KSA TRADE IN GOODS UNDER WTO

Rabi I, 1427H (April, 2006)
Table Of Contents

1. INTRODUCTION .................................................. 3

2. BACKGROUND .................................................. 3

3. TRADE IN GOODS ............................................. 4

   3.1 Trade Structural Changes ............................................. 4
   3.2 Trade Performance .................................................. 6
   3.3 Extraordinary Treatment By WTO on Some Of KSA Sectors 9
      3.3.1 Agriculture ...................................................... 9
      3.3.2 Sanitary and Phytosanitary Measures ......................... 10
      3.3.3 Hydrocarbons .................................................. 11
   3.4 Tariffs ......................................................... 14
      3.4.1 Bound rates .................................................. 15
      3.4.2 Tariff Exempted Commodities ................................. 16
   3.5 New Fees and Charges ........................................... 17

4. CONCLUSION .................................................. 18

Attachment I .......................................................... 20
1. INTRODUCTION

WTO regulations provide all joint countries the accessibility to markets under its commercial law for greater trade exchange. However, to join WTO, four fields should be in conformity with WTO regulations prior to initiate business with other members. WTO role is join and assure the implementation among all the members of its commercial trade law on four fields.

The four fields of WTO that should be in line with the new world regulations are:
- trade in goods,
- trade in services
- trade in intellectual property rights and
- institutional requirements (see attachment).

Apart from the second, third and fourth fields, this report will cover the trade in goods only. The report provides clarification on trade in goods were for many traders are still in vague. Therefore, this report address the following areas:

1) Background of KSA participation in WTO
2) Trade In Goods (Trade Structural Change, Trade Performance, Extraordinary Treatment By WTO on Some KSA Sectors, tariffs)
3) Fees and Charges
4) Conclusion

2. BACKGROUND

WTO is an intergovernmental organization aimed at reducing tariff and non-tariff barriers to international trade in goods, facilitating trade in services, protecting intellectual property rights, harmonizing trade rules and strengthening the rule of law.

On 13 June 1993, Saudi Arabia applied for accession to the General Agreement on Tariffs and Trade (GATT 1947), the predecessor of the World Trade Organization (WTO). On July 21, 1993, a GATT working party was established to examine Saudi Arabia's accession to GATT, and Saudi
Arabia became an observer to GATT 1947. On 31 January 1995, after the WTO had been established, the GATT 1947 accession working party was transformed into a WTO accession working party, and Saudi Arabia became an observer to the WTO. After over 12 years of negotiations, it was rectified on 11 December 2005 that Saudi Arabia is the 149th member of the WTO. In the process of preparing for membership, Saudi Arabia enacted 42 new trade-related laws, created nine new regulatory bodies, and signed 38 bilateral trade agreements. Some of the important bilateral agreement included those with Japan, Canada, Australia, and most recently, the United States, thus removing the last major hurdle before accession. At the multilateral level, Saudi Arabia signed the Arab League Customs Union, the Gulf Cooperation Council (GCC) Unified Customs Agreement, and the Saudi-EU (European Union) Joint Trade Agreement.

3. TRADE IN GOODS

3.1 Trade Structural Changes
Before joining WTO, an importer of record could send a shipment of goods to Saudi Arabia without his own ability or right to further transport or distribute the goods inside the Kingdom. It might notify Saudi distributors that there is product available in Saudi Arabia, which is at the point of import and has not cleared customs, available for their distribution and sale. The old structure practiced in Saudi Arabia was for licensed distributors or commercial agents who have pre-arranged distribution commitments for all imported products.

Saudi Arabia made the following commitments to accommodate this WTO framework:

- Upon accession, minimum capitalization requirements and commercial registration requirements would not be necessary either to become an importer of record or to re-export goods from Saudi Arabia.
- Saudi Arabia will ensure that relevant laws, regulations and requirements would permit foreign firms not resident in Saudi Arabia and wishing to be importers of record to engage in importation and re-exportation without limitation on equity or requirement to invest in Saudi Arabia.
- Saudi Arabia will maintain the right to require importers of record who are not registered to engage in commercial distribution to provide information in customs documentation regarding the further disposition of goods once they enter Saudi Arabia.
• Existing laws, including the Law on Import Licensing Procedures, will be reviewed and amended to be in conformity with these commitments.

• All products are allowed into the kingdom automatically unless they are classified as non-automatic or listed as banned imports. Non-automatic refers to the need to obtain an import license for any of the 73 products defined as such. Most of the items appearing on the list are either of a hazardous nature, i.e. explosives, insecticides, veterinary medicines, etc., or items that could have dual civilian and military use. A few products, however, do not fall under these criteria, such as Arabian horses for which the rationale is preserving the pure linage of the domestic breed. Agricultural machinery also requires an import license, as well as appointing a local agent/distributor to guarantee the suitability of machines to the Kingdom’s environment and availability of parts.

• Seeds fall into another category requiring a license for the purpose of screening and preventing entry of rotten shipments, shipments infested with fungus or aflatoxins, and shipments that do not meet the acceptable minimal levels of weeds. A seed consignment must be inspected before shipment to confirm that it fulfills the specifications and conditions for importation.

• The list of banned imports has 83 such items for which the WTO has granted exception, meaning that it has recognized and approved their status as banned from market access. Some of the obvious examples include alcohol, pork, dogs (except hunting dogs), gambling machines, and narcotics, all of which are banned on religious grounds. The rest of the items on the list are banned for security or cultural reasons, and range from satellite internet receivers to sarin toxic gas.

• Items Subject to Mandatory Certification (SMC), this is another group of products that have received an exception status for which Saudi Arabia requires mandatory certification. The list is divided into five groups including toys, electrical machinery and electronics, automotives, chemicals, and others. As infer from examining the list that concern about public safety is the reason for requiring the certification.

• About 13 items have been identified under this category for WTO exception, mainly those products that are unique to Saudi Arabia and which it believes do not exist anywhere outside their natural habitat. These include females of purebred breeding stock of Arabian horses, race horses, ponies, bovine animals, sheep, goats, and camels. Also, the list includes date palm seedlings of types that are believed to be rare. Green fodder and hay
is also banned for export, as well as antiques and archaeological and historical artifacts.

- There are 47 items on the list, but most importantly are crude oil, gases, asphalt, marble and sand, for which a license must be obtained from the ministry of petroleum prior to exportation. A few agricultural products also require a license from the Ministry of Finance, such as barley, corn, and wheat flour. Wheat requires a license from the Grain Silos and Flour Mills Organization (GSFMO) to ensure that amounts received in the way of subsidies are repaid before a license is issued. Exportation of medicines also requires a license.

- Import licenses for agricultural equipment are non-automatic and have two purposes. First, according to Saudi assurances to the WTO, they are necessary to administer a system of subsidies paid to importers of such equipment. Second, the import license was required even if the importer did not intend to apply for a subsidy payment in order to ensure that the equipment was suitable for the Kingdom’s environment. Saudi Arabia committed that this requirement would not be applied as a disguised restriction to trade. An importer of agricultural machinery must be an authorized distributor or agent.

- Inspection of factories to ensure use of Good Manufacturing Practice (GMP) was a part of the registration process to ensure safety and quality of pharmaceutical product imports. This registration process applies to both importers and domestic manufactures. Once a medicine for human use is registered, no further prohibitions or limitations are applied, and the product can be imported without the need for any further licensing.

- In the past, imported distillation equipment had been used to produce alcoholic beverages. Saudi Arabia decided to regulate imports of distillation equipment to address this problem. There is no ban on the importation of distillation equipment, but it does require an import license from the Ministry of Commerce and Industry.

3.2 Trade Performance
It is hard to identify clearly domestic industries that would suffer significantly under the WTO environment, partly because membership comes at a time when the economy is enjoying a boom—23% nominal GDP growth in 2005 with no domestic inflation—and that boom is likely to continue for several years. With such an economic backdrop, domestic firms have the latitude to adjust to competitive challenges while continuing to prosper. Agriculture sees a gradual
decline of government support over a 10-year period, which may affect some of the small and marginal players. There was concern that small and medium enterprises, especially in retail, would be harmed, but they remain largely protected from foreign entrants into this segment of the market. A specific beneficiary is the Saudi petrochemical industry. Using comparative advantage rationale, the Kingdom did not have to commit to increasing prices for natural gas and natural gas liquids (NGLs) used as petrochemical feedstock to be in line with global prices, thus preserving the cost advantage of producers in Saudi Arabia. In addition, Saudi Arabia can champion from within the WTO the Chemical Tariff Harmonization Agreement, which lowers global tariffs on chemical products, including all petrochemicals exported from Saudi Arabia, to a maximum 6.5 %.

Saudi Arabia’s economy was heavily trade-oriented. At the time of its accession in 2005, Saudi Arabia was the 13th largest merchandise exporter in the world and the 23rd largest importer. In 2004, total merchandise trade (imports and exports) was SR 640.3 billion ($170.7 billion), equivalent to 68 % of GDP, while, for comparison, global merchandise trade represented 17 % of global GDP.

<table>
<thead>
<tr>
<th>KSA Imports / SR (Billion)</th>
<th>Year</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2001</td>
<td>2002</td>
</tr>
<tr>
<td>USA</td>
<td>20.8</td>
<td>19.7</td>
</tr>
<tr>
<td>Japan</td>
<td>13.0</td>
<td>13.4</td>
</tr>
<tr>
<td>UK</td>
<td>8.0</td>
<td>7.2</td>
</tr>
<tr>
<td>Germany</td>
<td>9.4</td>
<td>10.2</td>
</tr>
<tr>
<td>Italy</td>
<td>4.5</td>
<td>5.2</td>
</tr>
<tr>
<td>France</td>
<td>4.5</td>
<td>4.4</td>
</tr>
<tr>
<td>Belgium</td>
<td>1.9</td>
<td>2.1</td>
</tr>
<tr>
<td>Spain</td>
<td>1.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2.2</td>
<td>2.0</td>
</tr>
<tr>
<td>Total Euro Area</td>
<td>24.2</td>
<td>25.4</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>China</td>
<td>5.4</td>
<td>6.4</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Australia</td>
<td>4.7</td>
<td>4.2</td>
</tr>
<tr>
<td>S. Korea</td>
<td>3.8</td>
<td>4.0</td>
</tr>
<tr>
<td>India</td>
<td>2.8</td>
<td>3.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Sixteen-country total</td>
<td>89.5</td>
<td>89.1</td>
</tr>
</tbody>
</table>
Manufactured and processed goods (as opposed to agriculture and services) represent the bulk of Saudi imports. Broadly broken down by type, finished goods accounted for 70% ($31.2 billion) of total imports in 2004, with semi-finished goods comprising 26% ($11.8 billion). Raw materials accounted for the remaining 4% of the total at $1.7 billion. A further breakdown of imports by major product group in 2004 indicates that electrical machinery and equipment ranked highest at 22% ($9.9 billion) of total imports, followed by vehicles and transportation equipment at 21% ($9.6 billion), then foodstuffs at 15% ($6.7 billion), then chemical products at 13% ($5.7 billion), base metal and related products at 10% ($4.4 billion) and textile and clothing at 5% ($2.1 billion). Jewelry and wood both accounted for approximately 1% of total imports.

<table>
<thead>
<tr>
<th>KSA Exports / $ (Million)</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Oil Exports</td>
<td>224,205</td>
<td>239,306</td>
<td>308,516</td>
<td>415,474</td>
</tr>
<tr>
<td>Crude Oil</td>
<td>190,556</td>
<td>206,494</td>
<td>264,904</td>
<td>355,665</td>
</tr>
<tr>
<td>Refined Petroleum</td>
<td>33,649</td>
<td>32,813</td>
<td>43,613</td>
<td>59,809</td>
</tr>
<tr>
<td>Including Ship Bunker Fuel</td>
<td>671</td>
<td>716</td>
<td>930</td>
<td>1,256</td>
</tr>
<tr>
<td>Non-Oil Exports</td>
<td>30,694</td>
<td>32,438</td>
<td>41,149</td>
<td>57,259</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>13,451</td>
<td>13,680</td>
<td>16,170</td>
<td>18,671</td>
</tr>
<tr>
<td>Building Materials</td>
<td>2,779</td>
<td>3,469</td>
<td>4,481</td>
<td>5,479</td>
</tr>
<tr>
<td>Agricultural &amp; Farm</td>
<td>1,541</td>
<td>1,845</td>
<td>3,038</td>
<td>3,518</td>
</tr>
<tr>
<td>Others</td>
<td>12,923</td>
<td>13,444</td>
<td>17,456</td>
<td>29,595</td>
</tr>
<tr>
<td>Grand Total</td>
<td>254,899</td>
<td>271,740</td>
<td>349,665</td>
<td>472,733</td>
</tr>
</tbody>
</table>

Exports on the other hand are much more concentrated around hydrocarbons. Preliminary government statistics put total Saudi exports in 2004 at $126.1 billion. Crude oil alone accounted for 75% ($94.8 billion) of the total, followed by refined petroleum products comprising 12.7% ($15.9 billion). Petrochemical exports ranked third at 3.9% ($4.9 billion) of the total, then construction and building materials with 1.2% ($1.5 billion) of the total, and finally products of the farming industry at 0.75% of total exports ($938 million). Combined, crude
oil, refined oil products, and petrochemicals accounted for 92% of 2004 exports. Given the increase in oil revenues in 2005, this percentage likely grew further.

Saudi Arabia’s trade profile is healthy. It has run a current account surplus for 9 of the past 10 years. For 2005, the current account surplus was about $87 billion. In general, Saudi Arabia’s imports are about one third the value of its exports.

Although still relatively small, it is noteworthy that non-oil exports have been growing by double-digit figures annually over each of the past four years for agricultural products and building materials (See table above). This may be partly attributable to the facilities made available by the Saudi Export Program, including export financing and guarantees for Saudi exporters, which totaled SR 571.7 million ($152.5 million) in 2004, up 53.8% over 2003.

### 3.3 Extraordinary Treatment By WTO on Some Of KSA Sectors

KSA negotiation with WTO went through many rounds to amend KSA regulations to be in conformity with the new world trade regulations. However, were excluded since they were granted facilities for its importance on the national economic fuel oil. On the other hand, as other sectors were restrained as agriculture to be in line with WTO regulations as explained below. The following are the sectors who have extraordinary treatment by WTO:

#### 3.3.1 Agriculture

WTO regulations prohibit direct subsidies to exports of agricultural products because they lead to distortions of international trade, but the regulations do not mean that all forms of agricultural subsidies have been abolished. Certain indirect types of subsidies are permissible and Saudi Arabia has chosen to take advantage of some of them. Referred to as “Green Box” subsidies, these subsidies can be provided for developing agricultural infrastructure, such as for building dams, irrigation projects, and feeder agricultural roads, or for agricultural research and development or for setting up animal husbandry laboratories.

In Saudi Arabia’s commitments on agricultural tariff ceilings, the tariff ceiling for 1,320 agricultural tariff lines on the HS code received an average bound or
ceiling tariff of 15%, which is more than double that of the rate currently in effect of 7% on average. That means Saudi Arabia has sufficient cushion to use if deemed necessary to combat dumping, for example. Saudi negotiators maintained that 165 agricultural commodities are classified as sensitive, and thereby require higher tariff ceilings for protection against similar imported products. These include dates, wheat, poultry, eggs, pasteurized milk, vegetables and some fruits, areas that Saudi Arabia claims to have invested in heavily to develop to their current state. Saudi Arabia, however, has been reducing its subsidies to domestic agriculture production for many years. As wheat subsidies have declined, wheat production has declined from more than 4 million tons before 1994 to 2.8 million tons in 1994, 2 million tons in 1998 and 1.8 million tons in 2001. The production of barley also has come down from 2 million tons in 1995 to 1 million tons in 1998, and to less than 200,000 tons in 2001. Domestically produced barley had been purchased by the GSFMO, and then sold to livestock producers at the fixed price of SR 400 per ton ($107 per ton). GSFMO stopped receiving domestic barley in early 2003. Farmers were advised to convert to other products that consume less water. Even with these historical reductions, Saudi Arabia made the commitment for WTO membership that it would reduce its domestic support to agriculture by 13.3% over a period of ten years in equal annual steps.

3.3.2 Sanitary and Phytosanitary Measures
Saudi Arabia has agreed to take on the obligations of the WTO agreement on Sanitary and Phytosanitary (SPS) Measures, which deals with food safety. Under the agreement, Saudi Arabia is committed to applying science-based safety standards to all agricultural goods. The WTO concern about SPS measures is that they not be constructed to keep foreign agricultural products out of the country simply to be protectionist. Thus there is an emphasis on science-based reasoning for restricting imports.

Based on comments raised by trade partners in negotiations, Saudi Arabia conducted an internal review of its SPS regime and implemented an action plan by issuance of Council of Ministers Decision No. 85 of July 2000 and Ministerial Decision No. 943 of 2.5.1424H (1 July 2003) on an SPS law entitled "Sanitary and Phytosanitary Unified Procedures." The new SPS law also incorporates revisions of the "Agricultural Quarantine Regulations" and the "Statutory Instruments of Veterinary Quarantine," ensuring conformity with the
requirements of the WTO SPS agreement. The main provisions of the new Saudi Law include the following:

- Saudi Arabia will apply Agreement on the Application of SPS consistent with the provisions of the WTO Agreement on SPS Measures.
- SPS measures will be limited to the extent necessary to protect human, animal or plant life or health.
- SPS measures will be based on scientific rules and principles and will not be maintained without sufficient scientific evidence.
- SPS measures will not be applied in a way that constitutes a disguised restriction on international trade.
- SPS measures taken by Saudi Arabia will be based on international standards, guidelines or recommendations, except where there is a scientific justification for a measure resulting in a higher level of protection.
- Saudi Arabia shall accept the SPS measures deemed appropriate by other WTO Members as equivalent where those measures achieve the protection level of Saudi Arabia.
- Saudi Arabia committed to reconcile some inconsistencies between its domestic legislation and regulations and procedures implementing the WTO SPS Agreement, so that all of Saudi Arabia's laws, regulations, procedures and other requirements for importation are consistent with the provisions of the WTO SPS Agreement.
- Saudi Arabia committed that SPS measures would be published in advance of their application. The Kingdom has established a system for informing governments and other standards organizations of changes. Saudi draft food standards will also be available on the Saudi Arabian Standards Organization (SASO) website: www.saso.org.sa in order to increase transparency and provide notification of future changes to SPS import requirements.

3.3.3 Hydrocarbons

A common concern was raised over the years of negotiation that Saudi Arabia's main export, crude oil, is excluded from consideration by the WTO, and would not receive any advantage from the Kingdom's entry into the WTO. Oil and oil products are listed on WTO commodity schedules and are subject to the provisions of market access agreements. However, a limited group of GATT members, about 12, managed to exclude oil and oil products from their original
commodity schedules. As a member of the WTO, Saudi Arabia can conduct negotiations directly with members of the group, in an effort to have such exceptions canceled and replaced by bound tariffs or tariff ceilings on oil and oil products. As a practical matter, however, there are very low or zero tariffs on crude oil imports around the world.

Also of concern to Saudi Arabia is the issue of high taxes on refined products, especially in European countries. It is indeed the case that this is not generally a WTO issue, for a simple reason—the tax is not a tariff on cross-border trade in oil, but a domestic tax applied to all sources of oil, whether domestic or foreign. A central principle of the WTO is “national treatment,” the concept that foreign players in a market should receive the same treatment as nationals of the country. In the case of these taxes, the principle of national treatment applies since the tax is applied regardless of the source of the oil. So, for example, oil refined and sold as petrol in the UK has taxes levied on the final sale of the petrol whether that oil comes from the UK sector of the North Sea or from a foreign source such as Saudi Arabia. Such domestic taxes are WTO-compliant as long as they are applied equally to all sources of oil, foreign or domestic.

This is primarily a concern in European countries. Europe consumes about 16 million barrels per day (b/d) of crude oil, or 19% of global oil consumption of 84 million b/d, and has taxes typically between 60 and 70%. The US, which has low taxes on final consumption of gasoline (about $0.35 per gallon), consumes 25.6 million b/d, or 30% of the world total. A few countries, such as China, Indonesia, Philippines and Thailand, do the opposite and subsidize the final price of gasoline and diesel. Saudi Arabia will have to rely primarily on other channels, such as direct bilateral talks and international energy forums, to try to change such tax policies in oil consuming countries.

A major winner of the Saudi entry into the WTO is the local petrochemicals industry, dominated by the petrochemical giant SABIC. Two advantages accrue to Saudi petrochemicals production:

1) the Kingdom made no commitment to change the pricing of feedstock, and
2) the Chemical Tariff Harmonization Agreement substantially lowers tariffs globally on chemical imports, including all of the 64 chemicals exported by SABIC affiliates.
Thus, Saudi petrochemical manufacturers will retain a substantial cost advantage over their foreign competitors while gaining better market access to foreign markets as tariffs decline globally. Saudi Arabia may also use the WTO dispute mechanism to challenge the protective tariffs imposed by some countries on petrochemical imports.

The issue of Saudi pricing of feedstocks for petrochemical production was one of the most important issues and toughest negotiating points in the accession process. The European Union took the view that feedstock prices were unfairly subsidized, but in the end Saudi Arabia was not required to commit to a change in the pricing regime.

Natural gas (ethane and methane) is sold by Aramco to consumers at a fixed price of SR 2.81 ($0.75) per million BTUs. The current price of natural gas in the US, for comparison, is over $14 per million BTUs, giving Saudi companies using natural gas a strong cost advantage over foreign competitors. Natural gas is not sold for export due to the high cost of gas export infrastructure. Previously, gas was flared as a waste by product of crude oil production. Based on a combination of commercial and environmental concerns, the Kingdom now sells the gas for domestic use in power generation, water desalination, cement manufacture, and petrochemicals production.

The pricing for natural gas liquids (NGLs)—propane, butane, and natural gasoline—is set based on a more complex formula of adjustments to international market prices established in 2002. These products are also exported, so trading partners raised a concern about “dual-pricing” of NGLs—a lower price in Saudi Arabia than the Kingdom charges for exports of the same products. In actuality, these products are sold domestically at a discount to the international price for naphtha, a common global petrochemical feedstock. According to the current pricing formula, NGL prices are based on international market price for naphtha and adjusted downward for the following:

- **Cost savings in infrastructure.** The expensive export infrastructure for NGLs is not necessary for domestically consumed NGLs.
- **Cost savings in marketing.** Domestic customers are committed to long-term offtake agreements, whereas foreign sales would require marketing costs.
- **Commercial advantage associated with long-term contracts.** There is a lack of longterm contracts in the export market of NGLs.
• **Commercial value of reduced volatility.** The export market is also characterized by large seasonal demand and price swings, as exported NGLs are primarily used as fuel rather than petrochemical feedstock.

• **Commercial value of large-volume purchases.** Domestic purchasers commit to much larger volumes than do purchasers under short-term export contracts.

In response to a concern from one trade partner, Saudi Arabia made assurances that taking these adjustments into consideration, the commercially negotiated price of NGLs as petrochemical feedstock in Saudi Arabia would still be based on full recovery of production costs and a reasonable profit. Both natural gas and NGLs are sold domestically without discrimination between Saudi- and foreign-owned firms. Currently, the price for NGLs in Saudi Arabia is about 30% below the naphtha price on the international market.

The implication for the petrochemical industry in Saudi Arabia is that the Kingdom’s position on this issue preserves the benefit of low-cost feedstock. The petrochemical plants, both existing and planned, in the Kingdom based their economic viability on presumed continuation of low-cost feedstock throughout the life of the plant. The WTO commitments preserve these assumptions.

### 3.4 Tariffs

At the heart of many of these negotiations were tariff duties that Saudi Arabia levies on imported goods. Over the 12 years of negotiations, Saudi Arabia repeatedly modified its customs system and tariff rates in response to changes in the global tariff environment or to bring its tariffs more in line with the requirements of WTO membership. Now that Saudi Arabia has formally joined the WTO, all matters concerning customs tariffs will be subject to compliance with the rules and regulations of the WTO.

Domestically, the authority for setting customs tariffs, making changes to customs regulations, or levying any surcharges rests with the Council of Ministers. Imposition, amendment or cancellation of customs tariffs requires issuance of a decree by the Council of Ministers that is endorsed by a Royal Decree. The Saudi tariff regime operated under what was known as the Brussels Tariff Nomenclature (BTN) until 1993 when the Kingdom shifted to the more comprehensive Harmonized System Code (HS Code) which was used by most GATT members at the time. This is a global system for categorizing imports into
categories, or "tariff lines." Currently Saudi Arabia uses HS 2002, under which there are 7,177 industrial and agricultural product tariff lines identified at the 8-digit level. The first six digits of a Saudi tariff line correspond to the HS Code, while the last two are specific to Saudi Arabia.

As a result of the WTO membership and other developments, Saudi Arabia’s tariffs have moved significantly downward, and will continue to do so.

As mentioned earlier, in 1993, when Saudi Arabia filed for GATT membership for the first time, about 75% of its tariff lines were subject to a 12% tariff, while about 6% of its tariff lines carried duties of 20% or 50%. Effective January 2003, Saudi Arabia applied the unified GCC tariff in implementation of the GCC Customs Union provisions. As a result, more than 85% of Saudi Arabia’s tariffs range between zero and 5%. Of the remaining roughly 14% of items, 7% carry duties of 12%, while 6% carry duties of 20%. Twenty tariff lines (i.e., tobacco and tobacco related products) carry duties of 100%. Imports of alcohol and pork are banned for religious reasons. Later, in December 2005, customs tariffs were abolished for 52 chemical and pharmaceutical products, following consultations with other GCC members. In summary, the following is KSA tariffs:

<table>
<thead>
<tr>
<th>Saudi Arabia’s Tariffs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Old System</strong></td>
</tr>
<tr>
<td>% of Commodities</td>
</tr>
<tr>
<td>Tariff</td>
</tr>
<tr>
<td><strong>New System</strong></td>
</tr>
<tr>
<td>% of Commodities</td>
</tr>
<tr>
<td>Tariff</td>
</tr>
</tbody>
</table>

3.4.1 Bound rates
In a key document relating to Saudi WTO membership, the Schedule of Specific Concessions and Commitments on Goods, the HS code number and name of the commodity are indicated, as well as Saudi tariff rates for each commodity after accession to the WTO. The new tariff rates are also referred to as "bound" rates, or ceilings a common WTO term meaning the rates in the schedule are the maximum tariffs that Saudi Arabia will levy. These "bound" rates are not necessarily the existing applied rates. There is an important distinction between "applied" tariffs, and "bound" tariff rates. The applied tariffs are the tariff
rates currently applied on imported products. Largely because of the GCC Customs Union, currently applied tariff rates are lower than most of the bound, or ceiling, rates that Saudi Arabia committed to for WTO membership. The higher tariff ceilings are available, even if tariffs are not applied at the ceiling rate, as a mechanism to combat foreign dumping, should it occur in the future. Under the agreement with the WTO, tariff ceilings for 40% of product items in the HS schedule have been set at 15%, with ceilings for the remaining 60% ranging from 5, 10, and 12%.

<table>
<thead>
<tr>
<th>% of Commodities</th>
<th>60%</th>
<th>40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff</td>
<td>5%-10%-12%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Saudi Arabia's position is that it does not expect to raise tariffs to these maximum ceilings unless compelling economic reasons emerge, such as foreign dumping of products onto the Saudi market, or if the Kingdom deems that protection for certain products is warranted. Under the latter condition, Saudi Arabia would act collectively with other GCC members. The Kingdom may lower rates below these ceilings at some point in the future, but the ceiling cannot be changed without conducting new negotiations with the WTO. These new tariff commitments were agreed to pursuant to discussions with 38 members of the organization that had requested bilateral negotiations with Saudi Arabia. Per WTO regulations, the lowest tariff rate that Saudi agreed to for each specific tariff line with any one WTO member automatically applies to all other members without regard to previous agreements.

### 3.4.2 Tariff Exempted Commodities

There are some imports that are exempted from the regular tariffs. The Unified Customs Law of the GCC States, which went into effect in 2003, provided for tariff exemptions including for imports by diplomatic missions and personnel; imports of arms, ammunition, military equipment and other materials for use by the military and local security forces; imports by charitable organizations; returned goods previously exported or re-exported from Saudi Arabia; and finally personal effects and household items imported as passenger baggage. No other exemption of customs duty is allowed for any Saudi government agency. Religious organizations filing for waivers are granted customs exemption provided they are registered as non-profit charitable
organizations. Also, the Foreign Investment Law as amended in 2000 maintained the exemption of production inputs from customs duty.

Under the new WTO agreement, current customs duty ceilings will be lowered gradually over the next five years for 870 industrial and agricultural commodities, which represents 12% of the commodities listed on the Saudi HS tariff schedule. Initially, upon accession, the agreement will apply to only 430 imported items, the equivalent of 6% of the items on its HS schedule. This number will continue to increase annually so that after 5 years all 870 commodities will fulfill the Saudi commitment for tariff ceiling reductions.

Number of industries have benefited from protective tariffs on competing imports, those industries will be affected the most by the impact of lowering tariffs, but not as highly disruptive as anticipated. Of the 458 commodities that enjoyed customs protection at the 20% tariff level, 396 items were lowered to a 15% tariff upon accession. Commodities that enjoyed protection at the 12% level total 492. About 197 of these are now subject to lower tariffs of 10% and 6.5%. Protection will stay in place for some products -- mainly agricultural, poultry and milk and some dairy products. Immediately upon accession, some tariffs at the 20% level decreased to 8%, such as those for chocolates and confectionaries. Lubricating engine oils tariffs decreased to 10% and tariffs on steel pipes to 8%. Products made of plastic, paper and metal, as well as furniture, saw tariffs go down to 15%. Three years after accession, all computers, computer accessories and telecommunication equipment (landline and mobile phones) will be reduced to zero. Tariffs on chemical products, such as fertilizers, paints, soap, perfumes and some plastic products will continue at their current levels, which range between 12 and 20% throughout a 5-year transition period, after which tariffs will decline to 6.5%.

3.5 New Fees and Charges
Saudi Arabia noted in negotiations that it considers itself to be applying "other duties and charges" on 22 tariff lines. The Kingdom also indicated that it imposes few fees for port clearance, customs processing, customs inspection or for import or export licenses. Port storage fees are charged at SR 20 per ton if the goods are not cleared following 13 days from offloading. No fees are charged for delays caused by the customs department, for natural disasters or official holidays. Fees for loading/offloading and handling of imports/exports at ports have two components; one mandated by the government and the other
determined by private sector port operators. The private operator collects the fees. Rates charged by port operators are regulated by a government agency, the Saudi Ports Authority. The rates charged are not based on the value of the imports, but rather reflect the approximate cost of the services rendered. Fees for services rendered at Saudi Arabia's oil ports and terminals have no mandated component and are fully established by the private operators of those facilities.

Other fees imposed by Saudi Arabia include those for notarization of documents and authentication of certificates of origin and of invoices by Saudi consulates and the US-Saudi Arabian Business Council. The practice of requiring these certificates of origin was deemed necessary to combat commercial fraud and to ensure that products prohibited for health reasons were not exported to Saudi Arabia. WTO members indicated that the requirement posed difficulties for exporters not operating from areas served by consular offices or the Business Council and duplicated similar reviews conducted by customs officials in Saudi Arabia at the time of importation. Saudi Arabia committed that the requirement for notarization, authentication or verification of trade documents, including certificates of origin and invoices, and the associated fees applied to all exports to Saudi Arabia would be terminated no later than 31 December 2007.

There are no fees payable for obtaining an import license. Saudi ministries, including the Ministries of Agriculture, Health, and Commerce and Industry, do not charge fees for import licensing procedures, including the application process. Companies or persons wishing to import merchandise for display at a trade fair are granted non-automatic import licenses that permit the importation of all necessary samples, subject to the condition that the samples not be offered for direct sale.

4. CONCLUSION
After many rounds of negotiations with WTO since 1993, lastly KSA have joined the trade organization at the end of 2005 and to be the 149th member. KSA new membership created and still creating new regulations to be in conformity with WTO requirements. The new environment obviously will have uplifts and downfalls on business aspects, however, WTO rules provide sound discipline for decision-making, introduce the rule of law, reduce corruption, limit discretionary authority, ensure accountability and promote
transparency to improve country's economy performance. The official WTO documents on Saudi membership indicates the Kingdom has made over 50 specific commitments that have yet to be fully implemented. Thus, the largely positive impact of Saudi membership in the WTO has been building over the past many years and will continue. Generally, the Kingdom's membership in WTO is broadly perceived as positive step for the economy.
**Attachment 1**

**KEY INSTITUTIONAL REQUIREMENTS**

A number of WTO agreements require the establishment of a number of institutions for the purpose of implementing certain aspects of WTO agreements as explained below. Status of conformity with WTO institutional requirements are as the following:

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Institutional Requirement</th>
<th>Saudi Arabia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. GATT 1994</td>
<td>Judicial, arbitral or administrative tribunals or procedures for the prompt review and correction of administrative action relating to customs matters.</td>
<td>Partial conformity. See item 7 &quot;Customs&quot; under Section A (Trade in Goods&quot;) above.</td>
</tr>
<tr>
<td>2. TBT</td>
<td>a. Central government standardizing body &lt;br&gt;b. Inquiry point to provide information relating to standards &lt;br&gt;c. Notification point</td>
<td>a. Saudi Arabian Standards Organization &lt;br&gt;b. Not formally in place &lt;br&gt;c. Not formally in place</td>
</tr>
<tr>
<td>3. SPS</td>
<td>a. Inquiry point to provide information relating to sanitary standards (could be the same as above) &lt;br&gt;b. Notification point</td>
<td>Not formally in place</td>
</tr>
<tr>
<td>4. AD</td>
<td>a. Investigating authority &lt;br&gt;b. Judicial, arbitral, or administrative tribunals or procedures for prompt review of administrative actions relating to final determinations and review of determinations.</td>
<td>Not in place</td>
</tr>
<tr>
<td>5. CVD</td>
<td>a. Investigating authority &lt;br&gt;b. Judicial, arbitral, or administrative tribunals or procedures for prompt review of administrative actions relating to final determinations and review of determinations.</td>
<td>Not in place</td>
</tr>
<tr>
<td>6. SG</td>
<td>a. Competent authorities for investigations</td>
<td>Not in place</td>
</tr>
<tr>
<td>7. GATS</td>
<td>a. Inquiry point to provide information regarding laws and legal acts connected with trade in services &lt;br&gt;b. Notification point &lt;br&gt;c. Contact point &lt;br&gt;d. Judicial, arbitral or administrative tribunals or procedures for the prompt review of and appropriate remedies for administrative decisions affecting trade in services</td>
<td>a. Not in place &lt;br&gt;b. Not in place &lt;br&gt;c. Not in place &lt;br&gt;d. General administrative laws (no time limit for dispute resolution)</td>
</tr>
</tbody>
</table>
| 8. TRIPS | a. Civil judicial procedures concerning the enforcement of any intellectual property right covered by the agreement  
  b. Criminal procedures and penalties to be applied in cases of willful trademark counterfeiting or copyright piracy. | a. and b. Present in some of existing IP laws, but needs improvement. Lastly, Saudi Arabia should establish an independent agency to administer and enforce provisions of the law on competition and the law on natural monopolies. |