

Dewey & LeBoeuf

Doing Business in Saudi Arabia

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Introduction

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The Gregorian calendar dates listed in this guide which serve to indicate corresponding Hijri dates are approximate, and may vary by one day. Gregorian calendar dates may be identified by “G” following the applicable date. Hijri calendar dates are identified by “H” following the applicable date.

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1. Introduction

1.1 General

The Kingdom of Saudi Arabia (“KSA”) is located on the Arabian Peninsula in the heart of the Middle East. Its transliterated Arabic name is *Al-Mamlakah al-Arabiyah as – Suudiyah*. It shares borders with Jordan, Iraq and Kuwait to the north and Yemen to its south. Its western border is bounded by the Red Sea and faces the continent of Africa. Its eastern border is bounded by the Arabian Gulf, the United Arab Emirates, Qatar, the Kingdom of Bahrain and the Sultanate of Oman.

The Kingdom is divided into 13 provinces: Ar-Riyadh, Al-Bahah, Al-Hudud ash Shamaliyah, Al-Jawf, Al-Madinah, Al-Qasim, Ash Shariqiyah (also referred to as the Eastern Province), Asir, Ha’il, Makkah and Najran Tabuk.

1.2 Climate

Most of the Kingdom’s topography is arid desert, although the country also contains mountain ranges, escarpments, oases and coastal areas. The climate varies depending on the topography.

The capital city, Riyadh, is located in a desert climate in the middle of the Kingdom. Temperatures in Riyadh are hotter than the coastal cities of Jeddah and Dammam in summer but colder in winter. Temperatures in the summer average in the mid 40°C (110°F), while they may peak

at 50°C (122°F) in the surrounding desert. During December to February, Riyadh experiences average highs of 8-10°C (45-50°F) with temperatures falling below the freezing point at night. Riyadh has very low humidity.

Conversely, the coastal city of Jeddah experiences summer average highs of 40°C (104°F) with nighttime lows at 30°C (86°F) and winter average highs of 25°C (77°F) and nighttime lows of 25°C (77°F). Jeddah has a humid climate.

1.3 Religion

Islam is the official religion of Saudi Arabia.

1.4 Language

Arabic is the official language of the Kingdom. However, English is commonly used in business, and many building and street signs in the major cities are also provided in English.

1.5 Currency

The local legal tender is the Saudi Arabian riyal (abbreviated as SR or SAR). One Saudi Arabian riyal is divided into 100 hilalah, the official sub-unit of a riyal. The riyal is pegged to the US dollar at 3.75 Saudi Arabian riyals to one US dollar.

The Kingdom of Saudi Arabia has announced its intention to enter into a single regional currency union with Kuwait, Bahrain and Qatar.

1.6 Population

It is estimated that the population of the Kingdom is over 28 million inhabitants, including over 5 million expatriates.

1.7 Calendar and Time Zone

The Kingdom has adopted the Gregorian calendar in business, but the Hijri calendar remains the official calendar for the Kingdom. Consequently, the government uses the Hijri calendar in official business. Because this calendar is based on lunar cycles, it is not aligned with the Gregorian calendar. The calendar has 12 months of 29 or 30 days each, and accordingly is ten or eleven days shorter than the Gregorian calendar year. This results in the religious holidays occurring at different Gregorian calendar dates each year. The year 2011 of the Gregorian calendar is roughly equal to 1432 of the Hijri calendar.

The Kingdom of Saudi Arabia is three hours ahead of Greenwich Mean Time, and does not have daylight savings time.

1. Introduction (cont'd)

1.8 Business Hours

A regular business week is Saturday until Thursday morning, with Thursday afternoon and Friday as the weekend. However, government offices are closed on Thursdays and many businesses are closed during Thursday.¹

Private sector and government office hours vary between businesses, cities and government departments. However, generally speaking, government offices are open from 7:30a.m. until 2:30p.m. Non-retail private sector businesses tend to operate from 9:00a.m. until 5:00p.m. or on split hours, which are 8:00a.m. to 12:00p.m. and 4:00p.m. until 8:00p.m.

1.9 Public Holidays

Saudi Arabia enjoys three state-mandated statutory holidays, Saudi National Day, *Eid Al-Fitr* and *Eid Al-Adha*. Saudi National Day occurs on September 23rd and represents the date the Kingdom was formally established, whereas the Eid holidays vary from year to year on the Gregorian calendar.

Eid Al-Fitr is a four-day holiday that occurs at the end of the holy month of Ramadan. The holy month of Ramadan results in temporarily revised business hours. *Eid Al-Adha* is a four-day holiday occurring near the end of the Hijri calendar year,² which is around two months following *Eid Al-Fitr*. The length of the holiday is dictated by the state shortly before the holiday begins.

1. Discussions to change the weekend from Thursday and Friday to Friday and Saturday have occurred over the last few years.

2. In the Kingdom, the Eid Al-Adha public holiday comprises Hajj (the annual pilgrimage to Makkah) and the Festival of Sacrifice (Eid Al-Adha), which follows right after Hajj.

2. Government and Legal System

2.1 Political System

The Kingdom of Saudi Arabia is governed by an absolute monarchy, subject to Islamic principles. The head of state and its government is the King. The King is also supported and assisted by the Council of Ministers, which advises the monarchy on matters of the state. Members of the Council of Ministers serve as Ministers in the various government ministries and departments, and, in effect, serve as a cabinet to the King.³

The Council of Ministers is further supported by the Shura Council, the *Majlis al-Shura* (also known as the Consultative Council). The Shura Council is comprised of 150 members appointed by the King for a four-year period. The King has announced his intention of having one-third of the Shura Council selected by national election.

Provinces are administered by governors, appointed by the King. Local consultative assemblies have been organized under the patronage of the King, to provide feedback on local issues. Recently,

3. There are currently twenty-two ministries, consisting of Agriculture, Civil Service, Commerce and Industry, Communications and Information Technology, Defense and Aviation, Education, Finance, Foreign Affairs, Hajj, Health, Higher Education, Information and Culture, Interior, Islamic Affairs, Justice, Labor, Municipal and Rural Affairs, Petroleum and Mineral Resources, Planning and Economy, Social Affairs, Transportation, Water and Electricity,

these councils have been filled by members elected in regional elections.

The current monarch, His Majesty, the Custodian of the Two Holy Mosques, King Abdullah bin Abdul-Aziz Al-Saud, also holds the office of Prime Minister.

2.2 Legal System

The Kingdom's legal system is based on Shari'ah law (see Section 2.5 below). Additional laws are passed by the state from time to time.⁴

On March 1, 1992, the *Basic Law of Governance* was issued by Royal Decree.⁵ It provides that, among other things, the principles of the Holy Quran and the Sunnah of the Prophet serve as the Constitution of the state.

Generally speaking, the following procedure describes the passage of legislation in the Kingdom: a draft law is presented to the Council of Ministers for its review. Such draft law is also presented to the Shura Council for their counsel and suggested amendments. The draft law is then presented to the Council of Ministers. If affirmed by resolution

4. These adherence laws are sometimes referred to as secular laws. However, these additional laws are subject to the principles of Shari'ah law.

5. The *Basic Law of Governance*, issued by Royal Decree A/90, dated 27/8/1412H (corresponding to 2/3/1991).

of the Council of Ministers, the draft law is presented to the monarch for royal assent. Royal assent is provided by the issuance of a royal decree enacting the law.⁶ The law may provide for the issuance of regulations to further clarify, or assist in the interpretation of, the law. Such regulations may be passed by the Council of Ministers or such government or quasi-governmental body as identified in the law, in the form of implementing regulations.⁷

2.3 Judicial System

Interpretation of law in the Kingdom of Saudi Arabia is the responsibility of the judiciary. The judiciary is comprised of the general court system (*Al-Mahakim Al-Shariy'ah*),⁸ the Board of Grievances system (*Diwan Al-Mazalem*) and other independent and autonomous tribunals.

The basis of the judiciary is the general court system. Its jurisdiction extends to all matters not expressly

6. See Articles 20 and 21 of the *Council of Ministers Law*, issued by Royal Decree No. M/13, dated 3/3/1414H (corresponding to 21/8/1993). A law comes into force on the date of its publication in the *Official Gazette* unless expressly provided for otherwise in the law. See Article 23 of the *Council of Ministers Law*.

7. Implementing regulations are sometimes referred to as implementing rules or executive regulations.

8. These courts are sometimes referred to as Shari'ah Courts. However, that is a misnomer as the applicable legislation does not describe these courts as Shari'ah Courts.

2. Government and Legal System

(cont'd)

excluded to another tribunal⁹ and includes civil/property, criminal and “personal status” (family law) matters. The courts are organized into trial-level courts, appellate courts and the Supreme Court. Under a recent reorganization of courts, the trial-level courts have been divided into the General Court, Criminal Court, Personal Status Court, Commercial Court and Labor Court. Decisions of the trial-level courts may be appealed to appellate courts. Each province contains at least one appellate court, and these courts are divided into panels reflecting the same breakdown of the trial-level courts. Decisions of the appellate courts may be appealed to the Supreme Court.¹⁰

Originally, the Board of Grievances system was established to adjudicate complaints from private persons against the state or any of its organs.¹¹ Its jurisdiction has been expressly expanded to include military laws, government employee

benefits, administrative or regulatory orders and actions,¹² registering, recognizing and enforcing international judgments, and international arbitration decisions. It is wholly independent from the General Court system and, accordingly, its decisions cannot be appealed to any General Court. The Board of Grievances system is comprised of hearing-level Administrative Courts, the Administrative Appellate Court and the final appellate court in this system, the Supreme Administrative Court.

Certain independent and autonomous tribunals were established under laws designed for specific activity. For example, issues concerning capital markets and securities are resolved before the Committee for the Settlement of Securities Disputes and the Committee for the Settlement of Banking Disputes.

2.4 Arbitration

Arbitration decisions are recognized under Saudi law. Under the *Arbitration Law*,¹³ arbitration that is compliant with the law and its regulations will be enforced by Saudi courts. Among other things, such arbitration and its award must

be compliant with Shari’ah law and the arbitrator must be either a Saudi national or a professional who is Muslim. The arbitration must be conducted in Arabic and a non-Arabic speaker requires an interpreter who shall co-sign the record of the arbitration. The Board of Grievances has jurisdiction to hear issues related to foreign arbitration awards (see Clause 2.3 above).

2.5 Shari’ah Law

The Kingdom’s legal system is based on Shari’ah law (Islamic law), as is, generally speaking, interpreted by the Hanbali school of jurisprudence.

The Holy Quran and the Sunnah are the primary sources of Shari’ah law. The Holy Quran is the central and divine text of Islam. It contains dictates that serve as the foundation of law, including offenses, punishments and expectations of normative behavior. The Sunnah is a compendium of “legacies and traditions” of the Prophet, used to interpret the Holy Quran. In essence, the Sunnah refers to the observations of the achievements and life of the Prophet Muhammed (peace be upon him). The legacies and traditions that developed, along with the Holy Quran, are interpreted as legal codes. However, these legal rules are not codified into a written compendium of organized laws.

9. In this regard, the expanse of the jurisdiction of the General Court is similar to the common law concept of inherent jurisdiction. As a general principle, where statute does not expressly reserve jurisdiction to a specialized adjudicative body, the General Court retains jurisdiction to hear such matters.

10. The Supreme Court is the penultimate appellate court. It consists of nine sitting justices. This body is distinguished from the Supreme Judicial Council which administers the General Courts and the Senior Ulema, which is led by the Grand Mufti of Saudi Arabia – the senior cleric of Saudi Arabia – and whose role is to counsel the government.

11. The most typical examples are hearings regarding compensation claims against, and contractual disputes with, the state.

12. At the time of publishing, the issue of whether the jurisdiction of the Board of Grievances includes appellate jurisdiction over independent and autonomous tribunals was under review.

13. Issued by Royal Decree No. M/46, dated 12/7/1403H (corresponding to 26/4/1983).

3. The Economy

3.1 General

The Kingdom of Saudi Arabia is a natural resource based economy, focused primarily on petroleum, and oil extraction and refinement. The Kingdom has the largest proven oil reserves in the world. Oil and petroleum-related products make up over 90 percent of the Kingdom's commodity exports. The abundance of these natural resources has enabled the Kingdom to invest in infrastructure and develop other sectors in its economy.

The government has announced plans to develop six "economic cities" whose purpose is to diversify the economy and develop various targeted sectors. These economic cities serve as the cornerstone of current government economic development, and involve massive property development, inside and close to various cities across the Kingdom.

One state company, Saudi Basic Industries Corporation (SABIC), is a leader in manufacturing chemicals, fertilizers, plastics and metals. SABIC has represented that it manufactures over 5 percent of the world's production of petrochemicals.

3.2 Labor Market

The workforce consists of over six and a half million persons. Over 70 percent is engaged in the service industry, whereas around 20 percent is engaged in general industry and natural resources, while the remainder works in agriculture. The general industry and natural resources include crude oil extraction, petroleum refinement, petrochemical and industrial gas production, plastics and cement manufacturing, commercial transportation (aircraft and ship), and property construction.

Approximately, one-third of the workforce is represented by non-Saudi nationals, referred to in the Kingdom as ex-patriots.

3.3 Oil and Petrochemical Industry

The oil and petrochemical industry remains the "bread and butter" of the Saudi economy. Over 90 percent of the Kingdom's exports are in petroleum and petroleum products, and generate income of over \$200 billion US dollars annually. The Kingdom remains the largest oil exporter in the world. It is involved in all aspects of the oil and petrochemical industry, including the exploration and production sector¹⁴ and the refinement and distribution sector.¹⁵

3.4 Other Industries

The Kingdom of Saudi Arabia produces steel, iron, chemical, fertilizer, building materials and a number of consumer products. The Kingdom also cultivates some foodstuffs which are primarily targeted for domestic consumption.

14. The exploration and production sector concerns crude oil and natural gas exploration and production, and is generally referred to as the *upstream sector*.

15. This is generally referred to as the *downstream sector*. In some instances, storage and transportation to refineries is included in the definition of the *midstream sector*.

3. The Economy (cont'd)

3.5 Communications

The Kingdom has an extensive landline telephone network, and state-of-the-art cellular mobile telephone networks. Internet accessibility is widely available in cities, and the fiber optic cable is replacing other cables to further enhance service. Internet connectivity is supported by a submarine fiber optic cable network and satellite link.

The country code for long distance calls is 966. The regional code for Riyadh is 1, whereas the regional code for Jeddah is 2 and the Eastern Province is 3.

3.7 Economic Changes Due to the WTO

On June 13, 1993, the Kingdom of Saudi Arabia delivered its application for membership with the World Trade Organization. On December 11, 2005, the Kingdom became a member of the WTO. As part of its obligations in the terms and concessions listed in its Protocol of Accession (which is commonly referred to as the Terms of Accession),¹⁶ it is liberalizing its markets.

6 | 3.6 Gulf Cooperation Council Membership

The Kingdom of Saudi Arabia is a member of the Cooperation Council for the Arab States of the Gulf, which is more commonly known as the Gulf Cooperation Council or GCC. This economic trade pact also includes Bahrain, Qatar, Kuwait, Oman and the United Arab Emirates. Yemen is negotiating to join. In 2008, a common market was established similar to the European Union, providing for the free flow of goods and labor, including national treatment for any GCC person in another GCC country. Certain GCC-member states are currently negotiating a joint currency.

16. More information regarding the status of the WTO membership can be found at: www.wto.org/english/thewto_e/acc_e/a1_arabie_saoudite_e.htm#status.

4. Banking and Credit Industry

4.1 Central Bank

The central bank functions are performed by the Saudi Arabian Monetary Agency.¹⁷ Its responsibilities include establishing and enforcing monetary policy, issuing Saudi legal tender, regulating commercial banks and foreign currency, and overseeing the financial industry.

4.2 Commercial Banking

There are 12 commercial banks with hundreds of branches operating in all the major cities of the Kingdom. Some of the banks are joint ventures with large international commercial banks. There are also, at least, 11 foreign banks whose branch offices are licensed to operate in the Kingdom under certain additional restrictions.

Generally speaking, there are no prohibitions on the lending of funds by non-Saudi banks to Saudi entities and a number of domestic businesses currently borrow from international banks.

4.3 Commercial Loans from the Ministry of Finance

The Ministry of Finance provides cash loans through various credit institutions and funds, such as the following:

- Saudi Arabian Agricultural Bank¹⁸
- Saudi Credit Bank¹⁹
- Saudi Industrial Development Fund (“SIDF”)
- Real Estate Development Fund²⁰
- Public Investment Fund (“PIF”)

The SIDF provides medium to long-term low cost cash loans to Saudi companies and foreign companies licensed for manufacturing activities in the Kingdom of Saudi Arabia for the development of industrial projects. The SIDF provides up to 50 percent of the cost of the project, regardless of the eligible applicant’s ownership. The SIDF also provides support services

to the eligible applicant, such as administration, financial control and marketing.²¹

The PIF was established specifically to assist in the financing of commercially-viable projects the state deems are or may be of significant importance to the economy. The PIF may finance government works or public-private partnerships. Historically, this fund has financed projects in the oil and petroleum industry, iron and steel, fertilizer production, aircraft purchase and Hajj pilgrim accommodations. This fund has been a major financier in the oil and petroleum industry.²²

18. The Saudi Arabian Agricultural Bank provide loans to farmers to assist in the development or enhancement of agricultural activities.

19. The Saudi Credit Bank provides very small no-interest loans to impoverished Saudi nationals for vocational training, home repair, weddings and urgent family needs.

20. The Real Estate Development Fund provides loans to Saudi nationals for the construction of a residential home or buildings for investment purposes.

21. More information may be found at www.mof.gov.sa/en/docs/ests/sub_este_ind_dev_fund.htm.

22. More information may be found at www.mof.gov.sa/en/docs/ests/sub_invbox.htm.

17. See www.sama.gov.sa.

5. Insurance Industry

5.1 Overview

Prior to August of 2003, the insurance market was deregulated. Insurance products were provided by the National Company for Cooperative Insurance (“NCCI”) and foreign insurance companies operating through local agents. NCCI was a wholly owned state entity²³ and the only licensed insurance provider in the Kingdom. Insurance services were regulated through general commercial laws.

In August of 2003, insurance legislation²⁴ was introduced. A defining feature of this insurance regime is that insurance products must comply with the principles of Shari’ah law.

The Kingdom of Saudi Arabia regulates all forms of insurance, including reinsurance, vehicle life and disability (referred to as “protection and savings”), and the provision of such insurance, including the licensing of brokers, agents, insur-

ance loss adjusters, insurance advisors and third-party claims settlement specialists.²⁵

5.2 Shari’ah-compliant Insurance

In order to comply with Shari’ah law, insurance must incorporate cooperative principles. Examples of such principles include the sharing of losses by policy holders and the contribution by subscriptions of policy holders to a pool of assets to assist policy holders suffering losses. In essence, Saudi insurance is a form of mutual insurance.

5.3 Insurance Regulator

The Saudi Arabian Monetary Agency²⁶ (commonly referred to by its abbreviation, “SAMA”) is the regulator responsible for licensing, supervising and overseeing licensed industry participants, enforcement of insurance laws and regulations, and the promulgation of further rules and policies related to the industry.

Health insurance is also regulated by the Council of Cooperative Health Insurance. The principal functions of the Council are to accredit healthcare facilities and health insurance providers, fix the financial remuneration of such facilities and providers, and issue decisions and interpretations of the statute governing health insurance in the Kingdom.²⁷

5.4 Mandatory Insurance

Currently, compulsory third-party liability (motor vehicle) insurance is required for all drivers operating vehicles in the Kingdom of Saudi Arabia. Generally speaking, employers must provide health insurance to their foreign national employees and families, resident in the Kingdom. The Government of Saudi Arabia has declared that it expects to extend mandatory health insurance to all employees, including Saudi nationals and categories of foreign workers not currently included by mandatory health insurance.

23. As established by Royal Decree No. M/5, dated 17/5/1405 of the Hijra Calendar (corresponding 7/2/1985).

24. *Cooperative Insurance Companies Control Law*, issued by Royal Decree No. M/32, dated 2/6/1424H (corresponding to 31/7/2003).

25. A list of licensed providers and related licensees may be found at the SAMA Web site at www.sama.gov.sa/sites/SAMAEN/Insurance/Pages/Home.

26. Among its other functions, SAMA serves as the Kingdom’s central bank and financial and monetary regulator.

27. *Cooperative Health Insurance Law*, issued by Royal Decree No. M/10, dated 01/5/1420H (corresponding to 12/8/1999).

6. Capital Markets

5.5 Listing of Insurance Companies

Saudi insurance law and regulations obligate insurance providers to become public companies and must list a minimum percentage of their equity shares on the Saudi Stock Exchange (between 25-40 percent depending on the composition of the founding shareholders). SAMA has opined that this requirement serves to improve corporate governance by requiring public company standards and also provides residents the opportunity to participate in the ownership of insurance companies.

6.1 General

The capital market refers to the market for the long-term raising of money by companies or governments through the trading of instruments which represent the investment of such money.²⁸ The capital market in the Kingdom of Saudi Arabia is regulated by the *Capital Market Law*²⁹ and its regulations. This regulation includes governance of public offerings and private placements.³⁰

The term “securities” in the *Capital Market Law* has a broad meaning, and includes any rights or instruments which the Board of Directors of the Capital Market Authority (see Capital Market Regulator) determines should fall within this

definition.³¹ The definition of a security includes a Sukuk.³²

6.2 Market Intermediaries

Generally speaking, market intermediaries must be licensed as “Authorised Persons” by the Capital Market Authority (see Capital Market Regulator below) in order to engage in securities business activity³³ in the Kingdom. The securities business in the Kingdom is categorized as dealing, arranging, managing, advising and providing custodial services of securities.

Dealing is comprised of securities brokering (acting as an agent), dealing (dealing as a principal), underwriting securities, and managing subscriptions of an issuer.

Managing securities is a specific form of brokerage where the market intermediary is provided with discretion from the client to trade in the client’s securities. In effect, this category concerns those market intermediaries who have some level

28. English translations of applicable Saudi statutes and regulations typically do not distinguish between the primary and secondary capital markets, and, consequently, simply refer to a single capital market.

29. The *Capital Market Law* was issued by Royal Decree No. M/30 dated 2/6/1424H (corresponding to 9/9/2003).

30. Securities may only be transferred by public offering, through a private placement or by an exempt distribution specifically authorised by the Capital Market Authority upon specific application to the Authority.

31. Bills of exchange, order notes, documentary credits, money transfers, instruments traded exclusively between banks and insurance policies are excluded from the definition of securities. See Article 3 of the *Capital Market Law*.

32. A Sukuk is a Shari’ah-compliant note or certificate which is typically referred to as an Islamic bond.

33. Registerable activity in the Kingdom of Saudi Arabia is known as ‘securities business.’

6. Capital Markets (cont'd)

of discretion over the handling or disposition of the securities of the client.

Arranging concerns those market intermediaries who introduce parties to securities investments, who advise on corporate finance in general, and/or otherwise assist in bringing about a securities transaction. This is a rather catch-all provision for major securities deals, and appears to capture finders and qualifiers (those who initiate contact with potential investors but refer negotiations to other duly-licensed market intermediaries).

Advising involves those market intermediaries who advise persons on the merits of a security investment or on the rights associated with that security.

Custody services involves the safeguarding of assets (which include a security) of another person, making arrangements for another to act as custodian, or undertaking the administrative measures required to safeguard such assets.

6.3 Offer of Securities

Securities may not be offered unless such offer is in compliance with Saudi capital market regulations. The offer or issuance of any instrument that falls within the definition of a security constitutes an offer of securities. The definition is very broad. An offer does not

include preliminary negotiations or entering into agreements with or between underwriters; however, it does include an act that could be perceived as inviting the public to subscribe, marketing (direct and indirect), and virtually any communication that may result in offering, selling or issuing securities.

6.4 Private Placements

Securities may be offered by public offer or private placement. A private placement is an offer that falls under any of four categories: (i) an offer where the issuer is the government of Saudi Arabia,³⁴ (ii) an offer directed to a sophisticated investor, (iii) an offer which satisfies the definition of a limited offer, or (iv) an offer deemed by the Capital Market Authority to be a private placement (upon application by the issuer for such relief).³⁵ A sophisticated investor includes an Authorised Person's (see Authorised Person below) account, institutions acting on their own account, professional investors, Saudi government entities, other persons recognized by the Capital Market Authority (see Capital Market Regulator directly

below) as a sophisticated investor, and persons purchasing through a structured private placement trade. A structured private placement trade requires all communication (including the offer) between the issuer and investor to be made through an Authorised Person licensed in managing, and the Authorised Person has been engaged by the issuer as an investment manager which, among other things, enables the Authorised Person to make certain decisions regarding the acceptance of offers by the investor.³⁶ A limited offer is an offer to an affiliate of the issuer, an employee of the issuer or its affiliates, or the offer is to no more than 60 persons (not including sophisticated investors). In the case of the latter, if the total value of the private placement exceeds five million Saudi Arabian riyals, then the minimum amount to be invested by each investor cannot be less than one million Saudi Arabian riyals.

34. Or a supranational authority recognized by the Capital Market Authority.

35. See Article 9 of Part 4 of the *Offers of Securities Regulations*, issued by the Board of Directors of the Capital Market Authority, under Resolution #2-11-2004, dated 20/8/1425H (corresponding to 4/10/2004) as amended by Resolution #2-219-2006, dated 3/12/1427H (corresponding to 24/12/2006).

36. Irrespective of the type of private placement transaction, all such trades must be made through an Authorised Person licensed, at least, in arranging (for further information see paragraph 6.1) and notice of such private placement must be made in advance to the Capital Market Authority.

6.5 Capital Market Regulator

The Capital Market Authority (“CMA”) administers and enforces securities regulations in the Kingdom of Saudi Arabia. Among other things, its authority includes the regulation of Saudi Stock Exchange and market participants, and companies issuing securities regarding disclosure and trading in their shares. The CMA is a public agency of the Kingdom of Saudi Arabia with authority derived directly from the *Capital Market Law*. It has a wide range of authority to achieve these objectives.

The CMA is divided into seven divisions: Corporate Finance and Issuance,³⁷ Capital Market Institution Supervision,³⁸ Market Supervision,³⁹ Enforcement,⁴⁰ Legal Affairs,⁴¹ Strategy and Research,⁴² and Corporate Services. The CMA is governed by a board of directors,⁴³ and led by a Chairperson. The CMA is a member of the International Organization of Securities Commissions.

37. This branch consists of four departments: Securities Listings, Financial Instruments, Mutual Funds and Mergers and Acquisitions.

38. This branch consists of four departments: Authorisation, Inspection, Prudential, and Compliance and Anti-Money Laundering.

39. This branch consists of three departments: Continuous Disclosure, Corporate Governance, and Surveillance.

40. This branch consists of five departments. It contains the typical three arms of enforcement, namely Complaints, Investigation and Prosecution. It also contains a department dedicated to “Enforcement Follow-up” and a department responsible for “Electronic Enforcement.”

41. The Legal Affairs Division is responsible for the drafting of rules and regulations, the provision of legal advice to the CMA, the negotiation of agreements with third parties and employees, and outside litigation involving the CMA as a party.

42. This division is responsible for the strategy and program management, general research, and international affairs. The division has also been delegated responsibilities to ensure operational excellence.

43. The board of directors, the Office of the General Secretary for the Board and the Office of Internal Audit are separate from the seven divisions of the CMA.

6.6 Saudi Stock Exchange

The Saudi Stock Exchange has been named the “Tadawul,”⁴⁴ which translates to trading in Arabic. The Exchange is located in Riyadh, the capital city of the Kingdom of Saudi Arabia. It was established by statute as a joint stock company and is the only authorised Marketplace to carry out trading in securities in the Kingdom, unless the trade itself is exempt or the securities are traded on a foreign regulated market. The Listing Rules applicable to the Tadawul are published as regulations by the Capital Market Authority. Currently, the only form of securities traded on the exchange are equity shares of listed companies, *Sukuks* (units of Islamic bonds) and Exchange-Traded Funds.⁴⁵

For a company’s shares to be listed on the Tadawul, the issuer must be a joint stock company, incorporated under the laws of Saudi Arabia, have at least 200 public shareholders (not including directors, senior officers or substantial shareholders of the issuer or an affiliate), at least 30 percent of the total issued and outstanding shares of the issuer must be listed, and the market value of the same must be at least 100 million Saudi

44. The Tadawul originally referred to the electronic trading platform of the exchange.

45. Further information on the Tadawul can be found at www.tadawul.com.sa.

6. Capital Markets (cont'd)

Arabian riyals.⁴⁶ A number of other requirements also apply, including the distribution of a prospectus approved by the Capital Market Authority, senior management of the issuer with demonstrated prior experience and sufficient expertise, etc.

6.7 Depository

The Securities Depository Center is established by statute with the sole authority to provide depository, transfer, settlement, clearance and registration of ownership securities traded on the Tadawul. The Securities Depository Center is currently operated by the Tadawul.

6.9 Investment Vehicles

Current Saudi capital market and securities regulations only recognize the trading of equity shares of companies, *Sukuks* (units of Islamic bonds), and units of investment funds (including real estate investment funds, mutual funds and exchange traded funds).

The lack or absence of any restrictions on the issuances of another form of security does not necessarily mean that other types of securities may be freely traded in the Kingdom of Saudi Arabia. Those interested in issuing or trading new forms of securities are encouraged to contact the Capital Market Authority to determine if such securities may be traded in the Kingdom.

12 | 6.8 Disputes

The Committee for the Settlement of Securities Disputes serves as an independent and autonomous tribunal with jurisdiction over all disputes arising from the laws and regulations governing the capital market. The Committee may issue subpoenas and orders for the production of evidence, and its judgments may include sanctions. Decisions of this Committee may be appealed to an appellate panel of adjudicators.

46. See Article 9 of the *Listing Rules*, issued by resolution of the Board of Capital Market Authority, No. 3-11-2004, dated 20/8/1425H (corresponding to 4/10/2004).

7. Import

7.1 Liberalization, GCC and the World Trade Organization

Subject to certain restrictions (see 7.3 below), the Kingdom of Saudi Arabia generally permits the importation of goods. Historically, import tariffs have been used, among other things, to assist the development of domestic industries. However, on December 11, 2005, the Kingdom became the 149th member of the World Trade Organization. As part of the Kingdom's Accession Protocol commitments, Saudi Arabia is entering into bilateral agreements and reducing barriers to international trade, including import tariffs.

The Kingdom of Saudi Arabia is a member of the Gulf Cooperation Council.⁴⁷ The GCC common market began on January 1, 2008. Among other things, the GCC members adopted unified customs legislation which includes the Single Entry Point principle. This principle permits goods imported in any

member country to traverse other member country borders without further examination or inspection.⁴⁸

7.2 Saudi Arabian Department of Customs

The Saudi Arabian Department of Customs (commonly referred by its abbreviation, "SADC") is responsible for enforcing Saudi laws and regulations for items imported into the Kingdom. SADC is a department of the Ministry of Finance. Its stated objectives are the interdiction of contraband, collection of customs duties, facilitation of export and the promotion and protection of domestic industries.

7.3 Prohibited and Restricted Goods

Certain goods are prohibited or restricted from entering the Kingdom. Prohibited goods are banned for import and export and restricted goods require approval for importation or exportation. Prohibited goods include, for example, counterfeit goods, pornography, narcotics, alcohol, live pigs and pork products, frog's legs, mace, hemp and poppy seeds, and items containing any of the aforementioned. Restricted goods include, for

example, pharmaceutical products, live animals (not otherwise prohibited), plants and vegetables and bibles. Manufactured and prepared items that do not contain an irremovable indication of country of origin may be barred from entry into the Kingdom.⁴⁹

7.4 Certification for Imported Goods

The Kingdom of Saudi Arabia has adopted the Certificate of Conformity Program. Every good imported into the Kingdom must be accompanied by a certification that the good being imported conforms to applicable Saudi standards.⁵⁰ This requirement applies to domestically-manufactured goods as well, save for a few minor exceptions. The GCC is developing a common Certificate of Conformity Program.

7.5 Customs Duties

Customs duties apply to the importation of goods. For the most part, duties range from zero rating (or

47. The name of this trade pact is the Cooperation Council for the Arab States of the Gulf, but is usually referred to as the Gulf Cooperation Council and consists of Bahrain, Oman, Qatar, Kuwait, United Arab Emirates and the Kingdom of Saudi Arabia.

48. See www.ustr.gov/assets/Document_Library/Reports_Publications/2009/2009_National_Trade_Estimate_Report_on_Foreign_Trade_Barriers/asset_upload_file856_15503.pdf.

49. For further information on prohibited or restricted goods, go to the Customs website at www.customs.gov.sa.

50. Until 2004, the Kingdom applied the *International Convention on the Harmonized Commodity Description and Coding System*, originally signed in Brussels on June 14, 1983. Items were coded into international classifications and listed on a certificate of conformity attesting that certain standards had been met. See Councils of Ministers Resolution No. 6386, dated 21/6/1425H (corresponding to 7/8/2004).

7. Import (cont'd)

exempt) to 40 percent. Cigarettes and tobacco products are subject to a 100 tariff. Generally speaking, some basic foodstuffs that are not otherwise cultivated in the Kingdom and items deemed essential to Saudi industry are exempted or zero rated, while most products are subject to a 5 percent tariff.

7.6 Customs Duties of Personal Effects

Generally speaking, customs duties do not apply to personal effects and gifts in the possession of persons entering the Kingdom.⁵¹ Personal effects and gifts are not defined, but they cannot be of commercial nature (for example, they cannot be imported in “commercial quantities”), exceed a value of 3,000 Saudi Arabian riyals, or otherwise prohibited by law.⁵² Personal effects and gifts need not be declared. Residents wishing to import a personal car or truck will be subject

to 5 percent or 12 percent respectively, and are restricted to importing one vehicle per year.⁵³

7.7 Official Boycotts and Sanctions

Importers should be aware that the Kingdom has enacted and enforces legislation regarding economic boycotts of designated countries and suppliers.⁵⁴

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51. Article 103 of the *Common Customs Law* for the Arab States of the Gulf.

52. Articles 1 and 103 of the *Common Customs Law* for the Arab States of the Gulf.

53. Importers wishing to import vehicles more frequently must obtain an import of goods license. The importer, whether for personal or commercial use, must ensure that the vehicle is in a condition and has a previous history that is acceptable for importation. For example, cars that were used as taxis, used with a police service, were previously involved in a collision, or were previously submerged are prohibited from importation. Other restrictions also apply.

54. You are encouraged to contact an importer or legal counsel for further information.

8. Foreign Exchange Regulations

There are no restrictions on the repatriation of capital investment or income. The government has enacted the *Foreign Investment Law*⁵⁵ that permits, among other things, a foreign investor to repatriate, or dispose in any lawful manner, its profits, remaining surplus upon liquidation, or earnings from sale of investment in the Kingdom.

55. *Foreign Investment Law*, issued by Royal Decree No. M/1, dated 5/1/1421H (corresponding to 10/4/2000).

9. Foreign Investment

9.1 General

A foreign investor is any foreign national, or any company where less than all of the investors are Saudi nationals, who invests or intends to invest in the Kingdom.⁵⁶

Foreign investment is regulated in the Kingdom of Saudi Arabia. A foreign investor cannot invest in any commercial activity expressly listed in the Negative List (see 9.3 for more information). A foreign investor wishing to invest in the Kingdom must first obtain an investment license from the Saudi Arabian General Investment Authority (“SAGIA”), irrespective of how long the investor intends to maintain such investment in the Kingdom. SAGIA is the regulator responsible for foreign investment in the Kingdom of Saudi Arabia. Investors may seek and hold multiple investment licenses at any given time. Foreign investors may remit any income or profit accrued abroad. Notably, foreign investments may only be confiscated by order of a

court of competent jurisdiction, and any expropriation of such assets or investments must be compensated for its fair value.⁵⁷

9.2 Purchase of Property

Foreign investors may acquire property in the Kingdom to the extent that such property is used in the furtherance of their activity as licensed and as residential quarters. Also, foreign nationals are permitted to purchase property if such property shall serve as their principal residence.⁵⁸

9.3 Negative List

The Supreme Economic Council has authority to determine which activities are excluded from foreign investment.⁵⁹ This council has issued such a list, which is commonly known as the Negative List. It includes, among other things, various activities including oil exploration, oil production (with some exceptions), manufacture of military equipment or apparel, production of explosives, real estate brokerage services, security services, some

media and press services, recruiting and employment services, Hajj pilgrimage and physiotherapy.⁶⁰

9.4 Investing in Mecca and Medina

The Negative List specifically bars foreign investment in real estate in Makkah al Mokarramah and Madinah Monawwarah, the cities more commonly known as Mecca and Medina.⁶¹ This does not prohibit foreign investors from entering into short-term leases in those cities.

9.5 Anti-circumvention Rules

Generally, Saudi law prohibits the circumvention of laws and regulations that require licensing or registration of foreign nationals. Prohibition of such activity applies to Saudi nationals and non-Saudi nationals alike. These prohibitions can be found in the *Anti-cover-up Law*⁶² and the *Implementing Regulations of the Anti-cover-up Law* (“Anti-cover-up Laws”). These are commonly referred to as the Anti-Harboring Law and the Implementing Regulations to the Anti-Harboring Law. An abettor,

56. See Article 1 of the *Implementing Regulations of the Foreign Investment Law*, issued by resolution of the Board of Directors of Saudi Arabian General Investment Authority, decision No. 1/20, dated 13/4/1423H (corresponding to 24/6/2002). The investment must be an investment of money, bank notes, commercial paper, tools, equipment, spare parts and non-tangible property (such as intellectual property and technical knowledge). Notably, the definition suggests that a company incorporated in a foreign jurisdiction with shareholders who are all ultimately Saudi nationals is not deemed a foreign investor.

57. See also: <http://www.sagia.gov.sa/english/index.php?page=cost-of-doing-business-2>.

58. See Article 8 of the *Foreign Investment Law*.

59. See Article 3 of the *Foreign Investment Law*.

60. *List of Activities Restricted to Foreign Investment* (“Negative List”).

61. See B(3) of the Negative List.

62. *Anti-cover-up Law*, issued by Royal Decree, No. M/22, dated 4/5/1425H (corresponding to 22/6/2004).

known as a harbinger, may be an individual or company of any citizenship or place of incorporation.

The Anti-cover-up Laws are based on two principles:

(1) non-Saudi nationals cannot invest, or engage in any licensed activity, where she or he is not licensed under the *Foreign Investment Law*, other laws or instructions; and

(2) a harbinger is defined as any person, whether Saudi national or non-Saudi national, who enables a non-Saudi national to invest, or engage in any licensed activity, for which the latter non-Saudi national is restricted from investing or engaging in.

Examples of an offending scheme under the Anti-cover-up Laws include schemes where a non-Saudi national invests in a commercial operation in the name of a Saudi national as ostensible investor or where a harbinger enables a non-Saudi national to engage in prohibited activities, such as brokerage, through the harbinger's license.

Penalties for persons contravening the Anti-cover-up Laws include, among other things, a maximum of two years imprisonment, a fine of one million Saudi Arabian riyals, joint liability of all taxes, fees and Zakat not otherwise collected in

the offending scheme, revocation of government licenses or authorizations, ban from practicing the activity for a maximum of five years, and deportation of its principals in such scheme.

The Anti-cover-up Laws contain a whistle-blower provision providing the Minister of Commerce and Industry with the discretion to award up to 30 percent of the collected fine to a whistleblower who did not participate in the offending scheme. Notably, false reporting by a purported whistleblower is also actionable and the defendant has a cause of action under this law.

9.6 Disputes

Disputes regarding the application of the foreign investment law and its regulations may be heard and resolved before the Committee for the Settlement of Investment Disputes. The Investment Disputes Settlement Committee is governed by the rules of arbitration, as adopted under the *Arbitration Law*.⁶³ Violations of the Anti-Harboring Laws are prosecuted

by the state and heard before the Board of Grievances (see Paragraph 2.3 "Judicial Systems").⁶⁴

63. Article 26 of the *Implementing Regulations of the Foreign Investment Law*, issued by resolution of the Board of Directors of Saudi Arabian General Investment Authority, decision No. 1/20, dated 13/4/1423H (corresponding to 24/6/2002).

64. Article 2(3),(4) of the *Anti-cover-up Law*, issued by Royal Decree, No. M/22, dated 4/5/1425H (corresponding to 22/6/2004).

10. Government Procurement

10.1 General

The Kingdom has enacted regulations governing the public bidding process for government contracts.⁶⁵ As a general rule, a Ministry or other organ of the government seeking procurement of goods or services must select contractors through a public bidding process.

10.2 Announcing the Tender

The tender offeror must provide clear, adequate and standard information regarding the goods or services. Such bids shall, at least, be advertised in the Official Gazette (in print and on its website), two local newspapers,⁶⁶ and on the website of the tendering government body. Such notices must contain the time and place for submitting bids and information on the opening of the bids.

10.3 Exempted from Public Tendering

The public procurement process is not required in the following circumstances:

- the value of the contract for the procurement of the goods or services does not exceed 300,000 Saudi Arabian riyals;
- the value of the contract for the procurement of goods does not exceed one million Saudi Arabian riyals and the procuring government body determines that the procurement is urgent;
- medical supplies required on an urgent basis in the event of an epidemic;
- the procurement of military arms, equipment and/or their parts;
- consulting services and technical works;
- the procurement of certain professional services (accounting and legal), mechanical, electrical and electronic equipment, and their spare parts and where no suitable substitute is available through a direct purchase, under certain conditions; and
- an exemption by the Prime Minister for any government contract, following a review process to determine the appropriateness of such exemption.

10.4 Submission of Bids

A bid must be submitted in a sealed envelope by registered mail or hand held courier. Once submitted, any subsequent submission that in any way modifies the contract price cannot be accepted. A late bid cannot be accepted. The sealed envelopes containing the bids for any procurement are opened before a committee comprised of not less than four members following the deadline for submission.

10.5 Selection of Winning Bid

An evaluation committee reviews the submissions and recommends the winning bid. This recommendation is recorded in minutes of the meeting and submitted to the government official who is designated and authorised to select the winning bid. Notably, preference may be given to domestically manufactured goods or local services. Where the evaluation committee determines the lowest bid exceeds market prices, the evaluation committee may negotiate with the lowest bidder to lower the bid to market value. If the lowest bidder does not agree to lower such price, the committee may negotiate with the next lowest bidder to obtain the same market price. If negotiations fail with this bidder, the committee

65. *Government Tender and Procurement Regulations*, issued by Royal Decree No. M/58, dated 4/9/1427H (corresponding to 27/9/2006).

66. Local means in the region where the tender contract would be carried out or completed.

may negotiate with the next highest bidder and so on. If the lowest bid price exceeds funds allotted for the tender, the government party may terminate or alter the tender offer to reduce costs.

The evaluation committee may exclude a bidder if the committee determines that the bid is 35 percent less than prevailing market rates or that the bidder is over-committed to other projects.

10.6 Validity of Bid

The validity of a bid is 90 days from the opening of the bids. This period cannot be extended without the consent of the bidder. A decision on the winning bid must be made during the bid period.

10.7 Bid Bond

Bids must contain a preliminary deposit to guarantee that bid. This is referred to as the bid bond. The value of the preliminary deposit must be between 1 or 2 percent of the bidder's offer. Generally, a preliminary deposit is not required for direct purchases, where the bidder is a charitable organization (and is not sub-contracting any work), or where the bidder is another Saudi government body. If the bid is revoked during the bid

review process, the preliminary deposit is forfeited to the procuring government body.

The successful bidder must submit a completion guarantee. This is a final guarantee equal to 5 percent of the full value of the contract within ten days of the bid being awarded. The deadline may be extended for another ten days. Failure to submit the completion guarantee within this period may result in the loss of the preliminary deposit and the award. Completion guarantees are not mandatory where the contract involves direct purchases or where a cash deposit is provided for certain contracts (such as catering services).

In the Kingdom of Saudi Arabia, bid bonds and completion guarantees are procured from Saudi-licensed banks.

11. Establishing a Presence In The Kingdom

11.1 General

A foreign person or company can conduct business in the Kingdom through an affiliated Saudi company, a Saudi agent or distributor, or through a branch office.

A foreign party that wishes to conduct business in the Kingdom must first determine the specific business activities that it wishes to engage in and obtain a license for such activities. Some activities are restricted to Saudi nationals only (see Item 9.3 Negative List above), and other activities may require partial Saudi national participation. In all cases, the foreign party must obtain an investment license from SAGIA before engaging in such activities. In most cases, the Ministry of Commerce and Industry (“MOCI”) will not permit the establishment of a Saudi company or branch office until the foreign party obtains an investment license. Please see Chapter 9 entitled Foreign Investment for further information.

11.2 Establishing a Saudi Company

A foreign company may establish a business presence in the Kingdom through the incorporation of an affiliated Saudi company.⁶⁷ Such incorporation is available following

67. Typically, an initial concern is the corporate form which will dictate the minimum number of shareholders. See Chapter 12, entitled “Company Law,” for further information.

the completion of the investment licensing process, described in Section 11.1 above.⁶⁸

11.3 Establishing a Branch Office

Foreign entities may establish a presence in the Kingdom by establishing a branch office.⁶⁹ Such applications are made in conjunction with the filing for a foreign investment license with the Saudi Arabian General Investment Authority.⁷⁰

11.4 Using an Agent

Alternatively, foreign entities may conduct business in the Kingdom by appointing a commercial agent or distributor.

In the case of commercial agencies and distributorships, the *Commercial Agencies Law*⁷¹ and its regulations apply. Accordingly, only Saudi nationals may serve as agents or distributors, and they must be duly registered as

68. For more information on establishing a company, see Chapter 12, entitled “Company Law.”

69. Article 228 of the *Companies Law*, issued by Royal Decree No. M/6, dated 22/3/1385H (corresponding to 22/7/1965).

70. Registration of the branch office is made through the Ministry of Commerce and Industry with the filing forwarded from SAGIA. For more information see: www.commerce.gov.sa/english/moci.aspx?Type=8&PageObjectId=821.

71. *Commercial Agencies Law*, issued by Royal Decree No. M/11, dated 20/2/1382 (corresponding to 22/7/1962).

a commercial agent with MOCI. Before commencing any such relationship, the agency or distribution agreement must be filed with MOCI.⁷² Notably, the duration of the relationship and method of renewal must be stipulated in such filing.

11.5 Opening a Technical Support Office

A foreign company importing or exporting goods into or from the Kingdom and that has an agent or distributor in the Kingdom may open one or more local offices to provide technical and scientific services to their registered agents, distributors and/or customers. A technical support office (also referred to as a technical and scientific office) is limited to the aforementioned support role and cannot engage in activities which by themselves generate income in the Kingdom.

In order to obtain the requisite registration to open a technical support office, the foreign party must submit a recommendation from the foreign company’s agent or distributor to open such offices and demonstrate that the goods to be serviced have already been distributed in the Kingdom.⁷³ As discussed in Section 11.1 above, a foreign investment license from the Saudi Arabian

72. If the agreement is in any language other than Arabic, the agreement must be translated before being submitted to MOCI.

73. For more information, see: www.commerce.gov.sa/english/moci.aspx?Type=8&PageObjectId=822.

General Investment Authority must also be obtained before requesting the certificate establishing the Technical Support Office with MOCI.

11.6 Obtaining a Temporary License

A foreign company whose activity in the Kingdom consists exclusively of contracting with government entities may obtain temporary licenses. These temporary licenses are colloquially referred to as “representative offices.” In order to obtain a temporary license to carry out its contractual obligations with the Kingdom, the foreign company must file an application for temporary license with the Ministry of Commerce and Industry within 30 days of signing such government contract.⁷⁴ As discussed in Section 11.1 above, a foreign investment license from the Saudi Arabian General Investment Authority must also be obtained.

74. Further information on obtaining a temporary license may be found at: www.commerce.gov.sa/english/moci.aspx?Type=8&PageObjectId=820.

11.7 Chamber of Commerce and Industry Membership

Newly formed companies, branch offices and technical support offices must become members of their regional chamber of commerce and industry before engaging in any business activities. Membership is paid annually and is divided into second class, first class and premier class. Each class of membership provides different benefits.⁷⁵

11.8 Other Government Registrations

Newly formed companies, branch offices and technical support offices must register with the Department of Zakat and Income Taxation for income tax purposes, and register with the General Organization for Social Insurance for employee benefits and insurance. For further information on tax, see Chapter 16.

75. For further information, you may peruse the website of the Council of Saudi Chambers at: www.saudichambers.org.sa/index_en.htm. The Council coordinates with the regional Chambers of Commerce and Industry to develop the national economy.

11.9 SAGIA Business Centers

To assist foreign investors to invest in the Kingdom, SAGIA has established SAGIA Business Centers (“SBC”). These centers were developed to provide support to foreign investors in navigating local rules and regulations concerning the establishment of a business. SBCs contain representatives from various ministries and agencies, such as the Ministry of Labor, Ministry of Commerce and Industry, and the Director General of Passports. There are also representatives from the Chamber of Commerce and Industry.

One of the center’s roles is to collect all the information on behalf of the foreign investor and streamline the licensing process by filing documents on behalf of the foreign investor. Another role is to inform foreign investors of investment opportunities and applicable rules and regulations in the Kingdom.⁷⁶

76. For further information, see: www.sagia.gov.sa/en/Success-stories/What-We-Do/.

12. Company Law

12.1 General

The creation, governance and winding-down of business entities are governed by the *Companies Law*.⁷⁷ The *Companies Law* regulates all forms of companies and partnerships, and includes provisions for liquidations, mergers and conversions of corporate form.⁷⁸ This statute also requires licensing for foreign companies intending to conduct their business activities in the Kingdom, by local branch office, Saudi-incorporated subsidiaries or otherwise.

12.2 Forms of Corporate Entities

All corporate entities are formed following the execution of an incorporating contract. Where an entity is not properly formed, persons executing agreements under the names of such entities shall be

77. *Companies Law*, issued by Royal Decree No. M/6, dated 22/3/1385H (corresponding to 22/7/1965). This law is under review and expected to be superseded by a new *Companies Law* in the near future.

78. It should be noted that this legislation has significant differences than that of business association legislation in common law countries, and, to a lesser extent, than that of European civil law jurisdictions. For example, under the *Companies Law*, a company is a contract in which two or more persons are committed to contribute to a project with the view to profit. Partnerships are not distinguished from other entities in the same manner as in common law. For example, under Article 13 of the *Companies Law*, all the business forms, except for the partnership company, have their own independent legal status.

personally responsible for the obligations under that agreement. The *Companies Law* recognizes eight types of corporate entities, which are:

- Joint stock company
- Limited liability company
- Cooperative company
- Joint liability partnership company
- Limited partnership
- Partnership limited by shares company
- Variable capital company
- Partnership company

The joint stock company and the limited liability companies are the most common forms of corporate entities in the Kingdom of Saudi Arabia.

12.3 Joint Stock Company

A joint stock company (“JSC”) is the most similar entity to a US C-Corp, German Aktiengesellschaft (commonly known by its acronym, “AG”) or the French Société anonyme (commonly known by its acronym, “SA”).

A joint stock company consists of five or more shareholders whose maximum liability is the extent of their capital contribution. A joint stock company has minimum capital and stock requirements. The share capital cannot be less than two million Saudi Arabian riyals or ten million Saudi Arabian riyals if such shares are offered to the

public.⁷⁹ At least 50 percent of the minimum capital required is to be paid into the joint stock company at the time of incorporation. Each share must be of equal value with a minimum par value of ten Saudi Arabian riyals.

A joint stock company whose initial share issuance is restricted to the founders of this company is commonly referred to as a ‘Closed Joint Stock Company.’ Any issuance of joint stock company shares that does not fall under this category is, generally speaking, deemed to be an offer to the public.⁸⁰ In such case, the company is referred to as ‘Open Joint Stock Company.’

A joint stock company is managed by a board of directors whose board is comprised of a minimum of three directors. The term for a director cannot exceed three years, although such director may be reappointed to subsequent terms. Each director must own shares in the joint stock company with a minimum value of 10,000 Saudi Arabian riyals.

79. Please see Article 49 of the *Companies Law*. Please see Section 6.6 regarding additional requirements for companies listing on the Saudi Stock Exchange.

80. What constitutes an open joint stock company is determined by the relevant capital markets legislation. (Please see Chapter 6 - Capital Markets.)

Generally speaking, the size of the board of directors is fixed in the bylaws (unless bylaws expressly provide for a variation in the size of the board).

A joint stock company is incorporated upon the approval of the Minister of Commerce and Industry or by Royal Decree.⁸¹ Depending on the industry, such approval may require the prior approval of another government agency or regulator. This form of business entity has a number of audit/accounting, shareholder meetings (known as a “general assembly meeting”), mandatory account filings, and minimum liquid reserve requirements.

One notable and unique characteristic of JSCs, under the current *Companies Law*, is that each shareholder of a JSC has a statutory right to purchase new shares issued by the JSC where those shares are being issued in exchange for cash. Some exceptions apply.⁸²

81. In a number of cases, joint stock companies are recognized by Royal Decree during the incorporation process, including companies incorporated to provide insurance services and a number of companies established by the government of the Kingdom of Saudi Arabia.

82. This is sometimes referred to as the ‘Priority Right.’ See Article 136 of the *Companies Law*. This Priority Right may be waived by a shareholder if the JSC’s by-laws expressly permit such waiver. Other exemptions also apply.

For a comparison of a joint stock company and a limited liability company, please see Schedule 2.

12.4 Limited Liability Company

A limited liability company is similar to a US limited liability company (“LLC”), German *Gesellschaft mit beschränkter Haftung* (“GmbH”) or the French *Société à responsabilité limitée* (“Sàrl”).

A limited liability company may only have 2⁸³ to 50 LLC partners, whose liability is statutorily limited to the extent of their capital contribution in the company.⁸⁴ There is no minimal share capital requirement for LLCs, although whatever share capital is finally selected must be fully paid-up by incorporation. Each share is of equal value and is non-transferable. Ownership of a share cannot be represented by a physical certificate.⁸⁵ Consequently, this corporate form is not suitable or permitted for shareholders wishing to offer their

83. In the event the limited liability company only has two LLC partners, the minority shareholder must hold at least 5 percent of the share equity of the limited liability company.

84. There is some debate whether Islamic legal principles expand LLC partner liability beyond capital contribution.

85. See Article 158 of the *Companies Law*. The Company must maintain a share registry which lists the name of the partners, the number of shares owned by each partner, and the amount paid for such shares. Any transfer of shares must be registered in such share registry. See Article 166 of the *Companies Law*.

shares to the public. Also, Saudi law bars limited liability companies from engaging in a number of business activities.⁸⁶

LLCs are managed by one partner or a board of individuals (who may be partners or otherwise), which is known as the board of managers.⁸⁷ The LLC has a number of requirements, including audit/accounting, shareholder meetings, mandatory account filings, and minimum liquid reserves that must be observed.

One notable characteristic of an LLC, under the current *Companies Law*, is that an LLC partner has a statutory right of first refusal over transfers of LLC shares. Accordingly, if an LLC shareholder wishes to dispose of his or her shares of the LLC, the other LLC partners must first be provided the opportunity to purchase those shares before any outside investors on those

86. For example, businesses wishing to engage in banking or insurance services cannot be incorporated as limited liability companies. See Article 159 of the *Companies Law*. Article 8(a) of the *Listing Rules* only permits joint stock companies to apply to list with the Saudi Stock Exchange.

87. The rights and obligations of the Board of Managers must be stipulated in the Company’s articles of association. See Article 167 of the *Companies Law*. However, Article 170 dictates that if the LLC has over 20 partners, the articles of association must provide for the establishment of a Board of Managers that consists of a minimum of three partners.

12. Company Law (cont'd)

terms as offered to such outside investors. Some limited exceptions apply.⁸⁸

12.5 Cooperative Company

A cooperative company is not a corporate form, but a legal status accorded to a joint stock company or limited liability company.⁸⁹

Such status creates certain statutory restrictions (such as auditing requirements) but confers the opportunity to benefit from other statutes (including eligibility for certain funding).⁹⁰

A joint stock company or limited liability company may be registered as a cooperative company where the company has been established for the following purposes:

(1) reduction in the cost of purchasing products, services from the manufacturer or service provider or (2) improvement of the quality of goods or services to the consumer market.

The requirements of the underlying joint stock company and the limited liability company remain, as described in the applicable sections

above. However, all partners are endowed with equal rights. The par value of shares must be, at least, ten Saudi Arabian riyals but not more than 50 Saudi Arabian riyals. The shareholders must have paid 25 percent of the total cost of their shares at the time of incorporation and the remainder must be paid within three years. A cooperative company is managed by a board of directors, which is comprised of a minimum of three directors. These directors cannot be compensated for their services.⁹¹

12.6 Other Corporate Entities

This various corporate entities permitted under Saudi law are as follows:

(a) Joint liability partnership

A joint liability partnership company (“JLP”) is sometimes referred to as a general partnership because of its similarities to a general partnership. A JLP consists of, at least, two partners who are jointly, severally and personally liable for all of the debts of the partnership. A JLP carries the name of, at least, one of its partners. The partners jointly manage the JLP, or as described in the incorporating contract.

Formation of JLPs require a number of administrative steps, including the execution of an incorporating

contract between the partners, the publishing of the incorporating contract in certain daily publications, registration of the JLP with the Companies Registry, and so forth.

(b) Limited partnership

A limited partnership is also referred to as a “partnership in commendum company” (“PCC”). A PCC consists of at least one general partner who is liable for all of the debts of the PCC to the full extent of his assets and at least one limited partner who is liable only to the extent of the value of his share in the PCC. The limited liability protection afforded by a PCC to a limited partner may be breached where that limited partner participates in external acts of management, such as acting as an agent or proxy for the general partner(s) or where the limited partner’s name is used in the PCC’s name. Generally speaking, the PCC is managed by its general partners. This corporate form must be registered with the Companies Registry.

(c) Partnership limited by shares

This form of limited partnership is also known and described as a “stock commandite company” (“SCC”). It has characteristics similar to the French Société en commandite par actions (“SCA”) and the German Kommanditgesellschaft auf Aktien (“KGaA”).

An SCC has, at a minimum, one general partner and four limited partners. As with other limited partnerships, the limited partners’

88. See Articles 158 and 165 of the *Companies Law* for a description of the applicable right of first refusal and the process. These provisions indicate, among other things, that such right of first refusal does not apply in testamentary gifts or intestacy.

89. See Article 190 of the *Companies Law*.

90. See Article 189 of the *Companies Law*.

91. See Articles 193 and 201 of the *Companies Law*.

liability is restricted to the extent of the limited partners' investment in the SCC. SCC shares must be equal, transferable and no less than 50 Saudi Arabian riyals par value. The minimum share capital must be, at least, one million Saudi Arabian riyals, 50 percent or more of which must be paid in at the date of incorporation. The day to day operations of the SCC is managed by its general partners. The shareholders appoint an oversight committee, known as the 'control council,' whose powers, responsibilities and liabilities are similar to that of a board of directors of a corporation. The control council must have at least three shareholders. This corporate form is also registered with the Companies Registry.

(d) Partnership company⁹²

This is a variation of the general partnership. It is not an incorporated entity, but rather a contractual entity. This contractual arrangement is created by an "incorporation contract" and is not otherwise incorporated or registered with any government entity. One advantage of this form is that it also provides for certain reduced liabilities. For example, acts by one partner to third parties do not subject the other partners to liability unless that first partner expressly acts in the name of the partnership company.

92. This form should not be confused with 'limited partnership company.' The term, 'limited partnership company,' is commonly used in Saudi Arabia to refer to a partnership in commendam company.

This form of partnership is generally not favored in the Saudi business community.

(e) Variable capital company

The variable capital company is, in fact, one of the other corporate forms (as described in this chapter) where its articles of association and/or bylaws permit changes in the share capital without the requisite filings to MOCI. This is not commonly found in the Kingdom of Saudi Arabia, as such companies are subject to additional restrictions to share capital.

12.7 Business Structures for Foreign Investors

Foreign investors who wish to engage in business in Saudi Arabia may establish a corporate entity, a branch office or agent. More specific rules apply for public sector contractors.⁹³

The most common corporate entities employed by foreign businesses are joint stock companies and limited liability companies. The joint stock company is the only viable option when shares are expected to be offered to the general public, providing banking or insurance services, and ventures involving the exploitation of natural resources. For many investors, the limited liability company is the most practical form

93. Public sector contractors may establish a temporary branch office for the duration of that public contract.

of incorporation. The limited liability company is a less regulated entity, and is generally perceived as faster and easier to establish.

Foreign companies may also establish a branch office to engage in business activities in the Kingdom. This is generally regulated within the scope of the *Foreign Investment Regulations*, and remains subject to the regulatory authority of the Ministry of Commerce and Industry.

12.8 Joint Venture

A joint venture in Saudi Arabia is not a recognized legal status. Joint ventures may be established by incorporating a company or operating under the auspices of a partner company. Typically, joint ventures in Saudi business circles refer to limited liability companies with some form of foreign participation.

In some cases, it may simply be an association of two or more persons that is not made known to third parties. In such case, any dealing with third parties would be considered a personal engagement by the third party and the joint venture partner. The third party would only have recourse against the joint venture partner with whom the third party had business dealings. This form of joint venture is not subject to the publication requirements applicable to other forms of corporate entities.

12. Company Law (cont'd)

12.9 Cooperative Companies

Professional and trade associations are generally established through a cooperative association. A cooperative association is an association for the purpose of improving the economic or social condition of its members, such as increasing production, marketing the member's wares or services or providing services to its members in furtherance of these objectives.⁹⁴ In order to establish a cooperative association, draft articles of association must be filed with, and approved by, the Ministry of Social Affairs.

12.10 Not-for-profit Companies

Saudi law does not recognize a corporate entity which is expressly prohibited from amassing profit. See "Cooperative Company" for companies established for the public good or charitable objectives.

12.11 Creditor Arrangements When Insolvent

Saudi law permits creditor arrangement in the event of insolvency and in order to avoid bankruptcy

94. For further information, see the *Law of Cooperative Associations*, issued by Royal Decree No. M/14 10/3/1429H (corresponding to 18/3/2008).

proceedings.⁹⁵ Any person, individual or company, involved in commercial activities who is unable to pay all of its debts, may file a request for a creditor arrangement with the Board of Grievances. The purpose of such a filing is to seek a settlement with the insolvent person's creditors, and to satisfy all outstanding debts owed to its creditors. Such arrangements may include repayment of debts in installments, waiver of a portion of the debt, deferment of dates such debts are due and payable, and the appointment of a manager to cause the arrangement to be effected.⁹⁶

12.12 Bankruptcy

Saudi law provides for a court-administered bankruptcy process.⁹⁷ A bankrupt is defined as a person who cannot pay all debts owing, but this definition is, generally, restricted to persons engaged in

95. *Bankruptcy Preventive Settlement Law*, issued by Royal Decree No. M/16, dated 4/9/1416H (corresponding to 25/1/1996).

96. See Articles 8 and 9 of the *Bankruptcy Preventive Settlement Law*, issued by Royal Decree No. M/16, dated 4/9/1416H (corresponding to 25/1/1996).

97. Chapter 10, Part 1 of the *Commercial Court Law*, issued by Royal Decree No. M/32, dated 15/01/1350H (corresponding to 2/6/1931). In the case of Saudi companies that become bankrupt, additional bankruptcy provisions are found in Article 15 and Articles 216 to 226 of the *Companies Law*, issued by Royal Decree No. M/6, dated 22/3/1385H (corresponding to 21/7/1965).

trading or companies.⁹⁸ A petition for bankruptcy may be filed by the person claiming bankruptcy or one of his creditors. Such petition must be made to the Commercial Court. If the court determines that the debtor is bankrupt, it may order that all business activities cease and that the bankrupt be placed under supervision or trusteeship. If the bankrupt is an individual, the individual may be imprisoned until all debts are settled.

Pending the outcome of the court's decision, the court will order a council to be appointed to manage the bankrupt's affairs. The council is comprised of one member of the court to serve as secretary, along with two other creditor-appointed representatives in the council to serve as the creditor trustees. The creditors may reach a settlement with the bankrupt, and, if approved by the court, the settlement shall be binding on all parties. Failing that, the council shall draft a report regarding the state of affairs of the bankrupt and the court may make its determination based on that report.

98. See Articles 103 to 109 of the *Commercial Court Law*, issued by Royal Decree No. M/32, dated 15/01/1350H (corresponding to 2/6/1931). Bankrupts are divided into three categories, each of which is a person who keeps books and records. Article 105 describes a true bankrupt as someone who has engaged in trading as a profession.

13. Labor Law and Social Insurance

13.1 General

The *Labor Law*⁹⁹ and its regulations govern the conduct of employers and employees in the workplace. This regulatory framework governs those working for an employer under the employer's supervision for a salary, and includes full-time employment, part-time employment and apprenticeships. However, certain professions are expressly exempt from the *Labor Law* and seasonal and temporary workers are only subject to certain provisions of the *Labor Law*.¹⁰⁰

13.2 Working Hours for Employees

The *Labor Law* stipulates that the maximum working hours for employees is eight hours a day or 48 hours per week, except for certain occupations, statutory holidays and the holy month of Ramadan. During Ramadan, the maximum working term for Muslims is six hours a day or 36 hours per week. The Ministry of Labor has published circulars extending select

occupations to nine hours per day and reduced certain others to seven hours per day. Employers seeking increased working hours per week must apply for special dispensation from the Ministry of Labor. For example, in seasonal occupations and some service industries (including hospitality and restaurants), the Minister of Labor has extended working hours to nine hours per day.

The work day tends to be longer than in other countries to compensate for the daily breaks for food and prayer which are not included in the eight working hours.

Saudi labor law recognizes Saturday to Thursday as the work week. However, many employers recognize all of Thursday or Thursday afternoon as forming part of the weekend. In addition to statutory holidays, each employee is entitled to, at least, 21 days of paid annual holiday leave.¹⁰¹

13.3 Minimum Wage and Overtime

There is no minimum wage. However, the *Labor Law* provides that overtime is 150 percent of the set wage.

101. After five years of service, the minimum annual paid leave is increased to 30 days. See Article 109 of the *Labor Law*.

13.4 Foreign Workers and Saudization

The *Labor Law* and its regulations were devised, among other goals, to regulate employment of foreign nationals and encourage employment opportunities for Saudi nationals. Consequently, employment of foreign nationals is available subject to certain requirements and certain occupations are restricted to Saudi nationals.¹⁰² The Kingdom of Saudi Arabia is pursuing the objective of full employment for Saudi nationals in the Kingdom's workforce and self-sufficiency, by introducing measures to train and hire Saudi nationals over foreign nationals.

13.5 No Labor or Trade Unions

The *Labor Law* and its regulations do not contemplate collective bargaining or the formation of labor and trade unions in the Kingdom. Historically, labor or trade unions were illegal. Disputes between employees and employers must be resolved through an administrative tribunal process.

102. For example, security guards, recruiters, retail cashiers and government relations personnel must be Saudi nationals.

99. *Labor Law*, issued by Royal Decree No. M/51, dated 23/8/1426H (corresponding to 27/9/2005). The categorization of employment law for employer-employee matters and labor law for trade union and collective bargaining matters does not exist in the Kingdom of Saudi Arabia.

100. For example, domestic servants and maids, foreign nationals who work in the Kingdom for two months or less, and seafaring workers at work on ships of 500 tons or smaller. See Article 7 of the *Labor Law*.

13. Labor Law and Social Insurance (cont'd)

13.6 Social Insurance

An employer must contribute two percent of an employee's current aggregate salary and benefits to the General Organization for Social Insurance (commonly known by its acronym, GOSI), for occupational health and safety coverage for that employee.

An employer must contribute an amount equal to 9 percent of the aggregated salary and benefits of each Saudi national it employs, to GOSI, as a contribution to that employee's pension plan.

Some occupations, such as select government employees, diplomats, soldiers and domestic servants are exempt from these social insurance contributions.

13.7 Termination of Employment

Employment may be terminated (i) at the end of a fixed-term employment agreement, (ii) where both parties agree to terminate the employment agreement, (iii) by either party for cause, (iv) at the request of the employee following due notice in an indefinite-term employment agreement, (v) upon retirement, and (vi) by a decision of the Commission for the Settlement of Labor Disputes or the Appellate Commission for the Settlement of Labor Disputes.

The Kingdom has passed legislation to establish a court system with exclusive jurisdiction over labor matters, and is expected to replace the aforementioned tribunals.

13.8 End-of-Service Benefit

End-of-Service Benefits must be paid to an employee upon termination of the agreement, subject to some exceptions. For instance, at the end of a fixed-term employment agreement or upon termination of an indefinite-term employment agreement, employees are entitled to an end-of-service payment equal to one-half of a month's salary for each of the first five years of service and one month's salary for each year thereafter. Where the most recent work year is not complete, that amount is prorated. The salary at the time of termination is used to calculate these payments.

However, if an employee serving under an indefinite-term employment agreement voluntarily resigns, then the payments are altered. If that employee has not completed two years of service, he will not be entitled to any end of term benefits. If that employee has completed between two to five years of service, he is entitled to only one-third of the usual end of service benefit, and if he resigns after five years but before ten years, he is only entitled to two-thirds of the typical end of service benefits. Notably, these voluntary resignation penalties do not apply in the case of termination because of force majeure or where the employee is pregnant.

14. Intellectual Property Protection

14.1 General

Intellectual property refers to certain intangible intellectual creations expressly protected by law. This usually encompasses artistic works, inventions, expressions, brand names and created images. Intellectual property is typically categorized as industrial intellectual property or copyright.

Industrial intellectual property refers to, among other things, trademarks, patents, industrial designs, integrated circuit topography and geographic indications of source. The Kingdom of Saudi Arabia has enacted legislation to protect trademarks, patents, industrial design and integrated circuit topography.¹⁰³ Generally speaking, intellectual property laws in the Kingdom do not restrict their protections to Saudi nationals or Saudi entities. These protections are extended to all applicants, including foreign nationals.

Copyright concerns the protection of artistic creations, and includes, for example, exclusivity rights over the protected work or expression, moral rights (also known as *droit de auteur*), music synchronization rights and performance rights. Although

103. *The Law of Patents, Plan Designs for the Integrated Electronic Products, Botanic Species and Industrial Specimens*, issued by Royal Decree No. M/27, dated 29/05/1425H (corresponding to 17/7/2004).

copyright is protected under Saudi law, there are no intellectual property collective societies or licensing agencies.¹⁰⁴

14.2 Trademark

Saudi law¹⁰⁵ protects trademarks, which may include names, signatures, words, letters, numbers, drawings, seals, embossed inscriptions and logos that serve to distinguish industrial, commercial, craft, agricultural products and projects. They may also include marks to indicate performance of services, which are known as service marks. Saudi law does prohibit the registration of certain distinctive marks, such as national symbols,¹⁰⁶ religious symbols, expressions or logos that violate societal mores.

Saudi law provides procedures for the registration, renewal, licensing, transfer and termination of trademarks. It also includes related criminal offenses and the bases

104. *Copyright Protection Law (Author's Rights Law)*, No. M/41, dated 2/7/1424H (corresponding to 29/8/2003). Please see Section 14.7 below for a further discussion on this issue.

105. *Trademarks Law*, No. M/21 dated 28/5/1423H (corresponding to 7/8/2002).

106. National symbols include, among other things, the flag, motto and symbols of the Kingdom of Saudi Arabia, flags or national flags, mottos and symbols of countries with reciprocal trademark protection agreements or in international agreements with the Kingdom. For further information see Article 2 of the *Trademarks Law*.

for civil claims by aggrieved private parties seeking damages through civil court.

The Trademark Section of the General Directorate of Internal Trade, Ministry of Commerce is responsible for the issuance and administration of trademarks in the Kingdom of Saudi Arabia.

14.3 Patents

A physical invention, industrial process, or an aspect of an invention or industrial process, may receive patent protection if it is new, contains an innovation, and is compatible with its intended industrial application. However, some inventions and industrial processes are expressly prohibited from being eligible for patent protection.

Under existing legislation,¹⁰⁷ owners of registered patents enjoy certain protections. Patent protection grants the patent holder exclusive use and control within the Kingdom of Saudi Arabia, unless the use is for non-commercial scientific use. Accordingly, a product with patent protection cannot be, among other things, manufactured, imported,

107. *The Law of Patents, Plan Designs for the Integrated Electronic Products, Botanic Species and Industrial Specimens*, issued by Royal Decree No. M/27, dated 29/05/1425H (corresponding to 17/7/2004).

14. Intellectual Property Protection (cont'd)

offered or sold in the Kingdom without the patent holder's consent or license.¹⁰⁸

Patent protection is evidenced in the form of a certificate, known as a patent protection deed. The General Directorate of Patents, King Abdul-Aziz City for Science and Technology is responsible for the administration of patents and issuance of patent protection deeds in the Kingdom of Saudi Arabia. Patents are effective for 20 years from the date of the filing of the application.

14.4 Protection of Formulated Flora & Organisms

The Kingdom has instituted legislation¹⁰⁹ specifically to protect newly devised plant varieties and formulated organisms.

14.5 Industrial Design

The Kingdom of Saudi Arabia has enacted a statute¹¹⁰ for the protection of industrial design.

The rights created by the patent are confined to the field of industrial activities and do not include activities conducted for the purpose of scientific research. The patent rights are valid for 15 years from the date of issuance of the patent and may be renewed for another five years at the request of the patent holder. Within two years from the date of issue of the patent, the patent holder must ensure full industrial exploitation of the patent in the Kingdom. This period may be extended for a maximum of two years provided the request is based on valid reasons. The disputes pertaining to patents are within the jurisdiction of a committee established for this purpose by a resolution of the Council of Ministers.

The General Directorate of Patents, King Abdul-Aziz City for Science and Technology is responsible for the administration and issuance of patents in the Kingdom of Saudi Arabia.

14.6 Integrated Circuit Topography

The Kingdom of Saudi Arabia has enacted legislation¹¹¹ to protect integrated circuit topography. Integrated circuit topography refers to the three-dimensional configuration or layout of electronic circuits on an integrated circuit board or other product.

The legal protection of integrated circuit topography is found in the statute which also protects industrial design, patents and formulated organisms and flora. Protection of integrated circuit topography is limited to 15 years from the date of issue. However, this protection may be extended for another five years at the request of the holder of the patent related to the integrated circuit topography. Within two years from the date of issue of the patent, the patent holder must ensure full industrial exploitation of the patent in the Kingdom. This period may be extended for a maximum of two years provided the request is based on valid reasons. The disputes pertaining to patents are within the jurisdiction of a committee established for this purpose by a resolution of the Council of Ministers.

108. In some cases, the General Directorate of Patents may issue a compulsory license. A compulsory license is akin to an automatic license where the approval of the license holder is not required.

109. The *Law of Patents, Plan Designs for the Integrated Electronic Products, Botanic Species and Industrial Specimens*, issued by Royal Decree No. M/27, dated 29/05/1425H (corresponding to 17/7/2004).

110. The *Law of Patents, Plan Designs for the Integrated Electronic Products, Botanic Species and Industrial Specimens*, issued by Royal Decree No. M/27, dated 29/05/1425H (corresponding to 17/7/2004).

111. The *Law of Patents, Plan Designs for the Integrated Electronic Products, Botanic Species and Industrial Specimens*, issued by Royal Decree No. M/27, dated 29/05/1425H (corresponding to 17/7/2004).

The General Directorate of Patents, King Abdul-Aziz City for Science and Technology is responsible for the protection of integrated circuit topography.

14.7 Copyright

The objective of the *Copyright Protection Law*¹¹² and its regulations is to protect authors of creative works in literature, arts and sciences, without regard to the type, mode of expression, significance or the purpose of composition. Specifically, copyright protection is extended to creative works published, produced, acted or displayed for the first time in the Kingdom of Saudi Arabia, creative works by Saudi nationals published, produced, acted or displayed for the first time outside of the Kingdom of Saudi Arabia, and creative works

protected under international treaties and agreements to which the Kingdom is a signatory.¹¹³

Generally speaking, copyright protection commences upon the publication, production or broadcasting of the work, as the case may be. To demonstrate the date of first publication, authors may submit their literary works to the King Fahad National Library. The library serves as a depository for books and documents.

The period of copyright protection varies depending on the type of work being protected. For example, works created by an individual are protected for the extent of that author's life plus fifty years (or fifty years following the longest living author in the event of joint works). Works where the author is not listed or the author is an incorporated entity, the period of protection shall be fifty years from the date of publication, production or broadcast. In 1997,

113. According to Article 16 of the *Copyright Protection Law*, the Minister of Culture and Information may grant an automatic publishing license, and may establish a mandatory copyright fee to be paid for use of the underlying copyrighted material under automatic license. Notably, under the Article 30 of the *Implementing Regulations of the Copyright Protection Act*, issued by Resolution of the Minister of Culture and Information No. 1688/1, dated 10/4/1425H (corresponding to 29/5/2004), applicants may file requests for and obtain automatic/compulsory licenses if certain criteria are met, including that the creator is unknown or otherwise cannot be contacted.

Saudi Arabia joined the Universal Copyright Convention and the Berne Convention on Copyright Protection. Consequently, foreign-owned copyright receives the same protection under Saudi law as local copyright.

Copyright protection in the Kingdom may be enforced through monetary and penal punitive measures, as well as through certain injunctive relief, such as confiscation of the infringing goods and the temporary closure of the facility that was used in such infringements.¹¹⁴

The General Administration of Copyright of the Ministry of Culture and Information is responsible for the administration of copyright in the Kingdom of Saudi Arabia.

14.8 Publication Protection

The *Publications and Publishing Law*¹¹⁵ and its regulations serves to regulate publications in Saudi Arabia, but contains provisions

114. According to Article 22 of the *Copyright Protection Law*, violators of any provision of this statute are subject to a warning, a fine not exceeding SAR 25,000, imprisonment not exceeding six months, temporary closure of the "transgressing" facility for a duration not exceeding two months, and confiscation of the infringing goods and materials used for such infringement.

115. The *Publications and Publishing Law*, issued by Royal Decree No. M/32, dated 3/9/1421H (corresponding to 29/11/2000).

112. *Copyright Protection Law* (Author's Rights Law), No. M/41, dated 2/7/1424H (corresponding to 29/8/2003).

14. Intellectual Property Protection (cont'd)

concerning the licensing of publications and succession rights of publications to the licensor's estate.

14.9 International Treaties and Membership

The Kingdom of Saudi Arabia is a signatory of the following treaties and international agreements regarding intellectual property:

- World Intellectual Property Office Convention, since May 22, 1982
- Universal Copyright Convention, since July 13, 1994
- Berne Convention (Literary and Artistic Works), since March 11, 2004
- Paris Convention (Industrial Property), since March 11, 2004
- Patent Office of the Gulf Cooperation Council, since December 23, 1992

14.10 Intellectual Property Disputes

Intellectual property disputes are resolved by various administrative tribunals.

Trademarks disputes fall within the jurisdiction of the Board of Grievances.

Patents, protection of formulated flora, industrial design and integrated circuit topography fall under the exclusive jurisdiction of an *ad hoc* committee established specifi-

cally for the settlement of such disputes when they arise. When such dispute arises, this committee will be constituted by the Council of Ministers of Saudi Arabia (which serves as a ministerial cabinet to the government), and, generally, the composition of the specific panel (to hear the dispute) shall be appointed by the President of a state agency, the King Abdul-Aziz City for Sciences and Technology.¹¹⁶ The name of such tribunal is not provided in statute, but is usually referred based on the type of intellectual property at issue (i.e., the Committee for the Settlement of Patent Disputes). Decisions of the Committee may be appealed to the Board of Grievances.

Generally speaking, copyright-related disputes are resolved before the committee which has been organized specifically to resolve such disputes and is administered by the Ministry of Information.¹¹⁷ This tribunal is referred to as the Committee for the Settlement of Copyright Disputes. Decisions by the Committee may be appealed to the Board of Grievances.

14.11 King Abdul-Aziz City for Science and Technology

The King Abdul-Aziz City for Science and Technology ("KACST") is an independent scientific research organization, established by the state. It is governed by a committee established by and reporting directly to the Monarch, who serves as chair of that committee. Its principal objective is to advise on the development of national policy and strategy regarding the advancement of science and technology. It also coordinates with various government ministries, regulators and agencies with regards to research and the exchange of information. It also has certain responsibilities regarding the protection of intellectual property as described in this Chapter 14.

116. For further information, go to: www.kacst.edu.sa.

117. Some disputes fall within the jurisdiction of the Board of Grievances. For example, Article 16(3) of the *Copyright Protection Law* provides that the fixed fee for a compulsory license may be challenged by a copyright holder before the Board of Grievances.

15. Accounting and Auditing Standards

15.1 Accounting and Audit Regulation and the Accounting Profession

Only a person or company registered as a Certified Public Accountant¹¹⁸ (“CPA”) with the Ministry of Commerce and Industry, may practice the accounting and audit profession. The audit profession is not defined but is understood to be those services customarily attributed to providing audits of financial statements.

Certain auditing services may only be performed by a CPA with minimal experience provided under law. For example, only a CPA with a minimum of five years of post-licensing experience may audit the financial statements of a joint stock company, a licensed bank, or a public company.

15.2 Presence of International Accounting Firms

Internationally recognized accounting firms provide accounting and auditing services in the Kingdom of Saudi Arabia; however, these firms must be affiliated with local licensed CPAs. The local affiliates will be legally responsible for the activities of their international affiliate. Consequently, references of international

118. The Ministry maintains a Register of Certified Public Accountants.

firms in the Kingdom are usually made including the name of the Saudi licensed affiliate, to reflect the requisite legal relationship.

15.3 Accounting and Auditing Standards

The Saudi Organization for Certified Public Accountants (“SOCPA”) is responsible for, among other responsibilities, the development and dissemination of accounting and auditing standards (for more information, see SOCPA below).¹¹⁹ SOCPA also issues opinions and interpretations related to the accounting and auditing standards.

Where a statement of accounting standard in the Kingdom does not make a pronouncement on an issue, the applicable International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board, may be relied on as guidance.¹²⁰

119. Please see www.socpa.org.sa/engl/autohtml.php?op=modload&name=standi.htm&file=index.

120. SOCPA has established that companies may seek guidance from the IFRS where domestic statements of accounting standards are silent. SAMA has issued circulars obligating banks to apply IFRS where domestic statements of accounting standards do not apply. For more information see: www.sama.gov.sa/sites/SAMAEN/News/Pages/News20070522.aspx.

15.4 Saudi Organization for Certified Public Accountants

SOCPA¹²¹ is responsible for developing the professional standards for the profession, including accounting standards, continuing professional education for CPAs, professional ethics for CPAs and quality control standards for CPA firms. SOCPA was established as a government agency under the supervision of the Ministry of Commerce.

In order to be licensed as a CPA, the applicant must be a member of SOCPA. As of the date of this publication, there are over 150 members of SOCPA.

15.5 Accounting Periods

Companies may select any 12-month period as its financial year for accounting purposes. Companies registered in accordance with the *Companies Law* generally have their accounting year-end date specified in the memorandum or articles of association.

121. For further information, go to: www.socpa.org.sa/engl/.

15. Accounting and Auditing Standards (cont'd)

15.6 Accounting Records

A business entity operating in the Kingdom with a capital of 100,000 Saudi Arabian riyals or more is required to maintain its financial records in Arabic and must accurately reflect its financial position. In addition, it must also keep the following accounting records: (i) an original journal; (ii) an inventory book; and (iii) a general ledger. Saudi law provides a description of the minimum contents of such books. These books may be in electronic form.¹²²

All original records and correspondence regarding financial statements must be maintained in a systematic manner. The minimum retention period for accounting records and related correspondence is ten years.

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122. For more information see the *Commercial Books Law*, issued by Royal Decree No. M/61, dated 17/12/1409H (corresponding to 21/7/1989).

16. Taxation

16.1 Introduction

The three principal forms of taxation in Saudi Arabia are Zakat, income tax and withholding tax. These taxes and the tax system, in general, are established through various laws and regulations issued by Royal Decree, regulations issued by Ministerial Decrees, and interpretative circulars published by the Department of Zakat and Income Tax (see DZIT below). The Kingdom of Saudi Arabia has also entered into a number of double taxation avoidance treaties with other countries.¹²³

16.2 DZIT

The Department of Zakat and Income Tax (DZIT) is the agency established, under the supervision and control of the Ministry of Finance, to administer income tax and Zakat law and regulations, including the collection of such monies.¹²⁴

DZIT's head office is located on Arabia Path in the city of Riyadh. DZIT has ten field offices, located in Abha, Al-Ihsa, Damman, Jeddah, Madina, Makkah, Qassim, Riyadh, Tabuk and Taif.

123. More information can be found at www.dzit.com.sa/en/. The basis for Zakat is the profit earned or obtained by any Zakat-payer. DZIT provides rules for determining a Zakat-payer's Zakat liability.

124. Established under Ministerial Decree No. 394, dated 7/8/1370H (corresponding to 6/6/1951).

16.3 Zakat

Zakat is the Islamic tenet that adherents donate a proportion of one's income to charity. This obligation forms one of the five pillars of Islam. In the Kingdom of Saudi Arabia, this obligation has been institutionalized as a form of taxation.

The following persons are subject to Zakat at a rate of 2.5 percent on all net income or profit generated:¹²⁵

- Saudi nationals
- citizens of other GCC countries
- companies incorporated in the Kingdom of Saudi Arabia or another GCC country and wholly owned by GCC citizens
- companies incorporated in the Kingdom of Saudi Arabia or another GCC country and partially owned by Saudi or other GCC citizens, but Zakat is limited to their proportion of ownership

The form of company is irrelevant for the purposes of Zakat. All monies collected as Zakat are deposited with the treasury of the

125. "Capital and its proceeds, receipts, profits and gains of Zakat-payers are subject to Zakat... (including) gains from commerce, industrial activity, personal endeavors, financial properties, and belongings of whatever type and form." See Zakat By-law issued by Ministerial Resolution No. 398, dated 6/8/1370H (corresponding to 13/5/1950).

Social Security Corporation¹²⁶ and are used for social services and welfare programs in the Kingdom.

16.4 Income Tax

Income tax is levied on the profit¹²⁷ of:

- companies incorporated in the Kingdom of Saudi Arabia or another GCC country and wholly owned by non-Saudi or other GCC citizens.
- branch offices of foreign companies not established in Saudi Arabia or another GCC country.
- companies incorporated in the Kingdom of Saudi Arabia or another GCC country and partially owned by persons other than Saudi or GCC citizens, but income tax is limited to that proportion of that ownership.
- persons other than Saudi nationals or other GCC citizens who earn income through an unincorporated entity (for

126. See Royal Decree No. 61 dated 5/1/1383H (corresponding to 29/5/1963).

127. Article 5 of the *New Saudi Income Tax* issued by Royal Decree, No. M/1, dated 15/1/1425H (corresponding to 6/3/2004) provides a very broad definition of realization for the purposes of Zakat and income tax. It states that income is deemed to be realized from a source in the Kingdom if, among other things, income is generated from an Activity. Article 1 defines such Activity as being all forms, the professional, vocational or any other similar activity with the intention of realizing profit, and shall include utilization of movable and immovable assets. Thus, parties engaged in any activity in connection with the Kingdom are urged to seek tax and Zakat counselling.

16. Taxation (cont'd)

example, unregistered partnership companies).

The form of company is irrelevant for the purposes of income tax. All monies collected from income taxation are deposited with the general treasury. There is no income tax levied against the income of Saudi nationals or foreign workers.¹²⁸

Generally speaking, taxable income refers to any gains generated from business in the Kingdom of Saudi Arabia. The taxable income is generated in the Kingdom under the following circumstances:

- any portion of contracted services is performed within the Kingdom.
- the beneficiary of any service is located in the Kingdom of Saudi Arabia.
- a transaction occurs which results in title passes within Saudi Arabia.
- the physical assets are to be placed within the Kingdom in accordance with contractual requirements.

Generally speaking, the income tax rate is 20 percent. However, the income tax rate does not apply where the natural gas investment tax is applicable.

128. Income taxes levied against Saudi nationals and foreign workers were abolished in 1975. The last public discussion by the Government of Saudi Arabia on reintroducing income tax on foreign workers was in 2001. The discussion appeared to be a trial balloon, and was eventually dismissed.

16.5 Natural Gas Investment Tax

The natural gas investment tax applies to any person, individual or corporate, who works in the investment fields of gas, its liquids and condensations. Working in the natural gas investment field means the operation of natural gas exploration, production, collection, treatment, splitting natural gas liquids, the production and collection of gas condensation and transportation. This tax does not apply to companies operating in oil production and in both oil and natural gas. The natural gas investment tax rate is variable, from 30 percent to 85 percent, based on yield.

16.6 Withholding Tax

Withholding tax refers to the tax that is withheld and remitted to DZIT at the source for payments to non-Saudi residents.

Saudi residents must pay such withholding tax on all payments made to non-residents for services rendered in the Kingdom of Saudi Arabia. Applicable services include, for example, professional fees, management fees, licensing fees and royalties, service charges to related companies, insurance premiums and the provision of airline tickets.

Generally, the withholding tax rate is 15 percent of the payment. However, the tax rate for payments for management services contracts is 20 percent. The withholding tax rate for payments for equipment rental contracts, housing rental contracts, technical or engineering consulting services, airline or air charter tickets, air freight charges, maritime or sea transport services, international telecommunications services, certain dividends by companies resident in the Kingdom, interest charges regarding loans, and insurance premiums is 5 percent.

16.7 Capital Gains Tax

An independent capital gains tax has not been established. Taxation on capital gains is achieved through the regular income tax or Zakat provisions.

16.8 Sales and Estates Taxes

At the time of publication, the Kingdom of Saudi Arabia does not impose any universal tax on the purchase of goods or services, including any form of value-added or sales tax, and does not impose any tax on estates and gift taxes.

16.9 Municipal Taxes

At the time of publication, the Kingdom of Saudi Arabia or its provinces or regions, have not imposed

any regional or municipal taxes applied against all residents within that geographical context. No such taxes have been announced as being contemplated.

16.10 Dividend Taxation

The distribution of dividends does not attract income tax or Zakat liability. Generally speaking, tax is levied against the net income of the company itself and no further tax is imposed.

16.11 Estate and Gift Taxes

At the time of publication, the Kingdom of Saudi Arabia has not imposed any taxes on estate and gift taxes. Notably, gifts of real estate are taxed as if the property had been sold.

16.12 Disclosure

Under income tax and Zakat legislation,¹²⁹ all persons and government agencies must file with DZIT information on any executed contracts whose value exceeds 100,000 Saudi Arabian riyals, within three months of the date of contract.

129. *New Saudi Income Tax Act* issued by Royal Decree, No. M/1, dated 15/1/1425H (corresponding to 6/3/2004).

16.13 Definition of Residence

A natural person is deemed resident of the Kingdom of Saudi Arabia,¹³⁰ under Saudi Zakat and income tax legislation, in any taxable year where that person (i) has a permanent domicile in the Kingdom and resides in the Kingdom for not less than 30 days of the taxable year or (ii) resides in the Kingdom for not less than 183 days per taxable year.

A company is resident in the Kingdom of Saudi Arabia in any taxable year if it (i) is incorporated under the *Companies Law* (the law concerning business organizations) or (ii) the head office is located in the Kingdom of Saudi Arabia.

16.14 Deductibility of Expenses

Generally, reasonable business expenses occurring in the normal course of business may be deducted from the gross income of taxpayer for the purposes of assessing that taxpayer's taxable income. The *New Income Tax Act* includes provisions for the deduction of various expenses, including bad and doubtful debts, research and development expenses, depreciation and

130. *New Saudi Income Tax Act* issued by Royal Decree, No. M/1, dated 15/1/1425H (corresponding to 6/3/2004).

amortization, repair and improvement expenses, expenses related to geological surveys and preliminary stage exploitation of natural resource extraction, and employer contributions to legally permitted employee retirement funds.¹³¹

The *New Income Tax Act* expressly bars certain expenses from being deducted in order to determine the taxpayer's taxable income, including expenses that are not associated with the realization of the taxpayer's taxable income, salaries/benefits/dividends paid to shareholders, taxpayer's members or affiliates of them, recreational expenses, expenses related to personal consumption, income paid, fines or penalties paid to a government authority (save for sums paid in relation to violations of contractual terms or commitments), and bribes or other payments which are criminal acts.¹³²

131. Articles 14 to 20 of the *New Saudi Income Tax Act* issued by Royal Decree, No. M/1, dated 15/1/1425H (corresponding to 6/3/2004).

132. Article 13 of the *New Saudi Income Tax Act* issued by Royal Decree, No. M/1, dated 15/1/1425H (corresponding to 6/3/2004).

16. Taxation (cont'd)

16.15 Carrying Losses on Returns

Saudi tax law and regulations permit the indefinite carry forward of losses to subsequent consecutive years, but do not permit the carry back of losses to previous tax years.¹³³

16.16 Tax Clearance Certificates

A tax clearance certificate is evidence of full payment of all taxes. DZIT provides provisional certificates and final certificates.

A taxpayer is eligible to obtain a provisional tax clearance certificate upon filing the provisional tax return. A final tax clearance certificate will be issued after the final assessment has been issued and the taxpayer has settled all amounts for that taxable year.

Generally speaking, a taxpayer must present a tax clearance certificate in order to submit bids for government tender offers and obtain payments from government contracts.

16.17 Tax Disputes

A taxpayer may contest a tax assessment before the Preliminary Tax Appeal Committee ("PTAC"), a tribunal administered by DZIT. Any decision of PTAC may be appealed by the taxpayer or the state to the High Appeal Committee whose decision is final, pending approval by the Minister of Finance.

16.18 Restrictions on the Provision of Tax Advice

Saudi law¹³⁴ expressly restricts the provision of tax counsel to individuals or corporate entities licensed to provide such advice by the Ministry of Commerce or licensed as a certified accountant in the Kingdom.

In addition, only those licensed persons of certified accountants may assist in the preparation of Zakat and income tax declarations, represent clients before Saudi tax tribunals, and assist the Department of Zakat and Income Tax or its committees with regards to Zakat or income tax.

133. Article 21 of the *New Saudi Income Tax Act* issued by Royal Decree, No. M/1, dated 15/1/1425H (corresponding to 6/3/2004) and Article 21 of the *Executive Regulation for Income Tax Act*, issued by resolution of the Minister of Finance, No. 1535 and dated 11/06/1425H (corresponding to 28/7/2004).

134. Article 1 of the *Rules Regulating Licensing for Provision of Zakat and Income Tax Services*, published in the Official Gazette (Umm Al Qura) issue No. 3726, dated 15/8/1419H (corresponding to 5/12/1998).

Schedule 1:

Glossary of Common Acronyms

CMA	Capital Market Authority (see Section 6.5)
DZIT	Department of Zakat and Income Taxation (see Section 16.2)
GCC	Gulf Cooperation Council (see Section 3.6)
IFRS	International Financial Reporting Standards (see Section 15.3)
JLP	Joint Liability Partnership (see Section 12.6(a))
JSC	Joint Stock Company (see Section 12.3)
KACST	King Abdul-Aziz City for Science and Technology (see Section 14.11)
KSA	Kingdom of Saudi Arabia (see Section 1.1)
LLC	Limited Liability Company (see Section 12.4)
MOCI	Ministry of Commerce and Industry (see Section 11.4)
PIF	Public Investment Fund (see Section 4.3)
PTAC	Preliminary Tax Appeal Committee (see Section 16.17)
SADC	Saudi Arabian Department of Customs (see Section 7.2)
SAGIA	Saudi Arabian General Investment Authority (see Section 9.1)
SAR	Saudi Arabian riyals (see Section 1.5)
SBC	SAGIA Business Center (formerly, the One-Stop Shop) (see Section 11.9)
SIDF	Saudi Industrial Development Fund (see Section 4.3)
SOCPA	Saudi Organization for Certified Public Accountants (see Section 15.3)

Schedule 2:

Comparison of JSC and LLC

Corporate Form	Joint Stock Company	Limited Liability Company
name of company	Cannot include the name of an individual (certain exceptions apply).	May include the name of an individual (who is a shareholder of the LLC) and may include a description of the LLC's business. ¹³⁵
constitutional documents	<ul style="list-style-type: none"> articles of association by-laws of the JSC 	articles of association ¹³⁶
number of permitted shareholders	A minimum of 5	2 to 50 ¹³⁷
minimal share capital	SAR 2 million	none ¹³⁸
paid up capital at time of incorporation	SAR 1,000,000	fully-paid up ¹³⁹
par value per share	SAR 10 per share	no par value ¹⁴⁰
transferability of shares	Issued shares are freely transferable except for founder shares which are subject to a statutory lock-in period.	The transferability of shares is subject to the terms of the articles of association and a statutory right of first refusal by other shareholders. ¹⁴¹

135. See Articles 50 and 160 of the *Companies Law*. JSC may include the name of an individual where the business of the company will be the investing in a patent and the JSC adopts the name of the registered patent holder, and where the JSC adopts the name of a parent company which includes the name of an individual (also known as a natural person).

136. See Articles 51 and 161 of the *Companies Law*. The by-laws of a JSC should be based on the standard developed by MOCI, according to Article 51. MOCI also issues a model for articles of association.

137. See Articles 48 and 157 of the *Companies Law*.

138. See Articles 49 and 157 of the *Companies Law*. A JSC which offers its shares to the public, must have a minimum share capital of SAR 10 million.

139. See Articles 49 and 162 of the *Companies Law*. In the case of an Open JSC, the minimum paid up capital must also be at least ¼ of the Share Capital of the Open JSC, under Article 58.

140. See Article 49 of the *Companies Law*.

141. See Articles 100 and 165 of the *Companies Law*. The lock-up period extends until the publication of the financial statements after two years of operation and tabling of the JSC's budget. Existing shareholders also have a statutory priority right to new issuances of shares, subject to certain exceptions. See Article 136 of the *Companies Law*.

Corporate Form	Joint Stock Company	Limited Liability Company
share certificates	Ownership is represented by share certificates. ¹⁴²	Ownership is not represented by share certificates. ¹⁴³
public subscription	JSC may be closed JSC (shares subscribed by original founders) or open JSC (some or all shares sold to the public).	Equity interest in a LLC cannot be sold by any subscription to the public. ¹⁴⁴
statutory reserve	Ten percent of net revenue must be saved annually until the statutory reserve reaches half of the JSC's stated share capital, and following a resolution to that effect by the shareholders.	Ten percent of net revenue must be saved annually until the statutory reserve reaches half of the LLC's stated share capital, and following a resolution to that effect by the shareholders. ¹⁴⁵
minimum number of directors	Three directors	One director. ¹⁴⁶
shareholding requirement for directors	Yes, with an aggregate SAR 10,000 in value.	No. ¹⁴⁷
shareholder liability	Limited to the value of the holder's shareholdings. ¹⁴⁸	Limited to the value of the holder's shareholdings, subject to certain conditions. ¹⁴⁹

142. The *Companies Law* also makes references to warrants and bearer share certificates for JSC. However, in practice, such securities are not used. See Articles 48, 98 and 99 of the *Companies Law*.

143. See Article 158 of the *Companies Law*. Ownership of LLC shares is evidenced by the records of the LLC's share registry. See Article 166 regarding the share registry obligation.

144. See Articles 49, 55 to 57 and 158 of the *Companies Law*. To be listed on the Tadawul, the listed issuer must be a Saudi JSC. See Article 8(a) of the *Listing Rules*.

145. See Articles 125 and 176 of the *Companies Law*.

146. See Articles 66, 167 and 170 of the *Companies Law*. One director is essentially a managing director who acts more as the executive officer than a supervisory board. Where the number of shareholders exceeds 20, then a supervisory council of at least three members must be established.

147. See Articles 68 and 170 of the *Companies Law*.

148. See Article 48 of the *Companies Law*.

149. See Articles 157 and 180 of the *Companies Law*. Shareholders are fully liable for the debts of the LLC where the LLC has incurred debts exceeding fifty percent (50%) of the value of its share capital and the shareholders have not approved a resolution to wind down the LLC. Furthermore, some Shari'ah Law scholars have concluded that LLC shareholders may be exposed to greater liability than prescribed by the *Companies Law*.

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