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**A GUIDE TO BUSINESS
PROCEDURES IN
SAUDI ARABIA
NO. 2**

**HOW TO OBTAIN AN
INDUSTRIAL LICENCE
FOR JOINT VENTURE
OPERATIONS**

HELPING BUSINESS IN SAUDI ARABIA SERIES



البنك السعودي البريطاني
The Saudi British Bank

OBTAINING AN INDUSTRIAL LICENCE IN SAUDI ARABIA

Introduction

It is very important for industrial projects in Saudi Arabia to conform with the regulations laid down by the government through the National Industries Protection and Encouragement Act and the Foreign Capital Investment Act. The former applies to industrial projects established with total Saudi capital and by Saudi Citizens, the second relates to projects with full foreign capital or to joint ventures with some element of foreign capital. Here we concentrate upon the procedure for obtaining an industrial licence where foreign capital is involved, through a joint venture operation (see also separate study on Forming a Joint Venture in Saudi Arabia).

Although there is no formal requirement for a foreign investor to have a Saudi partner, it is not common for industrial licences to be given without at least a 25% Saudi ownership of a project. Foreign participation cannot exceed 40% in both the oil and banking industry. In addition, the wide range of investment incentives provided by the government are only available to those industrial projects with at least a 25% Saudi ownership. All industrial projects having a fixed capital in excess of SR1 million must obtain an industrial licence from the Ministry of Industry and Electricity (MIE); those of less than SR1 million fixed capital (excluding land and buildings) need only commercial registration.

The procedure outlined here relates to industrial projects only. Licensing procedures for operation and maintenance and contracting and services joint ventures exist and are similar to those outlined here. But unless they involve a special expertise or technology, it is now very difficult to obtain licences in these areas. The following section concentrates entirely upon how to obtain an industrial licence; it does not consider how to form a joint venture, nor the government incentives offered to joint venture operations. This is covered in a separate publication. It is imperative regulations are strictly complied with.

The Procedure

Before any major expenditure is incurred it is sensible to contact the Evaluation and Licensing of Industrial Projects Department via the Foreign Capital Investment Bureau (FCIB) at the MIE to make a preliminary enquiry about the possibility of licensing the industrial project,

giving details of production capacity, capital and location. The volume of licences in some sectors, and indeed operational factories, may be such that the MIE is not enthusiastic to encourage further industrial projects. The MIE looks more favourably upon those projects which can add substantially to the development process within the Kingdom. This is assessed by a consideration of the project's conformity with the Government's economic and industrial strategy, its ability to provide import substitution and increase export potential, the extent of technology transfer involved, its use of the Kingdom's natural resources and also the skill training it offers the local Saudi workforce.

If an application is encouraged the project is entered in a provisional register, and if all other joint venture formalities have been completed, the next step is to submit a full licence application to the FCIB. This must be done within six months of entry into the provisional register.

The application requires a great deal of information and it must be completed thoroughly. Failure to do so could involve delays later.

Sound legal advice is essential in all dealings of this kind in Saudi Arabia; it may be expensive but it may help avoid problems at a later stage and will certainly be necessary where joint ventures are being established. It is also advisable to apply for more industrial capacity than is physically required in the early years of operation, allowing room for expansion without the need to 'extend' the industrial licence later; but remember that the capacity level must be fully justified. You will also need first class translation services to comply with the Arabic and English requirements.

Appendix 1 gives a more detailed survey of what is required by the MIE in the application procedure; information must be provided on a wide range of issues, particularly:

- full details of the applicants
- general information on the project
- known existing industrial licences for similar projects
- imports of similar products into Saudi Arabia in the preceding three years
- product descriptions and production capacity applied for
- raw material requirements
- capital (machinery) requirements
- manpower requirements, Saudi and non-Saudi
- management structure

- training programmes for Saudi workers
- environmental factors
- land and building requirements
- electricity and water requirements
- detailed financial breakdown in terms of fixed and working capital requirements
- sources of financing (equity/debt breakdown)
- annual estimated operational costs of project
- sales revenue, annual profit and return on capital

The application form needs to be accompanied by a host of supporting documentation, particularly where a foreign investor is concerned. This is covered in Appendix 2 attached. In the past the MIE have offered guidelines on applications in the hope that delays can be avoided. These have emphasized four aspects, in particular that:

- a thorough economic feasibility study is provided which analyses the project in terms of its potential profitability and the commitments (including costs) to be borne by parties to the joint venture. Clearly a market study is an integral part of this, and the MIE has, in the past, recommended that such studies be undertaken by independent and well-qualified agencies.
- full details are provided on the financial, administrative and legal position of the company (joint venture), its past experience, its knowledge of the Kingdom and its achievements.
- the contract of the joint venture should be clear and unequivocal as to who is responsible for what and when; it should also contain financial and legal guarantees in the event of either party to the contract violating its contractual obligations.
- the project is organized in such a way that each phase of development is fully monitored and that remedial action where problems arise is quickly taken.

Summary Outline Procedure for Obtaining an Industrial Licence

STAGE ONE	Identify joint venture partner and negotiate a joint venture agreement.
STAGE TWO	Visit the Industrial Licence Department at the MIE and establish that licences are still available in relevant product areas.
STAGE THREE	Having obtained provisional approval from the MIE, obtain an application form from the foreign capital investment bureau.
STAGE FOUR	Within six months submit application to FCIB, in Arabic, but with a copy also in English, together with other documentation.
STAGE FIVE	FCIB evaluates application. It may request further information, depending upon thoroughness of original application.
STAGE SIX	FCIB submits its report plus original application to the Foreign Capital Investment Committee for a decision; this is then endorsed by the Minister for Industry & Electricity.
STAGE SEVEN	Industrial licence is issued and is valid for 6 months; it can be renewed for a further 6 months, if necessary, to allow the J-V to implement the project. If application is rejected, an appeal can be made to MIE and a new application submitted within 3 months of the rejection.

<p>STAGE EIGHT</p>	<p>Apply for registration and incorporation of company at the Ministry of Commerce within one month of licence issue (ratification of Articles of Association of Company with Companies' Regulations).</p>
<p>STAGE NINE</p>	<p>Articles approved, published in official gazette and notarised. Commercial registration certificate given with entry into commercial registry at the Ministry of Commerce.</p>
<p>STAGE TEN</p>	<p>Apply for Funding from SIDF if required. Apply for land on an Industrial Estate (MIE).</p>
<p>STAGE ELEVEN</p>	<p>If approved, then within 4 months detailed drawings and designs of plant should be submitted to Saudi Consulting House for approval via Engineering and Projects Department, MIE. Also within 10 days the site should be visited and reservation of land made with Industrial Estate Manager.</p>
<p>STAGE TWELVE</p>	<p>On approval of factory plans, lease agreement to be signed within 6 weeks with Manager of Industrial Estate. Possible request for customs duties exemptions for importing equipment/raw materials from the Protection and Encouragement of Industry Department at MIE.</p>
<p>STAGE THIRTEEN</p>	<p>Factory constructed. Any changes to be approved by Engineering Department MIE/Manager of Industrial Estate.</p>

The application is then examined by the FCIB; if there are omissions or clarification is needed, it will be dealt with at this stage. A report is submitted by the FCIB to the FCIC together with the original application. A decision on granting the licence is made. If the application is rejected an appeal can be lodged and a new application submitted within three months. If the project is approved a licence is issued and is valid for six months; if the project is not implemented within this time period an extension of a further six months can normally be given.

Within one month of the licence being issued, the joint venture must apply for registration and incorporation of the company at the Ministry of Commerce. This ratifies the Articles of Association of the company within the Companies' Regulations Code in the Kingdom. To do this the Commercial Registry will require a copy of a certificate of deposit (with a commercial bank) indicating that the shareholder's capital has been deposited with the bank. With Articles approved they are then published in the official gazette (Um Al Qara) and a certificate of registration is given together with entry into the commercial registry at the Commerce Ministry; Articles of Association must also be registered with a Notary Public. Membership of the Chamber of Commerce should be pursued after commercial registration has taken place.

Further applications should then be made, if necessary, for funding from the Saudi Industrial Development Fund and for land on an Industrial Estate (at the MIE). If the land application is successful then detailed drawings and designs of plant need to be submitted within four months to the Saudi Consulting House for approval (through the Engineering and Projects Department at the MIE). Within ten days the site should be visited and, with the assistance of the Industrial Estate Manager, a land reservation made.

Once the factory plans have been approved a lease agreement must be signed with the Industrial Estates Manager within six weeks. At this stage also the joint venture can request custom duties exemption on imports of raw materials and equipment from the Protection and Encouragement of Industry Department at the MIE.

The final stage is the construction of the factory; if this is not in accordance with previously approved plans it is necessary to obtain permission to change designs, etc. from the Engineering Department (MIE) and the Industrial Estate Manager.

It should be clear from this detailed procedure that obtaining a license and establishing a factory in Saudi Arabia can take a considerable time; the need to plan ahead cannot be emphasised too much nor the need to provide as much detailed information in accurate Arabic and English throughout this procedure.

APPENDIX 1

Information Required by Licence Application Form

1. **Full Details of Applicant** including name, nationality, passport number, full address, telephone/fax numbers.
2. **General Information on the Project** including commercial title, status, type of investment, ownership, division of share capital.
3. **Similar Projects Licensed in Kingdom** including serial numbers, titles, location capacity, stage of implementation.
4. **Imports Over Last Three Years** (from Foreign Trade Bulletins of Central Department of Statistics) including serial numbers, customs reference number, measurements, quantity.
5. **Products and Capacity** giving annual production capacity by product with daily working hours and annual working days by product.
6. **Raw Material Requirements** giving titles, units, quantities, unit prices, values, sources.
7. **Machinery, Equipment and Appliances** including machinery types, quantity, price and values.
8. **Manpower Requirements** giving breakdowns of type of manpower (administration technical, non-technical and engineering), nationality, total and average monthly salary costs and annual salary costs.
9. **Training Plans for Saudi Workers.**
10. **Equipment Purchases for Environmental Conservation** giving explanations of how equipment works and how waste materials are disposed of.
11. **Land and Building Requirements** including areas, prices, rents and/or building costs for all building types.
12. **Electricity and Water Requirements** including source (public network or private generation), voltage requirements, capacity required by usage (e.g. machinery, lighting, air conditioning), annual power consumption with estimated costs; similarly for water supply details of source (wells, water trucks, water network), annual consumption and costs.
13. **Total Finance for the Project** divided between fixed capital (land, buildings, machinery and equipment, vehicles, furniture et al.) and working capital (rentals for one year, 3 months costs for raw materials, wages, fuel, power, water, maintenance and marketing).
14. **Sources of Finance** giving a breakdown between share capital and long/short term loans.

15. **Annual Estimated Operational Costs** itemising depreciation costs, rentals, maintenance costs, wages and salaries, raw materials, power, water, fuel, marketing and other expenses.
16. **Estimates of Profitability of Project** including total sales revenue, profit levels, return on capital invested.

APPENDIX 2

Key Documentation Requirements for Industrial Licence Application

1. Three copies in Arabic, one in English (if one partner is non-Arab).
2. Attestations that the directors of the foreign company approve of the project in Saudi Arabia. This attestation should also identify the representation of the foreign company in the Kingdom and its Saudi partner.
3. Attested and valid power of attorney stipulating powers of applicants.
4. Certification of registration (attested) of foreign company in its home country. This should indicate date of registration and manufacturing experience (translated into Arabic). If the foreign company is affiliated to other companies, the affiliation needs to be attested, and information on the balance sheets of, for example, parent companies provided.
5. Final accounts and balance sheets of the foreign company over previous three years.
6. Permanent addresses of Saudi and foreign partner with telephone and fax numbers etc.
7. Copy of commercial registration of Saudi partner, or identity cards in case of Saudi individuals.
8. Declaration that the foreign company is not pursuing any other company partnership in the same business areas in Saudi Arabia.
9. A marketing study (in Arabic) if the project exceeds SR30M invested capital together with catalogues of products, machinery and equipment.
10. Attested certificates showing use of trade marks and patents, if applicable, or any technical agreements (property rights) if applicable.

When the foreign investor is an individual, not a company, then the following additional Information is necessary:

1. Copies of academic qualifications and an outline of practical experience (attested and in Arabic).
2. Copy of the passport or residence permit if the foreign investor already resides in the Kingdom.
3. Letter from the person's sponsor (in 2) approving the transfer of sponsorship if the project is licensed.

APPENDIX 3

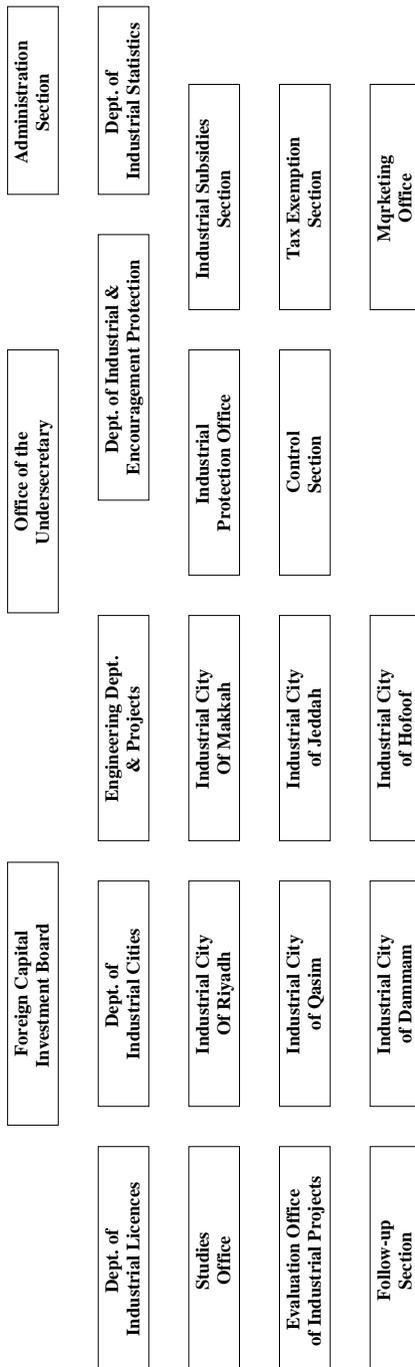
Membership of the FCIC

- Deputy Minister of Industry and Electricity
- Representatives of:
 - Ministry of Planning
 - Ministry of Finance and Natural Economy
 - Ministry of Petroleum and Minerals
 - Ministry of Agriculture and Water
 - Ministry of Commerce
- A Legal Adviser appointment by MIE.

APPENDIX 4

Organisational Structure Deputy Ministry for Industrial Affairs

THE UNDERSECRETARY FOR INDUSTRIAL AFFAIRS



APPENDIX 5

USEFUL SOURCES OF INFORMATION

- A Guide to Industrial Investment, 4th Edition, Ministry of Industry and Electricity, 1996
- Business Profile of Saudi Arabia, The Saudi British Bank, 7th Edition, Third Quarter 1996
- Doing Business in Saudi Arabia, Ernst Young, 1993
- Economic Report on Saudi Arabia, SABIERC, 18c Curzon St. London, 1997
- Saudi Industrial Directory, Ministry of Industry and Electricity, Deputy Ministry for Industrial Affairs, 1995.

SABB KINGDOMWIDE BRANCHES

CENTRAL PROVINCE

Head Office, Prince Abdulaziz Bin Mossaid Bin Jalawi St. (Dabaab)Riyadh	(01) 405-0677
Area Office, Salah Al Din Al Ayubi Rd. (Sitteen St.), Riyadh	(01) 479-4400
Riyadh	
- Riyadh Main Branch, Salah Al Din Al Ayubi St. (Sitteen)	(01) 479-4400
- King Faisal St.	(01) 404-3196
- Prince Abdulaziz Bin Mossaid Bin Jalawi St. (Dabaab)	(01) 405-0677
- Olaya St.	(01) 465-7171
- Ladies Section - Olaya St.	(01) 465-7822
- Al Deirah: Al Muaiqlia Centre	(01) 411-4482
- Sinnaiyah: Al Kharj Road, Al Muntazah St.	(01) 446-5849
- Al Owais Centre (North Olaya)	(01) 456-0334
- Rabwah: Omar Bin Abdul Aziz St.	(01) 493-2439
- Dharat Al Badia: Annas Bin Malik St.	(01) 431-1250
- Al Worood - King Abdulaziz St.	(01) 456-5125
- Al Takhassusi: Takhassusi St.	(01) 464-9446
- Al Rawdah: Khalid Bin Al Walid St.	(01) 230-0101
- Al-Suwaidi: Al-Suwaidi Main St.	(01) 426-3961
- Al Shifa: Iben Taimia St.	(01) 422-2441
- Mohammadiyah: Prince Abdullah Bin Abdulaziz St.	(01) 488-0260
- Al Nozha: Abubaker Al Siddiq St.	(01) 456-7551
- Al Naseem: Saad Bin Abi Wakkas St.	(01) 231-7456
- Al Hassa St.	(01) 476-9024
- Ladies Section : Al-Hassa St.	(01) 477-4007
- Al Murabba: Prince Turkey Bin Abdulaziz St.	(01) 404-2316
Al Kharj, King Abdul Aziz St.	(01) 544-4000
Buraidah, Al Khubaib St.	(06) 324-5494
Onaizah, Al Zulfi St.	(06) 362-0490
Al Rass, Al Quds St.	(06) 333-7060

WESTERN PROVINCE

Jeddah	
- Jeddah Main: Ali Ibn Abi Talib St.	(02) 651-2121
- Caravan - Hail St.	(02) 651-2840
- Caravan - Ladies: Hail St.	(02) 651-4973
- Red Sea Hotel - King Abdulaziz St.	(02) 642-7008
- Jeddah International Market	(02) 667-1605
- Makkah Road	(02) 687-7643
- Jamjoom Centre	(02) 660-2728
- Prince Miteb St.	(02) 672-9046
- Sary St.	(02) 683-2416
- Al-Tahliah - Prince Mohd Bin Abdulaziz St.	(02) 665-9641
- Ladies Section: Al-Tahliah	(02) 665-9614

- Hera: Hera St.	(02) 699-1356
- Balad: Bab Shrief - Al Dahab St.	(02) 647-1145
- Prince Fahd St.	(02) 655-0862
Makkah	
- Abdullah Areef St. (Sitteen)	(02) 545-9191
- Al Aziziah Main Road	(02) 557-0395
- Al Misfalah: Ibrahim Al Khaleel St.	(02) 537-8501
Medinah	
- Abu Bakr Al Sideeq St.	(04) 826-7472
- King Abdul Aziz St.	(04) 838-5984
Taif, King Faisal Street	(02) 738-1360
Abha, King Abdulaziz St.	(07) 224-4628
Khamis Mushait, King Faisal, Al Khairia Com. Centre	(07) 222-2302

EASTERN PROVINCE

Dammam	
- Dammam Main: Dhahran St. - Al Moajil Centre	(03) 824-2444
- Ibn Khaldoun St.	(03) 664-2620
- Al Jalawiah, King Khalid St.	(03) 842-2924
- Al Anoud - King Abdulaziz St.	(03) 667-0056
- Al Anoud - Ladies Section : King Abdulaziz St.	(03) 361-0250
Al Khobar	
- Prince Talal St.	(03) 341-9147
- King Abdulaziz	(03) 582-0926
- Al Aqrabiah: 10th St. Crossing Abu Hadria	(03) 587-2269
Thughbah, Makkah Road	(03) 580-6100
Qatif	
- Al Imaam Al Sadiq St.	(03) 580-6100
- Ladies Section - Qatif: Al Imaam Al Sadiq St.	(03) 539-3156
Tarrot, Main St.	(03) 833-1553
Safwa, Main St.	(03) 842-5242
Saihat, King Abdulaziz St.	(03) 842-4105
Rastanura, Rahimah - Al Malik St.	(03) 834-1087
Al Jubail	
- Riyadh St.	(03) 834-1087
- Jubail Industrial City: 213 Road	(03) 898-0603
Al Hassa	
- Hoffuf: King Khalid St. (Al Koot)	(03) 864-9046
- Mubarraz: Al Hazam St.	(03) 894-7811
- Al Khaldia: University St.	(03) 898-5580
- Ladies Section - Al Khaldia	(03) 855-2059
- Al Jafr	(03) 855-2059

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