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Briefing note

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Foreign investors permitted to own 100% of companies operating in the wholesale and retail trading sectors in Saudi Arabia

Saudi Arabia has approved and published the licensing conditions to permit foreign investors to own 100% of companies operating in the wholesale and retail trading sectors in Saudi Arabia.

Following on from our earlier Client Briefing dated 10 September 2015, the Government of Saudi Arabia has now approved the rules and regulations for issuing licenses to foreign investors for owning 100% of the capital in wholesale and retail companies in Saudi Arabia. The approval was published in the Official Gazette on 1 July 2016 (the Rules).

An overview of the Rules and conditions which foreign investors are required to comply with in order to own a 100% ownership interest in entities undertaking wholesale and retail activities is set out below:

Regional/International credentials

The foreign investor applicant must be present in at least three regional or international markets.

Capital contributions

- The share capital of the local company to be established by the foreign investor must be at least SAR30 million which is US$8 million.
- The foreign investor must invest at least SAR200 million which is approximately US$53.33 million over a period of five years commencing from the date of issuance of the foreign investment license for the company by Saudi Arabia General Investment Authority (SAGIA).

Labour requirements

The foreign investor is required to commit that the local company will:

- employ the number of Saudi nationals required to comply with Nitaqat
- provide a plan that allows Saudi nationals to hold key positions during the first five years in the company and ensure continuation of their employment
- train at least 30% of the Saudi employees annually.

The Rules do not specify what qualifies as a "key position" but it is likely to refer to senior executive management positions, nor does it clarify what the foreign investor would be required to do to ensure continuation of employment, therefore an applicant would need to clarify this with SAGIA.

Development

The local company must achieve one or more of the following targets, within five years of its incorporation:

- Manufacturing: at least 30% of products distributed by it have been manufactured in the Kingdom
- R&D: at least 5% of its total sales revenue must be allocated for research and development programs in the Kingdom
- Logistics and Distribution: it must establish a centre to provide logistic, distribution and after-sales services in the Kingdom.

Notwithstanding the minimum capital contribution requirements (described above), foreign investors who invest SAR300 million, which is US$80 million, in the Kingdom over a period of five years (inclusive of the initial

SAR30 million capital contribution) from the date of receipt of the investment license by SAGIA are not required to comply with any of the above-mentioned Development conditions.

The Rules also provide that SAGIA's Board may grant exemptions from compliance with all of the licensing conditions. Whilst no specific criteria are set out for the grant of any exemption, the Rules provide that exemptions must be granted on the basis of general, clear and non-discriminatory principles.

SAGIA is expected to review the Rules and their outcomes during the first five years and must present its recommendations in order to further promote foreign investment in the wholesale and retail sectors.

We will monitor any further developments in relation to the Rules and provide additional information when available.

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