

Saudi Arabia:

Kingdom of Opportunities and Contrasts

BY TOBY HERSCOVITCH

The Kingdom of Saudi Arabia (KSA) is a land of intense contrasts. With a quarter of the world's oil reserves and a quarter of the world's largest continuous sand mass, the Rub' al-Khali desert, the country is the world's biggest oil producer and one of the harshest lands to cultivate.

Considered part of the "Cradle of Humanity," Saudi Arabia, the nation, was created in 1932 and has one of the youngest populations in the world. Sixty per cent of its 25 million people are less than 25 years old. This creates a fast-growing and energetic population who will need many more jobs in the future.

Saudi Arabia is also a land of political and cultural distinctions, a system ruled by a monarchy, the al-Saud dynasty, and a place where people abide by long-held tradition and religious beliefs. The culture places a strong emphasis on family and hospitality, which extends to loyal business partners from many countries.

"From a business perspective, KSA is the largest free market economy in the Middle East, and a member of the World Trade Organization since December 2005," points out Klaus Büttner, EDC's Regional Vice-President for Africa, Europe and the Middle East.

Two years ago, the country jumped from 67th to 38th spot out of 175 countries, in the World Bank's Ease of Doing Business scale. This is the highest score among the Gulf States, ranking ease of starting a business, dealing with licenses and protecting investors, among other criteria. The country also has one of the highest per capita incomes in the region.

KSA plans to spend a trillion dollars on infrastructure and other project investments over the next 15 years. "The government's driving goal is called our 10-by-10 plan, to become one of the world's top 10 competitive economies by 2010," says Sarah F. Al-Tamimi, Head of International Operations for the Saudi Arabian General Investment Authority (SAGIA).

"We are focusing on sectors where we have a natural advantage and those that are important to become a knowledge-based society." This covers the gamut from establishing top-notch healthcare and education centres to mining the country's abundant mineral deposits; from state-of-the art transportation portals to renewable energy

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◀ The Kingdom of Saudi Arabia strives to become one of the world's top 10 competitive economies by 2010.

Photo: © George Steinmetz/Corbis

and information technology. “We believe Canada has a great deal to offer in all these fields.”

“This is a country that needs everything and has the money to pay for it. The Saudis themselves are asking me: Where are the Canadians?” says Andreas Weichert, Minister Counsellor at the Canadian Embassy in Riyadh, who has spent much of his career in challenging world markets such as Jordan and Kazakhstan. “The opportunities here now and in the next five to 10 years will exceed anything I have seen in my previous postings.”

Canada’s official numbers peg exports to KSA, our largest trading partner in the Arabian Peninsula, at a modest \$540 million in 2006. “This doesn’t take into account large project-driven service contracts by consulting companies like SNC-Lavalin and others,” says Büttner.

Weichert concurs: “As much as a billion dollars of Canadian business may not be reflected in this trade picture, including project investments and items like the 50,000 Crown Victoria cars produced in Ontario which were sold to Saudi Arabia last year through the U.S. parent company.”

To protect their assets in the country, Canadian firms turned to EDC mainly for credit insurance and performance bonding solutions in 2006. Trade finance is expected to grow steadily as EDC anticipates posting a first representative in the Gulf Cooperation Council (GCC) region soon.

Several major Canadian companies are already well established in this country. For example, Bell Canada helped manage Saudi Telecom when it started up its operations in early 2000. This past April, Alcan signed an agreement with Saudi mining

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Photo: © Bill Lyons / Alamy

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company Ma'aden to develop a proposed USD 7 billion aluminum “mine-to-metal” project. Similarly, SNC-Lavalin was awarded two major contracts last year with Saudi Aramco, the national oil and gas company. SNC-Lavalin has worked in the country for more than 30 years.

Sim City for real

The game Sim City, where players create online cities from scratch, has come to life here, as the country develops plans to build six full-scale cities over the next four years. “These are complete greenfield projects, part of our 10-by-10 plan. Our country only has three main cities now. The new economic cities will help us overcome problems of urban migration in the future,” says Al-Tamimi. SAGIA has plans to set up an office in Canada by the end of this year to market the country’s investment opportunities more aggressively.

EDC Political Risk Analyst Derek Baas, who visited the country last May, adds a cautionary note: “What I heard from bank representatives, journalists and economists in the country is that the extent of opportunities in some of these cities may be over-estimated, so the private sector will need to do its own due diligence before investing.”

Baas adds, “I experienced a lot of goodwill towards Canadians. Although human rights issues in the country are still a concern, terrorism incidents have decreased over the past three years.”

“You can’t enter Saudi Arabia with preconceived notions,” adds Weichert. But you can be prepared in many ways. Weichert and his Ottawa-based colleague Paul Bears, Canadian trade commissioner for the Middle East and North Africa, boil this advice down to three “Cs”: Commitment, Capacity and Contacts.

Commitment: The first step to success is a triple dose of relationship building. Arab hospitality is legendary; they value loyalty and respect highly. “You have to come here, meet people, get to know each other and maybe by the third visit you’ll be ready to develop a deal.”

Capacity is another boon or bane. “The scale of everything in this country is large. Recently, a Canadian company told us that they had a good first visit with a potential Saudi customer who liked their products. But they had come here hoping to sell five to 10 units and the Saudis were talking about 200 to 250. They needed to go back home and rethink their whole strategy for this region to see if they could manage it.”

Contacts: You must have a partner or agent to navigate this country. Weichert warns that virtually everyone wants to be an agent and many want to sign a long-term contract. The challenge is to find someone who really understands your business and your expectations. “I have seen cases where an agent obtains exclusive rights for 10 years and then doesn’t do the kind of work the company expected. But the contract is signed and sealed and at that point we can’t help a company do anything about it.”

Adds Bears: “Do your research, visit the region, connect with the Canadian Trade Commissioner Service and organizations like the Canada-Arab Business Council and EDC for reliable contacts.”



Photo: Courtesy of Canam International

▲ Canam Asia makes steel joists in Dammam.

How two companies built business in KSA

The Canam Group, headquartered in St. Georges, Quebec, designs and fabricates principally all-steel products for the construction industry. Sales exceeded \$740 million in 2006.

Back in 2002, the company took on a 35 per cent stake in Canam Asia, a joint venture with Zamil Industrial Investment Company of Dammam, Saudi Arabia. The company today operates two plants, one in Dammam and the other in Ras-Al-Khaimah (UAE), which fabricate open web steel joists and structural steel decks. The seed that led to this relationship was planted in the mid 1970s.

“We met Hambro representatives in 1975 at Batimat, a key trade show for the construction industry in Paris,” says Georges H-Chahine, President of Canam International, who was a consultant from Lebanon working in Saudi Arabia at the time. KSA was experiencing a building boom and Hambro Floor System, now a Canam business unit, was seeking new markets in residential construction.

“In 1976, a licensing agreement was established with Canam to fabricate and sell the Hambro System in Saudi Arabia. The product was successfully used in many projects developed by the Royal Commission.”

By the mid 1990s, Zamil was ready to diversify from mainly pre-engineered to other types of steel construction projects. H-Chahine, who knew well both Zamil and Canam, initially worked out a licensing agreement for Canam’s open web joist technology. While the technology was sophisticated, the local telecommunication system was not, at that time. “There were poor connections, frequent line cuts and filters on accessing the company’s systems,” recalls H-Chahine. “Today, communication is much better. We can enter into their systems to follow-up on the complete process.” While this aspect has been resolved, he admits there are other challenges.

“There are more limitations on foreign employment there than in other Gulf States, because they need to train and employ their local workforce. On the other hand, the cost of living in Saudi Arabia is lower than in the other Gulf countries and all your needs are available, as long as you are willing to live in a conservative community.” He echoes the views of others that the key to success in the region is a good liaison person. “You need help in bridging the two cultures. Most of all, look for a partner with competency in your field. Capital is largely available and so are many potential partners. However, it is more interesting to work with partners in the same field, who understand your products and services and who are interested in growth.”

Canam has been an EDC client since 2003, mostly using contract bonding insurance in various parts of the world. EDC can help connect more Canadian enterprises to major private companies like Zamil.

“We have already started building important business relationships in KSA,” says Jean-François Croft, EDC’s Regional Manager, GCC and the Middle East, “with key banks, and public and private companies such as the Islamic Development Bank Group, Saudi Aramco, Ma’aden, SABIC (petrochemical giant) and the Alturki Group.” The latter is a large private enterprise in diverse sectors, including construction, power and environmental services.

USEFUL CONTACTS IN KSA

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Gartner Lee Limited, a Canadian-based consulting firm that delivers sustainable environmental strategies and solutions by integrating environmental, economic and social science expertise, is already well familiar with the Alturki Group. They both signed a Memorandum of Understanding in December 2006 to jointly develop environmental business.

The firm's involvement in the Gulf region stretches back more than 20 years, primarily in water resources management in Jordan, Oman and Saudi Arabia. Since 2000, Gartner Lee's work in the Gulf has been largely in waste management, which began through a relationship with a Japanese firm.

"Once we saw the opportunities in the Gulf region, we did our own market survey (in 2004)," says Ronald V. Portelli, the company's Vice-President of Marketing. The study found that with the expected doubling of the population by 2021, there would be greater need for water/wastewater treatment and waste management. In addition, governments in the region were putting in place legislation for environmentally responsible development.

"They needed our kind of expertise, so we completed our business plan in August 2004, started developing projects in the market the following January and set up an office in Doha, Qatar by September 2005."

Earlier in 2004, Gartner Lee had met the Alturki Group at the Americana Conference in Montreal. "The firm was interested in pursuing a potential partnership with us for environmental consulting services in Saudi Arabia," says Portelli. Owing to major safety concerns in Saudi Arabia, the company did not move forward on the opportunity at that time.

Then, during a Canada-Arab Business Council mission to the region in fall 2005, Gartner Lee again met the Alturki Group, who reiterated its interest in a partnership. The company revisited Saudi Arabia in February 2006, meeting with staff at the Canadian Embassy in Riyadh. "Their insights really put the safety and security issue into perspective...a lot had changed for the better."

In addition, Gartner Lee did its own due diligence and considered alternative partners. "The Alturki Group had a very good reputation for business integrity and our chemistry with the key players was far stronger than with those of the other firms." At time of writing, Gartner Lee was already developing projects with the Alturki Group.

Gartner Lee's sales have grown an average of 22 per cent a year since 1999 and are expected to exceed \$50 million in 2007. Employment has risen from 95 to 340 people. "A firm like ours does not want to put our reputation or our staff at risk," notes Portelli. "I find the cities in Saudi Arabia are quite safe, from an overall risk perspective."

As for cultural differences, Gartner Lee has experience in many Muslim countries. "We would not send women to work in Saudi Arabia yet, but we are seeing progress in this area too."

Adds Weichert, "Don't forget this is a very young country. It has gone from camels to Cadillacs in just two generations. Things are changing very quickly." ■

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