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ROOTS

Overview

Revenue Diversification/VAT

In addressing the Covid-19-related collapse in oil prices and revenues and economic downturn, the Kingdom (alone among GCC states) has tripled its Value Added Tax (VAT) rate to 15%, cancelled a SR1,000 cost of living allowance for public officials and signalled significant spending cuts.

While food and utilities may continue to enjoy some level of exemption, the VAT increase will negatively impact businesses and consumers alike.

Economic Impact and Optics

The unilateral nature of this move suggests a prioritizing of revenue diversification, albeit at the cost of GCC economic integration and competitive advantage in attracting foreign [investment](#). Foreign investors may view the increase as negatively impacting business climate, particularly for firms choosing between the Kingdom and the UAE as a regional headquarters.

The Majlis Al-Shura recently considered but rejected an income tax, as bad for investment and hopes of attracting foreign investment. When a tax on expatriate labor was announced in the late '80s, King Faisal Hospital expatriate staff resigned en masse, leading to a speedy revocation. While the VAT increase is likely here to stay, it will negatively impact any business case, along with the loss of the Kingdom's low tax, cheap labor, and subsidized utilities, in comparing opportunities here with competing opportunities in Vietnam, Malaysia or Mexico.

On the other side of the ledger, unlike the corporate income tax the VAT applies equally to Saudi and foreign investors.

To achieve its Vision 2030 foreign investment goals, the Kingdom must consider policies to balance the extra costs imposed by this VAT increase, such as a loosening of

Saudization requirements at senior levels, improving its payment record for government contracts and continuing to improve its rankings in ease of doing business indices.

Character Enrichment

In a Kingdom where 90% of the employed in its capital and largest city work for the government, cultural transformation is key to expanding the non-oil economy. Resource dependent countries like Canada and Australia have dynamic economies and highly trained workforces. The Kingdom also takes inspiration from high tech, sustainable, and forward-looking economic dynamos like the UAE, Singapore, and Silicon Valley.

One particularly visionary initiative of Vision 2030, the [Character Enrichment Program](#), seeks to instill a work ethic and entrepreneurial spirit, as key to transitioning harmoniously to a post-carbon era.

Covid-19

- **Status:** Saudi Arabia has reported some 54,752 coronavirus cases and 312 deaths (out of a population of 34 million), and 25,722 [recoveries](#). Some 2,800 new cases arise daily representing a recent spike in [cases](#), notably in work camps in Riyadh, Jeddah, and Makkah. 586,405 tests have been carried out, with the Ministry of Health recently tripling daily [tests](#) from 5-6,000 a month ago to 16-18,000 today.
 - **End date:** A model by Singapore University of Technology and Design predicts coronavirus “[end dates](#)” for the UAE on September 3, Saudi Arabia on September 10 and Qatar on September 14.
- **Medicine:** Hospitals across Saudi Arabia continue to deliver medicine to [patients](#).
- **MERS Research:** Saudi Arabia’s success in dealing with coronavirus has been driven in part by its experience with the [Middle East Respiratory Syndrome \(MERS\) virus](#). Since MERS shares similarities with Covid-19, research could cross-pollinate.

Government Aid

- **Subsidies:** To cushion the blow of VAT increases and welfare reductions, Saudi Arabia is issuing one-off cash [handouts](#) of SR1,000 to families on social security, and SR500 to each dependent.

- **Monshatt:** 2.6 million have benefited from recent Small and Medium Enterprises General Authority (Monshaat) initiatives, mostly [consultations](#).

Curfew

- **Curfew:** The Ministry of Interior (Mol) has extended the 5 pm - 9 am curfew on May 14 Kingdom-wide (with limited exceptions), and for essential industries, until [May 22](#).
- **Eid lockdown:** A 24/7 Eid lockdown will apply from May 23 until midnight on May 27 [across](#) the [Kingdom](#).
- **Past Rules:** For past and current curfew rules, see [here](#).
- **Violations:** The Mol is strictly enforcing curfew [guidelines](#).
- **Gatherings:** Gatherings of multiple families risk fines of SR5-10,000, depending on [fault](#).

Employment / Corporate

- **Summary:** For a summary of past and current employment rules and developments see [here](#).
- **Article 41:** The Ministry of Human Resources and Social Development (MHRSD) has explained its recently released Article 41 of the Labor Law Implementing Regulations, allowing employers to reduce working hours and cut salaries by 40% for up to 6 months (see [here](#)). It also permits termination, given the following conditions:
 - 6 months' passage since salary reductions were applied,
 - exhaustion of accrued annual and exceptional leave (requires employee consent),
 - crisis-related hardship, and
 - no government subsidies.
- **CoC Online Authentication:** The Chamber of Commerce (CoC) online authentication system is once again working.

- **Violations:** Restaurants and shopping centers that violate precautionary measures are subject to [closure](#).
- **Worker Protection:** Arbitrarily [firing](#) employees against MHRSD regulations may incur an SR10,000 fine.

Government Agencies

- **MHRSD:** MHRSD employees are being trained to work [remotely](#).
- **Schedule:** Government agencies are closed May 15 - 31, and private sector [May 23 - 27](#).

Visas / Repatriation

- **Summary:** For past announcements see [here](#).
- **Saudis:** Repatriation of Saudis continues, including a recent flight from [Sydney](#).
- **Awdah:** The Awdah initiative allows holders of exit and re-entry, final exit, tourist, and visit visas to apply to fly home via Absher, with flights continuing this [week](#).

Courts

- **Public Prosecution:** A new public prosecution system will allow identification of major crimes requiring [detention](#).
- **Statute of Limitations:** New Commercial Courts Regulations (Royal Decree M/93, April 8, 2020) set a five-year statute of limitations to file commercial actions from accrual. While allowing exceptions where liability has been conceded or the court approves reasons for delay, older claims should ideally be filed before the new rule comes into effect 60 days from publication in the Official Gazette.
- **Intellectual Property:**
 - **USTR report:** The Office of the United States Trade Representative “Special 301” [report](#) on intellectual property protections of its partners has placed Saudi Arabia on its Priority Watch List, for “failing to address long standing IP concerns and further deteriorating IP protection and enforcement within its borders.” Specific concerns include “the lack of IP

protection for innovative pharmaceutical products, including the lack of adequate and effective protection against unfair commercial use, as well as unauthorized disclosure, of undisclosed test or other data generated to obtain marketing approval...[and a lack of] action against the rampant satellite and online piracy made available by illicit pirate service BeoutQ."

- **Enforcement:** Possibly in response, the Saudi Authority for Intellectual Property (SAIP) reported 38,000+ requests in recent months, 144 sessions of quasi-judicial committees to adjudicate IP violations and training to over 500 [entities](#). SAIP maintains an online portal and can be reached via phone, email, or website at www.saip.gov.sa.

Economy

- **Vision 2030:** Saudi Arabia allegedly plans to cut \$8 billion from megaprojects and [Vision 2030](#) initiatives, though no pay cuts for public officials.
 - **Neom:** Some have suggested that construction on Neom, due to be complemented in 2025 at a cost of \$500 billion, may be [postponed](#).
- **PIF:** Saudi Arabia's sovereign wealth fund PIF has [invested](#) roughly half a billion dollars each in Facebook, Disney, Marriott, Citigroup, Bank of America, and Boeing, following similar investments in Carnival Corp and Live Nation.
- **Bonds:** Saudi Arabia has [raised](#) \$1.53 billion in sukuk (Islamic bonds) sales, split into two tranches maturing in 2025 and 2030.
- **Saudia:**
 - **Furloughs:** The International Air Transport Association (IATA) predicts that Saudia Airlines could lose \$7.5 billion due to the air travel slump, and will be forced to cut 250,000 [jobs](#), and recommends state [support](#).
 - **Service:** Saudia Airlines denied rumors that flights would resume in June, as normal domestic and international flights remain [suspended](#).
- **Electronic Payments:** All grocery and supply shops must accept e-payment beginning May 10, as part of an initiative to reduce reliance on [cash](#).
- **E-POS:** SAMA has extended its support of point of sale and e-commerce transaction fees for all stores and private entities for three months until [September 14](#).

- **Ministry of Industry and Mineral Resources (MoIMR):** MoIMR predicts that Saudi industries will benefit from global trade reordering from the [coronavirus](#).
- **Digital Transformation:** A report by KPMG recommends developing telehealth, digital education and teleworking to address the crisis, predicting growth of the gig economy and recommending expansion of the entrepreneurship and innovation [ecosystem](#).
- **SAMA:** The Saudi Arabian Monetary Authority (SAMA) announced that banks are now able to divide and release that portion of accounts that are not [subject to seizure](#) in satisfaction of judgments and fines by Saudi courts.
- **Boeing:** Boeing won two contracts valued at \$2.6 billion to deliver 1,000 air-to-surface and anti-ships to [Saudi Arabia](#).
- **Wind:** A wind energy project is underway in [Yanbu](#).
- **Real estate:** Real estate sales fell 72% in April to SR3.9 billion, including 6,170 transactions vs. 26,300 in April, 2019, with commercial transactions falling [84%](#).
- **Food:** Saudi Arabia has spent \$665 million on two initiatives to support domestic agricultural production and increase imports, while encouraging hydroponics for fruit and vegetables, with food security as a [Vision 2030](#) goal.
- **Grand Mosque:** Construction on expansion of the Grand Mosque in Makkah has [resumed](#).
- **Oshkosh:** Oshkosh has established a joint venture with Saudi company Al Tadrea Manufacturing called OTM to build armored vehicles in the [Kingdom](#).
- **Shipping:** The Saudi Ports Authority announced the formation of a new container shipping line through Hyundai operating between Jubail Commercial Ports and East Asian [ports](#).
- **Oil:** Prices [stand](#) at \$28.89 pbb for Saudi oil, and \$31.15 pbb for West Texas Intermediate.
 - **Aramco Profits:** Aramco profits fell 25% in Q1 2020, with income at \$16.6 billion. Free cash flow in Q1 stood at SR56.3 billion riyals, down from SR65.1 billion riyals over the previous year. The company will pay a dividend of \$18.75 billion in Q2, a world record, honoring a pledge of \$75 billion annually for [five years](#), see [here](#).

- **Price stabilization:** Saudi Arabia pledged to increase oil output further in an effort to stabilize prices, planning to cut production by an additional 1 million barrels per day in [June](#). Crude oil allocations for some East Asia customers have meanwhile been cut by [30%](#).

GCC

- **Lockdown easing, digitization growth:** Lockdowns in some GCC countries have eased, due in part to powerful contact tracing systems. The region has seen accelerated digitization of its economies and government [services](#).
- **UAE:**
 - **Flights:** Emirates will resume flights to Europe, the U.S., Canada and Australia beginning May 21. Travellers must obtain permission to return to the [UAE](#). The airline will also repatriate UAE residents from London and [Frankfurt](#). Lufthansa will resume flights to Dubai in [June](#).
 - **UAE-Saudi Trade:** Customs in Dubai and Saudi Arabia have agreed to further trade cooperation and the development of Customs [procedures](#).
 - **Return to Work:** Abu Dhabi has issued return to work [guidelines](#).
 - **Tourism:** Research by Arabian Travel Market and Colliers International describes the rise in “staycations” and suggests domestic tourism will boost the UAE and wider GCC economies as lockdowns [end](#).
- **Bahrain:** Bahrain has launched an application called “[BeWare](#)” alerting users if they approach people or locations infected or affected with coronavirus.
- **Kuwait:** The Minister of State announced replacement of all expatriate Municipality employees with Kuwaiti [citizens](#).
- **Qatar:**
 - **Qatar Airways:** Qatar Airways is discussing with Boeing and Airbus delays in delivery of [planes](#).
 - **Masks:** Qatar has imposed a penalty of up to three years in jail and a fine of up to \$55,000 for not wearing a [mask](#) in public.
- **Oman:** Oman is cutting spending for military and government agencies by 5%, given a \$11 billion fiscal deficit and maturing debt of nearly [\\$3 billion](#). The school

year has meanwhile closed due to coronavirus, and travel to and from Muscat prohibited through [May 29](#).

Geopolitical

- **ISIS:** A Pentagon report shows ISIS continuing to wage a “[low level insurgency](#)” in Iraq and Syria, with 14-18,000 active fighters.
- **Yemen:** Fighting rages in the southern province of Abyan between the Saudi-backed Yemen government and the separatist [STC](#).

Other

- **Isolation:** The Ministry of Culture is launching “[Culture in Isolation](#)” initiatives, including theater and literature competitions, films and “cultural hobby” programs.

Resources

- [Previous newsletters](#)
- [Force Majeure](#)
- [New Commercial Courts Law](#)
- [New Procurement Law Implementing Regulations](#)
- [Ministry of Health dashboard](#)
- [Chamber of Commerce Global Policy Dashboard](#)
- [Ministry of Investment Guide to Business Continuity](#)
- [US Embassy in Saudi Arabia](#)
- [US State Department travel information](#)

We will be happy to provide more specific advice in the context of particular circumstances, concerns, and priorities; please let us know.

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Disclaimer: While the above information was gathered from sources believed to be accurate at the time, we cannot be responsible for errors due to human or technical error.

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