arab world for decades, ever since its vast oil reserves were discovered in the 1930s. Its sources of wealth, however, extend well beyond oil to natural gas, mineral deposits, solar energy potential, a large affluent fast growing population, and a strategic central location between Asia, Africa and Europe. These attributes, coupled with demographic challenges including employment, housing, healthcare and education, infrastructure development, energy efficiency and an increase in industrial production, present numerous local business opportunities.

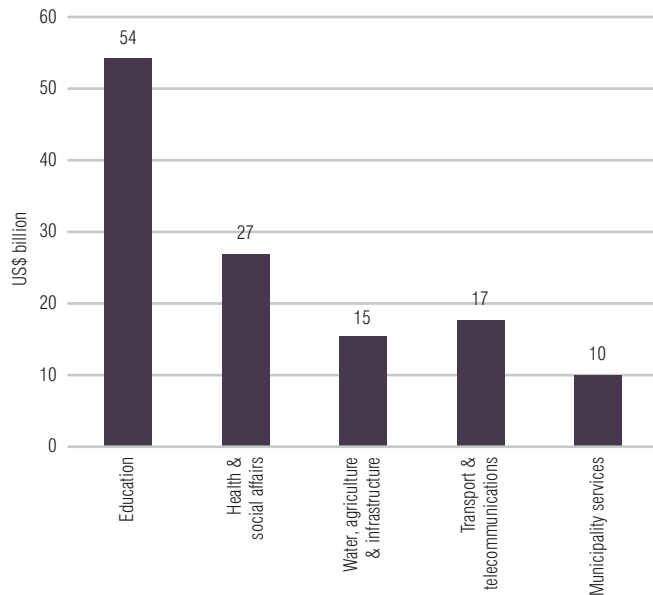
The impact of the Arab Spring on Saudi Arabia has also been largely benevolent. The Kingdom has long played a role as the swing oil producer, drawing on its vast reserves and excess production capacity to stabilise world markets and moderate price shocks. The Kingdom can produce up to 12 million barrels of oil each day, quickly increasing or decreasing supply in response to shocks. This was the case in 2011, when the Kingdom raised its output to compensate for the loss of production in Libya due to its revolution. Output averaged 11.2 million

barrels per day, a sharp rise from 9.8 million in 2010. The Kingdom's oil export revenues amounted to about US\$302 billion, while imports totalled US\$98.7 billion, leaving a trade surplus of US\$244.5 billion.

Watching the events unfolding closely in neighbouring countries of the Middle East, the Kingdom responded quickly with a number of measures, including a multibillion Riyal national spending package. This included salary increases for Government employees, loan cancellations, cash injections to Saudis studying abroad, new rules to make mortgages easier to obtain, unemployment benefits and plans for 500,000 new homes. This has further cemented King Abdullah as one of the region's most popular and respected leaders.

The momentum for continued development, and oil prices which remain in the circa US\$100/barrel range, well above the minimum levels required to balance the budget, helped drive the Kingdom's 2013 budget to its highest in history at SR820 billion (US\$219 billion). Not surprisingly, the budget is focused on addressing the longer term demographic challenges, building world class infrastructure and moving the Kingdom towards a longer term sustainable economic model.

Spending plans for key public sector areas, 2013



Source: Jadwa Investment, Saudi Arabia's 2013 Budget, December 2012

Currency and inflation: The Saudi Riyal is one of the most stable currencies in the world. Over the past three decades, it had no significant change in its exchange value, or restrictions on exchange and foreign currency conversion, and the transfer of capital and profits abroad. Saudi Arabia has a low inflation rate which has consistently been around 5%.

G-20: Saudi Arabia is the only OPEC member in the G-20 ranked first in terms of economic performance. Russia and China ranked second and third, respectively.

Arab-Spring pressures: The Arab Spring has placed pressures to accommodate social discontent. New initiatives targeting social issues such as employment, affordable housing and small/ medium-sized enterprise financing led to an increase of 20% of Government spending in 2012.

Energy and location: The 'Global Capital of Energy' (KSA has circa 20% of the world's reserves) provides low cost resources worldwide to investment energy projects, making the Kingdom an attractive destination. Its location between East and West provides easy access to the markets of Europe, Asia and Africa.

Business environment: Saudi Arabia is the largest free economic market in the MENA region accounting for 25% of the Arab gross national product and ranked fifth in the world for "fiscal freedom". Moreover, it is the tenth most rewarding tax system in the world. Saudi Arabia is also ranked 20th amongst the 25 largest economies worldwide, first in the MENA region and is 13th of 183 countries for overall ease of doing business. Additionally, the KSA ranked first for ease of registering property and is the largest recipient of FDI in the Arab world according to the "Business Performance" report for of the World Bank.

Hajj and Umrah: Hajj is the world's largest annual religious gathering attracting about four million people in 2012. The Hajj ritual has become quite profitable and a financial asset to the economy of the Kingdom generating approximately US\$10 billion in 2012. In addition, around five million foreign pilgrims have performed Umrah this year.

Tourism: Saudi Arabia is relatively undeveloped as a tourist country; however future growth is anticipated as the country develops itself into a desirable destination and the Supreme Council for Tourism and Antiquities has numerous development initiatives in progress.

Challenges

Despite technological transformations, new producers coming on stream and minor changes in the overall production capacity over previous decades, Saudi Arabia remains the world's largest oil exporter, with oil revenues accounting for about 70% of Government revenue and about 50% of GDP. Its national oil company, Saudi Aramco, is the largest in the world and manages 95% of the country's oil production. Nominal GDP was estimated at US\$597 billion in 2012, making Saudi Arabia by far the largest economy in the Middle East and one of the wealthiest in the world.

A number of challenges need to be addressed, however. Youth unemployment remains stubbornly high with Saudis possessing university degrees, but not the skills required by the private sector. There are about eight million expatriate workers in the Kingdom, most of whom do jobs that Saudis avoid. Affordable housing is generally not available, or beyond the reach of most young Saudis. The majority of women, many of whom have university degrees, are outside the labour force. Saudi per capita energy consumption is the highest in the world and per capita water consumption is the second highest (91% higher than the international average), after the UAE. At the current rate of domestic oil consumption, the Kingdom could be a net importer by 2030. The plan is to convert domestic consumption to renewable sources, freeing up oil for export. There is vast potential for solar and wind with a nuclear energy production programme already underway.

Government responding

Government spending is the main engine of the non-oil economy and will remain the case in the medium term. In 2010, the Government announced a US\$385 billion five-year development plan aimed at improving infrastructure, enhancing labour skills, and diversifying the Kingdom's economy. Further spend was directed at housing and social welfare programmes. Government spending was the equivalent of circa 36% of GDP in 2012.

There is also a concerted effort at converting the industrial base into more labour-intensive sectors. The Supreme Economic Council was established in 1999 to reduce the country's reliance on oil. In 2000, the Saudi Arabian General Investment Authority (SAGIA) was also established to encourage foreign direct investment in the Kingdom. Major investments have been made in metals manufacturing and petrochemicals production. Other sectors with great potential

include construction, building materials, vehicle manufacturing and solar technologies.

Local analysts expect Government spending to increase by about 7% per year until 2025, which would translate into the need for oil prices to be at US\$175 per barrel just to break even. By 2030 and at current rates, the breakeven point could be up to US\$320 a barrel based on projected spending. This will make the Kingdom vulnerable to fluctuations in oil prices. Spending growth should start to moderate in the near future as a result of these pressures with the need to expand the non-oil private sector becoming critical.

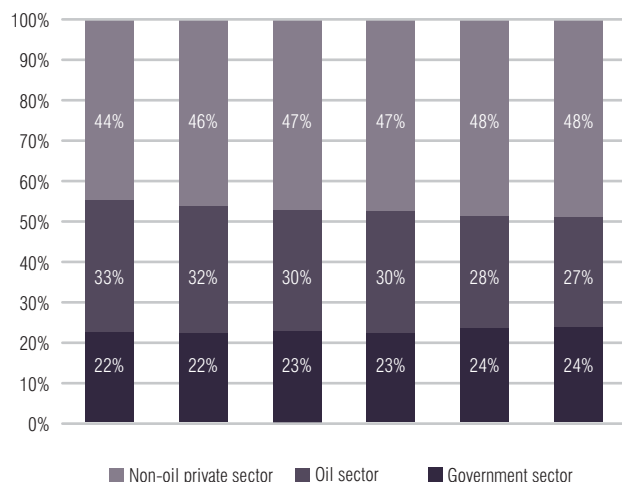
Major changes and developments

The Kingdom's free market economy has undergone remarkable changes in a relatively short period of time, presenting numerous opportunities for investors. In just over half a century, it has evolved from a basic agricultural society into a regional and global economic powerhouse with modern infrastructure. Many of the Kingdom's largest companies are global or regional leaders in sectors including energy, telecommunications, agribusiness and media. The Kingdom's commercial banks are among the largest in the region, and the market capitalisation of Tadawul, the Saudi Stock Exchange, dwarfs its regional peers as the 24th largest in the world.

To encourage the economy to become less reliant on oil and to increase employment opportunities among nationals, the Government has engaged in privatisation initiatives and opened various sectors to foreign investment. The private sector has been active and a number of sectors such as healthcare, education, real estate, construction and financial services, have received a major boost.

The private sector in the Saudi economy now accounts for almost half of GDP and is expected to continue growing.

Spending plans for key public sector areas, 2013



Source: Jadwa Investment, Saudi Arabia's 2013 Budget, December 2012

Employment:

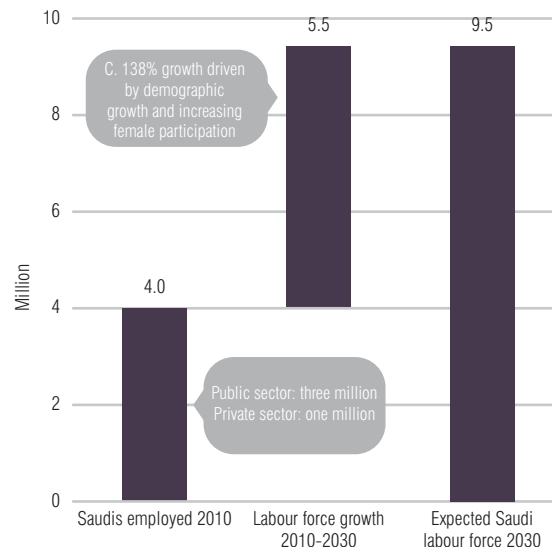
The proportion of Saudi nationals working in the private sector dropped from 17% to circa 10% between 2000 and 2010 with unemployment reaching two million. To counter this, in 2011, the Government introduced the Nitaqat scheme, a colour-coded system that rewards firms for employing Saudi nationals and penalises those that fail to recruit a sufficient percentage of nationals. 250,000 jobs were created in just one year, after implementation of Nitaqat.

Moreover, the labour ministry additionally announced that it would impose a yearly fee of SAR 2,400 on foreign labour, with its revenues to be re-channelled to pay unemployment benefits to Saudi citizens.

Approximately 5.5 million young Saudis are expected to join the workforce by 2030, of which a significant percentage will be women.

Women: In September 2011, women were granted the right to vote and to run in future municipal elections. This was the biggest change in a decade for women in a Kingdom that practices strict separation of the genders. In addition, the King appointed 30 women to the previously

Expected Saudi labour force growth, 2010-2030



Source: PwC analysis

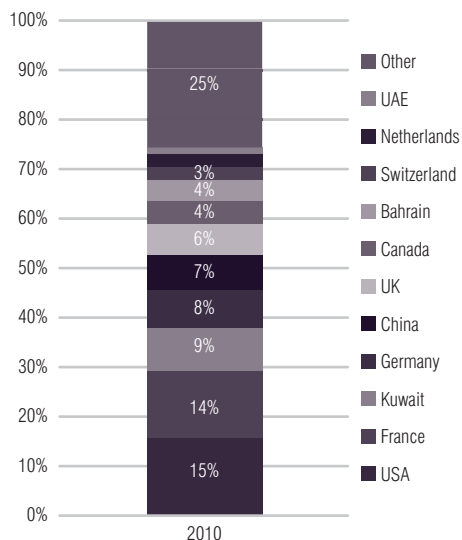
all-male consultative Shura Council. Two royal decrees advised that women should always hold at least one fifth of its 150 seats.

Industrial development: Although relatively new, industrialisation in Saudi Arabia, has witnessed stable growth. In order to achieve its strategic and economic goals, the industrial sector receives support from the Government. Efforts by Government included implementation of infrastructure, construction of industrial cities, establishment of the Saudi Industrial Development Fund (SIDF), and continued provision of other industrial support and incentives.

Opportunities for investors

Foreign investment: Foreign investment in the Kingdom has been constant and considerable. In the last two decades, Saudi Arabia has received approximately US\$150 billion in Foreign Direct Investment (FDI). Its biggest investors are the U.S, Kuwait, France and Japan, while the sectors receiving the largest FDI are contracting, real estate, petrochemicals and transport.

Top countries investing Saudi Arabia, 2010

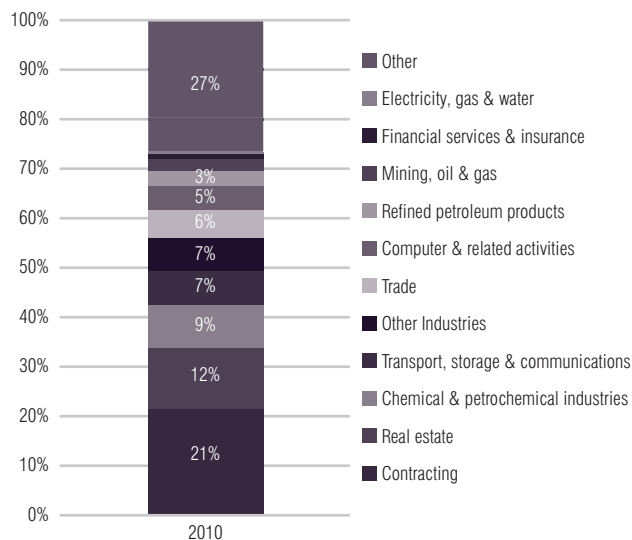


Source: Saudi Arabian Investment Authority (SAGIA)

The Saudi Supreme Economic Council is responsible for constructing an effective economy to include the regulation and encouragement of foreign investments. The foreign investment system includes incentives such as the establishment of SAGIA (set up to promote foreign investment and serve the business community as a one-stop-shop for licences, permits, and other business paperwork), ownership of companies at 100%, no restrictions on repatriation of capital, no taxes imposed on personal income, taxes on foreign firms equal to 20% on profits and the possibility of unlimited carry forward of losses in the balance sheet.

Until 2008, SAGIA had licenced more than 2,000 projects worth around US\$15 billion. The 'negative' list of activities not open to foreign investment has reduced considerably and is now limited to oil and gas exploration, land transportation and investment in Mecca and Medina.

Top sectors invested in Saudi Arabia, 2010



Source: Saudi Arabian Investment Authority (SAGIA)

In an effort to attract more foreign investment, Saudi Arabia plans to sign investment protection and promotion agreements with 12 countries. With Saudi Arabia being one of the largest exporters in the Middle East and the largest trading partner to the US, the two countries signed a Trade Investment Framework Agreement. Commercial partnerships with the UK are also healthy, with exports to Saudi Arabia valued at more than US\$9 billion. Saudi Arabia remains the UK's largest market for goods and services outside the OECD, and the most significant trade & investment partner in the Middle East.

Saudi tax treaties vary in the relief they provide. Some provide reduced rates of withholding tax on royalties and licencing fees while others provide relief from capital gains tax.

Many countries have entered a double tax treaty with Saudi Arabia including the UK, Turkey, Japan, France, Vietnam, China and Uzbekistan.

“PwC has been doing business in Saudi Arabia for almost 30 years. With over 500 professionals based in the Kingdom, working closely with around 2,800 Middle East colleagues, we provide a full range of assurance, tax and advisory services”.

While the Kingdom is facing a number of challenges head on, it remains the largest and most robust economy in the Middle East. Investors should be encouraged by prospects across a variety of sectors.

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- Leading professional advisors to financial services and banking industry clients
- Over 75% of our people are Arabic speakers ■



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Doing business in Saudi Arabia

1 | How does an overseas business go about setting up in Saudi Arabia?

The three most common ways to setup operations by foreign investors in Saudi Arabia are through a Limited Liability Company, a Joint Stock Company (JSC) and a Branch Office.

The establishment of a Limited Liability Company (LLC) requires a minimum of two shareholders liable only to the extent of their respective interests in the company's share capital. The minimum capital requirement is SAR500,000 except for specific types of activities which may require more significant capital. The LLC is managed by at least one director who may be a Saudi national or a foreigner. A board of directors is also an option. Shares are not negotiable instruments and transfer is subject to the pre-emption rights. Other requirements or limitations may apply depending on the type of intended activity.

A JSC is usually used for businesses that are, or intend to go, public or for specific types of activities. The establishment requires a minimum of five shareholders liable only to the extent of their respective interests in the capital. The minimum capital requirement is

SAR2 million, unless other requirements or limitations apply depending on the intended type of activity. A JSC is managed by a board of directors comprising at least three members.

Establishing a Branch Office requires the appointment of a branch manager by the parent company. The manager may be a non-Saudi national. The minimum capital requirement is SAR500,000, except where other requirements or limitations apply depending on the intended type of activity. A branch is deemed to be carrying out its activities on behalf of the parent company which assumes all liabilities resulting there from.

2 | What Government or other approvals are necessary for an overseas business to setup in Saudi Arabia?

A foreign business will need to fulfill at least two main requirements: i) apply for and obtain a foreign investment licence from the Saudi Arabian General Investment Authority (SAGIA), and ii) apply for and register with the Ministry of Commerce and Industry.

Further licences or Governmental approvals may need to be obtained depending on the type of activity intended by the business. For



example, several telecommunications activities require licencing by the Communication and Information Technology Commission (CITC). Other healthcare related activities may require approval by the Ministry of Health.

A business entity needs to register at the Department of Zakat and Income Tax (DZIT) to obtain a tax number and pay applicable taxes, at the Labour Office and the General Organisation for Social Insurance (GOSI) to employ personnel.

3 | What are the key features of Saudi employment legislation?

The Labour Law generally regulates employment, outlines clear terms for terminating employment, provides for annual vacation entitlement, establishes a retirement age, provides for increased employment of the disabled, creates end of service benefits, enables employees to obtain leave without pay, and establishes employment offices.

While employers may enter into employment contracts, the terms of the contract must comply with the requirements of the Labour Law.

Even if an employment contract provides that an employee may be terminated at will, the employer may not terminate an employee unfairly or without compensation.

Saudi Arabia is considering revising the current sponsorship system for foreign workers. The new system suggests stopping Saudi nationals from sponsoring expatriate workers and restricting visa sponsorship to companies as part of a strategy to expand the private sector and remedy local unemployment.

4 | Are there any grants or incentives offered to overseas businesses setting up operations in Saudi Arabia?

The Foreign Investment Law provides foreign investors the same privileges and incentives as national companies.

It allows 100% foreign ownership of companies and real property, the ability to carry forward losses indefinitely, repatriation of dividends, sponsorship of workforce, tax-free importation of industrial equipment and machinery, and flexibility by allowing more than one licence in different activities. It also provides a number of specific guarantees to foreign investors, including protection against confiscation, expropriation, and double taxation.

In an attempt to expedite registrations, representatives from DZIT, GOSI and the Labour Office are available under a "Unified Centre" within the premises of SAGIA.

Additionally, The Saudi Industrial Development Fund (SIDF), a funding agency affiliated with the Ministry of Finance, may grant medium and long term soft loans for private industrial projects, as well as administrative, financial, technical, and marketing consultancy services.

5| What are working hours in Saudi Arabia and are these governed by statute?

Workers must not work more than eight hours per day/48 hours per week. In shift jobs, workers may increase their working hours after the Ministry of Labour approval. During the holy month of Ramadan, working hours decrease to seven hours per day.

All workers should have at least a 30 minute break. Friday is the weekly day off, with Thursday and Friday for banks and Government offices.

6| Are there any issues governing property ownership or tenure by overseas companies?

New regulations have been issued to govern the registration of real and other related rights via a special Real Estate Property Registry. Real property rights registered at the Real Estate Property Registry is considered sufficient proof of ownership and against third parties. Any transaction relating to registered real property including sale, lease, mortgage and allotments should be registered in the Real Estate



Registry in order to be enforceable against third parties. The implementation of the above new regulations still needs to be tested.

Real property ownership is currently evidenced in a notarised deed of ownership held by the owner. Any transaction related to the real property is witnessed on the deed by the relevant notary public.

7| Are there any limits on the type of business an overseas company can establish in Saudi Arabia?

Some restrictions do exist. The Supreme Economic Council has authority to determine which activities are partially or fully reserved to Saudi nationals and has issued a list of activities partially or fully restricted to foreign investors commonly referred to as the “negative list”.

The list of fully restricted activities includes oil exploration, oil production, manufacture of military equipment or apparel, production of explosives, real estate brokerage services, real estate investments in Mecca and Medina, security services, some media and press services, recruiting and employment services, Hajj pilgrimage and physiotherapy.

Partially restricted activities include wholesale, commercial agency and retail trade which may be licenced under special terms and subject to specific percentages of national participation. In practice, SAGIA may apply specific unpublished policies facilitating or tightening the licensing of specific types of activities.

8| Are there any geographic or other restrictions on where overseas businesses can set up in Saudi Arabia?

The Negative List specifically bars foreign investment in real estate in the Holy Cities of Mecca and Medina. It does not, however, prohibit foreign investors from entering into short term leases in those cities.

9| What incentives or requirements are there for employing Saudi Staff?

Depending on the types of activities licenced, businesses need to hire a certain percentage of Saudi nationals constituting their workforce. In 2011, the Ministry of Labour introduced the Nitaqat Programme. Nitaqat refers to the Saudi Government's efforts to promote the employment of Saudi nationals. The Nitaqat Programme classifies companies in four categories being Excellent, Green, Yellow and Red. The classification is based on the percentage of Saudisation - now known as "nationalisation" held by each of the companies. Companies classified as Excellent or Green would be granted the most privileges in visa requests and operations for non-Saudis.

10| What restrictions, if any, are there on employment of non Saudi staff?

The Ministry of Labour bans recruitment of non-Saudis for 56 categories of jobs, such as administrative managers and their assistants, procurement managers, secretaries, car showroom salesmen, and public relations jobs, as well as in many retail establishments. The banking and insurance sectors are also highly "Saudised".

11| What are the key features of any legislation governing the employment of Women in Saudi Arabia?

The Labour Law specifies that women are free to work in "fields suitable to their nature" and not in "hazardous jobs or industries". Companies are required to separate female and male workers in the workplace and make all necessary arrangements to avoid mixing.

Female workers shall comply with Islamic clothing or the employer's uniform, which shall be conservative, covering and non-transparent.

It is prohibited to distinguish in wages between female and male workers hired to work at equal values.

Employers are prohibited from employing female workers in factories and offices if the number of workers in that workplace, per shift, is less than ten employees.

12| Are there any foreign exchange restrictions affecting overseas companies wishing to remit funds from their operations in Saudi Arabia?

There are no foreign exchange restrictions, but a foreign investor should be aware that the repatriation of dividends is subject to withholding tax. ■

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UK plays major role in liberalisation of Saudi financial sector

Financial services represent one of the most enduring links in UK/Saudi relations and there is every prospect that these links can become even stronger as the Kingdom opens up the sector to more international participation.

UK banks have been involved in Saudi Arabia for more than 50 years and work closely with the largest corporate clients, including Saudi Aramco, Saudi Arabian Mining Company (Ma'aden) and Saudi Basic Industries Corporation (SABIC). Many major private family businesses, such as Saudi Binladin Group and Olayan, also maintain offices in London for servicing their financial needs.

British banks also have a longstanding presence within the Kingdom. Saudi British Bank (SABB), 40% owned by HSBC, supplies a range of personal and commercial banking, institutional and Islamic banking products and services across the country, through its network of more than 80 full service branches.

Royal Bank of Scotland has a minority shareholding in Saudi Hollandi Bank, while Barclays obtained a licence in 2008 and provides investment banking and asset management services.

Prudential Asset Management received approval in 2008 to launch a joint venture with Bank AlJazira to advise and provide fund management in the Saudi market. This joint venture is also cooperating in providing Islamic insurance services (Takaful).

It is not just a one way process. Jeddah-based Sidra Capital, for example, has a partnership with UK-based Gatehouse Bank, which specialises in real estate acquisitions and the Sterling United Kingdom Real Estate Fund has been set up by the joint venture.

UK Government ministers have expressed their hopes that Saudi investment finance will back major British investment projects, including power generation projects and high speed rail networks, the type of investments that provide secure and strong long term returns.

The Kingdom's financial resources are enormous. Saudi Arabian Monetary Agency, the central bank, has US\$533 billion of assets but this figure is of course only a relatively small percentage of the country's total wealth. The bank traditionally had a very conservative policy that has focused on US Treasury Bonds. Recent developments, however, suggest it is adopting a bolder approach to future investment.

At the end of 2012, Saudi Finance Minister, HE Dr. Ibrahim Al-Assaf said that the Supreme Economic Council was studying a proposal to set up a sovereign wealth fund to channel part of the Kingdom's surpluses into long term investment projects.

The Public Investment Fund (PIF), part of the Ministry of Finance, has a US\$5.3 billion fund to invest, although only in Saudi-based projects. Sanabil was launched in 2009 as a wholly-owned entity of the PIF, to act as an investment portfolio manager. According to Sanabil's,

“In the last few years demand for insurance has begun to grow outside the mandatory health and motor policy areas. Finance Minister, HE Dr. Ibrahim Al-Assaf has said that Saudi insurance is set for dramatic growth”.

Ibrahim bin Mohammed Alromah, there are also plans to invest abroad in private equity funds and securities.

Further liberalisation of the Saudi Stock Exchange, the Tadawul, could be part of greater involvement with other stock markets. International banks will benefit from the further opening up of the Saudi stock market to foreign participation.

This could allow banks, especially foreign banks active in the domestic market, to sell Saudi equities to clients in Europe and North America, allowing more sophisticated investment banking activities to develop.

Broadening the structure of investment in the Kingdom is a key Government strategy and the huge and steadily growing infrastructure programme increasingly involves the private sector in major new developments.

High quality financial expertise is necessary to arrange such investments. There is an opportunity for trusted British institutions to play a leading role in the development of Saudi infrastructure, healthcare, energy projects, social housing, urban regeneration, as well as education and training.

This particularly applies to the UK's Private Finance Initiative (PFI) programme, which involves government retaining risk responsibility and the private sector providing design and finance for projects and then building and operating them.

As well as helping in the formation of public private partnerships (PPP), Britain's financial institutions also have the chance to build on the firm foundations that the UK has built in the field of Islamic finance.

Over the past decade, the City of London has become the leading Western centre for Islamic finance, with more banks and financial



institutions offering Sharia-compliant financial products than any other Western jurisdiction.

The Government has made efforts to ensure London maintains its role as a global gateway for international Islamic finance. This includes enacting legislation to ensure that there is no difference to the taxation as applied to Islamic or conventional financial products.

This support has led to a rapid development of corporate Sukuk (bond) finance, with more than 30 of these Islamic debt instruments listed on the London Stock Exchange and having a total value of US\$19 billion.

Saudi Arabia's Islamic banking is expanding rapidly. There are 18 Islamic financial institutions registered in the Kingdom, with US\$138.2 billion of Sharia-compliant assets, making the market one of the world's largest centres.

Connections between Saudi Arabia and the City have the potential to strengthen as Sukuk becomes more prominent in larger debt issues. One of the largest of these made, on behalf of the Kingdom's civil aviation authority, was valued at US\$4 billion in 2012.

Insurance is also an area of huge potential and of particular relevance to UK firms. The Kingdom is one of the most under-insured parts of the region. The sector has expanded as a result of the introduction of compulsory health and car insurance. However, the Saudi market for insurance is still smaller than that of Dubai, which is five times smaller than the Kingdom in terms of population.

A substantial proportion of Saudis have yet to be introduced to the benefits of insurance services and in a deeply traditional society, there is still misunderstanding about the nature of the concept.

Until the early 1990s, insurance was widely regarded as contrary to Islamic principles. Since 2003, however, this has begun to change following the introduction of a comprehensive set of regulations developed by Saudi Arabian Monetary Agency (SAMA).

In the last few years demand for insurance has begun to grow outside the mandatory health and motor policy areas. Finance Minister, HE Dr. Ibrahim Al-Assaf has said that Saudi insurance is set for dramatic growth.

Since SAMA became the regulator of the sector, foreign brokers and third party administrators (TPAs), which are contracted by insurance companies to manage claims, contracts and other policy details have been permitted to enter the market. These TPAs have helped to strengthen the insurance value chain, in line with more established markets.

Many major UK brokerage firms have joint ventures in the Kingdom, providing risk management, insurance and re-insurance, broking and consultancy services. Operating from offices in Riyadh, Jeddah and Al Khobar these include AON, Jardine Lloyd Thomson (JLT), Willis and Marsh.

In 2012, British insurance services provider, Charles Taylor acquired a 60% share in Riyadh-based Noble Inspection and Loss Adjustment. This company is involved in the Kingdom's fast expanding utilities, engineering and power sectors.

JLT's London office has also worked with Marsh to develop an insurance plan for the Riyadh-based Arabsat organisation's multi-satellite launch programme.

Beyond commercial lines, the biggest surge could arise from development of life and home insurance policies, which currently have less than a 1% market penetration. An increase in Sharia-compliant products is expected to drive the industry forward. In all these areas, UK firms have the expertise to play a part in strengthening and supporting the development of a potential high-growth sector.

UK companies also have well established credentials to assist Saudi Arabia to develop its housing market and analysts believe that a US\$32 billion a year mortgage market could develop in the Kingdom over the next ten years.

In 2012 and following years of delay, the first ever law covering mortgages was approved and is expected to lead to many more home loans being arranged. This in turn is likely to stimulate the market for fire risk and life insurance, since lenders would normally make such cover a condition for granting loans.

Saudi Arabia needs to build 1.25 million new homes according to current development plans. In 2011, the Government announced funding arrangements for the construction of 500,000 homes to tackle a shortage of accommodation.

At present less than 4% of home purchases in the Kingdom are financed through mortgages, compared with 17% in the United Arab Emirates and more than 70% in the UK.

The financial sector alone in Saudi Arabia will not be able to fill the gap and some believe that the Government will have to allow non-banking financial institutions, such as mortgage companies, to come in to develop the market.

Saudi Arabia's banking and financial development is unprecedented in its scope and aspires to be on a par with the most sophisticated of international centres. The country's underlying monetary strength and vast ambition is exemplified in the development of Riyadh's new US\$10 billion King Abdullah Financial District on a 1.6 million square metre site in the capital.

When completed, the area's 40 tower developments will provide three million square metres of floor space in a modern working environment, able to accommodate a world scale financial services industry. The Kingdom's vast wealth will be one of the drivers in achieving this goal but the expertise and partnerships that London can provide will also be a key to fulfilling this ambition. ■

Risk and reward: the Saudi Arabian challenge



Tom Everett-Heath
Regional Managing Director,
EMEA, Kroll Advisory Solutions

Riyadh has long been, and remains, the power capital of the Middle East. In economic terms it is also the region's 800lb silverback gorilla, and has effectively, if subtly, been asserting this fact with growing confidence in recent years. Despite the ability of neighbouring Doha, Abu Dhabi and Dubai to grab headlines, it is worth remembering that Saudi Arabia's economy is almost 60% larger than the United Arab Emirates and more than three times the size of Qatar. It is also considerably more diversified. An industrial base has emerged, originally clustered around the construction sector and the country's vast hydrocarbons resources, including downstream derivatives such as petrochemicals, but increasingly with an emerging manufacturing base. There is also a fast-growing consumer sector which had driven demand for imports as well as the development of the local economy.

The Saudi Government remains committed to sustaining fast-tracked growth and is aware that there is no alternative. Demographics alone provide a compelling reason: with a population of 29 million people, some 40% of which are under the age of 17, the Government is acutely aware of the looming social and political challenges posed by unemployment, made all the more pressing by political upheaval elsewhere in the Middle East and North Africa.

The response has two core components, both of which are tried and tested. First, the philosophical debate over private versus public sector was resolved long ago: the Government has embraced the reality that a dynamic private sector will create jobs, wealth and opportunity, and the last decade has seen a series of policy initiatives aimed at deregulation and opening markets. Much of the structural reform has focused on attracting foreign direct investment, with a Saudi twist: unlike other markets, it is less the capital that is required - there is no shortage of that domestically - but rather technology, management and marketing capacity.

Second, the Government has made an aggressive commitment to primary stimulation: its own investment agenda is huge. The Ministries of Housing, Interior, Defence, Health, Telecommunications, Industry, Oil, and Social Affairs are currently driving ambitious spending programmes for infrastructure development across all sectors of the economy. Despite the global economic downturn from which many countries in the Gulf have yet to recover, Saudi Arabia's infrastructure expenditure - with US\$184 billion budgeted in 2012 - continues to provide meaningful momentum, and a host of opportunities for domestic, regional and international private sector players.

Unsurprisingly, improved accessibility and expanding opportunity have attracted a fresh wave of interest from

“There are specific risks faced by foreign investors in Saudi Arabia.... The most effective approach is to complete rigorous investigative due diligence on potential partners and counterparties before entering into the relationship. Prevention is better - and cheaper - than cure”.

UK companies. However, participants need caution: regardless of whether wholly-owned operations are established or joint ventures formed with local businesses, as with many markets there comes an increased potential for fraud and corruption. The ingredients are there on the table: cross-border joint ventures with unfamiliar partners; limited transparency; Government-led development programmes and a broad interface between the public and private sectors; technologically complex, large-scale, and intertwined projects with unwieldy international consortia; and an unfamiliar legal environment to navigate.

In Saudi Arabia, reputational, integrity, regulatory, operational and commercial risks are intertwined. As a result, the need for robust due diligence is heightened, and this in an environment in which the gathering of reliable information can be challenging. The public domain is narrow and incomplete, and there can be a surplus of incoherent, or incomprehensible, reputational “noise”. The harvesting and analysis of business intelligence can be a complicated process for those inexperienced in the Kingdom, but will provide the solid foundations upon which joint ventures, or relationships with counterparties, must be built.

Perhaps most important is the provision of context. In recent years, Saudi Arabia has introduced robust measures to enhance its drive to fight corruption. The first move was publication of the National Strategy

for Maintaining Integrity and Combating Corruption, adopted in 2007, which provided the blueprint for fighting corruption. Perhaps the boldest move was the decision by the King to establish the National Anti-Corruption Commission in 2011. This Commission has direct oversight of all Government bodies and corporate entities in which the Government holds a 25% or greater equity stake. The Commission is tasked with raising awareness of corruption, investigating and combating it, and ensuring the return of embezzled funds. The body’s creation was prompted, at least in part, by a number of recent high-profile debacles in the Kingdom, including the Al Gosaibi-Ma’an Al Sanea dispute and the Jeddah flooding. The Government’s investigation into the latter led to a Saudi public official and businessman being jailed for five years and fined for receiving and paying bribes.

A number of other bodies are also responsible for fighting corruption in the country, including the Prosecution and Investigation Commission, the General Auditing Bureau, and the Auditing and Investigation Commission. The legal basis for these initiatives is embodied in a series of decrees and laws passed by the King and ratified by the Council of Ministers. Although Saudi laws generally deal with the behaviour of public officials rather than private commercial bribery, the Government has made good progress towards regulating the public



sector and laying the platform for a stringent compliance environment. Many Saudi businesses, however, are lagging behind and have yet to develop mature internal compliance mechanisms and procedures. This is more than a question of insufficient compliance processes of domestic operations: the rapidly accelerating globalisation of Saudi enterprise, while an economic success story, is also a multiplier of risks.

In the most recent Kroll Global Fraud Survey, 56% of respondents in Saudi Arabia said that their companies did not suffer from any type of fraud in the past year. From what Kroll has seen on the ground, there is clearly a wide gap between the perception of threat and the actual risk that Saudi businesses are facing in both domestic and foreign markets.

This severe under-estimation of the prevalence of fraud is particularly worrying: there is no more effective way to invite attack than to lower defences. In our experience, the wider this gap grows, the greater the real risk becomes, and the greater the need for anti-corruption programmes and training. It is also our experience that, predictably,

those who have been impacted by fraud are the fastest learners, and those that have not are more inclined to sweep the problem under the carpet until they have. Put simply, there are specific risks faced by foreign investors in Saudi Arabia, whether they are partnering with local businesses or entering the market alone and forming direct commercial relationships. The most effective approach is to complete rigorous investigative due diligence on potential partners and counterparties before entering into the relationship. Prevention is better – and cheaper – than cure.

Companies need to develop a deep understanding of counterparties, and to conduct a risk assessment of the transactions and the key principals surrounding them. Although fraud comes from multiple directions and sources, the main ones we have seen in Saudi Arabia involve management conflict of interest, theft of physical assets, regulatory breaches, and bribery. The good news is that 62% of Saudi businesses participating in the Kroll survey now have some form of pre-deal due diligence in place. More interesting is that 88% of respondents indicated that they have a well-defined whistleblower process, which perhaps reflects that Saudi businesses are now beefing up their corporate governance structures.

Based on these figures and our experience in the market, it would appear that systematic methods toward risk management and mitigation have been adopted by some of the leading Saudi corporations and private offices; others lag. Our experience also shows that UK companies entering the Kingdom are now engaging external specialists and risk consultants to conduct investigative integrity and reputational due diligence before they enter into new relationships, as well as fraud-related reviews and the design and implementation of fraud prevention programmes within their established ventures in the Kingdom. However, they remain in the minority and many still make the mistake of assuming that lawyers and accountants alone can provide sufficient protection. This suggests there is some pain to come, and the consequences could prove far-reaching and have considerable financial repercussions. ■

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New energy investment focuses on value added refinery capacity

Spending within Saudi Arabia's hydrocarbons sector on both upstream and downstream projects is prodigious and growing rapidly. The Kingdom's multibillion dollar strategy is designed to consolidate its position as the world's principal oil exporter and at the same time, to add value to primary energy resources through development of large scale petrochemical and refinery operations.

Six major new oilfields were brought into production between 2006 and 2010, providing 4.25 million barrels per day (bpd) of fresh production capacity, now thought to total around 12 million bpd. Development and exploration of new areas continues in order to retain reserve ratios and to meet global market needs. This effort is expected to raise production capacity to more than 14 million bpd by 2030.

There are enormous commercial prospects opening up as a result, with the State oil concern, Saudi Aramco, at the beginning of a US\$125 billion five year investment programme. The Dhahran-based group is the largest oil corporation in the world, controlling development of the biggest global proven petroleum reserves of 264 billion barrels. The company's Ghawar and Safaniya fields, for example, are the world's largest onshore and offshore oilfields respectively.

The scale of its business is immense, with Saudi Aramco responsible for half of the country's industrial projects and an estimated 9%

of all construction activity in the entire Gulf area. Both pace and scale of these developments are being stimulated by both export and domestic requirements.

Saudi Arabia also has proven gas reserves of 7.8 trillion cubic metres, the fourth largest in the world, with current daily production of around 90 billion cubic metres. However, a significant increase in output is required, with predictions that the need for gas supplies will double by 2030, driven by the fuel demands of power and desalination plants, as well as industry. This will require an increasing development effort in the next few years.

Companies are being encouraged to search for new gas reserves that are not associated with oil production. As part of this endeavour, Shell is looking at developing the Kidan area in Saudi Arabia's Empty Quarter desert area, close to the Shaybah oilfield, which currently produces 750,000 bpd of crude oil.

One particular area of focus is the development of new offshore energy sources, where there is vast untapped oil & gas potential. Exploiting these reserves, however, is going to require much more capital expenditure than in onshore projects as well as specialist expertise.

The Manifa and Safaniya offshore oilfields are among world's largest and have already been developed in the Gulf. Plans are now being

implemented for exploiting reserves in the Red Sea, a considerably more complicated and costly enterprise.

If the Red Sea is confirmed as a major new energy reservoir, then a great deal of expertise and technology will be required to exploit deposits in waters that are significantly deeper than the Gulf. Companies with extensive experience of operations in deep water, such as the North Sea, will be well positioned to gain work.

“Exporting skills and experience from Aberdeen could make the process a lot less challenging for stakeholders,” according to Terry Willis, Managing Director of the UK’s Energy Industries Council.

Opportunities for firms involved in hydrocarbon production at all levels are considerable, particularly those that can bring new technology to bear, in order to support this huge sector’s continuing development.

In the five years to 2010, Saudi Aramco’s material spending on drilling products alone totalled some US\$4.7 billion, while US\$3.7 billion was spent on fabricated steel products, a further US\$3.5 billion on pipelines and US\$4.6 billion on valves and pumps.

Services costs were even higher, with drilling expenditure of US\$9.4 billion and spending on construction and communications of more than US\$6 billion. An additional US\$2 billion went on seismic surveys and surveying and another US\$1.8 billion on engineering.

In addition to these costs, the company has a vast remit beyond the extraction of oil & gas, in respect of ancillary costs including education, healthcare and aviation.

Saudi Aramco has well over 200 projects planned up until 2017, and companies that can contribute to raising the local Saudi input will gain favour when it comes to the awarding of contracts. In particular,

those overseas companies establishing local subsidiaries or joint ventures can be expected to be supported and treated as local Saudi companies.

Another key policy agenda is adding value to the extraction of oil & gas. The Kingdom no longer wants to be just a primary energy producer, so attention is turning towards downstream activities, with a huge expansion of refining capacity and petrochemicals production now underway.

Five refineries, located at Ras Tanura, Riyadh, Jeddah, Yanbu and Rabigh and with a combined capacity of 1.2 million bpd are currently in production. The company also has two joint venture refinery operations, with Shell at Jubail and with Exxon Mobil at Yanbu.

There are more major refinery development projects currently underway, with one at Jazan using technology supplied by the Shell Group. The UK’s Petrofac has also been awarded engineering, procurement and construction (EPC) contracts valued at US\$1.4 billion for the 400,000 bpd refinery and terminal project, which will be led by the company’s office in Al Khobar.

Petrofac is also working on the offshore Karan project in the Gulf, the first in the Kingdom to extract gas not associated with oil production, as well as the Kingdom’s US\$5 billion Petro Rabigh Phase II petrochemicals development on the Red Sea coast.

An estimated US\$12 billion of contracts were awarded in Saudi Arabia’s petrochemicals sector in 2012; a reflection of the effort being made to expand the Kingdom’s hydrocarbons value chain.

Shell is progressing plans for expansion of projects at Saudi Petrochemical Company (SADAF), a joint venture with SABIC that



supplies polyurethane products to a wide range of sectors from construction, transportation, home appliances to food packaging.

Jubail has evolved as a major player in the global petrochemicals market and accounts for more than 7% of the Kingdom's GDP.

The city is being expanded with US\$18 billion of investments in new infrastructure projects. SABIC is the city's largest resident company and has embarked on US\$60 billion of projects there, including the Saudi Aramco joint venture with Dow Chemical, the largest petrochemical complex to be developed in a single phase of development.

The Sadara Chemical Company project is valued at US\$20 billion and will be among the largest ever built when completed in 2016, producing eight million tonnes of products a year. Further petrochemicals projects, valued at more than US\$14 billion, are in the planning stage, for the extended Jubail II city.

Not surprisingly given the potential long term rewards, the market is highly competitive. Both SABIC and Saudi Aramco are demanding clients seeking suppliers and contractors with high quality standards, innovative products and services.

British companies in the sector generally enjoy a positive image. Saudi Aramco, for example, has a long standing relationship with British companies and a growing footprint in the UK, with hundreds of its students engaged in courses in universities and vocational institutions. The company also has trading and recruitment operations based in London, in addition to a recently opened technology office in Aberdeen.

Saudi Aramco Vice President, Motassim Al Ma'ashouq, says "business relations with the UK have never been stronger, with around 3,000 British companies approved as Aramco vendors".

The European operations of Saudi Aramco Energy Ventures are also located in London. This offshoot of the oil company has been set up to invest in start-up firms and high-growth companies involved in "technologies of significant importance" to Saudi Aramco.

Increasingly the company is giving priority to suppliers that can display added value to the Kingdom. Ideally, for Saudi Aramco, this involves manufacturing in Saudi Arabia, although local assembly, warehousing or after-sales service and maintenance operations are looked on favourably.

In view of this "Saudisation" policy, Saudi Aramco has devised a "general engineering plus" contracting formula for consultants, which is designed to lead to the employment of more Saudi engineers by foreign companies working in the Kingdom.

Saudi Aramco is also seeking to develop similar contractual conditions for future EPC awards. This changing business environment presents a range of challenges both for companies already involved in the sector and for newcomers but the sheer size of the market and its long term potential rewards make them too large for international contractors and consultants to overlook. ■



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Renewables are essential to bridging the Saudi energy gap

Power is one of the largest investment areas in Saudi Arabia's massive economic expansion. Many of the world's largest generating projects are under construction in the Kingdom and spending on plant, distribution networks and new forms of energy development is growing. Some 4,000MW of new capacity was built in 2012 and another 8,000MW will have been commissioned by 2014.

This investment is being driven by the challenges faced by electricity suppliers to provide adequate capacity, particularly during the summer months of peak demand, when air conditioning use is highest in homes and businesses.

In spite of huge ongoing capital spending on new power stations, Saudi Arabia's electricity generating capacity of around 54,000MW installed capacity is barely keeping pace with surging industrial and residential requirement. The Kingdom has seen the need for electricity grow 8% a year since 2002 and the level of annual demand is expected to rise by 10% per year up until 2023.

Saudi Electricity Company (SEC), the main utility provider, had plans in place on the basis that investment of around US\$8 billion a year would be required for the sector to keep pace with consumer demand. However, the needs of a fast developing industrial sector are becoming more urgent.

As a result, the company's 2013 capital expenditure is now likely to be closer to US\$10 billion. This increasing level of investment has led the company to signal that in future it plans to be an active player in capital markets, both locally and internationally.

The higher and faster levels of investment are urgent because power consumption is increasing faster than anticipated, as new petrochemicals, phosphates, aluminium and other downstream ventures continue.

Development of new industrial complexes, as well as urban developments such as the giant economic cities at Rabigh, Ha'il, Medina and Jazan, is necessitating even more rapid investment in the Kingdom's power sector.

Estimates for the amount of investment needed to be made in power projects over the next decade have therefore been raised from US\$80 billion to more than US\$100 billion, as generating capacity is boosted to at least 80,000MW by 2020 and eventually up to 120,000MW, according to Dr Saleh Al-Awaji, Deputy Minister of Water and Electricity and SEC Chairman.

Some estimates predict that Saudi power investment could rise still higher over the next decade; such is the pace of economic expansion and the necessity to sustain the growth of energy intensive



desalination water projects, which each need to be accompanied by substantial power generation capacity.

Many projects are underway and planned to expand generating capacity, as well as upgrade existing facilities. This accelerating growth makes the Kingdom one of the most attractive global markets for transmission, distribution equipment and power generation.

The market's equipment requirements are immense. It ranges from gas and steam turbines, boilers, heat exchangers to transmitters, transducers and IT related technologies, such as smart meters and sensors, inspection and testing equipment as well as consultancy and training services. Joint ventures with Saudi companies to manufacture products locally are favoured.

Saudi Arabia requires not just more power stations faster but also needs to find new ways of bridging a growing energy gap that threatens to impact in future decades.

Crude oil currently accounts for 40% of the fuel which SEC burns to generate power, with gas supplying a further 34%, diesel 4% and fuel oil a further 4%. At this level of consumption, some argue that Saudi Arabia could become a net importer of oil by 2030, if domestic energy consumption continues to grow at its current level.

Faced with this potential energy crisis, the Kingdom is evaluating how in future it will manage and develop its power sector. By shifting electricity generation and water desalination plants away from oil towards gas and renewable sources of energy, the Kingdom aims to reduce the amount of crude oil burnt to fuel its power stations. This will help free up more of the country's primary energy resources for export, in the form of value added refined products and petrochemicals.

There are very ambitious plans to generate 41,000MW of electricity from renewable sources within two decades, with the aim of developing a sustainable solar energy sector that will become a driver for domestic energy projects. If these plans are realised, the Kingdom could save 523,000 bpd of oil currently consumed by power stations and desalination plants.

Some analysts believe it is possible that all Saudi electricity could be powered by renewable energy by the second half of the century. If a new energy policy is vigorously pursued by the Kingdom, it is likely to

become one of the largest global markets for renewable energy technologies, especially for solar power.

There is also potential for developers of wind power, waste to energy, as well as geothermal operations. The immediate focus though is on solar developments. The Government is reportedly targeting 25,000MW from concentrated solar power and an additional 16,000MW to utilise conventional photovoltaic panel technology.

A pilot solar power plant, partly owned by Shell, was commissioned on Farasan Island in the Red Sea during 2011 by Japan's Showa Shell Sekkyu, which is hoped to eventually generate 7MW. More recently, in September 2012, Mecca Municipality announced it intended to develop a 100MW solar energy project.

A 10MW solar plant is being built by German companies in Dhahran for Saudi Aramco, which is also building a 3.5MW solar plant in Riyadh.

If plans to provide tens of thousands of megawatts of solar power in the next 20 years are fulfilled, it would be an achievement of global significance and represent more than is currently generated anywhere else in the world outside the US.

The Kingdom's energy diversification strategy is also looking at nuclear power generation. A potential US\$100 billion programme, involving Chinese firms, which will develop up to 16 nuclear power stations and provide 18,000MW, is reportedly under consideration.

A centre in Riyadh is to be developed in a new district designated as King Abdullah City for Atomic and Renewable Energy. This is intended to be a focus for development of alternative sources of power, including nuclear, wind and solar energy. UK consultant EC Harris is providing project management, as well as commercial and cost management services for the planned new scientific research and residential area.

While renewable options are increasingly being looked upon as the future energy direction for the Kingdom, the structure of the existing electricity industry is also due for profound change, that will open up the market to more private investors.

SEC currently operates more than 70 power stations, 650 sub-stations and operates more than 380,000 kilometres of transmission network. The Kingdom's generating capacity is also augmented by supplies to the national grid from power units associated with desalination plants.

An internal reorganisation is now taking place that will unbundle SEC's assets and in the longer term, will lead to privatisation of a company that is effectively 80% owned by the State and which supplies electricity at heavily subsidised rates to Saudi homes and businesses.

Electricity prices will eventually have to be set on an economic basis, covering the whole cost of service and ensuring a reasonable return on investment to the supply company. The aim is for industrial and other main customers to have the opportunity to choose their service supplier in a competitive environment of wholesale operations, based on transparent rules and regulations.

SEC is working towards establishing four generating companies and one distribution company by 2014 in this process of reform that includes its unbundling and privatisation of the main components of Saudi Arabia's electricity sector. Private sector finance, operation and management of the Kingdom's utilities are considered essential if the Government is to satisfy future demand for electricity and water.

A liberalised power sector and involvement of the private sector is seen as pivotal to easing power shortages. Investors are already involved in the building of new power stations on a build-own-operate (BOO) and build-operate-transfer (BOT) basis. The aim is to see 30% - 40% of new power generating projects launched as independent power projects.

HSBC led arrangements for a US\$1.4 billion, 15 year loan to fund development of Rabigh Six thermal power plant. This followed work the bank undertook in arranging a US\$989 million export credit agency-backed loan for a power station at Shuaiba.

The vast and ever expanding Saudi power sector continues to create opportunities throughout the supply chain at every level for a comprehensive range of British equipment and service providers and looks set to do so for many decades ahead. ■

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Broadening industrial strategy is vital

Over the past 40 years, the UK Government and British companies have been closely involved in efforts to help diversify the Saudi economy and develop its manufacturing industry, as a means of broadening the economic base of the country and reducing its reliance on revenues from oil & gas production.

This was boosted in the 1980s through an initiative by the UK Government and BAE Systems, which resulted in the establishment of the Saudi British Economic Offset programme. It was set up to encourage investment by UK companies into the Kingdom and resulted from the two countries' Al Yamamah defence Memorandum of Understanding.

The initiative played a major role in the establishment of the US\$160 million United Sugar Refinery in Jeddah. This joint venture between Tate & Lyle and the Saudi Savola Group has expanded to become one of the largest of its kind in the world, producing one million tonnes a year of white sugar and meeting almost all Saudi domestic demand.

Synthomer Middle East is another British Offset facilitated joint venture, between Dhahran Chemical Industries and the UK's Synthomer. Since it started in 1996, the business, which produces polymer dispersants for the Middle East's paint and adhesives market, has tripled in size.

Other UK companies such as GlaxoSmithKline (GSK) also have longstanding relationships, with Glaxo (the UK predecessor to GSK) having first established a manufacturing presence in the 1990s and employing more than 500 people.

It has proved a shrewd long term venture. Saudi Arabia has developed as one of the largest pharmaceutical markets in the Middle East and it is predicted that 40% of the Kingdom's pharmaceutical needs will be produced locally within the next ten years.

A variety of large scale and successfully implemented industrial projects by UK companies in Saudi Arabia provide the basis for further investment in a range of manufacturing sectors that the Kingdom is eager to develop. The Government wants much more of its expanding downstream output and solid minerals production to be used in domestic manufacturing ventures.

Ma'aden's copper and zinc smelting developments, for example, are expected to create an opportunity for a zinc foundry, as well as downstream production ventures to manufacture copper rod and wire and brass products.

Most of Saudi Arabia's heavy industrial development has been concentrated on growth of the petrochemicals industries, which are now among the largest enterprises in the world and a force in global

“A variety of large scale and successfully implemented industrial projects by UK companies in Saudi Arabia provide the basis for further investment in a range of manufacturing sectors that the Kingdom is eager to develop”.

markets. A continuing high level of investment in joint ventures with foreign partners is likely to see such production increase 250% to 100 million tonnes by 2016.

This substantial production increase will consolidate Saudi Arabia's growing role as a leading international producer of polymers and chemicals. At the same time, the Government is placing a growing emphasis on stimulating downstream manufacturing industries so that these petrochemicals are also used to produce goods and components in Saudi factories.

An annual growth of 7.2% in manufacturing industries is envisaged in the country's ninth development plan (2010-2014), which seeks to lift the sector's contribution to GDP to 14% by the end of the plan period. This will be a key element in helping to provide urgently required employment opportunities and is a strategy that is being driven at the highest level in Government.

Most of Saudi heavy industry is concentrated at Yanbu and Jubail. The giant complexes are administered by a Royal Commission, which also has responsibility for the new Ras Al Khair industrial city, being developed 60 kilometres north of Jubail.

A range of extensive new ventures is reinforcing the Kingdom's increasingly prominent role in global petrochemicals markets. They include Petro Rabigh's joint venture with Japan's Sumitomo Chemical, to process ethylene and other feedstock used to produce thousands of items, from paint and detergents to carpets and clothing.

The new US\$20 billion venture between SABIC and Dow Chemical will produce advanced chemicals used in carbon fibres and other high technology materials.

Second stage developments will dramatically extend the size of both Jubail and Yanbu. The latter will see a new city developed by 2019 on



a 66 square kilometre site. This new area will contain 34 basic and secondary industrial developments and 224 other light industries, involving investments of more than US\$53 billion.

Meanwhile Jubail II is expected to attract local and foreign investments worth US\$35 billion and create some 55,000 new jobs. One of the joint ventures is being developed by SABIC and Mitsubishi Rayon Company to produce methyl methacrylate and will be among the largest of its kind ever built.

Production from the plant will create resins and plastics which are expected to lead to manufacturing in Saudi Arabia of high value products for use in the automotive industry, construction, electronics and medical technologies.

A third major city for heavy industries is being established at Ras Al Khair. The first phase of the industrial complex nearing completion features the world's largest integrated aluminium plant. The site includes a 740,000 tonnes a year (t/y) capacity smelter, a 460,000 t/y capacity rolling mill and a refinery that will process bauxite ore to be mined in the north of the country.

Ma'aden Phosphate Company is another anchor tenant. A giant complex under development is due to process three million t/y of diammonium phosphate (DAP), representing 10% of global demand. DAP is an essential component of high grade fertilisers. The complex under development will also produce 400,000 t/y of ammonia and 200,000 t/y of phosphoric acid as by-products.

The city's development has already generated many contract opportunities for specialist suppliers. One of these is Enpure, a UK-based engineering firm, which has commissioned a seawater reverse osmosis pre-treatment plant for the city.

British consultancy Atkins, who worked on the Kingdom's first industrial cities, is carrying out basic engineering design and developing the masterplan for Ras Al Khair, under a US\$16 million contract. Atkins' work involves reviewing the options for development of industry clusters in the new city in terms of demographics, utilities and infrastructure demands.

The Government has established the National Industrial Clusters Development Programme (NICDP). This initiative seeks to attract foreign and domestic investment in specific manufacturing sectors which have been identified as areas in which Saudi Arabia has, or could have strategic advantages.

An automotive project was announced in 2011 with Isuzu Motors of Japan for an assembly plant to produce the company's medium duty F-series trucks. The plant, to be located in Jubail II industrial city, is the first Japanese automotive venture in the Kingdom and in the long term will produce 25,000 vehicles each year.

The NICDP is also carrying out a detailed feasibility study with Jaguar Land Rover on setting up production in the Kingdom. Opportunities are thought to have been identified in aluminium component manufacturing, a field where Jaguar has pioneered development of light-weight car body parts for its vehicle range.

Outside of Jubail, Yanbu and Ras Al Khair, a large proportion of national development takes place in industrial cities managed by the Saudi Industrial Property Authority (MODON).

There are around 20 of these giant industrial estates, either operational or planned. Sudair now under construction, 120 kilometres north of Riyadh is one of the largest developments.

Others include Jeddah II, which is expected to feature food processing and packaging and Al-Kharj, 90 kilometres from Riyadh which is attracting attention from construction materials companies, metal manufacturers, as well as food companies.

Industrial areas that will solely employ women are also under development with the first under construction in Al-Hofuf. Many SMEs cannot afford to hire women, due to the costs of complying with Ministry of Labour segregation rules and purpose-built environments could meet this requirement.

The development is designed to eventually provide employment for some 5,000 women in textiles, pharmaceuticals and food processing factories. MODON has said it plans to develop four more such industrial estates in different areas of the Kingdom.

Saudi Arabia is looking to invest in sectors that can provide jobs, as well as in sectors that can add value to the Kingdom's extractive industries output. Nurturing manufacturing is vital for job creation and easing the high unemployment levels faced by all members of the Kingdom's young population.

Those firms considering industrial and manufacturing ventures can expect considerable Government support in terms of loans, as well as relatively low cost industrial sites and energy, a competitive corporate tax regime, in addition to financial support when Saudi employees are taken on. As important, is the fact that local manufacturing is well placed to supply a fast expanding domestic and regional market.

Many opportunities are also emerging for the supply of technology transfer, training and consultancy, though commitment to the market is essential to succeed. For example, Atkins opened an office in Al Khobar in 2012 to serve its projects in Eastern Province and Chief Executive, Richard Barrett says "we firmly believe in the importance of being local to truly understand the market and client needs". ■

Pioneering development of new economic cities continues

As Saudi Arabia seeks to diversify its economy away from oil, it has embarked on a strategic plan to build major new industrial areas throughout the country. These are intended to provide the foundations for a much more diversified and geographically spread national economy.

At present more than two thirds of the country's population resides in Riyadh, Jeddah, Mecca, Medina, Dhahran and Dammam. Other areas such as Najran, Al Jouf, Tabuk, Jizan and Ha'il have lacked substantial industrial development.

The new sites will also provide opportunities to foreign investors to capitalise on the Kingdom's low cost energy advantage over other countries and develop downstream industries, drawing on Saudi Arabia's abundant mineral resources.

A major element of the plan is development of four economic cities. The Government wants these new cities to provide more than giant industrial zones and sees them as places to nurture new business and residential communities in areas that have seen limited investment up to now.

The long term aim is to promote diversification, create new job opportunities and new homes for up to five million people and contribute US\$150 billion to Saudi Arabia's GDP.

The flagship project, led by Dubai developer, Emaar, is King Abdullah Economic City (KAEC), now under construction on a 168 square kilometre site close to Rabigh on the Red Sea.

KAEC is designed to accommodate a population of two million inhabitants, with industries and other businesses providing one million jobs. The phased development has six main components, including a sea port, industrial zone, central business district, a hotels and resorts district, a schools and colleges area and a residential district. Crucially the new city is situated on the high-speed railway line now being built to connect Jeddah and Medina.

Around seven million square metres of land has so far been developed and leased according to KAEC's CEO, Fahd Al-Rasheed, who says 12,000 people are already working in the new city.

A total of 25 companies, including Mars Corporation, Pfizer, Sanofi-Aventis and industrial packaging specialist Greif, are due to open factories in the next two years. Al-Rajhi Steel plans a US\$4 billion steel making complex, while leading Saudi corporations including Abdul Latif Jameel and Jamjoom Pharma are setting up distribution hubs in the new city.

Jazan Economic City (JEC) is another development on a 100 million square metre site on the Red Sea. JEC is being promoted as an attractive investment location for Chinese and other Asian companies wishing to draw on the area's cheap energy, to produce goods and then export them to European and African markets.

Supporting a 250,000 population, the city will feature an industrial area including an aluminium smelter, downstream industries, sea port,

agricultural packaging and distribution businesses, with a focus on the fishing industry. The master developer is Malaysia's MMC International, in conjunction with Saudi Binladin Group.

China's Aluminium Corporation and CPI Power Engineering have signed letters of intent with MMC for investments in JEC. China's Hebei Iron and Steel Group is also planning a US\$500 million integrated steel facility in the new city. Hebei believes that this will enable it to leverage attractively priced energy and compete more effectively in global steel markets as a result. Plans for shipbuilding and repair have also been unveiled, as well as automotive manufacturing and assembly.

A third new city, Knowledge Economic City (KEC), is planned for a 4.8 million square metre site close to Medina, seven kilometres from the city's airport. The project comprises residential areas for 150,000 people, a theme park, business, retail and educational hubs. It also aims to provide jobs for 20,000 people to be generated in part by medical sciences and biotechnology ventures in a modern business park.

A group of Saudi developers, including Seera City Real Estate Company, the Savola Group and the King Abdullah Foundation, is leading the venture and US-based AECOM was appointed Project Manager in 2009.

Prince Abdulaziz bin Mousaed Economic City (PABMEC) is projected as a fourth economic city, to be located near Ha'il in the north of the Kingdom. Named after the first Governor of the region, the city is to be developed over 156 square kilometres, in an agricultural area that is rich in mineral resources.

The city is planned to accommodate 80,000 people and will feature an international airport, railway links and an inland container port to be the focus of a logistical supply and services centre for the region and



beyond. Kuwait's Al-Mal, investment arm of the Kharafi Group, is the lead developer of this US\$8 billion project.

These four economic cities are one element in a series of projects linking urban and industrial developments in the Kingdom. In addition to the four, at the end of 2012, Ma'aden awarded contracts to Bechtel and Fluor Corporation to prepare a masterplan and provide engineering consultancy for a new city at Waad al-Shamal in the north of the Kingdom.

This new city and industrial complex near Turaif, is aimed at developing a variety of phosphate industries to produce phosphoric acid, animal feeds and fertilisers. These industries are expected to create 2,700 direct and 22,000 indirect jobs in the city.

The phosphates city is designed to work in close cooperation with another new industrial city being developed at Ras Al Khair on the Gulf coast, where a plant to produce diammonium phosphate is being built.

This facility is part of an industrial complex that will include a 2,350MW power station and desalination plant, in addition to an alumina refinery, aluminium smelter, ammonium plant and facilities to produce phosphoric and sulphuric acid. Around 27,000 workers will be employed in the city when full production starts.

Ras Al Khair lies 60 kilometres north of Saudi Arabia's largest industrial complex at Jubail, where a second development phase of the city is well underway on a 20 square kilometre site. Jubail II will double the size of the existing city's population to 300,000.

The US\$80 billion development is being project managed by Bechtel on behalf of the Royal Commission for Jubail and Yanbu and will eventually accommodate 100 large scale petrochemical ventures and other industries.

Many international companies and engineering consultants are involved in these vast undertakings which will transform the Kingdom's industrial landscape. Mouchel, for example, is providing detailed design for a 20 square kilometre industrial city to be developed 80 kilometres south of Jeddah, near the King Faisal naval base.

The UK company is also carrying out design work for part of the planned Sudair industrial city. This much larger venture, projected to cost US\$40 billion, is being promoted by the Saudi Industrial Property Authority, and is to be developed over a 265 square kilometre site

on the Riyadh-Al Qasim main highway, 130 kilometres northwest of the capital.

Sudair is another long term development projected to accommodate one million people and relieve the growing congestion in the capital, as well as provide new jobs.

Among the new city's attractions are its location on the route of the North-South Railway (NSR), an airport and availability of land on 99 year Government leases.

The Economic Cities Authority is also offering individuals and companies 100% foreign ownership and a bonded-zone that allows for a customs-free movement of goods. Government services, such as processing of permits, licences related to business management and residence are offered on a round the clock basis.

All of the planned new communities, whether described as economic or industrial cities, are long term projects which will be developed in phases and the pace of development will reflect market conditions.

However, their developers believe that the economic benefits on offer and location of the new cities will attract a growing number of domestic and foreign investors, with officials predicting that in the longer term some could be benchmarked with Singapore and Hong Kong. ■



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Our operation in the region has grown apace. We have had registered offices in Abu Dhabi, Al Ain, Doha and Bahrain since the early 1970s and in Dubai since the 1990s. More recently, in April 2012, we announced our international presence in Jeddah, Saudi Arabia. Currently, we are contributing to major projects around the region, including STEP Tunnel and Etihad Rail in Abu Dhabi; Deira Waterfront in Dubai; Ashghal's General Engineering Services Contract 2 (local roads and drainage) and Kahramaa's Water Security Mega Reservoirs project in Doha; and Muharraq waste water treatment works in Bahrain. We are also providing engineering management consultancy services for Al Amanah in Jeddah.

Expansion into Saudi Arabia

The Saudi Arabian market is not new to Hyder. We have been working on essential infrastructure projects across the Kingdom since the early 1960s and our recent work here includes Capital Market Authority

(CMA) Tower, Riyadh; Railway Works, Dammam Port Development; Jeddah Airport Tunnel; Water and Wastewater Management Advisory across Dammam, Al Khobar, Medina Mecca, and Taif; Marafiq Development Project, in Jubail and Yanbu; Taif Wastewater Treatment Plant; and Tadawul Building, the Saudi Stock Exchange headquarters.

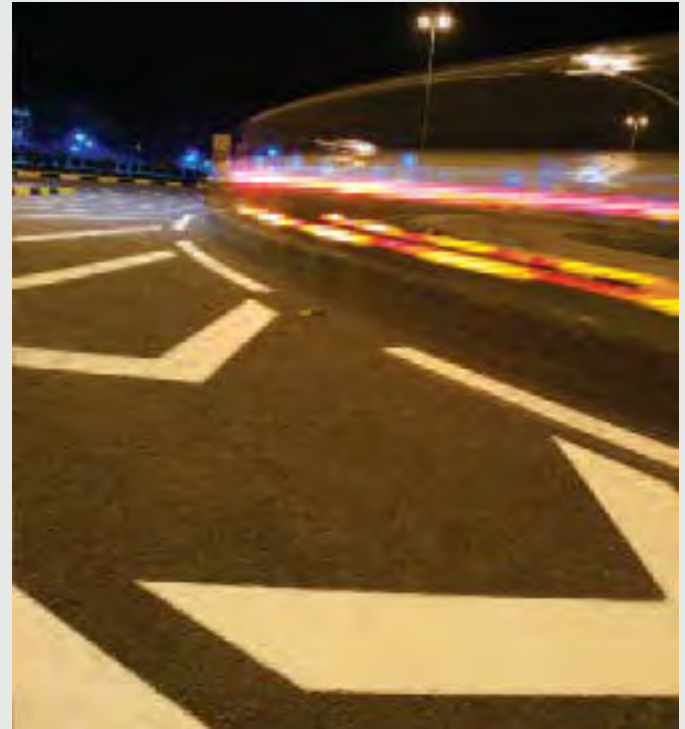
In April 2012, having achieved formal registration as an international company, we officially launched Hyder Consulting in Saudi Arabia and quickly affirmed our strength by securing a number of significant property and transportation contracts. These projects include engineering management consultancy services for Jeddah Municipality; Abdul Latif Jameel's Jeddah Flagpole (the tallest in the world); Mars' Factory in King Abdullah Economic City, Rabigh; and Siemens' Dammam Energy Hub, Siemens' Gas Turbine Factory and subsidiary buildings in Dammam.

We are committed to Saudi Arabia. Our work in the Kingdom is an essential element in Hyder's future business strategy and we look forward to supporting its many planned developments across the transport, infrastructure and property sectors.

Global Excellence Centres

To support its client facing operations around the world, Hyder operates four design excellence centres employing over 300 people with specialist skills to serve the needs of complex projects in the fields of structural engineering, building services, infrastructure and highways. They are located at Manila in the Philippines, designing highways and property projects; India, designing utility and rail projects; Bulgaria, supporting our German business; and Amman, Jordan, which opened in February 2013 as an extension of our Manila centre. The Amman design centre will support our Middle East business and, in particular, focus on serving our projects in Saudi Arabia.

Engineering management consultancy services for Al Amanah



Hyder is providing engineering management consultancy services for Al Amanah, Jeddah as part of a three year contract. Working in partnership with the Jeddah Municipality, through this project we will help improve quality in the design and construction of Jeddah's infrastructure to deliver enhanced amenities and roads for the city's residents.



“The professional challenges that both Hyder and the Municipality are facing in meeting this ambitious delivery plan are significant; however, both parties have already demonstrated a commitment which is second to none. With such a strong working relationship, I feel confident we will make the changes that are long overdue in providing the citizens of Jeddah with the infrastructure they need” . Brett Doughty, Project Director, Hyder Consulting

Focusing on the key engineering elements essential to good design and delivery, our team of 55 engineers has collaborated with the Municipality to create a rolling programme of works, involving numerous projects over a wide range of disciplines, that will continue to improve the local infrastructure for many years.

Together with Jeddah Municipality, we are committed to creating a legacy of long term benefit for Saudi engineering. Throughout the contract period, as we deliver our engineering management services we will actively encourage and engage in knowledge transfer to improve the expertise and skills of the Kingdom's engineering professionals across disciplines including property, infrastructure, transportation and utilities.

Mars Factory, King Abdullah Economic City, Rabigh

Hyder is providing full building design and site supervision services for this prestigious development of a 120,000 square metre Mars Confectionary manufacturing plant in the industrial valley of the King Abdullah Economic City (KAEC). This is one of the first projects to start operations there and all work must comply with Mars' exacting global

standards in hygiene and rigorous health and safety requirements. Hyder's design brief for the project includes allowing for anticipated expansion phases planned for the next decade and the additional target of achieving LEED Gold certification for the factory.



Jeddah Water PPP Framework



Between 2007 and 2009, Hyder provided technical transaction advisory services to the Ministry of Water and Electricity (MOWE) for water and wastewater services PPP contracts procured for Jeddah. Our responsibilities included the procurement of the water and wastewater networks management contract and the wastewater treatment concession.

Working with the Ministry and other advisers, we defined the scope of a long term 30 year wastewater treatment concession that would manage the phasing out of end-of-life works, as new works were commissioned and included a performance based concession contract for treating wastewater to standards suitable for effluent and sludge re-use. We conducted the technical due diligence and determined the performance regime and payment mechanism for the concession agreement. ■



“Efficient water supply, storm water drainage, sewerage and irrigation systems are vital for the health and safety of society. Hyder’s Utilities sector provides a broad range of complementary services throughout the project lifecycle that will help the Kingdom realise its ambitious infrastructure development plans. We provide our clients with the combined benefits of our international experience and local delivery. We are committed to supporting Saudisation by providing employment opportunities for talented young people and training our Saudi staff in the world’s best practices” . Khaled Jame, Director Utilities, Hyder Consulting



INTERNATIONAL EXPERTISE
LOCAL PRESENCE

Wide ranging opportunities from port expansion programme

Accelerating expansion and modernisation of Saudi Arabia's ports and logistics facilities offers an array of exciting commercial prospects for British firms across a range of disciplines.

Saudi Arabia's ports have never been busier, with the country experiencing substantial year on year economic growth. Trade volumes are forecast to rise more than 20% to around US\$579 billion by 2015.

The UK has globally recognised expertise in the maritime sector, ranging from building and equipping ports to training and management of facilities. The City of London also occupies a pivotal role in the provision of financial, legal and insurance services to maritime industries.

In 2012, for example, the UK's Inchcape Shipping Services signed a joint venture agreement with Saudi Arabia's Al Bakri Group to provide marine, cargo and surveys, as well as agency services to container shipping lines.

Most of the country's imports and exports arrive and are sent by sea. The Saudi Ports Authority (SPA) oversees 137 docks in six commercial ports and 46 docks in the country's three industrial ports. However, while the Kingdom has the largest ports network in the Middle East, with nine ports located along its Red Sea coast and the Arabian Gulf, facilities are struggling to keep pace with rising cargo volumes.

Saudi container traffic is estimated to have grown more than 18% in 2012 and pressures on maritime facilities are steadily becoming more

intense. Ports and logistical facilities need considerable expansion, particularly to accommodate a series of giant industrial developments about to be commissioned.

As a result, Saudi ports are being rapidly expanded to improve turnaround times for cargo traffic. The SPA is overseeing an US\$8 billion investment strategy to modernise and equip its ports, with a growing emphasis on private sector participation.

Some of the largest developments involve construction of major new ports on the Red Sea and Arabian Gulf. Ras Al Khair industrial port on the Gulf and ports due to serve King Abdullah Economic City (KAEC) and Jazan Economic City (JEC) on the Red Sea will all require an increasing range of services as they develop.

The KAEC seaport is being built over 14 square kilometres and will eventually be one of the top ten in the world when it achieves its projected handling capacity of 20 million, twenty foot equivalent (TEU) containers a year. Initial operations will be based on two terminals, one for multi-purpose cargo and the other dedicated to containers and able to handle 1.6 million TEUs annually.

One of the main features of this new port will be its ability to receive a new generation of super tankers and mega container vessels, which will significantly enhance the level of the Kingdom's competitiveness in the provision of transport and logistical services. A Memorandum has been signed with Dubai's DP World to operate the seaport, with the

long term aim of establishing KAEC as one of the world's principal ports, on a par with Rotterdam and Singapore.

An entirely new port is also being developed in phases at Ras Al Khair to meet the needs of a phosphates complex and aluminium smelter and associated industries, which are due to come on stream in the Kingdom's newest industrial city over the next three years.

This programme of investment is increasing work that UK companies can compete for in several areas of the Kingdom's maritime transport sector. These include operation of logistics parks, container terminal developments, expanding shipyards, training and administrative services.

There is also potential for port planning and development of consultancy, sales of port security equipment and services and port operation contracts. In addition to advanced engineering such as straddle carriers, other ground equipment requirements include forklift trucks, container handling equipment, scanning technology, security and port safety equipment and information technology systems.

SPA has a wide-ranging development programme for existing ports, including new container terminals for Jeddah, Dammam and Dhaha ports, as well as warehousing and other logistical support operations. In addition, there are plans for all Saudi ports to have bunkering terminals, while ship repair yards are to be developed at Dammam and Jeddah.

Ports in the country's Eastern Province, including Jubail, are undergoing large expansion. Jubail Industrial City will almost double in size to accommodate a new range of chemicals and petrochemicals industries, as well as downstream enterprises.

Plans have been approved for construction of three new petrochemical berths at the industrial port that serves Jubail, as well as for five new berths at Yanbu Industrial Port on the Red Sea.



The UK has in-depth expertise in all aspects of port development, with many leading companies involved in the management, design, planning and security of ports

Hyder Consulting, for example, has worked on planning, design and supervision of construction for the development of Dammam port since 1957. Work includes trade and operational feasibility studies, masterplanning and phased design of the port's container terminals. Meanwhile, Atkins is working on masterplans for King Abdulaziz Port in Dammam and Jubail Commercial Port.

Saudi Arabia is one of the fastest growing markets in the world and, as new economic cities are growing, an increasing number of logistics companies will begin to expand operations. This is likely to

see a demand for more specialised storage and improved warehousing infrastructure across the country. These will be located near to areas of major development and national infrastructure projects, such as Jazan and King Abdullah Economic Cities and to the railway network under construction.

The Railway Consultancy, based in London, has carried out studies for outline specifications for an inland dry port to accommodate container traffic at Al-Hofuf, which is on the railway line connecting Riyadh and Dammam.

The Saudi Government's intention to increasingly involve the private sector in its maritime development strategy also presents opportunities for UK specialist expertise in the commercialisation of operations and services within the sector.

At Jeddah Islamic Port, the Red Sea Terminal represented the first build-operate-transfer (BOT) port development project in the Kingdom when it was commissioned in 2010. Operated by a joint venture that includes Saudi companies Tusdeer, Xenel Industries, Saudi Industrial Services Company and Malaysia's MMC Corporation, the terminal has raised the port's container handling capacity by almost 50%.

On the other side of the country, more than US\$750 million is being spent on expanding the King Abdulaziz Port, with US\$535 million scheduled for expanding container terminal capacity. This will also feature a BOT operation when the port's second container terminal opens in 2015.

Construction work officially started in October 2012 for the second container port. The new facility will be run by Saudi Global Ports, a joint venture between the Saudi Ministry of Finance's Public

Investment Fund and Singapore's port operator PSA International, under a 30 year BOT contract. The project involves a 1,200 metre long quayside and 12 cranes, able to handle 1.8 million TEUs a year.

Privatisation of maritime-related activities and the creation of further BOT port facilities present opportunities for provision of legal services to bidding consortia and, eventually, to the Saudi Ports Authority.

Many of the new installations involve advanced maritime technology. The US\$510 million Red Sea terminal features six giant ship-to-shore cranes, with twin-lift capabilities able to hoist 80 tonne loads. The emphasis on state-of-the-art equipment requires specialist skills not yet widely available in the local workforce.

The Kingdom depends on expatriate labour and management services to operate its ports. This is particularly evident in port operative, container handling and other aspects of technical port work. Much more focus is required in terms of vocational training and technical and managerial development, in a sector that needs to evolve rapidly.

There is little prospect of Saudis taking over the day to day technical administration of their ports without a comprehensive and long term training strategy. It is an area in which the UK has potentially much to contribute.

SPA personnel are already being trained in the UK for diplomas in ports management, marine engineering as well as mechanical engineering, electronics and information technology. Portia, the overseas port management arm of Peel Ports Group, the UK's second largest port group, is also providing training and other marine services at Jubail and Ras Al Khair. ■

Looking to the future in Saudi Arabia

Parsons Brinckerhoff develops and operates sustainable power and infrastructure to meet the needs of communities around the world. We provide strategic consulting, planning, engineering, and programme and construction management services to both public and private sector clients. In 2013, Parsons Brinckerhoff celebrates 128 years of serving our clients, including over 40 years in the Middle East.

As a global company, Parsons Brinckerhoff has participated in some of the world's most notable power and infrastructure projects, from the highly visible Medupi mega power plant in South Africa, to India's Delhi Metro, to the Palm Jumeirah in Dubai, to the Rabigh II Power Station project in Saudi Arabia, to the original planning and design of the New York City subway system.

Parsons Brinckerhoff began working in Saudi Arabia over three decades ago, providing consulting services to the power industry and private developers. Since then, we have expanded to include a wide array of markets and clients. We have advised the Government on potential expansion of the Kingdom's national rail network to meet long term transportation needs and conducted a range of services from owner's engineering, to project management, to environmental impact assessments for major power and transportation projects across the Kingdom.

Our services are comprehensive and we provide total project delivery on projects of any scale. We employ engineers from many disciplines

(including civil, mechanical, structural, electrical, chemical, geotechnical and acoustic), project and programme managers, construction managers and management consultants, environmental scientists, planners and geospatial information system specialists.

Since Parsons Brinckerhoff initially began working in the Kingdom of Saudi Arabia, the population has increased by an estimated 17.5 million people. This massive population growth in a relatively short period of time necessitated an astonishing leap in the planning and construction of infrastructure, transportation, and power services.

The major development programme currently taking place in Saudi Arabia is a positive example of a Government facing head-on the challenge of population expansion, and meeting and exceeding the needs of its people, through forward thinking and planning and the building of impressive networks in power, infrastructure, roads, and airports.

Parsons Brinckerhoff is immensely proud of the projects we have completed over the past 35 years in Saudi Arabia. We are currently engaged as consultants on the groundbreaking Rabigh Power Plant 2 (PP2), the most environmentally friendly plant ever built in Saudi Arabia by owners Saudi Electricity Company (SEC) and also now on PP12 Power Plant for SEC. Parsons Brinckerhoff has also worked on large scale transportation and infrastructure projects, including the Royal Terminal Jeddah, Makkah Central Integrated Traffic & Transport

“Parsons Brinckerhoff is delighted to lend its continued support, expertise, and knowledge to Saudi Arabian developers and owners, as it has done over the past three decades”.

Solutions, construction management of King Fahd Medical City, and the Al Madinah Monorail project.

In recent months, we have been engaged by Saudi Railway Company (SAR) to provide Project Management Consultancy services for the Landbridge Railway project, ultimately connecting Jeddah Port to the Port of Jubail. We are proud to be involved with this nationally and regionally strategic and important project during its implementation period. We have previously provided technical services at the feasibility stage for Makkah Municipality on its Mass Rapid Transit (MRT) project, which is nationally crucial to the Kingdom, particularly during the Hajj period.

In 2010 a Royal Decree announced the creation of the King Abdullah City for Atomic and Renewable Energy (K.A. CARE), an initiative aimed at guiding the Saudi market towards sustainable energy. An announcement in 2012 detailed the country's plans to embrace the renewable energy sector, aiming to generate one-third of the nation's electricity through solar power by 2032. This ambitious goal is representative of the shifting global energy market towards cleaner, more efficient methods of power production.

To aid the Kingdom's achievement of its target, a continued merging of local and international professionals and their knowledge and expertise

will be inevitable. Parsons Brinckerhoff is looking to the future together with our clients in Saudi Arabia, embracing innovative new technology along with the skills of highly experienced engineers, designers, and programme managers.

Saudi Arabia is recognised globally as a Middle Eastern pinnacle of technological ambition. Recently announced plans for construction of the Kingdom Tower as the world's highest reaching building, make it clear that Saudi Arabia is a force to be reckoned with when it comes to construction innovation. Parsons Brinckerhoff is delighted to lend its continued support, expertise, and knowledge to Saudi Arabian developers and owners, as it has done over the past three decades.

During that time we have watched as projects grow larger, greater in both ambition and final output. Parsons Brinckerhoff has provided clients with consultancy services on projects ranging from studies and advisory services to full project management services in the construction of major buildings and power stations, transportation planning, and rail masterplans. We have acted as consultants at the forefront of construction growth in the Kingdom, standing alongside government and private clients to assist them in the realisation of their planned projects, from conception to delivery. ■

Engineering and specialist advice to the infrastructure and power supply industry worldwide.

Parsons Brinckerhoff is a leader in developing and operating infrastructure around the world, with approximately 14,000 employees in 150 offices dedicated to meeting the needs of clients and communities in the Middle East, Europe, Africa, Americas, Asia and Australia-Pacific regions. With over 40 years in the Middle East, Parsons Brinckerhoff offers skills and resources in strategic consulting, planning, engineering, programme/construction management and operations for all modes of infrastructure including transportation, rail, highways, power, buildings, water and the environment.



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Huge investment in water infrastructure is crucial

Meeting the ever increasing water supply needs of Saudi Arabia's growing population is one of the biggest challenges facing the Kingdom. Water consumption in the region is well above global norms and continues to increase rapidly as a result of population growth, urbanisation and the demands of industrial expansion.

Saudi Arabia's population is forecast to increase from just below 28 million to more than 33 million in the next 12 years, a 17% jump, while demand for water is growing at 7% - 8% a year, according to Deputy Minister for Water, HE Mohammed Ibrahim Al Saud.

The Kingdom already has one of the world's highest average consumption of water per capita and according to the Kingdom's Saline Water Conversion Corporation (SWCC) this is 91% higher than the international average. At the same time, sewage treatment and pipeline systems are inadequate in most urban areas.

Huge ongoing investment is needed to meet the growing challenge. There is already a shortfall between demand and supply of more than 750,000 cubic metres a day and there are concerns that shortages could worsen considerably in a country where average rainfall is little more than 70mm a year, compared to the UK's 947mm in 2012.

The situation is already affecting business development and industrialisation, which is keen to exploit world scale deposits of a bulk ores and precious minerals. Developing iron ore, phosphates and

bauxite as well as precious metals requires huge volumes of water for processing. "We have gold but we don't have water," is a complaint voiced by mining executives.

The stark implications, in terms of economic development and diversification, as well as health, are increasingly the focus of Government attention and expenditure, which is expected to total US\$53 billion over the next ten years. The aim is to provide a clean and high quality supply of potable water for all residents, as well as sanitation connectivity to every household, while at the same time conserving natural water resources and protecting the environment.

Much of the capital expenditure is being used for the treatment of seawater. Without the hugely expensive distillation of seawater, the Gulf could not have developed in the way it has. Saudi Arabia has about 25% of the world's desalination capacity and the processed seawater provides more than 70% of the country's drinking water.

SWCC, with 36 plants, is the largest global producer of desalinated seawater. The State owned organisation has plans to almost double its desalinated water production to six million cubic metres per day by the end of 2015.

Three giant desalination plants are presently under development at a cost of US\$18 billion and around 25 new desalination plants are also planned. These include a facility in the new industrial city at Ras Al



Khair, which is expected to produce one million cubic metres a day of potable water and will help supply Riyadh.

In November 2012, SWCC announced a further US\$3 billion facility to produce 550,000 cubic metres a day of water, to be built at Yanbu by a South Korean/Chinese consortium.

Desalination has provided drinking water and allowed cities to expand and industries to develop but the biggest consumer of natural water in the region - surprisingly, given its negligible contribution to GDP of less than 3%, remains agriculture.

In the 1970s, Saudi Arabia began tapping its scarce underground water resources in an ill-conceived scheme to become self-sufficient in wheat production. By the 1980s the Kingdom, with vast pivotal irrigation projects, had more than met its target and became a net exporter.

The cost of this irrigation was immense and in 2008 the policy was abandoned as aquifers began to run dry or became polluted by seawater. A year later, a scaling down of its water intensive wheat production began, aimed at leading to a complete halt in production by 2016.

This reversal of wheat growing strategies derived directly from a decision to preserve water. Farmers in the Kingdom who previously were encouraged to cultivate wheat are now growing animal fodder, as well as palm trees, all of which still use up precious water resources.

New approaches to water management are being urgently examined. For example, Treated Sewage Effluent (TSE) technology to produce non-drinking water for irrigating animal fodder crops and watering parks and landscaped areas is increasingly being used in Saudi Arabia. This growing area is estimated to be worth US\$3.4 billion a year, the largest such water re-use market in the world after the US and China.

Considerable investment is also going into improving distribution networks to reduce leakage. National Water Company CEO, Loay Al-Musallam says a robust programme to improve and develop the water and wastewater services in major cities in the Kingdom is underway, with a budget of US\$5.3 billion. He says that US\$30 billion of investment will be needed in the water sector up to 2016.

Water and sewerage systems built hastily in the 1970s following the country's first oil boom by contractors making the lowest bids are now crumbling. These systems also do not have the capacity to meet the ever growing demand for wastewater treatment and for drinking water.

Around US\$3.2 billion is being invested in wastewater and flood and other water-related infrastructure in Jeddah by the city's municipality and the National Water Company. Jeddah is one the Kingdom's biggest major urban centres and home to 3.5 million residents but is a city that

has developed without a comprehensive sewerage network. It also lacks defences against any sudden flash flooding, such as occurred in 2009 when more than 100 people were killed.

Only 45% of the Saudi urban population is thought to have access to a mains sewerage system and an estimated US\$16 billion alone needs to be spent on improving the Kingdom's sewerage and wastewater systems.

A number of British-based companies are working on quick-fix programmes. AECOM UK, for example, is working as a consultant on projects in Jeddah. Vinci UK, in joint venture with the local Al Muhaidh Contracting Company has US\$170 million of contracts from the Saudi National Water Company to build a reservoir and treated effluent lifting station in Jeddah.

Business opportunities exist for development and operation of schemes for potable water and wastewater treatment, as well as engineering and design consultancy and project financing advice.

In addition, there are openings for suppliers of machinery and technology, especially reverse osmosis techniques, metering and pumping. The programme includes new reservoirs, pipelines, new pumping and lifting stations, household water and sewage services, as well as rehabilitation of existing facilities.

Saudi Arabia's water authorities are keen to attract private sector expertise to drive the much needed expansion of capacity in water supply and wastewater treatment.

This reflects the urgency of the Kingdom's water supply challenges and increasing evidence of the fragility of its water and wastewater infrastructure that has necessitated an overhaul of the water sector. This led to the setting up of the National Water Company four years

ago, with a remit of establishing joint ventures with both local and international companies.

SWCC plans to convert to a holding company before introducing private sector participation in subsidiaries adopting the Independent Water & Power Project (IWCC) model. Jubail already has the largest privatised desalination plant in the world, owned by Marafiq Power and Utility Company.

Revenues will be secured as a result of long term contracts with the user group buying the water. Eventually all of the Kingdom's 36 seawater desalination plants are to be run as IWPPs, with investors acquiring the existing and planned facilities to develop them as build-own-operate (BOO) or build-operate-transfer (BOT) ventures.

The National Water Company intends to manage water service provision but allow the private sector to be the provider of water services, with BOO and BOT contracts being the preferred options. International companies or consortia are expected to be offered performance-based management contracts.

As a result, local consultants and contractors are seeking to work with international companies able to provide contractual, legal and other services. In addition, providers of technologies and products are being expressed for significant renewal programmes and expansion projects.

Worries over water shortage in Saudi Arabia have been expressed for a very long time but many experts now believe that the crunch time is finally approaching, given rapid population increases and the pace of economic development witnessed over the last decade. A competent strategy to tackle water security from both the supply and demand side, is regarded as vital in ensuring that the rapid economic development that has defined the region in previous decades, continues in years to come. ■

For environmental management BeeA'h means business

The National Environmental Preservation Company (BeeA'h) is a Saudi limited liability company established in 1988 to promote best environmental management practices in the Kingdom and to manage the industrial and hazardous wastes of Saudi industry in a safe and compliant manner.

BeeA'h operates the only licenced facility of its kind in the Middle East for the treatment and controlled disposal of the complete range of hazardous and industrial waste. Its facilities include chemical, physical, phase separation plants together with lined chemical landfill cells for solid wastes and solar evaporation ponds for aqueous waste. BeeA'h is the only Company operating two hazardous waste incineration plants for destruction of hazardous organic wastes.

The Company also offers environmental monitoring and engineering services and well equipped Environmental Testing Laboratories for the analysis of an extensive range of determinands in all sample matrices.

To date, BeeA'h has treated and disposed more than 1,000,000 tonnes of industrial and hazardous waste in compliance with Royal Commission Environmental Regulations and USA-EPA Regulations and (Saudi) General Presidency for Meteorology and Environmental Protection guidelines.

BeeA'h boasts a client list of more than 500 companies which includes all major industries in Saudi Arabia including Saudi Aramco, Saudi Aramco Shell (Sasref), all SABIC Affiliates, S-Chem, SATORP, Sahara Petrochemicals, Tasnee, Advanced Petrochemicals, Sipchem, Marafiq, Ma'aden etc., together with Government ministries, agencies and departments plus a host of secondary and support industries.

BeeA'h offers industry professional and technically advanced environmental management services to enable clients to meet their varying environmental challenges. All the services provided are in strict compliance with prevailing regulations and best international practice and are undertaken to the highest ethical standards.

BeeA'h provides "cradle to grave" waste management solutions, employing robust systems and procedures and a unique Waste Management Information System. These proven systems enable BeeA'h to track and control the waste treatment and disposal processes and provide waste generators and Regulators with management information reports to ensure transparency in all its activities, while maintaining proprietary and commercial confidentiality.

BeeA'h welcomes the opportunity to work with British engineering, design and environmental consultants and project managers,



developers, financial institutions, equipment manufactures and suppliers to develop and promote the joint business interests and capitalise on the opportunities presented by the continuing industrial development in Saudi Arabia.

BeeA'h Analytical Testing Services

BeeA'h Environmental Testing laboratories were originally established to support the activities of the BeeA'h Waste Management Division. While the laboratories continue to undertake waste characterisation, fingerprint analysis, treatability studies and research and development projects that underpin efficient and effective waste management operations, they have evolved to satisfy industry demands for rapid and quality assured environmental analytical testing.

The laboratories now provide analytical services for an increasing range of determinands at progressively lower levels of detection across a range of matrices. They also meet the needs of the BeeA'h Environmental Engineering Division by supporting water, wastewater,

contaminated land and air emission projects, with rapid data generation essential for environmental monitoring and consultancy projects.

These laboratories have benefited from substantial capital investment in the latest analytical instrumentation to achieve lower levels of detection for an even wider range of determinands. Sophisticated data handling, AQC and reporting tools and the highly selective recruitment of qualified staff ensures that BeeA'h Analytical Testing Services provide rapid and quality assured analytical data to industry at attractive rates.

Rigorous Quality Control and the use of internationally accepted test methods provides clients with assurance of data precision and accuracy and supports laboratory integrity as part of SASO and ISO accreditation. At the same time, effective laboratory information systems and management procedures ensures the rapid communication of results (and interpretation if required) to support client decision making.

The environmental regulatory regime in Saudi Arabia reflects US - EPA regulations and analytical testing is undertaken in compliance with these requirements. Analytical testing is undertaken to meet client demand and therefore alternative test methods may be employed to demonstrate compliance with other regulations such as UK DWI drinking water requirements, EU Directives for environmental protection, UK EA CLEA Model and TOX and SGV reporting for contaminated land and relevant air emission regulations, where these are more demanding than local regulations require.

BeeA'h Analytical Testing Services has an extensive client base within Saudi Arabia and also neighbouring Gulf States, which includes Saudi Aramco, SABIC industries, BAPCO (Bahrain), KBR, Dames & Moore, Ciba-Geigy, Halliburton, Bechtel, WorleyParsons, Saudi military and US military, SWCC, Marafiq etc.

“BeeA'h has helped a range of companies to achieve improved levels of environmental compliance and introduced cost saving initiatives which achieve environmental requirements and significant reductions in operating costs”.

BeeA'h is keen to work with environmental consultants, project managers, scientific instrumentation and consumable suppliers, other analytical testing laboratories and industries requiring reliable analytical data for management decision making.

BeeA'h Environmental Engineering Services

A critical element of compliance with current environmental regulations is the assessment of current environmental conditions and the resultant impact of new industry or changes in operations on environmental quality.

BeeA'h Environmental Engineering Services works with developers, project engineers, operational management, local environmental specialists and regulatory agencies to provide efficient, cost effective and sustainable solutions to minimise the impact of industrial development in order to maintain or improve environmental quality.

BeeA'h offers environmental consultancy services, often in conjunction with specialist overseas consultancies, to satisfy current environmental regulations for Environmental Impact Assessment reporting, operational improvements to minimize environmental impact, environmental strategy development, training and education and to undertake bespoke assignments into specific environmental issues.

BeeA'h provides environmental monitoring services for water, wastewater, soil, seawater, noise and industrial emissions, including

stack testing and fugitive emission monitoring. Associated analytical work is undertaken by BeeA'h Analytical Testing Services, enabling the Company to provide a comprehensive range of skills geared to developing innovative solutions for the most complex or demanding environmental challenges.

BeeA'h has helped a range of companies to achieve improved levels of environmental compliance and introduced cost saving initiatives which achieve environmental requirements and significant reductions in operating costs. By way of example, BeeA'h was instrumental in providing a Predictive Emission Monitoring System to replace conventional Continuous Emission Monitoring to the satisfaction of the Regulators, whilst improving emission control and reducing costs.

BeeA'h offers fully equipped teams to undertake compliance monitoring projects to satisfy regulatory requirement and multi-skilled teams drawing upon individual specialisms to bring a balanced perspective to complex environmental issues.

BeeA'h is keen to work with developers, project managers, engineering and scientific consultancies and operational process managers and with instruments suppliers on both long term programmes and specific project assignments to capitalise on the increasing demand for environmental services. ■



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Major development of mineral wealth

Saudi Arabia is pressing ahead with a series of projects designed to exploit its mineral wealth and develop world scale mining operations to tap huge deposits of precious and industrial minerals, ranging from gold to gypsum. More than US\$25 billion is being invested in plants to process industrial ores and in new mining ventures.

As a result the mining sector is poised for significant growth in the next few years, with a growing role for the private sector, whose participation is seen by the Government as an essential means of optimising output and developing related downstream industries.

The projects are part of a strategy that will see the mining and processing of solid minerals become a new pillar of the country's economy, alongside oil and petrochemicals. The Kingdom has already become the Middle East's largest gold producer.

At the heart of this largely untapped wealth lies the vast belt of mineral rock contained in the Arabian Shield. This extensive geological feature covers an area of more than 650,000 square kilometres along the entire Red Sea coast and contains substantial deposits of precious and non-precious metals and other minerals. Towards the Gulf side of the Kingdom a further resource of industrial minerals has been identified, including huge deposits of phosphates and bauxite.

Although the mountain range and valleys have a rich history of gold mining spanning 3,000 years, it is only in the last few years of soaring global mineral prices that investors have become interested in more than just the precious metals that this area contains.

Saudi Arabia is well placed to meet many of the region's mineral demands, with reserves of iron, zinc, copper and gold along with granite, limestone and dolomite.

"The discovery of new mineral resources can lead to the creation of entirely new industries" according to the Saudi Geological Survey, which is charged with mapping and identifying mineral reserves across the Kingdom. "Our phosphate deposits, for example, have the potential to make Saudi Arabia one of the top five global producers of phosphate".

While the State controlled Saudi Arabian Mining Company (Ma'aden) is the prime mover in developing the country's solid minerals potential, the door is open for other mining companies to take advantage of the significant opportunities that exist.

In 2004, the Government introduced a progressive legal regime to encourage investors with a revised Mining Investment Code and



Mineral Resources Executive Regulation. Among other things these measures streamlined procedures, set up a more competitive tender selection process and introduced incentives for investors.

Total Saudi investments in the mining sector have reached some US\$50 billion, with 1,700 exploration licences so far awarded, covering an area of 73,000 square kilometres, according to Minister for Petroleum and Mineral Resources, HE Ali bin Ibrahim Al-Naimi.

Most licences are for extraction of building materials, such as calcium and gypsum used for cement production, as well as for marble and other ornamental stones.

However, 63 licences are for exploration of precious minerals and 79 for industrial ores. Among the latter is the UK's London Mining, which recently upgraded a bank feasibility study for its Wadi Sawawin project. It is hopeful that its planned US\$1.9 billion venture, in partnership with the Saudi Arabian Mining Company, will progress as a result.

The project aims to produce five million tonnes a year of ore and metal pellets for Saudi steel plants. London Mining's CEO, Graeme Hossie, describes the project as "a substantial economic opportunity and of significant importance to steelmaking in the region".

A great deal of engineering expertise, as well as financial help, is required to bring such ambitious long term and capital intensive mining projects to fruition. Combined with its strategy, Saudi Arabia's fast developing minerals industry is opening up, increasing business for manufacturers and engineers.

Saudi Arabia's mining development has many attractions, not least in the Government's support to investors through low cost energy for processing and ongoing development of transport infrastructure.

In view of the Kingdom's strategy to integrate mining ventures with downstream value added processing, a growing range of opportunities are likely to open up to companies and organisations able to provide relevant technology, equipment and expertise. There is a particular requirement for environmental protection techniques and consultancy as well as training and skills to fill supply chain gaps across the mining lifecycle.

Many new ventures involving private sector investors are steadily taking shape. Al Masane Al Khobra Company is due to start production in Saudi Arabia of 700,000 tonnes a year of zinc, gold, copper and silver from a mine in Najran province, located 640 kilometres southeast of Jeddah.

Ore will be taken by road, 414 kilometres to Jazan on the Red Sea for shipment, initially to smelters and refineries in Europe and the Far East. Eventually the zinc will be processed at facilities to be developed in Yanbu.

Australia's Perth-based Alara Resources signed a joint venture with Saudi Arabia's United Arabian Mining Company (MANAJEM) in October 2012, to draw up a feasibility study for a zinc and copper project at Khnauiguiyah and adjacent sites at Mutiyah and Umm Hijja.

The venture, located 200 kilometres west of Riyadh, is one of the most advanced base metals project in Saudi Arabia. A feasibility study undertaken by MANAJEM targets production of 55,000 tonnes of zinc a year over a ten year period, using open pit mining methods.

Ma'aden is looking to exploit magnesite deposits at Zarghat, 700 kilometres northeast of Jeddah. The raw material will be processed at a calcining and fusion plant to be built on the Red Sea to produce 20,000 tonnes a year of electro-fused magnesia, which is used to line furnaces.

The company has already begun initial production of caustic calcined magnesia at its processing plant in a manufacturing complex, 17 kilometres southwest of Medina. The plant uses ore produced from the Al Ghazalah mine, 350 kilometres northeast of Ha'il.

There seem no limits to mining ambitions. At the end of 2012, Saudi and Sudanese officials unveiled plans that analysts believe are

feasible, to start extracting gold, copper, silver and other minerals from the bottom of the Red Sea.

Canada's Vancouver-based Diamond Fields International says it expects to start mining in 2014 in a sea area, 2,000 metres deep, 115 kilometres west of Jeddah. The area is thought to contain up to 150 tonnes of gold and one million tonnes of copper. A great deal of advanced technology will need to be applied to develop such a project.

On land, remote locations and limited availability of water supplies are constraints to be overcome but also provide opportunities for innovative solutions.

Gold continues to attract investors. Ma'aden has produced more than four million ounces of gold in the last 25 years valued at around US\$7 billion, with its highest production level of 203,665 ounces reached in 2005. The company, which operates five mines, is contemplating developing several more in the Kingdom. New mines are expected to raise production to 400,000 ounces a year by 2015.

However, it is two massive mining and processing projects in northern Saudi Arabia and on the Gulf coast that will define the Kingdom's growing credentials as a global force in the extraction and marketing of industrial raw materials.

Ma'aden's US\$16 billion investment strategy, backed by the Public Investment Fund and Saudi Industrial Development Fund, is designed to play a major role in the diversification of Saudi Arabia's hydrocarbon based economy.

A key element features Ma'aden Phosphate Company (MPC), a joint venture with SABIC, which is developing a world class phosphate deposit at Al Jalamid in northern Saudi Arabia.

“There is a growing breadth to the Kingdom’s commodity focus and, apart from gold; magnesia, bauxite, phosphate and many others await exploitation”.

Phosphate rock is already being transported by the new north-south railway to Ras Al Khair, a purpose built industrial city on the Arabian Gulf coast. Once there, the ore is processed into diammonium phosphate (DAP), a key component of fertilisers.

At full capacity, three million tonnes a year of granular DAP, representing 10% of global demand, will be produced. The plant will also produce 400,000 tonnes of excess ammonia and 200,000 tonnes of sulphuric acid.

Ma’aden signed a further mining contract in December 2012 with Fluor Corporation of the US, for development of an additional mining project at Umm Waal, 40 kilometres northeast of Turaif. A feasibility study is underway which could see an open pit mine and beneficiation plant developed to produce 1.5 million tonnes a year of phosphate concentrate.

In three years time, Ma’aden will bring another major mining venture on stream at Az Zabirah near the town of Qiba, 180 kilometres north of Buraidah. Production of four million tonnes a year of bauxite for about 30 years is envisaged from the mine now under development.

The bauxite will be transported by train from the north to Ras Al Zour, 90 kilometres north of Jubail, where an alumina refinery, aluminium smelter, rolling mill and related infrastructure, including a 2,400MW power and combined desalination plant, are under construction.

As well as phosphate and aluminium plants at Ras Al Khair, these downstream industries will also include an industrial zone in the north, close to where the mines are located.

There is a growing breadth to the Kingdom’s commodity focus and, apart from gold; magnesia, bauxite, phosphate and many others await exploitation.

In the late 1970s and early 1980s, France’s Bureau de Recherches Geologiques et Minieres (BRGM) identified some 6,000 prospects and mineral occurrences throughout Saudi Arabia.

These potential deposits are the focus of nationwide exploration and development to create a 21st century mining industry. This strategy will need the full participation of foreign partners to realise the sector’s limitless potential. ■

New rail lines herald Saudi transport revolution

A railway revolution is taking place in Saudi Arabia, as a Kingdom which has historically relied on road transport embarks on a huge programme of railway construction that is expected to see a 10,000 kilometre network built over the next 30 years.

One hundred years after abandonment of the famous Hejaz railway, which connected Damascus with Medina in an epic nineteenth century engineering feat, new long distance rail links will eventually connect all major centres in the Kingdom.

Since the 1970s, almost 60,000 kilometres of new highways have been built, and another 19,000 kilometres of roads upgraded. However, the pace of industrial development, economic diversification and development of new cities has led to a big rethink on the Kingdom's reliance on road transport.

This new era of multibillion dollar spending on rail got off to a spectacular start in 2011, with completion of a 2,400 kilometre route connecting the north with the Arabian Gulf.

Built principally for the transport of mineral ores and due to be fully operational in July 2013, the route runs south from Al-Jalamid's phosphate mines to Al Jouf and then southeast through Ha'il in a northern direction to the Kingdom's Al Qasim province. It then passes Az Zabirah, where a bauxite mine is being developed and continues to Ras Al Khair on the Gulf.

Use of this new route will not be confined to heavy freight trains, with passenger services due to begin within the next three years. Saudi

Arabia's Finance Minister, HE Dr. Ibrahim Al-Assaf says the new line is of vital importance for development of the Kingdom's economy and has signed contracts valued at US\$419 million with Riyadh-based Al-Rashid Trading and Contracting Company for construction of passenger stations at Al-Majma'ah, Al Qasim, Ha'il, Al Jouf and Qurayyat, all of which are due to be completed with the next two years.

Further expansion of the route will see the line extended from a junction in north Al Qasim, southeast through the central Najd desert to Sudair, to terminate at a new station designed to serve Riyadh's King Khaled International Airport. In addition, a 115 kilometre link is planned south from Ras Al Khair to Jubail Industrial City and onwards to the Gulf coast port of Dammam.

While Saudi Arabia covers an area the size of Western Europe, until recently it had just one rail connection. This freight link between Dammam and Riyadh, dates back to the 1960s and was complemented in 1985 by a separate and dedicated route for passenger trains between the two cities.

Since completion of that passenger route almost 30 years ago, Saudi rail investment has ground to a halt as the focus of transportation spending remained on highway development. However, an expanding population and industrialisation needs, means that road haulage is no longer seen by the Government as an adequate option, even with minimal petrol and diesel prices.

After a period of considerable prevarication over several decades, there is now a firm Government commitment to deliver long awaited rail



projects. Private investment has proved elusive but rising oil revenue surpluses have prompted the Ministry of Finance's Public Investment Fund (PIF) to fund these national strategic investments.

Besides the North-South, Al-Jalamid to Ras Al Khair route, another major rail development is the Haramain high-speed rail transport system, which will assist the passage of Muslim visitors arriving on pilgrimage, linking Medina, Mecca and Jeddah via King Abdullah Economic City. Civil works for this high priority venture are well underway, and due to be completed in 2013, with a fleet of 36 high speed locomotives ordered to operate services on the 444 kilometre route.

Numerous significant contract awards have been made for this project, including two for the UK's Invensys, worth a total of US\$670 million, for the supply of signalling, train control systems and maintenance over a 12 year period.

A third major rail project in Saudi Arabia is also underway, nearly a decade after it was first proposed. This is an east-west Landbridge railway line linking Jeddah with Riyadh, which was approved by Saudi Arabia's Council of Ministers in October 2011. In early 2013, a contract was signed by the PIF with Fluor to manage construction of this US\$7 billion project.

The Landbridge project is designed to connect Saudi Arabia's largest ports in Jeddah and Dammam, opening up a new era in regional and global maritime trade. By shortening the time taken to transfer containers between the Gulf and Red Sea to 18 hours, compared to a sea voyage around the Arabian peninsula of five to seven days, there could be huge savings if vessels are able to unload cargoes bound for the Gulf in Jeddah.

Transport Minister, HE Jabara Al-Seraisy, says that this project, together with the North-South line and Haramain railway "will have a big impact on the social and economic development of the country".

The three major rail projects are hugely ambitious and pose considerable engineering and management challenges, including a shortage of qualified local contractors and questions of finance. Another challenge is the remote desert terrain where track has to cross vast areas susceptible to shifting sands.

The Technical and Vocational Training Corporation is establishing programmes and courses to instruct Saudi trainees in maintenance, control systems, locomotives, rolling stock, welding and other technical areas. The training area is likely to become a critical feature of future development, providing extensive opportunities for those able to provide courses and tuition in the Kingdom and outside.

This trio of rail projects now underway represents an increase of 5,000 kilometres in the size of the rail network but that is only half of the growth story. A 30 year Saudi rail masterplan, prepared by Germany's GTZ and Dornier in conjunction with the local consultant Fayez Zuhair, envisages further phases.

“The Landbridge project is designed to connect Saudi Arabia’s largest ports in Jeddah and Dammam, opening up a new era in regional and global maritime trade”.

Subsequent developments would add a further 3,000 kilometres between 2026 and 2033 with a possible additional 1,400 kilometres added between 2034 and 2040. These include a link from Riyadh with Al-Haditha on the border with Jordan, a 700 kilometre line connecting Taif, Khamis Mushayt and Abha with the planned Landbridge line between Jeddah and Dammam, and a 600 kilometre route from Jazan via Jeddah to Yanbu.

Other potential rail schemes include a link to Bahrain, via a new causeway between the two Gulf states and cross-border connections with other GCC neighbours, in an eventual regional network

Within major Saudi Arabian cities, rail is also being seen as a solution to mounting congestion problems, with a trio of major schemes being developed. Mecca Municipality is pushing ahead with plans to develop a new urban mass transit system for the fast growing city, which is the focal point for millions of Hajj and Umrah pilgrims every year.

The project envisages four lines stretching 113 kilometres around Mecca city centre, to include 24 stations. One line will be built underground and inter-connect with a recently constructed light railway, serving the holy shrines of Arafat, Muzdalifah and Mina.

Jeddah is expected to go ahead with a substantial metro project in 2013, linking the city’s main areas, including the international airport, while Riyadh Development Authority is also progressing with plans to develop a metro system for the capital. Four groups comprising more than 30 companies from 15 countries have qualified in a final bidding stage to build a 125 kilometre network, which will serve residential and business areas, including Riyadh’s new financial district and the international airport.

In such a wide ranging and expansive programme of railway development, Saudi Arabia has the opportunity to drive forward the Kingdom’s key aim of economic diversification and development of new industries. National Commercial Bank estimates railway projects valued at around US\$25 billion could be awarded in the next two years alone.

It is clear that the next decade will see the creation of a huge new transport industry in Saudi Arabia, offering employment to Saudis, as well as huge commercial opportunities to international companies that are able to provide the high level of expertise needed to develop and operate the new railway network, that will revolutionise the Kingdom’s transportation. ■

Air traffic growth fuels major airport expansion programme

Air travel is vital to the social and economic needs of Saudi Arabia, given the Kingdom's huge size - which is more than 2.25 million square kilometres of mountainous and desert terrain - and the scattering of its population. However, the Kingdom's ageing aviation infrastructure is struggling to cope with steadily increasing numbers of flights and passengers.

More than 53 million passengers travelled through the Kingdom's airports in 2011 and 950,000 flights were logged. Passenger numbers were up 13.5% on the previous year, while the total of around 642,000 tonnes of air freight passing through the country's airports in 2011 represented a 13% increase on 2010.

Recognising that services and airports have failed to keep pace with these developments, the Government is now turning to private sector investors in the aviation industry to make the sector more competitive. The strategy also seeks to improve capacity and open up services to previously unconnected parts of the Kingdom by building more airports and expanding existing facilities.

Airports throughout the Kingdom need expansion and development to accommodate more passengers and the opening up of the Saudi

aviation market to new carriers. Until recently, the national carrier, Saudi Arabian Airlines only had Nasair, a small low-cost carrier, to compete with.

The General Authority of Civil Aviation (GACA) has now licenced Qatar Airways and Gulf Air to provide both international and domestic services from airports in the Kingdom. Other foreign owned airlines are likely to be awarded licences in future, although they will need to establish and operate from a Saudi domestic base.

This liberalisation of the aviation market and steady growth in passenger numbers and cargo volumes will require a big expansion of existing airports. At present, the Kingdom has four international airports: King Fahd Airport in Dammam, King Abdulaziz Airport in Jeddah, King Khaled Airport in Riyadh and Prince Mohammed Bin Abdulaziz Airport in Medina.

In addition, there are seven regional airports at Abha, Buraidah, Jizan, Ha'il, Tabuk, Taif and Yanbu. There are also 15 domestic airports serving communities at Al Bahah, Al-Hofuf, Al Jouf, Al Wajh, Arar, Bisha, Dwadmi, Qurayyat, Hafar Al-Batin, Najran, Qaisumah, Rafha, Sharurah, Turaif and Wadi Al Dawasir.



The regional airport at Taif dates from 1955 and was one of the first built in the Kingdom. It and many others are now showing signs of their age and upgrades are scheduled at Al Wajh, Arar, Qurayyat, Al Qasim, Ha'il, Najran, as well as Taif. More than 30 major airport-related projects were underway in the Kingdom in 2011, at a cost of US\$667 million.

Through GACA, the Government is implementing longer term plans to spend up to US\$15 billion on building, developing and upgrading airports over the next seven years, involving the private sector as much as possible. There are also plans to establish a holding company for civil aviation to pave the way for an eventual privatisation of airports in Saudi Arabia and encourage them to become more efficient and competitive.

Meanwhile capital investment in the form of Government-backed Islamic (Sukuk) bonds continues. GACA has confirmed plans to build

three new airports in Jizan, Abha and Al Qasim, in line with a US\$10 billion development strategy to increase the number of domestic airports and improve air transportation across the country.

At Najran, for example, a new terminal and 20 other buildings are planned, along with extensive upgrades to the runway, airfield lighting and other infrastructure. A masterplan has also been completed by Netherlands Airport Consultants for raising capacity at Abha airport, while detailed design work has been completed by Jeddah-based Talal Adham Consultants for improvements to Arar airport.

Elsewhere, plans are underway to build a completely new airport 30 kilometres northeast of Taif, in order to ease pressure on Jeddah International and to help develop tourism in the city. Zuhair Fayez Partnership are working on detailed designs for this proposal.

The international airport at Medina will see its present capacity of 3.5 million passengers a year raised to 14 million. An entirely new terminal building is to be constructed and a second runway is also under consideration. The project is also the first in the Kingdom to be developed on a public private partnership (PPP) basis, involving Turkey's TAV Airports Holding and Saudi Oger.

The PPP formula is one that the Government is keen to pursue elsewhere. An expansion plan has been approved for Riyadh's King Khaled International Airport, which aims to increase handling capacity from 14 million to 25 million passengers a year.

Plans have been approved for the expansion and modernisation of Riyadh International Airport's three passenger terminals and the

renovation of the airport's fourth terminal. This will see handling capacity raised to 25 million passengers a year. Cargo facilities are also to be extensively developed.

GACA's preference is to assign a long term ground lease for management of the development and for the operation of the new terminal and other facilities.

A Memorandum of Understanding (MoU) has already been signed by GACA with Kuwait's Kharafi Group to develop the airport at Ha'il and extend its runway and terminal. The improvements centre around plans for the airport to provide a cargo and logistics hub to serve the new economic city planned for the region.

These new airports and wide ranging developments of existing facilities require design, construction and have wide ranging specialist equipment requirements, including control towers, telecoms, navigational and lighting needs, ground handling equipment, transport infrastructure as well as security.

The border authorities intend, for example, to introduce e-gate systems deploying biometric image and finger print technology initially at Riyadh's and Dammam international airports.

The largest development in Saudi Arabia is at Jeddah International Airport, where despite its three runways and three terminals, the airport facilities are barely able to cope with a fast rising volume both of passengers and air cargo.

Development plans are being implemented that will raise capacity from 17 million passengers a year to 30 million and eventually to 80 million passengers by 2035. The expanded airport will be one of the most modern in the region, with a series of interconnected terminal buildings, new commercial, logistics and cargo areas, transport infrastructure and support facilities.

The first phase also includes a railway station that will form part of the Haramain high-speed rail network connecting Jeddah with Mecca and Medina.

A new 670,000 square metre terminal, with 200 counters and the most modern luggage handling systems, is under construction. In addition, there will be 46 departure gates and 96 air-bridges able to serve all aircraft types including the Airbus 380. Saudi Binladin Group, Saudi Oger and South Africa's Murray & Roberts are the projects main contractors.

Improvements at Jeddah and other gateway international airports will also be accompanied by large scale commercial and retail developments, conference and exhibition centres, hotels and residential areas, designed to create airport cities.

UK firms are prominently involved with the Jeddah project, including Arup Associates, which is providing structural design for the new terminal and its 500 metre long roof. Atkins is supplying project engineering services and the consultant's Regional Director, Richard Barrett, comments "I don't think anywhere else in the world are there such huge capital programmes being envisaged and to be delivered than the ones in Saudi Arabia".

Atkins is also behind the long term masterplan for the new Medina airport and has developed designs for a new terminal to accommodate an expansion of domestic, international and Hajj flights for up to 18 million passengers initially a year and 30 million in subsequent phases. The scope of the work includes design of the terminal and access to it, layouts of the runway and approaches, as well as parking aprons.

All this is creating opportunities both for leading British companies, as well as small to medium size enterprises. London-based Areen Design,

“Improvements at Jeddah and other gateway international airports will also be accompanied by large scale commercial and retail developments, conference and exhibition centres, hotels and residential areas, designed to create airport cities”.

for example, is overseeing the design of the new Jeddah airport's passenger terminal, new airport railway station and a planned airport transit hotel.

Lakesmere is providing design, engineering and planning services for 300,000 square metres of aluminium roofing for the new Jeddah airport terminal, which represents one of the firm's biggest export contracts.

Other contracts awarded to British companies include one for Westminster Group, for equipment to scan people and their luggage, while Zoefftig & Company is supplying departure gate seating for Jeddah airport in a US\$500,000 contract.

In addition to the substantial upgrading and expansion of existing airports, two new international airports are also proposed, one at Rabigh to serve King Abdullah Economic City and another at Jazan to serve the new economic city under development there. Malaysia's

Veritas Design Group is working on plans for Jazan's terminal, which will accommodate three million passengers a year.

Many other airport expansion and improvement plans are also being implemented throughout the country, in line with the policy to improve access to air transportation for those living in more remote areas of the Kingdom

According to GACA President, Abdullah Rahaimy, these investments include a new airport to be built to serve Al Qunfudha in Makkah province, south of Jeddah. Another smaller airport was opened in 2011 at Al-Ula to provide tourist access to the historic site of Mada'in Saleh.

In total, the range of projects now underway or envisaged represent the Kingdom's largest ever airport development programme, which will generate significant business opportunities for international contractors and consultants for the next decade and beyond. ■

Retail expansion reflects rapid economic growth

Shopping is big business in Saudi Arabia, with total retail expenditure estimated at US\$68 billion in 2012. A young and growing population, with increasing disposable incomes to spend on luxury goods, is stimulating strong demand for an increasing range of goods which, until recently were only available outside the country.

This is the largest and fastest growing retail market in the Gulf region and accounts for around 17% of the Kingdom's total GDP. Research suggests the sector will be worth almost US\$74 billion by 2014, with management consultants describing Saudi retailing as a hot spot in the world's emerging markets.

An adoption of a more modern lifestyle by younger people, as well as rising incomes, is also changing the face of the retail industry in Saudi Arabia, with development of shopping malls and hypermarkets helping the sector to develop rapidly.

Growing liquidity and disposable income in the Kingdom is resulting from an expansionary fiscal policy and increased Government spending on social welfare. In particular, this has seen salary bonuses and cost of living allowances for public sector workers, who make up the majority of employed people in the Kingdom.

The high composition of young adults within the population has also been one of the sector's main drivers. This is reflected in increased

sales of consumer technology such as mobile phones and IT equipment, as well as fashion apparel, sports goods and furnishings.

Non-grocery retailing is estimated to amount to more than 50% of the retail sector. Sales of leisure and personal goods, followed by electronics and appliances, make up the main part of discretionary spending.

As the market has developed, there has been a shift towards branded items sold through international retail chains. Sales of such items are estimated to account for around 25% - 30% of total clothing sales. According to a report by management consultants AT Kearney, Saudi Arabia ranks fifth among global emerging markets for apparel retailing.

The opening of new shopping malls over the last few years, such as the Faisaliah and Kingdom malls in Riyadh, has increased access to a broad range of goods including imported and more upmarket items. Harvey Nichols was one of the Faisaliah centre's anchor tenants in 2000.

The store, which was designed by Foster & Partners, represented one of the first western fashion and lifestyle department stores in the Kingdom. The nature of the market, where a growing number of people follow the latest trends, makes Saudi Arabia a valuable target for British suppliers and brands.

Marks & Spencer (M&S) opened its first Saudi branch in the Riyadh Trade Centre in 2001. The company now has ten Saudi stores, operated in partnership with Fawaz Alhokair Group, one of the Kingdom's leading retailers. The latest M&S outlet was opened in 2012 in Riyadh's Hayat shopping mall. Other stores are located in Jeddah, Medina and Dhahran.

A number of other familiar UK brand names have become part of the Saudi shopping scene. These include Mothercare, Topshop and British Home Stores. The latter has 18 stores in 12 Saudi cities including Tabuk, Taif, Al Khobar, Al-Hofuf, Qatif and Jubail, as well as Mecca, Dammam and Jeddah.

Boots opened its first Saudi retail outlet in Jeddah's Mall of Arabia in 2010 and has since opened another ten stores, located in Riyadh, Medina, Dammam and Al-Hofuf. Vision Express has opened eight stores in the Kingdom since entering into an arrangement with the Kuwait-based regional franchiser, MH Alshaya, in 2007. The same franchiser also represents Boots.

Debenhams has ten stores in the Kingdom. The company opened its latest store and fifth outlet in Riyadh in the city's Al Othaim Mall in 2012, on a 3,800 square metre site. The store's franchise arrangement involves it being paid the cost of its products plus a margin, with royalty fees also received on sales of products from third party suppliers.

Tesco announced plans in 2012 to open 19 of its F&F fashion stores in the Kingdom, under a franchise deal also with the Fawaz Alhokair Group.

Middle Eastern traditions of commerce and its peoples' love of shopping combine to make the region's retail sector especially dynamic. Saudi Arabia is no exception, with the development



of hypermarkets and shopping malls driving strong retail growth in the Kingdom.

As the Kingdom's retail sector continues its rapid expansion, local companies such as the Fawaz Alhokair Group, a pioneer of international retail franchising in the Kingdom, are flourishing. Fawaz Alhokair, a business graduate of the UK's Loughborough University, started the business with his brothers in 1994. From just two small menswear stores, the business is now a diversified group with interests in real estate, construction, healthcare, hospitality and financial services.

Over the last ten years, Saudi Arabia has experienced a steady increase in development of sophisticated shopping malls”, says Chairman and Founder, Fawaz Alhokair, “since the launch of Sahara Plaza in 2002, the retail experience keeps rolling, now we have a network of 13 operational shopping malls, 12 of them in Saudi Arabia and one in Egypt. Rapidly and in less than a decade we have become the largest owner and operator of shopping malls in the Kingdom”.

Their early entry into the market nearly 20 years ago has proved a very profitable move. The Saudi fashion retail leader, which now manages M&S and other international brands in the Kingdom, reported nine month gross profits to the end of 2012 of US\$235 million, up 38.7% on the same period of 2011.

The company believes its strength lies in not only attracting established global brands to the Kingdom “but also in forming long lasting and mutually beneficial relationships based on trust, expertise and commitment”. CEO, Simon Marshall, says “our expansion strategy across brand acquisitions and new store introductions has allowed us to keep our offerings to customers up to date with the latest fashions”.

Major cities are experiencing the strongest sales increases, with Riyadh’s developments alone due to provide an additional 600,000 square metres of sales area by 2014, on top of the city’s current 2.3 million square metres of leasing space.

Over the years, the retail landscape in the region has transformed from traditional markets and small, independent outlets to large shopping malls, hypermarkets and organised retail chains. Malls are estimated

to now provide around 8.3 million square metres of shopping space in the Kingdom.

The new shopping areas are popular because the self-contained nature of the buildings provides respite from heat and humidity. The mall concept is also attractive to Saudis, not just because of the shopping opportunities they provide but also their role as meeting places for families.

The result is that shopping malls are steadily replacing the older supermarkets and souks throughout the Kingdom, attracting consumers to buy in more modern and stylish environments.

The number of hypermarkets has also risen significantly, with more than 50 now operating in Riyadh, Jeddah and Dammam. One of the largest owners, the Savola Group, is reported to have plans for 40 more hypermarkets, as well as 120 supermarkets.

Smaller malls are part of the trend with people in the suburbs of the main cities and communities elsewhere in the Kingdom are also wanting the convenience of mall shopping.

This is welcomed by retailers who can showcase upcoming fashion brands, home furnishings and promote other luxury items in comfortable, welcoming environments that also offer restaurants, cafes and meeting places. Retailers of high-end luxury clothing, footwear and electronic products are seeing the benefits with rising sales.

As a result of strong sales growth in Riyadh and Jeddah, the retail sector is being encouraged to expand to other areas of the country.

“Over the years, the retail landscape in the region has transformed from traditional markets and small, independent outlets to large shopping malls, hypermarkets and organised retail chains”.

Mecca and Medina, in particular, are due to see a substantial expansion of retail space.

Huge residential, hotel and retail developments are underway in both the Holy Cities, to accommodate rising visitor levels including the many millions arriving for pilgrimage reasons.

Jabal Omar Development Company has announced plans for a US\$5.3 billion development in Mecca, of 2.2 million square metres near the Grand Mosque. This will include the largest shopping centre yet built in Saudi Arabia when it is completed in 2017.

Retail sector growth throughout the country is phenomenal, with the Economist Intelligence Unit forecasting that the Saudi retail market will reach US\$132.2 billion by 2016, more than half of which will be non-food merchandise.

The fast moving Saudi retail sector is drawing in increasing investment from the region. Mall and hotel operator Majid Al Futtaim is among

those planning to extend its operations to Saudi Arabia. It is reported to have a five year development plan to deliver a new two million square metre shopping mall in Riyadh.

“We are always expanding and aim to double our portfolio over the next five to seven years”, says the Dubai-based conglomerate’s former CEO, Peter Walichnowski, “Saudi Arabia is probably the best destination at the moment for future expansion”, he adds, “we are looking at the main cities in the Kingdom and later the second tier cities”.

However, even with new developments underway or planned, retail space in the Kingdom remains at a premium. Operators are looking for brands and items that will prove attractive to a growing number of purchasers able and willing to purchase the best available.

Leading UK brands have already made an impact in the market but there is also room for many others to gain a foothold in the Gulf region’s biggest retail market. ■

Investment targets improve healthcare provision

Healthcare represents a huge and growing market in Saudi Arabia, where spending as a proportion of the total national budget has more than doubled in recent years. The Saudi Ministry of Health has allocated US\$100 billion to a five year healthcare programme, with the intention of drawing on international best-practice to help provide top class, universal healthcare to its population.

In this comprehensive programme, the UK is well positioned to support the Ministry, drawing on its NHS and private medical sector expertise.

Substantial strides have been made since the early 1980s when patients were routinely sent abroad for specialist treatments to the US and Europe. Local standards had improved sufficiently for this practice to end in 2006.

Today there are more than 400 operating hospitals and over 2,000 primary healthcare centres across the Kingdom. Around three million patients are admitted to the country's hospitals each year.

In spite of the improvement, the needs and expectations of a Saudi population that is living longer are growing. A range of chronic health problems have emerged. These pose an increasingly costly challenge and many more hospitals and specialist services are needed.

One dilemma is that while residents in the major cities can benefit from state-of-the-art medical facilities, these are mostly concentrated in a few centres such as Riyadh and Jeddah. As a result, the Government is now spending heavily to bring advanced healthcare to the rest of the country.

Other factors give urgency to this investment. By 2015, the Kingdom's population is predicted to reach 32 million, while expatriate numbers are expected to decrease. The significance of this demographic shift is the Saudis' predisposition to lifestyle diseases requiring increasingly complex treatments over the long term.

Although there has been a vast decrease in many communicable diseases, such as cholera, the country has developed other major health problems, especially diabetes, hypertension as well as additional problems related to obesity. Treatments for diabetes and cardiovascular diseases are expected to triple and quadruple respectively over the next 20 years.

Major challenges lie ahead in funding an expanding health service and in meeting clinical demands. Little more than a quarter of doctors in the Kingdom are nationals, while the percentage of Saudi nurses is even smaller; this means the country is largely dependent on foreign recruitment to staff its hospitals and clinics.



While these problems will take time to address, more than 130 hospitals are under construction, with a combined capacity of some 25,000 beds. Many of these projects are due to be completed within the next two to four years.

Another part of the Ministry of Health's reform programme involves increasing the number of primary healthcare centres and establishing them as the single point of access for all patients. This will create efficiency in the system by decreasing delays in public hospitals. Around 700 new primary healthcare centres are to be set up and existing facilities expanded. New medical schools at the Kingdom's universities are also to be established.

The 2013 National Budget provides allocations for an additional 18 new hospitals and healthcare centres, as well as continuing work at hospitals under construction. In addition, there is considerable focus on a US\$4.3 billion investment strategy to build five new medical cities. These

facilities are designed to improve access to specialist treatments, particularly for those in rural areas who currently have to travel to Jeddah, Dhahran or the capital to access specialised treatment.

The Ministry of Interior has been charged with the development of the medical cities designed to extend tertiary healthcare around the Kingdom. The King Faisal Medical City, for example, is designed to serve the southern province and will have a 1,350 bed capacity. The Prince Mohammed bin Abdulaziz Medical City will have a 1,000 beds and serve the northern region.

The 1,500 bed King Khaled Medical City is to be built near Dammam, while King Abdullah Medical City will be developed near Mecca and will comprise three hospitals and ten medical centres, with a total of 1,350 beds. A new 500 bed medical city will also be built in Al Jouf in the northwest and the existing King Fahd Medical City in Riyadh is to be expanded.

The Interior Ministry has also awarded a contract for a new medical complex in Riyadh, which will include three hospitals and associated medical and residential facilities.

A big task will be to ensure that the new hospitals, medical cities and health centres have the right personnel in place when they are commissioned. There is an ambitious target to double the total number of nurses to more than 130,000 and increase the number of doctors to more than 66,000, a near 50% increase. A large number of nurses are presently recruited from the Philippines, Malaysia and Indian subcontinent.

A UK/Saudi MoU on healthcare cooperation signed in 2011, envisages cooperation in training, as well as hospital management and operation,

renovation and buildings, recruitment, extension of pharmaceutical industries and research.

The training aspect involves placing Saudi postgraduate medical personnel in British training hospitals and establishing clinical partnerships between UK and Saudi institutions.

A high level private sector health delegation visited Riyadh in 2012 that included delegates from Imperial, King's College, Birmingham and Moorfields hospitals and the London School of Tropical Medicine. King's has signed a contract with King Fahd Medical City, while Bucks New University has been accredited for the training of Saudi nurses.

There is further potential for training those involved in primary care, including therapists and other allied health professionals. There is also scope for support for specialist units. There is demand for the design and construction of "smarter" hospitals, focusing on digital technologies to integrate departmental and service delivery.

Areas where UKTI sees the greatest opportunities for British companies are in the commissioning of facilities and clinical services, design and construction of smart hospitals and health centres, equipping of health centres, ICT, facilities management and delivery of clinical services in addition to training.

Development of coronary, geriatric and diabetic care and treatment capability are seen as particular needs. The provision of drugs is also growing and the Kingdom is seeking to expand local pharmaceuticals manufacturing capacity.

Across the spectrum of healthcare development, the Ministry of Health is the principal government agency for provision of services but does not have a monopoly and the needs for other healthcare providers are growing.

The Ministry of Defence and Aviation, Saudi Arabian National Guard and Ministry of Interior also provide primary, secondary and tertiary medical services to the security services and armed forces and their families. The

Interior Ministry, rather than Health Ministry, has been given responsibility for development of the Kingdom's five new medical cities.

The Education Ministry also provides primary healthcare for students, while the Ministry of Labour and Social Affairs operates institutions for the mentally ill as well as the country's orphanages.

The Royal Commission for Jubail and Yanbu provides medical facilities for employees in the two industrial cities, while State enterprises such as Saudi Arabian Airlines and Saudi Aramco operate their own staff healthcare facilities. These enterprises seek high quality management services for their extensive healthcare programmes.

The private sector is also expanding medical facilities and 50 new hospitals are planned. Private health provision has been stimulated by the introduction of the Cooperative Health Insurance Act in 2005. This introduced mandatory health insurance for all those working in the private sector, whether Saudi nationals or expatriates.

Rapid development of private healthcare insurance has been accompanied by an increasing involvement of private groups in healthcare provision. This process is encouraged by the Government which recognises that 100% state provision will not be sustainable in the long term, given other demands on national finances.

Saudi Arabia is undergoing considerable changes in the way it provides healthcare. A growing number of the country's 28 million population is being brought into a private insurance system, as the state seeks to reduce its role as the sole supplier of health services in the Kingdom.

At present private sector spending on healthcare provision accounts for 25% of the total in Saudi Arabia, compared to 55% in the US and 76% in India. The goal is to create a stronger institutional set-up and effective regulatory framework to promote greater private sector investment.

This will open up further opportunities for providers of design and planning, construction companies, suppliers of equipment and training, in a sector with substantial budgets and with requirements that are growing more complex and value added. ■

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Education spending rises to meet needs of youthful population

Since 2007, Saudi Government spending on educational development has risen more than threefold, in line with the priority being given to provide young Saudis with the skills they need to become a productive element in the economy.

Every aspect of Saudi Arabia's society and culture is being openly debated, according to Prince Turki bin Faisal Al Saud, Chairman of the Centre for Research and Islamic Studies. This is in recognition that a comprehensive, modern and open educational system, including a new and revised curriculum, is fundamental to the Kingdom's growth and prosperity.

The 2013 National Budget allocation for education has risen 21% over 2012 and provides US\$54 billion for the public education sector, higher education, manpower training and for improving the education environment. This will include the establishment of new schools and training centres, universities and specialised colleges.

Saudi Arabia accounts for the largest amount of students in the region and is now the biggest market for education services in the Gulf. The UK is well placed to gain business in this fast expanding area.

Many of the Kingdom's senior business leaders have attended universities in Britain, which currently hosts around 20,000 Saudi students.

The education budget covers building 4,000 new schools, training institutes and expanding universities. Overcoming a shortage of qualified personnel will be harder and innovative solutions are called for. An increasing use of technology in the classroom is seen as a key way to mitigate the shortage of skilled teachers, both in public and private education.

There are prospects for supply of educational equipment, information and computer technologies, vocational and business training and development of digital solutions, to provide distance learning and create "smart" classrooms. In addition, there are openings for collaboration at university level to promote first class teaching at Saudi institutions.

Educational needs at all levels are urgent and account for the increasing budget allocations. One of the biggest challenges for the Kingdom is that 80% of its citizens are now under 40 years of age and

35% are below 15 years old. Much improved education at all levels is required to prepare this youthful population to enter the jobs market with adequate qualifications to avoid becoming a burden on society.

Determined efforts are being made to make Saudis more employable, to replace part of the estimated eight million foreign workers in the Kingdom. The Government's ambitious strategy is to create six million jobs for Saudi nationals by 2030.

There is a very high level of unemployment among those aged 20-24. In the past the State has provided a large number of jobs, though not always productive ones, in the public sector. However, bureaucracy is being steadily overhauled, with the result that State jobs are likely to become fewer, as the private sector increasingly becomes the main driver of economic activity.

Even when Saudi Arabia's new economic cities are completed, 80% of employees are likely to be foreign, although the long term plan is to reduce this number to just 30%, says Fahd Al-Rasheed, CEO of King Abdullah Economic City.

In a recent study, the World Economic Forum said "ensuring that highly qualified Saudi workers with relevant skill sets are available in an innovative economy is crucial to the country, in reducing national unemployment and the economy's current reliance on foreign labour".

This radical change calls for dramatic improvements in the education system. An immediate focus is educating young Saudis to fill jobs which are currently held by expatriates. The aim is to do this by



importing foreign education expertise to the Kingdom, as well as sending Saudi students abroad for higher education.

The Kingdom's present system is being radically overhauled. Traditionally there has been a heavy emphasis on Arabic and Islamic studies at all levels of the educational system. Employers are pressing for a greater emphasis on mathematics, foreign languages, the humanities, natural sciences and computer skills.

One problem has been the coordination of various initiatives from different parts of the educational hierarchy. In September 2012, the Council of Ministers agreed to create the General Education Evaluation Authority (GEEA).

GEEA is managed by a board comprising representatives from the national education establishment, including the Ministries of Education and of Higher Education, as well as the General Organisation for Technical and Vocational Training.

The new body operates outside the control of the Ministry of Education and has been authorised to evaluate the performance of around five million students in the country's 33,000 schools and colleges. In particular, GEEA has been charged with introducing a new set of standards and testing at each grade level. Private sector expertise is to be used to carry out this strategy.

Since the Authority reports directly to the Supreme Committee for Educational Policy, this should mean decision making and implementation of policy is considerably more efficient than in the past.

Reforms are also being implemented through the King Abdullah bin Abdulaziz Public Education Development Project (Tatweer), that has been set up to improve the quality of education. The four year US\$4.4 billion programme aims to decentralise power in the education system and introduce new teacher training programmes. Creation of new "smart" schools equipped with digital technologies is also seen as a means to achieve enhanced standards.

Workplace training is a further area of development with Saudi Aramco and other major public, as well as private sector companies, expanding vocational training programmes from shop floor to executive level.

In-house training is likely to develop rapidly, given pressures on companies to reduce their expatriate payrolls. A procedure known as

the Niteqat scheme has been introduced to give incentives to companies employing an increasing proportion of Saudis but also penalises those failing to recruit sufficient numbers of nationals. Companies offering to train Saudis in the workplace can receive help paying up to half their salaries from the Human Resource Development Fund.

Training methods will need to be effective in order to supply a workforce with the necessary competencies to work productively. Areas affected most by a lack of locally available skills include the financial sector, information technology and engineering.

Huge investments are also being made to establish Saudi Arabia as a hub of research and innovation. One of the most spectacular results is the new King Abdullah University of Science and Technology (KAUST). This opened in 2009 on a 330,000 square metre campus at Thuwal, 80 kilometres north of Jeddah on the Red Sea.

This university is the Kingdom's first co-educational establishment and focuses on postgraduate students. While most of the latter are foreign rather than Saudis at present, the university is intended to provide a template of excellence for the country. This is expected to encourage greater interest in the sciences, particularly micro-technology, nano-technology, water conservation, biotechnology and IT.

Professor Choon Fong Shih, a world renowned engineer, has been appointed the First President of KAUST. It has one of the biggest endowments of any university research institution in the world and is designed to forge connections with top researchers around the globe.

“Companies offering to train Saudis in the workplace can receive help paying up to half their salaries from the Human Resource Development Fund”.

Seven collaborative agreements have already been signed with foreign academic institutions.

Khaled Abdul Aziz Al-Faleh, President and CEO of Saudi Aramco, which has managed the university project, says KAUST's aim is to produce future pioneers in science and technology and promote the Kingdom's research and technological capabilities.

Additional higher educational clusters are due to be developed in the Kingdom's economic cities at Medina, Jazan and Ha'il, focusing on specific industrial areas. The drive is part of the broader effort to develop human resources to cope with the needs of diversified economic growth.

This is also seen in the large research facilities planned for Dhahran Techno Valley, which has been established as a research and development hub for oil & gas industries on a 560,000 square metre site north of the city.

Women too are no longer being sidelined in development plans. While more than 50% of Saudi undergraduates are female, only 13% are employed, the lowest rate globally. This situation is likely to change with developments in the educational system providing greater opportunities for acquiring vocational qualifications.

Among institutions under development is the Princess Noura Bint Abdulrahman University in Riyadh, the largest educational institution in the world dedicated solely for women. The eight million square metre campus is designed to accommodate 40,000 students, has its own monorail transport system and will feature a teaching hospital.

There is strong Government backing for continuing high levels of expenditure to improve education standards. This is intended to enhance the Kingdom's economic competitiveness and is likely, in the long term, to change the social complexion of the country. This means that Saudi educational needs will provide a substantial and growing market for services and materials for many years ahead. ■

UK remains a strong partner in Saudi defence needs

Saudi Arabia continues to be one of the world's biggest spenders on defence and security. The scale of its expenditure is never officially revealed but the authoritative International Institute for Strategic Studies in London estimates that the Kingdom's spending on defence in 2011 had reached US\$173 billion.

According to the World Bank, Saudi Arabia spends more than any other country on defence as a proportion of GDP. Whatever the exact figure, it seems likely to rise further as the Government embarks on a wholesale modernisation and expansion of its armed forces and security agencies.

A widening array of potential threats, combined with historically high oil prices, is giving the Kingdom both the urgency and resources to

significantly enhance and accelerate an overhaul of the country's whole defence apparatus.

British companies are well placed to assist in this process, with longstanding international credentials as suppliers of major weapon systems platforms and sub-systems, as well as training and support packages.

Occupying a position at the forefront of research and development in a range of defence related areas, the UK is the second largest exporter of defence equipment and services, with sales of US\$8 billion a year, representing a 20% share of the global business. Sales of security equipment and services are also substantial at US\$4 billion in 2011, making the UK the sixth largest exporter.



Saudi Arabia has consistently been the UK's largest customer for defence equipment and continues to place new orders. In May 2012, BAE Systems won a US\$2 billion contract to help train the Royal Saudi Air Force (RSAF). This order also involves delivery of 22 advanced Hawk jet trainer aircraft and 55 Swiss-built Pilatus training aircraft.

Rolls-Royce has recently signed a four year agreement to maintain and repair RB199 engines for the RSAFs' Tornado fighter aircraft. Work also continues on both companies' earlier contracts in the Kingdom.

GPT Special Project Management, a UK subsidiary of European Aeronautical Defence and Space (EADS) company, is also working on a US\$3 billion contract to upgrade satellite and intranet systems used by the 125,000 strong Saudi Arabia National Guard.

Britain's substantial defence relationship with the Kingdom dates back more than 40 years and hundreds of sub-contractors and suppliers, both large and small, are benefiting as a result.

There are strong official links. Nearly 200 UK MoD staff and military personnel work in the UK and in the Kingdom to support the contracts through the Ministry of Defence Saudi Armed Forces Programme (MODSAP) and the Saudi Arabia National Guard Communications Project (SANGCOM).

One of the tasks of the UK's MoD Saudi Arabian Projects Team is to provide advice and assistance to the Saudi Navy and Air Force. The Kingdom's armed forces also place importance on access to overseas training courses, ranging from officer training to higher command and staff courses.

The UKTI Defence & Security Organisation also provides the export drive and the essential government-to-government dimension to company led marketing campaigns.

An important agreement known as the Saudi-British Defence Cooperation Project (SBDGP) was concluded in 2006. This agreement enhances previous arrangements and, with the Al Salam project, provides for the export of Typhoon Eurofighter jets to the RSAF.

The SBDCP nominates BAE Systems as prime contractor for delivery of all systems included within the programmes covered by Al Salam. It is a familiar role for the company, whose forerunner British Aircraft Corporation supplied the Kingdom's Air Force with much of its initial strength.

After supplying Lightning fighters and Strikemaster trainer aircraft and providing support for these through the 1970s, a government-to-government Memorandum signed in 1985 led to the company receiving the UK's largest ever export contract through the Al Yamamah programme.

Valued at more than US\$30 billion for BAE Systems alone, this order has seen delivery of 120 Tornado fighter aircraft and 55 Hawk trainers, as well as Swiss-built Pilatus turboprop trainer aircraft and other military equipment and support. The programme, which has generated an estimated US\$75 billion of business for BAE Systems and associated sub-contractors, is now largely completed apart from ongoing support.

Almost all RSAF equipment has been bought from either the US or UK but selling defence to the Saudi Government is a slow and painstaking process where nothing can be taken for granted. The rewards for patience and persistence though, as Al Yamamah proved, are considerable.

Much attention, for example, has been focused on procurement from the US announcement in 2011 for an additional 84 F-15 combat aircraft and other military equipment with an estimated value of US\$60 billion.

Under Al Salam, Saudi Arabia agreed to purchase 72 Typhoon Eurofighters, of which 24 have so far been delivered. The aircraft is among the most advanced and sophisticated jet fighter bombers in operation and Saudi Arabia is the first country outside of Europe to have them in service.

The programme is designed to deepen the UK's involvement in the operational capability of the Saudi Air Force, bringing the latter's training standards on a par with those of one of NATO's leading members.

Defence cooperation is supporting an enhanced partnership between the two countries, with the UK helping the modernisation of the Saudi armed forces and at the same time also contributing to Saudi industrial development.

BAE Systems has become firmly established as the prime contractor on government-to-government big budget defence projects between the UK and Saudi Arabia and is also playing a full part in training local nationals.

In addition, the company is providing a major programme of inward investment to develop an aerospace industry within the Kingdom, involving both training and transfers of technology. The company has a workforce of some 4,000 staff in the Kingdom, of which slightly more than half are Saudis and has become one of Saudi Arabia's main private sector employers.

As a result it designates Saudi Arabia as one of its home markets, along with countries such as Australia and India. These are identified as having "a significant and sustained commitment to defence and security budgets across multiple domains and that want foreign investment to develop domestic industrial capability".

Among others, BAE Systems has invested in the Jeddah-based Aircraft Accessories and Components Company, which overhauls landing gear for Tornado aircraft. Advanced Electronics in Riyadh, manufactures weapons interface units and also installs main computers for Tornado aircraft. IT operations have also been outsourced to International Systems Engineering in Riyadh.

The company believes that, as engineering capability in the Kingdom develops, it will act as a magnet for further growth, attracting the

“BAE Systems has become firmly established as the prime contractor on government-to-government big budget defence projects between the UK and Saudi Arabia and is also playing a full part in training local nationals”.

support of international associates and encouraging other component suppliers to be drawn in. BAE Systems commitment underlines how important Saudi Arabia is to the company and many other major UK defence firms.

The market, though, is not all about orders for aircraft, ships and missiles. An increasingly sophisticated security market is also growing fast, with civilian agencies, companies and the industrial sector facing physical threats and a need to counter cyber attacks.

Events in Algeria underlined the need for countries with extensive hydrocarbons infrastructure in remote areas to be on their guard. Saudi Aramco, for example, already has some 5,000 personnel involved in security duties.

The Kingdom is reported to be planning to set up an eventual 35,000 strong special security force, to protect its oil infrastructure against

future attacks. This requires substantial surveillance and perimeter security around vast and potentially vulnerable industrial complexes.

Such a force needs sophisticated communications and monitoring capabilities and an ability to provide crisis management and deploy resources rapidly in emergency situations. As the oil industry and industrial complexes seek to upgrade security and develop measures for cyber protection, securing its land borders with Iraq and Yemen is also a priority for the Government.

High-technology security companies have a substantial role to play in these areas. The UK's successful handling of major events, including the 2012 Olympic Games, has seen the application of new forms of surveillance, monitoring, IT and communications solutions. Many of these are supplied by innovative small to medium sized British firms, which can also compete in Saudi Arabia's dynamic defence and security sector. ■

Telecoms market undergoes rapid expansion

Expenditure on new telecoms infrastructure in Saudi Arabia is increasing rapidly, as the Kingdom recognises the sector as one of the main drivers of its economic development. Total spending is forecast to reach US\$10 billion in 2013 and rise still further to US\$13 billion by 2015.

The increasingly sophisticated requirements of Government agencies, industry and commerce, telecoms and its associated technologies comprise a huge and expanding market.

Saudi Telecom, the country's main provider, plans to invest more than US\$1 billion over the next two years in upgrading and expanding its services. In addition, as the latest fourth generation (4G) mobile technologies and optical fibre networks are rolled out, the Government wants to see Saudi Arabia establish itself as a leading international business and communications centre.

Increasing investment in telecoms is also accompanied by spending on related information and communications technology (ICT), which is expected to reach US\$9.9 billion in 2013.

Liberalisation of the Saudi Arabian telecoms sector in recent years has been the key to providing much needed improvements to voice and data communications that had previously trailed behind those provided in neighbouring countries such as the United Arab Emirates and Bahrain.

The initial surge took place in 1998 when Saudi Telecom became an autonomous corporation and the Government gave up its monopoly

operator status, regulating the sector instead through the Communications and Information Technology Commission (CITC).

As a result of the Kingdom's accession to the World Trade Organisation at the end of 2005, foreign companies have been able to hold up to 60% of both fixed and mobile telephone companies in Saudi Arabia.

In 2002, 30% of Saudi Telecom was floated through an Initial Public Offering (IPO) of shares, while the UAE's Etihad Etisalat was given the Kingdom's second mobile licence, operating under the name Mobily. Zain Saudi, a joint venture with Kuwait investors, was subsequently awarded the Kingdom's third cellular licence.

The effect of this deregulation has been dramatic, especially in mobile telecoms. By 2010, the Kingdom's telecoms market had become an US\$11.6 billion industry, contributing an estimated 3% of GDP. Mobile use has continued to accelerate, with subscriptions rising from 1.31 million at the end of 2009 to 12.82 million at the end of 2012.

With a young and rapidly growing population and up to eight million expatriates, Saudi Arabia's telecoms arena represents a fast expanding, though competitive, market for local and international companies.

Increasing demand for web connectivity in the home and through mobile devices is leading to a sustained period of investment by the country's telecoms providers. Broadband penetration is growing fast but still lags behind Europe and North America and neighbouring Gulf countries.

Only 41% of Saudis are estimated by the International Telecommunication Union to use the internet - half the number in the UAE.

There were 1.95 million fixed broadband subscriptions in the Kingdom at the end of 2011 but only 18,500 were high speed, fibre optic to the home connections. Saudi Telecom wants to see this number benefiting from high speed links rising to two million by the end of 2013.

Broadband remains the key growth driver for telecom operators, as increasing smartphone penetration levels and changing usage patterns of consumers are expected to result in a sharp rise in data consumption.

As more wireless spectrum becomes available from military and security agencies, Saudi operators are launching 4G networks, which potentially offer twice the internet access speed of current services.

Industrial, government and corporate requirements, as much as cellular phone operators, are creating opportunities for suppliers of services and technologies across the telecom and ICT value chain.

In 2012, Vodafone signed a deal to work with Zain in Saudi Arabia, giving the latter access to the UK group's brand, devices and services.

BT Group also has an agreement to provide Saudi Telecom a point of presence within its multi-protocol label switching network (MVNO). This system allows Saudi companies to connect with their international operations via a secure high bandwidth network and is particularly useful to financial services, the oil & gas sector and other large scale businesses.

The expanding range of contracts for international companies can be seen in recently announced tenders. These include IT and telecoms infrastructure for Saudi Arabia's new hospitals, installation of communications and electronic systems infrastructure for universities,



network support services as well as the operation and maintenance of optical fibre cables for the railways and visual and audio monitoring for the military.

Within the key hydrocarbon sector, which is dominated by one of the world's largest companies, Saudi Aramco, there is a huge market that requires wireless technologies, secure data communications, CCTV, remote monitoring and integration of an increasing range of digital operations.

Amid this rapid expansion of ICT requirements, web security has become vitally important. Aramco faced a major cyber attack in 2012, for example, that threatened to halt the country's flow of oil & gas. This serious incident underlined the requirement for key industries in the Kingdom to maintain and reinforce measures to protect ICT networks and communications.

The Government wants solutions and technology developments to be generated within the Kingdom as far as possible. Evidence of this strategy can be seen in efforts designed to develop Saudi Arabia as a hub for telecoms innovation and development, both as a mechanism for diversifying the economy and sustaining economic growth.

Britain's defence research and development company, Qinetiq, has a Memorandum of Understanding (MoU) with the King Abdulaziz City for Science and Technology (KACST) covering collaboration over a range of programmes, including sensors and communications. KACST provides the Kingdom's national laboratories and acts as the country's science agency.

Other significant projects designed to aid expansion of the country's ICT sector include the King Abdullah Science Park (KASP) in Dhahran and the Information & Technology Communications Centre and King Saud University Science Park in Riyadh.

In parallel with these developments, the National Communications and Information Technology Plan (NCITP) aims to match increased digital awareness with economic expansion. This is in line with a World Bank assessment, which concludes that for every ten percentage point increase in broadband penetration, the GDP in developing countries can be expected to grow by 1.38%.

The Kingdom is seeking to build on its e-government initiative to facilitate service delivery, allowing transfers of data and information between State agencies and the public online.

More than 800 services can now be accessed through a dedicated e-government portal. These include visa applications, obtaining permits, as well as school and university applications. Postal deliveries

can now be made directly to homes and businesses through use of a geo-coordinated addressing system.

A new phase of development to achieve additional telecoms applications are being sought in Government and in the private sector. These are emphasising the exploitation of digital technologies, development of data communications services and use of smart devices.

US networks specialist CISCO Systems, estimates that the Middle East market for mobile data will have doubled from 2011 to 2016. A mobile device now generates 35 times more mobile traffic than a basic feature phone in 2011, as users are able to download digital content in the form of games and other apps, while connected to instant messaging applications.

Within the Gulf region, Saudi Arabia represents the leading market for telecoms and ICT services. In the near future, both mobile and fixed line operators will be required to make heavy investment in 4G services and advanced data networks, given the pressure of demand for improved services.

CITC is also due to issue three mobile virtual network operator licences in 2013. In this arrangement, the operators do not own the networks they use to provide telecoms services. Instead they lease capacity from network operators and pay fees, as well as a percentage of their revenues.

Demand for innovative telecoms and ICT services are growing rapidly throughout the Saudi economy. One of the most promising global markets is opening up to those with the right products and solutions, who are willing to compete for clients and able to invest in state-of-the-art technologies. ■

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A close-up, slightly blurred map of Saudi Arabia. The word "SAUDI ARABIA" is prominently displayed in large, bold, black capital letters. Other visible labels include "Riyadh", "Medina", "Dhahran", "Bulaydah", "Hail", "Tayma", "Wejh", "Abuk", and "Desert". The map is oriented with North at the top.

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Tourism strategy for both international and domestic markets

Beyond its oilfields, Saudi Arabia possesses a vast and spectacular hinterland rich in culture and history. For thousands of years, a network of caravan trails linked the Arabian Peninsula with Ethiopia, Mesopotamia, Persia and the Mediterranean.

This legacy can still be seen in the remains of a diverse range of ancient cultures. Mada'in Saleh, 22 kilometres from Al-Ula and the Turaif district in Al-Diriyah north of Riyadh are UNESCO world heritage sites. These and many other attractions, including pristine beaches along the Red Sea, remain for the most part devoid of visitors.

Apart for a limited number of small culturally focused tour groups and business visitors, the Kingdom is largely closed to foreigners. Unlike most other countries in the region, the Saudi hospitality sector's focus is on providing facilities and serving those arriving for religious reasons.

The national tourism development strategy therefore is aimed less at positioning the Kingdom on the international tourism map than drawing on the country's existing nine million pilgrimage visitors to extend their stays and to encourage more Saudis to vacation at home rather than abroad.

Other than business personnel and expatriate workers, the vast majority of visitors to Saudi Arabia arrive for religious reasons. Most of these arrive to travel to Mecca each year for the Hajj and at other times throughout the year for the shorter Umrah pilgrimage.

While fewer than 100,000 pilgrims performed Hajj in 1950, as economies in Islamic countries have developed, these numbers have risen dramatically, reaching 2.9 million in 2011. At least twice as many arrived to conduct the Umrah pilgrimage. In 2012, these visitors spent an estimated US\$16.5 billion on hotels, food, travel and shopping, contributing more than 3% of GDP.

The total number of visitors to Mecca and Medina is forecast to rise from 12 million a year to 17 million by 2025, with estimates suggesting that revenues have the potential to rise fourfold, as pilgrimage traffic increases. To cater for this dramatic increase in visitor numbers, a wide range of new infrastructure projects, including railways, new airports, roads and hotels are now underway within the Kingdom.

A US\$11.8 billion high-speed railway line is under construction between Jeddah, Mecca and Medina. The new route is known as

Haramain, or sacred, as it will connect Islam's most revered sites. This project and the expansion of Jeddah International Airport are indicative of the investment being made in transport infrastructure, designed to reinforce the King's role as Custodian of the Two Holy Mosques.

Officials say they intend to channel more investment into qualitative improvements and to further diversify the range of tourism projects and services. Hotel investments are particularly highlighted in cities such as Mecca and Medina.

Many pilgrims have high disposable incomes, so marketing efforts are being directed at promoting vacations in Saudi Arabia to Muslim visitors once they have completed their pilgrimages. As only five of the Kingdom's 13 provinces receive significant numbers of visitors, the aim is to attract guests to other parts of the Kingdom.

The Saudi Commission for Tourism and Antiquities (SCTA) believes that the tourism sector is one of the key drivers of the Saudi economy and an important factor for economic development. SCTA Chairman, Prince Sultan bin Salman, says "there is a complete revolution in Saudi Arabia when it comes to elevating the culture and the history of the country to the level it deserves".



Mass market tourism is not the aim of SCTA but Prince Sultan bin Salman believes that reaching an annual 5% growth in tourism is achievable, since domestic tourism alone is sufficient to reach that level of growth.

The challenge lies in developing human resources as well as infrastructure and not least helping conservative local communities develop a welcoming attitude to visitors. Changing outside perceptions of the Kingdom as a destination is also a vital part of the challenge facing Saudi tourism.

"We are now in the process of building an industry from bottom to top, in terms of setting out regulations, training a national cadre and preparing citizens to welcome tourists," according to Prince Sultan.

“There is a complete revolution in Saudi Arabia when it comes to elevating the culture and the history of the country to the level it deserves”.

The real opportunity for developing the sector lies in stimulating domestic tourism. This strategy will also save the country money as millions of Saudis currently opt to take lengthy vacations each summer, in order to escape the Kingdom's "oven" months.

They are big spenders wherever they go in the region, Europe or North America, which represents billions of dollars that could rather be expended in home resorts. SCTA hopes that new hotel, resort and transport improvements will encourage more Saudis to holiday in the Kingdom.

Hotel development, which for some years had lagged behind the regional norm, is already gathering pace although there is a lot of catching up to do. In 2011, there were 951 licenced hotels in the Kingdom, with an estimated capacity of 157,430 rooms. Only 53,000 of these rooms reflected international brands, which is about the same number as in Dubai.

Business Monitor International forecasts that there will be about 424,000 hotel rooms in Saudi Arabia by 2016, up from a projected 317,000 in 2012. In part this reflects preparations to receive greater numbers of pilgrims and business visitors. Real estate investments in hotels in Mecca alone are forecast to exceed US\$3.2 billion.

Jabal Omar Development is leading the way by building 38 hotels on two million square metres of land near Mecca's Grand Mosque. These are leading brands, including Hyatt, Marriott, Starwood and Hilton and will add 13,500 rooms to the city's inventory.

Elsewhere Jeddah is expected to need up to 7,000 new hotel beds in the next few years. Many of the world's leading groups are involved in expansion plans. UK-based Intercontinental Hotels has said it intends to increase its hotel accommodation in Saudi Arabia by 50% to 7,300 beds by 2017.

With Saudi Arabia's hotel industry enjoying robust growth, the outlook for hospitality suppliers and service providers looks particularly buoyant. This ranges from interior design, operating equipment and supplies, technology, as well as long term supply of food and beverages.

However, there are still big gaps in the accommodation area to be filled. Only 22% of existing hotel capacity is classified as three-star. The UK's Premier Inn, which operates in the Gulf in joint venture with Dubai's Emirates Group, is among those planning a major development programme in Saudi Arabia. The first hotel is due to open in Jubail, with at least another 15 to follow in other parts of the Kingdom.

There are still seven large cities in the Kingdom lacking budget accommodation and Premier Inn has said there is scope for at least 50 of its hotels in the Kingdom in the next decade.

Large scale tourism development is also envisaged as part of efforts to increase the visibility of the Kingdom's tourism and hospitality offerings. Plans for Saudi Arabia's first major dedicated tourism development, to be located in the Gulf coast area of Al Uqair, south of Dammam, are already at an advanced stage. Longer term, this could lead to US\$10 billion being invested in the 100 square kilometre area, which includes 15 kilometres of coastline.

Other big projects are in the pipeline. These include development of the ancient Souk Okaz in the Taif region. Resorts in the Farasan Islands in Jizan province, at Haridha in Asir province, as well as at Ras

Humaid, Sharma, Qayyal and Al Wajh in the Tabuk region, are also planned.

Saudi Arabia's Red Sea coast is attractive, stretching 1,840 kilometres from Jordan to Yemen. Its unspoiled reefs, offering some of the finest coral diving in the world, are attracting particular attention and coastal-based projects have the potential to attract US\$40 billion of investments, as well as create at least 400,000 new jobs.

Planned investment in new airports to serve the Farasan Islands and Mada'in Saleh and other areas of visitor interest will also serve to develop the country's tourism industry.

SCTA's Executive Manager, Mohammed Al-Amri, believes that tourism provides a vast number of investment opportunities, although its development should be a private sector initiative. The Government, however, is willing to support projects that it sees as essential in providing an estimated 1.1 million direct and indirect jobs by 2016.

A substantial vocational training programme will be required to reach this target as Saudi nationals currently comprise less than one third of the 670,000 existing tourism related jobs in the country.

However, as the largest economy in the Middle East and one of the fastest growing in the world, the Kingdom has the necessary resources to achieve this aim and establish travel and tourism as a growing employer and major future contributor to the country's non-oil economy. ■



The Arab-British Chamber of Commerce

www.abcc.org.uk

The Arab-British Chamber of Commerce is a membership organisation, founded in 1975, to promote economic activity and facilitate trade in both directions between the UK and the 22 member countries of the League of Arab States. We do this in many different ways but primarily by providing support services to member companies to help them achieve success in these important markets.

As businesses are only too well aware, recent years have not been the easiest of times for anyone involved in trade but as stability returns to global markets and as outstanding challenges in the Arab markets are effectively addressed with ambitious investment strategies, enormous opportunities are coming available throughout the Middle East and North Africa. The historic friendship that the UK has long enjoyed with the Arab states and the Gulf in particular, is a huge asset that provides a solid foundation on which to build new ties and stronger relations in the future. The Chamber is determined to assist both British and Arab companies as they seek to forge new relationships and renew their cooperation.

The Chamber seeks to encourage and promote Arab-British trade and commercial relations in the wider sense. We recognise that there still

remains significant unlocked potential for developing business between the UK and the Arab countries. Our mission as a Chamber is to help companies take advantage of this potential, whether they are new to the markets or more experienced players wishing to extend their operations. That means providing the right kind of services that will assist in building trade links and strengthening Arab-British cooperation, by breaking down cultural barriers and refocusing business on the investment and export opportunities that exist in the Arab World.

For over 30 years we have developed a broad range of services, expertise and knowledge which could prove invaluable to both British and Arab businesses. Joining the Chamber gives a company an advantage by putting it in contact with a wide and influential professional business network, which is centred on our strong and productive ties with Arab and British chambers of commerce and the broader Arab-British business communities.

The Chamber stands ready to help you make the most of the business opportunities that are emerging across the Arab World in every sector from new service industries to the more traditional areas like oil & gas. ■



British Expertise

www.britishexpertise.org

Continued major investment in the Saudi Arabian construction and infrastructure sectors ensures that the Kingdom is always of substantial interest to British Expertise and its members. Over the years our organisation has led numerous delegations to Saudi Arabia, looking at opportunities across the construction and infrastructure sectors for UK consultancies.

British Expertise is the leading organisation supporting British companies working to offer professional services internationally. Our members range from major international multidisciplinary consultancies to individual specialists. Our members are involved worldwide in the development of social and physical infrastructure.

We provide members with a regular programme of informative events and networking sessions. We receive overseas delegations, often at a ministerial level, and host events looking at pertinent international business issues and new markets for UK companies. We also host regular briefing sessions with returning UK Ambassadors and senior officials from the Foreign and Commonwealth Office (FCO), UK Trade & Investment (UKTI), the Department for International Development (DFID) and other international agencies.

Our trade missions visit markets across Asia, Europe, Africa and Oceania. These may take the form of missions run on behalf UKTI or

the FCO, private missions, or more focused scoping missions. Missions involve programmes of meetings with local officials and businesses, workshops and seminars to help companies gain an understanding of the market and present UK expertise to local clients.

We disseminate to our members targeted leads for potential business from all over the world and across a wide variety of sectors and disciplines. We provide advice and support on how best to approach overseas markets and can provide more substantial support on countries and regions in which we have a current focus.

We raise issues with Government on the regional, UK and European levels should it be deemed necessary for our organisation to act as a group to seek policy changes. We also have strong links with the international development agencies and banks.

British Expertise is also home to UKTI's Aid-Funded Business service, which raises the awareness of UK companies about multilateral aid funded business opportunities, and provides training and advice. Additionally, we run the secretariat of the UK Anti-Corruption forum, a key alliance of business associations, professional institutions, civil society organisations and companies with interests in the domestic and international infrastructure, construction and engineering sectors. ■



**Middle East
Association**

The Middle East Association

www.the-mea.co.uk

In the 60 years since the Middle East Association (MEA) was established, it has been active and enthusiastic in developing trade relationships with the vitally important Saudi Arabian market. It is a market that is changing fast and the MEA has had to adapt to these changes and to the new breed of UK SME which now comprises its core membership and includes such diverse companies as an IT specialist, an educator/trainer, infrastructure consultant, environmental engineer, supply chain expert and a manufacturer of advanced renewable energy equipment.

The primary function of the MEA remains one of being an introducer of new British companies to MENA markets and to the building of new, or the reinforcement of old, bridges, through trade. If there is a finer focus on the Kingdom now, it is because we are looking at a new knowledge economy, the largest in the Middle East, which is no longer dependent on oil & gas and is now a world leader in petrochemicals and the development of its huge mineral resources.

Twice a year the MEA takes a multi-sector trade mission to the Kingdom, where we spend 12 days visiting Jeddah, Riyadh and Al Khobar. For those who are on a second or third visit, the visible signs

of major projects coming to fruition are very evident. The Princess Noura University campus, south of Riyadh International Airport, is one such and the new Financial Centre is another.

For those on their first visit to the Kingdom, the sight of architecturally sleek new high rise buildings, shopping malls to rival the Westfield centres in London and road and rail networks cannot fail to impress. New cities to cater for the growing population and to serve new industrial zones are magnets for every infrastructure requirement imaginable.

Briefing British exporters of goods and services about Saudi Arabia, the MEA will always state, above all else, that the country is a safe and secure environment in which to do business; and there are no limits to the amount of business opportunities. Every year we hold a one day conference in the autumn about Saudi Arabia.

In the MEA archives there is a fine photograph of HRH King Faisal bin Abdulaziz Al Saud visiting our offices circa 1964. In those days our links with Saudi Arabia were extensive and strong and, over the subsequent decades, they have remained undiminished. We value our lasting involvement with the Kingdom with enormous pride. ■

Key Facts



SAUDI ARABIA

Economic prospects have never looked brighter for Saudi Arabia, which is currently undergoing the largest development programme in its history. As the world's largest exporter of crude oil, the Kingdom's expansion is built on solid foundations.

Saudi Arabia possesses the largest proven global petroleum deposits totalling more than 265 billion barrels and also holds 7.8 trillion cubic metres of natural gas, the fifth highest reserves in the world.

In addition, solid minerals such as phosphates are now being exploited and are set to add further value to already huge revenue streams generated from the country's natural resources.

Rising income is fuelling investments into the most ambitious infrastructure projects yet seen in Saudi Arabia. These include entire new

cities, a national railway system, petrochemical and other giant industrial projects, as well as housing, education, healthcare and other social developments.

Hundreds of billions of dollars of investment projects are planned and underway across the Kingdom at a time when most of the world has been in recession. While GDP growth has slowed slightly, it is still predicted by the International Monetary Fund to average more than 4% a year through to 2017.

Saudi Arabia's overall economic strategy is outlined in the country's Ninth Development Plan (2010-2014), which declares its principal aim as being to raise the population's standard of living and quality of life. This involves further development of natural resources to stimulate new downstream industries. The crucial target is to increase employment prospects for the Kingdom's young people.

Another key aim of the Plan is also to encourage a more balanced growth among the regions. It also points to a need to increase competitiveness and to develop industrial undertakings. These are expected to build on the success of Saudi Arabia's world scale and still expanding petrochemicals sector, as well as new minerals-based industries.

At the same time the private sector, which already accounts for 48% of GDP, is being encouraged to play a bigger role in the economy as the Kingdom opens up to greater foreign investment. The private sectors' involvement is recognised as essential to achieve development targets in a wide range of areas. It also opens up huge opportunities for firms to engage with one of the world's most dynamic economies. ■

SAUDI ARABIA



Head of State: King Abdullah bin Abdulaziz Al Saud

Deputy Prime Minister and Minister of Defence: Prince Salman bin Abdulaziz Al Saud.

Last municipal elections: September 2011

Land Area: 2,149,690 square kilometres

Coastline: 2,640 kilometres

Border countries: Iraq, Jordan, Kuwait, Oman, Qatar, UAE, Yemen

Provinces: Riyadh, Madinah, Makkah, Asir, Eastern, Tabuk, Al Qasim, Al Jouf, Ha'il, Najran, Northern Borders, Jizan, Al Bahah

Capital: Riyadh

Total Population: 26,534,504 (July 2012)

Population of capital: 4,725,000

Main cities: Jeddah, Mecca, Medina, Dammam

Climate: Harsh, dry desert with great temperature extremes

Languages: Arabic

Religion: Islam

Ethnic groups: Arab, Afro-Asian

Monetary unit: Saudi Riyals (SAR)

Natural resources: Petroleum, natural gas, iron ore, gold, copper

Main industries: Crude oil production, petroleum refining, basic petrochemicals, ammonia, industrial gases, sodium hydroxide (caustic soda), cement, fertiliser, plastics, metals, commercial ship repair, commercial aircraft repair, construction

Major exports: Petroleum and petroleum products

Main export trading countries: Japan (13.9%), China (13.6%), US (13.4%), South Korea (10.2%), India (7.8%), Singapore (4.8%)

Major imports: Machinery and equipment, foodstuffs, chemicals, motor vehicles, textiles

Main import trading countries: China (12.8%), US (11.9%), Germany (7.1%), South Korea (6%), Japan (5.6%), India (4.9%), Italy (4.1%)

Internet domain: .sa

International dialling code: +966

Source: CIA World Factbook

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X Xenel Industries: www.xenel.com

Y Yanbu Industrial Port: www.ports.gov.sa

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