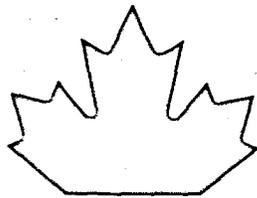


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**Canada's Export Development Plan for**

# **SAUDI ARABIA**



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CANADA'S  
EXPORT DEVELOPMENT PLAN  
FOR SAUDI ARABIA

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Government of Canada  
Department of External Affairs

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## FOREWORD

Canada's Export Development Plan for Saudi Arabia has been prepared to assist existing and potential exporters, who are interested in expanding business in Saudi Arabia. The review and analysis of this market provide the basis for the market development activities in Saudi Arabia over the next two to three years, planned by the Department of External Affairs. The provincial governments, also active in supporting Canadian exporters, were consulted during the preparation of the plan. The plan does not attempt to cover in detail Canadian interests or Saudi opportunities. Rather, it highlights significant market opportunities in a number of industry sectors, in which Canadian supply capability is well established.

The plan is presented in three parts. The Executive Summary provides a brief review of Canada-Saudi Arabia trade relations and highlights the principal market opportunities identified in each of the industry sectors included in the plan. Part I, the Market Overview focusses on bilateral Canada-Saudi relationships and socio-economic and political conditions in Saudi Arabia. This will be particularly useful to the reader seeking a broad introduction to the Canada-Saudi Arabia trade environment. Part II, Market Opportunities and Sector Marketing Plans will be of most interest to firms supplying goods and services in the industry sectors which have been selected.

EXPORT DEVELOPMENT PLAN - SAUDI ARABIA

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## EXECUTIVE SUMMARY

### Objective

The major theme of a Canadian Export Strategy for the 1980s as approved by the Cabinet Committee on Economic Development is the selectivity of markets coupled with a greater focus and co-ordination of Canada's export marketing efforts. In so doing, the government recognizes the critical role of the private sector, and invites its participation and that of the provinces in pursuing those activities that will contribute to the objective of expanding Canada's share of the Saudi market.

Saudi Arabia, with its growing demands for equipment, technology and raw material, offers interesting trade prospects for Canadian industry. Canadian trade penetration has been slight to date, considering that total imports in 1980 were worth some U.S.\$29.4 billion, an increase of 27.7 per cent over the previous year. The Kingdom's exports, mainly petroleum products, were worth U.S.\$106.7 billion in 1980. Canada/Saudi two-way trade has grown from a \$821 million in 1977 to a respective level of \$2.73 billion in 1981. No doubt this increase is a result of expanded oil imports to Canada. Indeed, Canadian exports have more than tripled since 1977 -- from \$109 million to \$456 million in 1981.

To capitalize upon the large range of unexploited market opportunities in Saudi Arabia, Canadian exporters, with the support of government assistance where available, will need to focus and co-ordinate their marketing efforts.

In order to accomplish this objective, this document is intended:

- i) to guide the action and resource allocation of the federal government in providing an effective program of assistance to exporters and in fostering an environment conducive to Canadian export development in Saudi Arabia;
- ii) to set out a marketing plan designed to take advantage of the market potential and to overcome the constraints facing Canadian exports to Saudi Arabia;
- iii) to identify opportunities for export concentration and to stimulate and assist the private sector in pursuing them; and
- iv) to provide a focal point for co-ordinating the marketing efforts of the federal and provincial governments in support of the private sector's efforts.

Canadian Trade Development Efforts to Date

Canada established diplomatic relations with the Kingdom of Saudi Arabia in 1973 and opened an Embassy in Jeddah in 1974. In 1978, Bell Canada secured a five-year management contract worth \$1.2 billion to establish a modern, efficient telecommunications network in the Kingdom. Aside from regular commercial activity, the relationship has been characterized by a number of high-level visits. Prime Minister Trudeau travelled to Saudi Arabia in 1980; Trade Minister Ed Lumley visited in April 1981; and Energy Minister Marc Lalonde was in the Kingdom in January 1982. Senior Saudi officials, including Sheikh Yamani, Minister Kayal, the King's half-brother, Prince Nawaf and nephew Prince Salmem, have also visited Canada in recent times.

There has also been a range of most useful provincial missions to the Kingdom, primarily from Ontario and Quebec, but also including British Columbia, Alberta and specifically directed federal missions in fisheries, food products and defence equipment. These visits have to some extent emphasized to Saudi Arabia the importance that Canada places on it as a trading partner. There is a Joint Economic Commission (JEC) that serves as an umbrella organization for technical exchanges. The JEC has met in 1976, 1978 and 1980, and serves as an overview mechanism to focus Canadian expertise on Saudi priority projects in such fields as telecommunications, transportation and education.

While Canadian exports to Saudi Arabia were worth only \$455 million in 1981 [80 per cent in manufactured items], professional involvement by Canadians in the Kingdom is substantial. There are some 5,000 Canadian residents in Saudi Arabia who are mainly working in technical areas. SNC is in the final stages of a consulting supervisor contract for a \$1 billion rural electrification scheme in the Qassim region. Watts, Griffis and McQuat has an ongoing consultancy relationship with the Minerals Directorate of the Petroleum Ministry. Cansult has been engaged for many years in municipal consulting and contracting in the Kingdom. A host of other Canadian firms are actively engaged in joint ventures or other consultancy roles that add to the significant Canadian presence in Saudi Arabia.

Saudi Arabia now enjoys a high level of entrepreneurial skills in its population. A focus of the national five-year plan is to commensurately upgrade technical and managerial skills as well. To this end the Saudis attach considerable importance to the training of their people at overseas institutions, including those in Canada, at both vocational and tertiary levels. Canadian medical and scientific expertise is highly regarded and substantial potential exists to increase the numbers of students from Saudi Arabia in Canada to the benefit of our future relationship.

There is a strong thrust in the Kingdom to further involve Saudi nationals in joint ventures, agency arrangements and technical service contracts to provide them with experience and skills commensurate with Saudi development. Some Canadian firms have found it profitable to enter into joint-venture arrangements with Saudi partners -- the Saudi partner provides capital and contacts and the Canadian partner provides technical expertise, equipment and management. While care has been necessary in selecting partners, this new thrust has resulted in the establishment of a substantial range of manufacturing capability in the Kingdom, which obtains various levels of protection through preference on contracts and customs levies on competitive import products up to 20 per cent. Often these ventures employ third-country national labour at rates which are very competitive with those prevailing in North America and Europe.

Saudi government agencies have been entering into government-to-government co-operative arrangements with agencies of foreign governments to improve the technological capability in the Kingdom. In the Canadian context, such co-operative arrangements fall under the umbrella of the Joint Economic Committee and have been pursued in areas of: spectrum management through the Federal Department of Communications; remote sensing capability from the Department of Energy, Mines and Resources; national observatory technical assistance of the National Research Council; agricultural research and technology through the facilities of Agriculture Canada; and, in the realm of civil aviation control, through the Federal Department of Transport. All of these technological transfer agreements have the capacity for introducing a range of Canadian design and manufactured equipment to the Saudi marketplace.

#### Future Market Opportunities

In 1981, Saudi Arabian imports were worth U.S.\$34.79 billion and there is more than adequate scope for a great number of Canadian exporters to secure or enhance their market performance. As sectors of concentration, it has been determined that Canadian strengths should be fitted to Saudi requirements in the areas of:

- i) telecommunications;
- ii) oil and gas equipment;
- iii) electrical generating and transmission equipment;
- iv) defence-related equipment and services.

The foregoing areas of concentration will, of course, not lessen emphasis on building up Canadian markets for raw and semi-processed materials for the newly-established, indigenous Saudi industries or for support in ongoing marketing opportunities.

Areas of secondary interest to Canadian exporters are: (i) mineral development, (ii) education, (iii) agriculture and (iv) light industries.

i) Mineral Development

The Saudi Arabian Five-Year Plan, 1981-85, emphasizes the national requirement to develop the country's non-ferrous metals and minerals industry. These developments are under the supervision of the Director General of Mineral Resources, located in Jeddah, in the Ministry of Petroleum. For many years the U.S. Geological Survey has been active and a staff of Saudi geologists and geophysicists has been built up. Technical assistance has also been provided by the French BRGM, which has helped the establishment of two subsidiaries of Petromin for drilling and geophysical work. More recently contracts for technical assistance have been awarded to Rio Tinto Zinc and the British Steel Corporation. The existence of metal deposits in the ancient rocks on the west side of the country has been known since very early times. Gold, copper, lead, zinc, silver and iron are all possible targets for development, although no deposits of a size and quality that would unquestionably justify production, have yet been found.

The mining code lays down three stages of development, requiring in turn a reconnaissance permit, an exploration licence and a mining lease proper. In both the latter two stages, Petromin will expect to participate, normally with 50 per cent of the operation. In addition to the work in progress in the Western Province, Petromin is reported to be considering the possibilities -- at present only theoretical -- of the discovery of metals in the sedimentary rocks of the Eastern Province and in the bed of the Red Sea. Of non-metallic minerals, large deposits of phosphates are known in the northern part of the country, and there has already been extensive quarrying of limestone and gypsum for the construction industry.

Mapping of sedimentary and Phanerozoic rocks of the central and eastern regions, studies in geomorphology, classification of the Arabian shield formations, as well as a study of the Red Sea Coastal Plain and Shelf, will also be required. (See Appendix A for a list of existing and new mine operations.)

ii) Education

High priority has been given to education and training under the current Five-Year Plan and this sector offers exciting opportunities for Canadian companies. Higher education, particularly in the fields of engineering, science, medicine, commerce, administration and vocational training, is receiving particular emphasis. Thirty-eight billion dollars will be spent over this period. In an attempt to diversify away from American and British suppliers, Canadians will be in an excellent position to capitalize opportunities for sales of equipment such

as language and science laboratory equipment and audio-visual software. Faculty exchanges and joint research projects will continue to develop important linkages with the western world.

iii) Agriculture

In the attempt to become self-sufficient in agricultural products, the Saudi market offers a unique challenge to Canadian exporters. Presently, 80 to 90 per cent of its food requirements must be imported. As a late entrant to a highly-competitive market, Canada's share should be increased on a gradual basis by companies that offer a wide range of agricultural and food products. In addition, projects in the dairy and poultry business appear to be on the increase. Twelve commercial dairy farms have been established, with another 16 under consideration. Massive loans are available to Saudi partners in joint ventures with foreign companies as the country attempts to reduce its high import bill. Wheat production is another key area; however, consistent and greater use of fertilizers and seed varieties must be undertaken, if Saudi Arabia is to increase production of cereal grains to 60,000 hectares.

iv) Light Industry

A national priority of the Saudi government is to develop private enterprise, with participation by government in large projects where necessary. The Saudi Industrial Development Fund was established in 1974 to support and promote industrial development in the Kingdom, and to this end it provides up to 50 per cent of the capital for approved projects. The loans available extend to 15 years, depending on the requirements of the project and of the projected cash flow. The only charge levied is an administrative fee intended to cover the cost of services rendered, including processing and monitoring of loans.

The rate of progress in the private sector since the Second Plan started has been remarkable, and the demands it has made on limited resources are in part responsible for the delays in the Government's plans. Nevertheless, there has already been considerable expansion of manufacturing activity, led by cement and construction materials. The Government recently issued a list of industries for which applications already received cover the total of licenses which the Government is prepared to grant. It is likely, however, that some of the applicants are still seeking foreign partners with the necessary managerial and technical expertise.

The Overall Strategy

The market development plan for Saudi Arabia outlines a variety of trade promotion instruments that will be utilized by the federal government to assist Canadian companies pursue export opportunities in

the booming Saudi market. This inventory of instruments results from an assessment of identified needs and constraints and is designed to increase the penetration of Canadian goods and services in Saudi Arabia. A summarized action plan highlights our trade initiatives and follows the Executive Summary.

The trade fair concept is gaining much wider acceptance as a marketing tool in Saudi Arabia. As a result, extensive use of the Fairs and Missions Program will be undertaken. PEMD C assistance will be increased, thus supporting greater industry participation. In addition strong support will be offered for PEMD F proposals. PEMD F assists companies in sustaining ongoing market analysis and market development activities in the Kingdom. Federal and provincial trade missions, particularly those that have an industry specialization, will be encouraged.

Trade fairs and missions for 1982-83 have been planned in accordance with the expected allocation of funds for market development activities in Saudi Arabia. Other activities and also trade fairs and missions proposed in subsequent years, are suggested as a response to an identified need, and will be more closely evaluated in terms of budgetary considerations at a later date. Additions and/or deletions for these subsequent years may be made as a result of ongoing inter-departmental discussions and consultations with the provinces and the private sector.

While the primary agents of the facilitation of the export marketing plan will be the Middle East Division of the Office of Pacific, Asian, African and Middle Eastern Affairs, the Embassy, External Affairs and the Industry Sector Branches in the Department of Regional Industrial Expansion, the degree of success in meeting the objectives of the plan relies on the co-ordination and co-operation of all federal departments and provincial governments and active involvement by business and industry. Consultation, in the form of strategy with the provinces and with other federal government departments, has therefore taken place. Ongoing consultations by trade officials with businessmen have ensured that private sector views have been incorporated into the plan. Given this concentration of effort and dedication of purpose, there is every reason to expect that Canada's share of the Saudi market can be significantly expanded.

Summarized Action Plan For Saudi Arabia

Timing

Activities/Events

Ongoing

Undertake trade missions to explore opportunities with the prime buyers, contracting firms and potential joint-venture partners.

Continue to assist Canadian firms in seeking and discussing market opportunities in the development and management of the grain-handling and processing sector.

Offer places for Saudi flour and grain industry personnel in future courses conducted by the Canadian International Grains Institute.

Utilize opportunity to promote ground-to-air communications and navigational equipment as follow-up to winning agreement to provide technical training to Saudi in traffic control.

Develop list of potential Saudi partners and agents for interested Canadian companies.

1982-83

Embassy will make available the commercial officer responsible for the oil and gas sector to discuss opportunities, constraints and business practices of the Kingdom with Canadian companies during visit to Canada.

Assemble list of potential opportunities and joint-venture partners in oil and gas field.

Undertake missions headed by senior trade officials to promote Canadian technology and to introduce Canadian firms to government and industry leaders in the petroleum sector.

Mount oil and gas processing and services mission to Saudi Arabia.

Encourage Canadian manufacturing companies to participate in Baghdad Fair.

Undertake processed food and fish mission to Saudi Arabia.

Provide information booth at Saudi Home and Leisure Show.

Activities/Events

Promote Canadian capability at Middle East Communications Show (MECOM).

Provide information booth at Middle East Oil Show in Bahrain.

Commerce Minister Al Solaim to meet in Canada with Canadian companies and provincial and federal ministers interested in Saudi Arabia in order to introduce the minister to Canadian engineering and manufacturing capabilities.

Minister Lumley to lead businessmen in mission to Saudi Arabia to enhance the transfer of technology between Canada and Saudi Arabia.

Consider mission by senior Wheat Board officials to the Kingdom to begin discussions of a long-term agreement with the Saudi Arabian Grain Silos and Flour Mills Organization.

Provide information booth at Saudi Food Show.

Organize a technical seminar sponsored by the Grain Marketing Office with the objective of familiarizing Saudi Arabian oilseed crushers, refiners and feed manufacturers with Canadian Canola products and to promote use of these products in Saudi Arabia.

Undertake market survey on whether Canadian telecommunications equipment suppliers are able to have their equipment compatible with the Nordic system presently used and determine whether there is sufficient time to bid for next expansion phase in 1983 or 1984.

Examine market potential for ground receiving stations and possible joint-venture assembly in one or more Arabsat-member countries.

Plan and co-ordinate Canadian liaison with Saudi officials attending the International Telecommunications Exhibition in Geneva (Telecom).

Use Embassy as a showplace of modern Canadian telecommunications equipment starting with replacement of the old Ericsson PABX.

Provide information booth at Saudi Agricultural Show.

Provide information booth at Middle East Construction and Municipal Services Show.

Timing

Activities/Events

1983-84

Increase financial and human resources at the Embassy to handle increased demands for assistance by companies.

Undertake special three-month study to examine export opportunities in electrical field.

Set up information booth at Middle East Electricity and Electronics Show to promote Canadian capability.

Organize seminars to promote Canadian technology, goods and services in the petroleum sector to increase Canadian visibility.

Undertake lumber and panel products mission.

Attend Baghdad International Fair.

Undertake specialty vehicles mission to Middle East.

Mount Automotive Parts Catalogue Shows in Saudi Arabia.

As a follow-up, organize incoming buyers' mission to the Canadian International Auto Show.

Provide information booth at the Saudi Transport Show.

Provide information booth at the Gulf Food Show.

Undertake Office-Home Furniture Catalogue Show at the Arab Home and Leisure Show.

Mount incoming buyers' mission to Farm Prog (Regina).

Organize information booth at the Saudi Agricultural Show to promote Canadian agricultural equipment.

Provide information booth at the Middle East Oil Show.

Undertake incoming visitors mission to the Inter Can Petroleum Equipment Show.

Set up information booth at the Gulf Safety, Security and Fire Equipment Show.

Mount Computer Technology Mission to Middle East.

Organize information booth at the Middle East Electricity Show.

Timing

Activities/Events

Undertake Instrumentation and Process Control Equipment Mission to Saudi Arabia.

Mount Navigational Aids Mission from Saudi Arabia.

Organize Electrical Power Distribution Mission to Saudi Arabia.

Provide information booth at the Middle East Equipment and Computer Show.

Organize Building Materials Mission.

Set up information booth at Saudi-Build '83.

1984-85

Undertake petroleum industry products and services mission.

## I. MARKET OVERVIEW

### Objective

A major theme of a paper "Canadian Export Strategy for the 1980s" is the introduction of greater focus and co-ordination to Canada's marketing efforts. As approved by the Cabinet Committee on Economic Development, a series of market development plans are being drafted for Canada's priority markets. A central element of the exercise is a two-to-three-year action plan for each country. This document sets out an export market development plan for Saudi Arabia through:

- i) creating a strategy framework to guide the actions and resources of the federal government in providing an effective program of assistance to, and an environment for, Canadian export development in Saudi Arabia;
- ii) elaborating a marketing plan to take advantage of the opportunities and to overcome the constraints facing Canadian exports to Saudi Arabia;
- iii) providing a working document to use as the basis for discussions aimed at co-ordinating the marketing efforts of the federal government in co-operation with provincial governments and the private sector.

The major Canadian trade objectives in Saudi Arabia are:

- i) to ensure an environment that will encourage the strengthening of the Canadian presence in Saudi's ambitious development program;
- ii) to increase exports of goods and services at an amount sufficient to maintain or improve Canada's market share; and
- iii) to pursue opportunities for investment, joint ventures and other forms of co-operation.

The overall strategy to assist the federal government in the allocation of resources for market development in Saudi Arabia and to co-ordinate its activities with those of the provincial governments and the private sector is summarized in the Action Plan outlined in the Executive Summary. The three-year framework for Saudi Arabia is designed to capitalize on opportunities and to overcome constraints affecting Canadian exports. As such, it incorporates recommendations arising from those priority-sector action plans, particularly where common instruments are proposed. Sector specific initiatives are dealt with in the individual sector strategies.

The activities and events for 1982-83 have been planned in accordance with the expected allocation of funds for market development activities in Saudi Arabia in the coming fiscal year. Activities and events indicated for subsequent years (1983-84 and 1984-85) are suggested as a response to an identified need and will be more closely evaluated in terms of budgetary considerations at a later date. Additions and/or deletions for these subsequent years may be made as a result of ongoing inter-departmental discussions and consultations with the provinces and the private sector.

#### Canada/Saudi Environment

As Saudi Arabia attempts to leap into the 21<sup>st</sup> century, the Saudi market presents an exciting challenge to Canadian companies. Genuine interest in Canadian goods and services has been demonstrated through both private and government channels. The Joint Economic Commission has assisted in establishing areas of mutual interest and removing any misunderstandings regarding our trading practices. In an effort to strengthen private initiatives, both provincial and federal trade missions have taken place over the last few years. The Prime Minister in November 1980, the Honourable Ed Lumley, Minister of State for Trade in April 1981, and missions from the Ontario, Alberta, British Columbia and Quebec governments have illustrated Canada's interest in assisting Saudi Arabia in its development. Canadian companies together with the public sector are involved in projects in the fields of communications, manpower training and development, transportation and agriculture.

Although to date success has been limited, it is hoped that both countries will take up the challenge to increase trade and strengthen our ties in the development of Saudi Arabia.

#### Characteristics of the Saudi Market

##### 1. Demographic and Socio-Economic

The Kingdom of Saudi Arabia covers the greater part of the Arabian Peninsula. The area is roughly rectangular in shape and about 2.4 million square kilometres in size -- about the same as Ontario and Quebec combined. Population is estimated at roughly 8 million, of which perhaps 3 million are foreign labourers and management. Some 75 per cent of the population is considered settled in the three major cities of Riyadh, (the capital), Jeddah and Damman-Al-Khobar. A major obstacle to Saudi development has been the lack of trained Saudi manpower. In order to remedy this situation, a national educational budget of U.S.\$4.76 billion was set in fiscal 1981-82 with a further U.S.\$2.9 billion being programmed for educational infrastructure. This has represented some 10 per cent of the total national budget.

Saudi Arabia is a highly conservative Kingdom where the Muslim faith is universal. The majority of Saudis are members of the Wahabi religious sect, which is strict in its social and religious requirements. The country's role as guardian of the holy places is taken most seriously. Strict adherence to Muslim and Wahabi strictures requires that women be secluded, not share work premises with men and devote their lives to families and children. Women are now permitted to work as nurses and practice medicine but are not considered part of the generally employable Saudi population.

Competition for skilled Saudis remains stiff. It is expected, however, that once the construction of infrastructure projects begins to fall off, this employment problem will be resolved. For example, Jubail requires a labour force of 8,000 to operate industries in contrast to a required construction work force of 40,000; thus, it will be early in the 21<sup>st</sup> century before Saudis predominate the labour force. Under the Third Plan, the objective is to reduce the growth of expatriate manpower to 7 per cent a year from 12 per cent.

Availability of water and housing are major concerns for Saudi planners. Approximately \$16 billion has been set aside for water resource development. The housing market prefers permanent houses to the "villa development" form -- the past approach of mass housing. Internal transportation remains high in the priority development. Some \$375 million will be spent on upgrading the existing Damman-Riyadh railway line and considerably more will be spent on roads.

The problem of port congestion has been eliminated under the Second Plan. However, port improvement, road construction, air operations and telephone installation will continue to be a priority under the Third Plan.

Although Saudi Arabia has averaged an annual growth rate of 10 per cent, the rural migration to cities is cause for concern. To improve the quality of life, health and social services will receive approximately \$16.4 billion for improved health care and social development programs.

To provide greater focus and solutions to the problems of rapid economic and social development, the Gulf states of the United Arab Emirates, Kuwait, Saudi Arabia, Bahrain, Qatar and Oman formed together to establish the Arab Gulf Co-operation Council (AGCC) in May 1981. Common interests are the basis for this new organization, where gulf security is at the forefront of discussions. To capitalize on the close ties of kinship and culture, the AGCC will encourage greater economic linkages within the group. Co-operation will be increased in the areas of immigration, security

services and labour policies. Furthermore, the suggestion of a common market is under serious consideration. Such an action would certainly improve the attractiveness of business opportunities in Saudi Arabia as well as in the other five-member states. The spinoffs from improved transportation and co-ordinated economic policies will entice business both to those companies already established in the gulf area, as well as new entrants to Saudi Arabia. Time will tell how effective the AGCC is.

## 2. Macroeconomic Trends

While continuing to be the world's largest oil exporter with a current production capability of 10.5 million barrels a day, Saudi Arabia is expected to have a budget surplus of \$30 to 40 billion per annum once the current oil glut situation is resolved. Oil accounted for almost three-quarters of the gross domestic product, about 90 per cent of government revenue, and almost all export earnings. With the major part of petroleum income accruing directly to the government, public sector spending is by far the most important determinant of development in the non-oil sector. The Deputy Minister of Planning stated last summer that 6.8 million barrels a day would be sufficient to meet Saudi Arabia's present needs.

The Third Five-Year Development Plan (1980-81 to 1984-85) places heavy emphasis on investment in infrastructure. An extensive road network, sufficient for the country's present needs, has been largely completed. Port facilities have been improved and expanded to such an extent that Saudi Arabia now has excess port capacity. Development of public utilities and municipal services has been stepped up. The private sector has exceeded expectations by wide margins in the housing, non-oil manufacturing, services and trade sectors.

Under the Second Five-Year Development Plan, an average of 14.1 per cent real non-oil GDP growth was achieved. This progress was made possible by huge amounts of public investment and was facilitated by substantial inflows of foreign labour to Saudi Arabia. A target of 7 to 10 per cent inflation has been set under the Third Plan, while past inflation ran in the high 30 per cent bracket in the mid-seventies. Per capita income has increased from an estimated SR 4,800 (U.S.\$1,360) in 1975 to SR 8,200 (U.S.\$2,464) in 1979, an increment of 55 to 60 per cent in real terms. The distribution of wealth, however, remains rather heavily concentrated, but is improving.

Due to the attraction of high interest rates abroad, a considerable amount of liquidity has been drained from the country in 1980-81.

### 3. National Planning

The Third Development Plan (1980-85) calls for total expenditures of \$235 billion representing a 57 per cent increase over expenditures of \$150 billion envisaged under the Second Development Plan. A further \$50 billion has been set aside to cover inflation. The aims are: (1) to preserve Islamic values and law; (2) to uphold the faith and internal security; (3) to secure balanced economic development; and (4) to develop indigenous manpower resources. Anticipated growth is 15.8 per cent with inflation at approximately 7 per cent. Defence and foreign aid figures, however, are not included in the above figures.

While a complete breakdown of Saudi Government spending intentions over the next five years is not yet available, recent published figures show major planned allocations totalling some \$145 billion (this figure, however, excludes allocation for administration, defence and foreign aid). Of the \$145 billion, about \$52.4 billion is to be allocated for economic resource development. One of the major problems facing the Saudi economy is the scarcity of fresh water. Consequently, some \$11.9 billion has been set aside for water desalination schemes (29 new desalination plants are to be constructed). Electrification of the country also ranks high among Saudi government priorities. Various electrical power, transmission and distribution schemes are scheduled to absorb some \$15.8 billion. The Saudi Government has also stated that emphasis will be placed on developing industry, mining and agriculture; with the objective of acquiring new technology, reducing reliance on the crude oil sector as well as co-ordinating industrial development among Gulf states.

To achieve these goals, some \$7.7 billion has been allocated to the Saudi Basic Industries Corporation (SABIC -- a government-owned corporation) primarily to carry out the petrochemical, fertilizer and iron and steel projects planned for the major industrial complexes at Jubail and Yanbu. These projects are joint ventures between SABIC and foreign companies. It is noteworthy that Saudi Arabia's recent decision to drop plans for the Jubail aluminum smelter was apparently taken in light of Bahrain's decision to expand its aluminum smelter (where SABIC has a 20 per cent equity) and Dubai's decision to construct a new one. The General Petroleum and Minerals Organization (Petromin) is to be granted some \$8.3 billion for various petroleum projects (including the expansion of Saudi refining capacity) and for further exploration and exploitation of gold, copper, iron ore, phosphates and other minerals in Saudi Arabia.

In an attempt to reduce dependence on imported foodstuffs and eventually attain agricultural self-sufficiency, the Saudi Government has allocated some \$2.4 billion for agricultural

development. While the Saudi Government has attempted to increase agricultural production by, inter alia, constructing dams, irrigation networks and drainage facilities, the scarcity of water continues to severely constrain output. It is possible that at least part of the \$4.0 billion allocated for water schemes is, in fact, related to agricultural development. Currently, the utilization of aquifers is being explored so that artesian wells could provide the needed water. A possible next stage would be the development of desalination plants along the coast with the water transported by pipeline. In any event, the Saudi goal of agricultural self-sufficiency is unlikely to be achieved over the next five to ten years.

While much was achieved in the way of infrastructural development under the previous plan, the Saudis have allocated some \$49.3 billion for transport and communications development and public works projects. Major expenditures are slated for roads (\$11.3 billion), civil aviation (\$10.7 billion) and seaport development (\$7.1 billion). Relatively smaller amounts have been set aside for railway (\$1.4 billion) and postal development (\$1.1 billion), and for Saudi Arabian Airlines (\$2.6 billion).

The Saudi Government has stated that the creation of a more skilled indigenous labour force (one which is trained to meet the requirements of a more diversified Saudi economy) is a high priority. Some \$30.4 billion has been allocated for this purpose. In addition to upgrading the present educational system, the Saudi Government will place increased emphasis on technical, vocational and on-the-job training programmes. Nonetheless, Saudi Arabia will continue to depend heavily upon foreign labour to carry out its economic development plans.

Some \$12.7 billion is to be allocated to improving health and social services. The bulk of spending (\$10.5 billion) is for health facilities. For example, the Plan envisages the construction of 36 hospitals with a total of 9,500 beds. Youth Welfare will receive \$1.4 billion and emphasis will be on sports, culture and social endeavours.

#### 4. Planned Expenditures for Fiscal Year (FY) 1982-83

According to the recently approved budget for FY 1982-83, Saudi government spending will total some SR 313.4 billion (\$U.S. 92.2 billion). This represents an 8.7 per cent increase over actual expenditures of some \$U.S. 84.7 billion in FY 1981-82. About 29.6 per cent of the current budget is to be reserved for defence and internal security purposes -- up from \$U.S. 24 billion to \$U.S. 27.4 billion. The increase probably reflects Saudi Arabia's continued general concern

over the security of the Gulf and regional areas. While planned defence spending has accounted for more than one-quarter of Saudi budget allocations in recent years, it is thought that actual expenditures were greater. In addition, major allocations are projected for: transport and communications SR 32.5 billion (\$9.6 billion); manpower SR 31.9 billion (\$9.4 billion); municipal facilities SR 26.2 billion (\$7.7 billion); economic resources SR 22.0 billion (\$6.5 billion); public administration SR 9.5 billion (\$2.8 billion); health and social services SR 17.0 billion (\$5.0 billion); infrastructure SR 11.7 billion (\$3.5 billion); and domestic subsidies SR 11.2 billion (\$3.3 billion). A further SR 23.4 billion (\$6.9 billion) are reserved for international loans. See Table 1 for past budgeting appropriations by sectors.

Saudi Arabia is a major producer and member of the Organization of Petroleum Exporting Countries (OPEC). See Table 2 for distribution of world oil production. As leading advocate for the reduction in the price of oil to \$34 a barrel, Saudi Arabia has successfully won this policy decision at an OPEC meeting in November 1981. This price and production level, however, is currently under pressure. The United States, Japan, Spain, Italy and India continue to be the major oil recipients.

#### CIVILIAN EXPENDITURE ON DEVELOPMENT

(1980-85, prices in SR bn)

<u>Function of Expenditure</u>	<u>Current Prices</u>	<u>2nd Plan %</u>	<u>3rd Plan %</u>
Economic resource development	261.8	25.1	37.3
Human resource development	129.6	15.9	18.5
Social development	61.2	9.4	8.7
Physical infrastructure	249.1	49.6	35.5
Subtotal: development	701.7	100.0	100.0
Administration	31.4	6.7	4.5
Emergency reserves, subsidies	49.6	15.9	7.1
Total civilian expenditure	782.7	122.6	111.6

Source: Saudi Arabia's Ministry of Planning Third Development Plan.

Generally, Saudi Arabia pursues a liberal trade policy. The only diversions from this are as prescribed by the Arab League, particularly vis-à-vis Israel. As a dominant exporter of oil, Saudi Arabia has ready access to many markets and is not a member of the General Agreement on Tariffs and Trade (GATT).

## 5. Trade Characteristics and Balance of Payments

### Imports:

Reflecting the increasing demands from the Saudi market, imports from the eighteen industrial countries rose by \$3,620 million in 1980, to \$23,103 million. This represents a 19 per cent increase. (See Table 3.) The United States and Japan accounted for \$5,768 million, or 25 per cent and \$4,882 million or 20 per cent respectively. Britain and Germany are a distant third and fourth with 11 per cent and 10 per cent, followed closely by Italy and France at 9 per cent and 6 per cent respectively. (See Tables 4 and 5 for a ranking of the top 15 trading countries with the three major commodities and a ranking of the top 50 commodities.)

It is interesting to note that the top five categories of machinery, electrical equipment, cars and other vehicles, base metals and textiles account for SR 67.5 billion (\$19.7 billion) or 67.3 per cent of total imports at SR 100.4 (\$29.4 billion). See Table 6 for the composition of imports.

The days of the 1978 current account deficit appear to have been left to the past, with a record current account surplus of RLs 117.0 billion, up from the 1979 surplus of RLs 34.8 billion. This turnaround stems from a steady trade surplus of RLs 57.7 billion in 1978, RLs 110.0 billion in 1979 and RLs 217.1 billion in 1980.

The current account surplus was further offset by increases in oil sector liabilities, such as taxes and royalties accrued but not yet paid, by private capital outflows and by increases in the net foreign assets of the commercial banks. Thus, the balance-of-payments surplus amounted to RLs 75.0 billion in 1980.

### Canadian Trade with Saudi Arabia

Canadian exports to Saudi Arabia grew from \$321 million in 1980 to \$455 million in 1981. Of this total some 50 per cent was cars, trucks and parts shipped from General Motors of Canada. Notwithstanding this concentration, substantial increases in sales have been recorded for lumber, aircraft, electrical switch-gear, protective equipment and other semi-manufactured products. The range of items which Canadian exporters sell to Saudi Arabia continues to expand as they begin to appreciate the substantial range of market opportunities available.

Saudi Arabia is a very large market for consulting services and expertise. Noteworthy amongst recent successes for Canada, has been the Bell Canada contract with the Saudi Arabian Ministry of

Post, Telephone and Telegraph for management services that hopefully will continue for some years into the future. There is a substantial requirement for consultancy associated with Saudi Arabia's massive electrification program but, to date, only SNC of Montréal has had substantial success with its \$1 billion rural electrification project in the Qassim region. Direct consulting or joint-venture consulting potential exists in all ranges of expertise available from Canada but Canadian firms will need to devote greater attention and repeated visits if they are to develop the right mix of sponsorship, joint-venture arrangement, and pricing, to secure a greater range of contracts.

Some Canadian manufacturers are developing joint-venture manufacturing or assembly arrangements with Saudi partners to their prospective mutual benefit. Most Saudi contracts require or give preference to bids from Saudi joint ventures and manufacturing capabilities; and it is anticipated that, in the future, Canadian manufacturers will enter into an expanding number of such agreements.

Canadian exporters have not, in any way, exhausted opportunities for direct sales to the Kingdom. With gross imports, not including defense equipment, of U.S.\$30 billion in 1981, Canadian sales of \$455 million are miniscule. It is hoped that in the future, Canadian exporters of traditional raw materials and semi-manufactures will obtain better access to the market through more frequent visits and tighter pricing. Opportunities for such routine items as office furniture, carpets, paper products, fisheries and wheat are unexploited. Saudi importers welcome and encourage visits of Canadian suppliers and are happy to meet Canadian who are prepared to give attention and continued follow-up to the market.

CANADIAN IMPORTS FROM SAUDI ARABIA

(\$'000)

<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
481,614	712,281	749,411	1,241,973	2,445,804	2,728,196

Trade Policy Considerations

Canadian relations with Saudi Arabia have been built on the mutuality of economic interests. Canada has for many years been a substantial purchaser of petroleum products from Saudi Arabia, primarily through the partners in ARAMCO, which is now being "Saudi-ized". The Saudis are sensitive to Canada's Middle East

policies, particularly such initiatives as Jerusalem. They hold the view that their economic strength, which they are prepared to utilize, warrants even-handed consideration. At the same time, Saudi regulations regarding Arab boycott requirements should be treated with considerable care. Saudi authorities react very favourably to visits by ministers and small missions which receive a warm reception. These missions are useful in advancing substantial projects or bringing new proposals from the Saudis to the fore.

#### Canadian Trade Development Instruments

Saudi Arabia is Canada's leading trade partner in the Middle East and should remain so for a considerable period of time given the unexploited potential in the marketplace. In support of trade expansion, there are a number of federal government instruments that are available to exporters to enhance their market penetration. These are:

- i) individual business visits with prior guidance from the Middle East Division as to market opportunities and business practices, complemented by visit schedules and appointments arranged by the Canadian Embassy in Jeddah;
- ii) participation in Saudi trade fairs with provincial or federal government support under PEMD C; six or eight such trade show participations will be supported in 1982-83;
- iii) specifically-directed trade missions, organized either provincially or federally, supported by appointment schedules and guidance from Embassy trade officers;
- iv) support under auspices of Joint Economic Commission, which meets irregularly, to obtain overview of Saudi macro-economic considerations in conjunction with Canadian supply capability;
- v) support for new business or large project opportunities by ministerial visits; Prime Minister Trudeau's visit to Saudi Arabia in November 1980, the Honourable Ed Lumley's visit in April 1981, and the visit of the Honourable Marc Lalonde in January 1982 all had a broad trade content. Further such high-level visits are available when opportunities warrant;
- vi) provincial ministerial missions will also serve to emphasize to Saudi officials particular regional focus.

## II. MARKET OPPORTUNITIES AND SECTOR MARKETING PLANS

### 1. Petroleum and Petrochemical Related Industrialization

#### a) The Opportunity

Saudi Arabia is well established as the world's premier oil power. The country has been a significant producer for 30 years; it contains almost 30 per cent of the world's known reserves and is currently the largest exporter at 7.0 million barrels per day. Estimated reserves are almost 179 billion barrels of oil and 3.36 billion cubic metres (112 billion cubic feet) of gas. New discoveries and new recovery techniques have, in the past, kept these reserves at a constant level although reports are now surfacing which suggest for the first time that total lift is now exceeding new discoveries.

Until about four years ago, Saudi Arabia's petroleum activity was mainly confined to crude oil supply under the concessionary control of ARAMCO (a partnership of Standard Oil of California, Texaco, Exxon and Mobil). During this period, the emphasis was on ever-increasing production while very large volumes of associated natural gas were flared off. For many years, ARAMCO was somewhat of a closed shop, especially to Canadians who were still developing expertise in the oil and gas business.

The situation, however, is changing rapidly. The Saudis now control ARAMCO and are proceeding on a state-dominated plan not only to control their own crude oil system, but to capture the associated gas, and launch an industrialization plan based on oil refining, petrochemicals and their downstream industries.

In addition, the Saudis are working with neighbouring Gulf countries (Kuwait, Bahrain, Qatar, the Emirates and Oman) under the newly-formed Arabian Gulf Co-operative Council (AGCC) to co-ordinate industrialization activities in the area. There are indications that the area will become a common market with the most concentrated downstream petrochemicals and industrial development programs of all time.

This is a new game and could provide a second chance for Canada. From a diplomatic standpoint, indications are that Canada would be a welcome participant. This is based on the fact that:

- i) Canada is perceived as a stable, relatively neutral country with sophisticated, high technology capabilities;
- ii) Canada's record, led by Bell Canada's performance, is considered to be good;
- iii) Canadian manufacturers' standards are equivalent to those of the U.S., and Saudi purchasers are insistent on U.S. standards; and
- iv) the Saudis are anxious to diversify sources of supply.

In addition, industrialization incentives for joint ventures (usually 50 per cent supplied by the Saudi government) are generous and could be applied to reduce Canadian risks and front-end costs.

Opportunities can be classified into involvement in the primary, secondary and tertiary, and associated industries. Development is heavily concentrated in the Jubail and Yanbu industrial cities.

In the case of primary industries, these are beyond the capability of the Saudi private sector and are being established through state agencies, such as the Saudi Basic Industries Corporation (Sabic) and foreign consortia or large foreign companies including Mobil, Shell and Dow. Under these arrangements, the foreign partner may obtain long-term crude oil rights as part of their incentive. Primary or basic industries include the large-scale petrochemical, fertilizer and metallurgical industries, whose output will be either exported directly or used as feedstock for further downstream secondary and tertiary industries.

Among primary projects are the following:

Petromin/Shell oil refinery (250,000 bbl/day)

Petromin/Texaco/Chevron lube and oil plant (12,000 bbl/day)

SABIC/Shell ethylene refinery (656,000 tonnes/year)

SABIC/Mitsubishi ethylene glycol refinery (300,000 tonnes/year)

Al-Jubail Fertilizer Project (SABIC/Taiwan Fertilizer Company) (500,000 tonnes/year of urea)

SABIC/Dow ethylene refinery (500,000 tonnes/year)

Celanese/Texas Eastern/Mitsubishi methanol plant (600,000 tonnes/year)

Petromin refinery (240,000 bbl/day)

SABIC/Mobil petrochemical plant (YANFET)

Petromin/Mobil export refinery (250,000 bbl/day)

Saudi Iron and Steel Company (SABIC/KORF-Stahl) (850,000 tonnes initial production)

Most of the primary industries will be producing by 1985. Opportunities for direct involvement in this sector are now remote due to the scale of the projects and their advanced state of planning and execution. Opportunities exist for firms ready to establish joint ventures with Saudi companies to supply materials and services related to the construction and future servicing of the gigantic primary projects and basic infrastructure. In the Jubail project alone, 416 active contracts are underway.

Greater opportunities exist for projects that use the output of the primary industries as feedstock for further downstream production, i.e. ethane to ethylene and high- and low-density polyethylene, methane to methanol, etc. Consultants are still studying what secondary and tertiary industries are appropriate, particularly in the case of the huge Jubail and Yanbu projects.

The secondary industries are, and will be, developed by the private sector under the guidance of the Ministry of Industry and Electricity. The rules for promotion of joint ventures and securing Saudi assistance are outlined in separate papers that are available. In addition, opportunities exist to participate in, or supply materials to, the basic and secondary industries through a host of service industries that are being developed. These support industries will supply materials, distribution and professional services. Thus far, more than 100 businesses have been approved for the Jubail industrial city.

Canadians who want to participate in the petroleum and petroleum-based industrialization activities should have some understanding of the Ministry of Petroleum and Mineral Resources (MP and MR), and Ministry of Industry and Electricity (MI and E) and the Royal Commission for Jubail and Yanbu (RCJY). These agencies are all inter-

locked in the country's master plan for industrialization and are explained in more detail in the appendix, page 19. It is, however, necessary to understand and appreciate the opportunities that exist within ARAMCO.

#### ARAMCO

This former joint venture of four large U.S. oil companies played the leading role in the country's oil discovery and development dating back to 1933. While the organization was recently taken over by the Ministry of Petroleum and Mineral Resources, its structure and personnel (some 54,000 persons) have remained intact and may be a model for the formation of other Saudi agencies. Generally speaking, the firm is responsible for all petroleum activities in a designated area of the Eastern Province, which covers most of the original large oil fields both on and off shore. This includes the original oil refinery at Ras Tanura and the Trans Arabian Oil Pipeline. ARAMCO has also been given responsibility for several aspects of the new industrialization plan, including the master gas-gathering and processing system and the gas-liquids line (Petroline) across the Peninsula to Yanbu. The company is still heavily occupied with exploration and existing field repressurization work. At present, a major drilling program is projected in the off-shore drilling services and equipment more gas/oil separation plants (GOSPS) will be needed, and in the Marjan Fields, more than 100 km of submerged pipe will be laid. Major installations will also be built at Ras Tarajib, in addition to improvements and overhaul of pipe and equipment at the Ras Tanura refinery and the Abqaiq field. One source estimated that ARAMCO would need more than \$4 billion in steel over the next five years. This adds up to major opportunities within ARAMCO alone, whose expenditures in 1981 totalled \$5.0 billion in contracts and \$3.0 billion in purchase orders. It is safe to say that any product or service required in the oil business is purchased by ARAMCO. As an important side function, ARAMCO is also responsible for management of the Saudi Consolidated Electricity Company of the Eastern Province (SCECO EASTERN). SCECO EASTERN, established in 1976, is the first of five such national organizations which are set up across the country to nationalize and control electricity.

ARAMCO has a very large purchasing and stores system which includes a branch in Houston. Registration in Houston or Dhahran is necessary to be considered as an "approved supplier." Since ARAMCO's buying practices favour the Saudis, it is usually best that interested Canadian firms locate a competent Saudi agency or partner

who is registered with ARAMCO to represent them. In the case of SCECO, all purchases are made through Saudi companies.

b) The Canadian Industry

As seen from the above, the Saudi oil, gas and petroleum-based industrialization programs require a large and varied range of products and services that tends to parallel existing and forecasted projects in Canada, or to some extent, those which Canadians have been supplying in the U.S. Canada has a multiplicity of smaller industries which should be a good match for the type of joint ventures that Saudi state agencies are promoting.

c) Canadian Marketing Activity

As indicated, Saudi Arabia's crude oil production system had matured with mainly U.S.-established suppliers before Canadians developed their off-shore capabilities. However, in recent years Canadians have made some penetration, especially during periods of change where new systems were being introduced.

There has been little Canadian participation in the first wave of refineries and petrochemical plants or other primary industries such as steel production or steel production plants. In retrospect, this has mainly been due to an inability by Canadian firms to "joint venture" at the state/agency level or to undertake turnkey construction contracts. On the other hand, some Canadians are pursuing petrochemical plant equipment and services.

The Middle East Division of the Bureau of African and Middle Eastern Affairs is proceeding with an investigation of Canadian capability for participation in the downstream and support industries being planned by all the Arab Gulf countries, including a watching brief on possible reconstruction programs in Iraq and Iran, if they reach a peaceful settlement.

It is significant that Canada has just begun to mount a drive aimed at the petroleum and petrochemical sector in the Gulf area such as it is now doing in Mexico and Australia.

d) Canadian Success Stories

Since Canadian activities have not been tied to any major drive or leading project, our successes are limited to increasing sales of equipment for construction and operations in the petroleum sector -- from about \$12

million in 1976 to about \$100 million in 1980. Indications are that this growth pattern will continue. Invisibles, which include consulting fees and salaries of an estimated 2,500 individually-employed technical personnel, are estimated at \$30 million in 1980.

At this stage, there are a number of operating joint ventures in the distribution field and several manufacturing and service joint ventures under negotiation.

e) Market Impediments and Advantages

Historically speaking, Saudi Arabia's petroleum-related activities have been a closed shop controlled by large multi-national oil companies, mostly U.S., and dominated by ARAMCO, which tended to deal with other U.S. enterprises. Recently, the situation has changed with the arrival of large consortia from Japan on the scene. These new organizations have had a requirement for long-term supplies of oil or petrochemical products, and have been able to bargain with equity participation and technological transfer for additional oil supplies. Japanese companies, in particular, have also had resources to undertake large turnkey contracts for refineries or parts of petrochemical plants which are then totally supplied from their own consortia. While this situation is likely to prevail through Saudi's first wave of refinery and petrochemical plant development, it is evident that the Saudis are taking steps to enforce world-wide quotes. Nevertheless, the scale of many projects, the equity required, and the cost of Canadian labour and equipment has been a major stumbling block to our participation.

Quite apart from the above factors, the absence of any significant Canadian "beach-head" or sustained presence in the Saudi oil and petrochemical sector, has meant that opportunities are missed simply because Canada has had no one on the ground to pursue them. By the time that projects are publicly announced, very often the contracts are already let and suppliers chosen.

Even firms which are interested in concentrating on selling to ARAMCO often need full-time or, at minimum, regular visits by technical/sales personnel to seek out opportunities, push their product or service and provide technical follow-up and after-sales service. The suppliers who are making major inroads in the market invariably have staff located alongside their Saudi agent. It is usually folly, in this market, to rely on an agent for active product promotion, as the successful agents normally have 30 to 100 or more agencies, limited

sales staff, and usually an even more limited technical staff, to explain the merits of the particular product or service being offered. These factors are often cited as arguments for engaging a smaller, well-established agent who is ready to "push and promote" a new product. In the case of petrochemical projects, it is even more important that management and technical personnel be available to follow-up with the firms which have the prime contracts to determine opportunities for sub-contracting, equipment and related services and parts. Often the only way to have access to these opportunities is to repeatedly visit contractors, SABIC, the Royal Commission, Bechtel, ARAMCO and others. The time constraints on Embassy personnel and the absence of Canadian businessmen, has been a major impediment to Canada obtaining even a small share of the multi-billion dollar opportunities that exist.

Other constraints include social problems mainly affecting dependents and the high costs of doing business and living in the Kingdom. Canadians are also at a disadvantage on shipping, customs, etc., because of the relatively small volume of trade. By contrast, other countries ship most of their commodities under longer-term, contracted shipping arrangements which their government took a part in setting up. Most companies doing business in Saudi also have, at one time or another, experienced late payments. While the situation has improved, it has to be considered on a case-by-case basis.

On the positive side, Canada is not without advantages in this market. The overwhelming preference for American products, technology, and standards of quality, work to Canada's advantage. Saudis usually do not distinguish between Canada and the U.S. and assume that Canadian products meet U.S. standards.

In addition, many of those in the position to recommend suppliers are American and have, in many cases, a preference for North American goods and services, as opposed to competing European and Far Eastern products.

Last, but by no means least, is the reputation of Canada as a neutral country in terms of Middle East politics -- a factor which, if nothing else, gives Canadians a sympathetic hearing by senior Saudis and top government officials. The warm reception by the Prime Minister and the recent visit by the Energy Minister attest to the high degree of friendship and respect that exist in the minds of the highest echelons of Saudi society.

f) The Competition and Competitor Activity

To this point, the Saudi Petroleum sector has been dominated by U.S. technology and big company commercial interests. However, it appears that the smaller U.S. suppliers and consultants may not be taking full advantage of this built-in relationship and some slacking of their drive has been evident during the last few years. The French, Germans and British have been moving in with emphasis on equipment and services, including some successes in joint ventures with state agencies. In the same period, the Italians, Spanish, Koreans and Greeks have been trying very hard and are favoured by recent exchange fluctuations. During the last five years, the Japanese, largely motivated by need for oil and petrochemical products, have been forcing their way in beside the big American interests.

g) Action Plan

- i) In June 1982, the Embassy made available the trade commissioner responsible for the oil and gas sector to discuss the opportunities, constraints and business practices of the Kingdom with Canadian companies at the Petroleum Industries Export Conference (PIEC '82).
- ii) The Embassy will begin to develop a list of potential opportunities and joint-venture partners in the oil-and-gas field, and organize an information package on opportunities for distribution to interested firms.
- iii) Undertake trade missions to explore opportunities with the prime buyers, contracting firms and potential joint venture partners.
- iv) Undertake missions headed by Ministers of Trade and Energy to promote Canadian technology and to introduce Canadian firms to government and industry leaders with responsibility for downstream projects.
- v) Foster greater Canadian participation in trade shows.
- vi) Organize seminars to promote Canadian technology, goods and services in the petroleum sector to increase Canadian visibility.

h) Appendix

Ministry of Petroleum and Mineral Resources (MP and MR)

The MP and MR has overall responsibility for efficient development and marketing of petroleum. They, in turn, have fifteen agencies covering exploration, production, refining, marketing, pipelines, shipping and shipbuilding. These agencies are either owned outright by the Kingdom or in the process of being taken over. The two most interesting sub-agencies of MP and MR are Petromin and ARAMCO.

Petromin

Petromin is responsible for all petroleum and administration and certain operations such as: production, exploration, marketing, and shipping plus some pipelines and refineries that fall outside of the geographical area assigned to ARAMCO. Petromin is a relatively new and fast-growing organization and some lines of control are still obscure to outsiders. Procurement appears fragmented but a centralized agency will probably develop as more refineries and pipelines go into operation.

Ministry of Industry and Electricity

The Ministry of Industry and Electricity is responsible for licensing of joint ventures and works in conjunction with the Saudi Industrial Development Fund (SIDF) and the Ministry of Finance, to review proposals and administer loans and grants. (This system is also explained in separate papers.)

SABIC

Since many of the key primary and secondary industries in the master plan could not be developed by the private industry, the Saudi Government set up an organization called the Saudi Basic Industries Corporation (SABIC) in 1976, to spearhead planning, construction and operation of primary petrochemical and associated hydrocarbon industries, plus iron, steel and aluminum or any other industry deemed to be beyond the resources of the private sector. Their authority also includes product marketing the products of the basic industries, particularly natural gas, as a feedstock. To this point, SABIC ventures are being executed as joint ventures between it and major multinationals. (A complete list is included in the appendix, page 59.) The foreign partners are invariably responsible for design and construction of the plants, which are then executed by prime contractors or

project managers of their choice. The plants, such as Yanpet (Mobil) at Yanbu, are being let on a project-management basis (Bechtel), and some buying is being done in Canada. SABIC is now studying a number of new ventures, including some within the GCC. The total number of industries under study is estimated at 120. As these industries move forward, SABIC is expected to encourage construction by Saudi joint-venture companies, and they may develop a centralized purchasing system of their own.

#### Royal Commission for Jubail and Yanbu (RCJY)

This Commission was established in 1975 to spearhead the first phase of Saudi industrialization. As an indication of urgency and importance, the former King authorized the Commission to bypass the Council of Ministers and report directly to the Crown Prince. The Commission's sphere includes industrial planning, plus the infrastructure and housing for the Industrial City of Jubail on the east coast, and Yanbu on the west coast (ultimate population of 150,000 and 350,000 respectively). The infrastructure includes all services for the cities plus the sea ports, airports, roads and right-of-way for the trans-peninsular pipelines systems.

Arabian Bechtel and Saudi Arabian Parsons have been retained by the Commission for the required master plan development, and the technical and managerial aspects for achieving the goals of the master plan. Both firms have computerized registration/tendering systems. It is necessary to visit the cities, and separate information on the procedures available. Again, purchasing preferences are given to Saudi joint-venture companies.

It should be noted, in this respect, that neither Bechtel nor Parsons have been given responsibility for the SABIC plants, which will be built at the sides. On the other hand, they do have responsibility for promoting joint ventures in the adjacent industrial parks. Property and services in the parks are available, under attractive terms, which include interest-free loans and grants.

#### ARAMCO

For companies whose strategy is to sell products to ARAMCO and, in particular, if they are the sole supplier world-wide of a particular product, it is essential that they register and have their product and company approved by ARAMCO in Houston. The Canadian Consulate General in Dallas can be of assistance.

If the company is not the sole supplier of the product, it will be preferable to visit Saudi Arabia, to meet with ARAMCO in Dhahran, and to interview prospective agents. Except for unique, one-of-a-kind items, ARAMCO's purchases are generally made through local suppliers. While approved Canadian manufacturers may be invited to bid directly, the government's policy of promoting Saudi firms by means of a Saudi agent is almost mandatory.

Most of the manufacturers who have been successful in obtaining lucrative repeat business have either located technical/sales personnel alongside their Saudi agent, or as a minimum, visited their agent and met prospective buyers (including ARAMCO) regularly.

This is the best and surest way to learn of opportunities, particularly with firms which are either subcontracting to ARAMCO, working with Getty, or the Japanese consortia that have oil concessions. It is not advisable to rely on an agent to find new business. Saudi agents may have neither the time nor the expertise to pursue opportunities.

## 2. Cereal Grains, Oilseeds and Products

### a) The Opportunity

#### Cereal Grains - General

The Kingdom of Saudi Arabia, for strategic reasons, is determined to increase its agricultural production. Presently, less than 15 per cent of total food requirements is produced locally. Agriculture contributes only about 3 per cent to GNP, yet employs more than 20 per cent of the Saudi population and, as such, is the largest single employer.

The government, in its current Five Year Plan (1980-85), has launched a drive toward eventual self-sufficiency in wheat, dairy products, fruit, vegetables, poultry and eggs. Saudi wheat production, stimulated by a government-guaranteed purchase price of about \$28 per bushel, interest-free loans for land and machinery, and 50 per cent subsidies on inputs such as fertilizer and irrigation equipment, has jumped from about 100,000 tonnes annually in the 1970-74 period, to almost 300,000 tonnes in 1981. Most of this increase occurred within the last three years. Despite this growth, wheat and flour imports have climbed to 1.2 million tonnes or 75 per cent of Saudi needs. To reach the government's goal of self-sufficiency would require a quadrupling (to 280,000 hectares) of the area planted to wheat. New irrigation projects are expected to add about 30,000 hectares of cropland annually, but the rapid growth in demand will keep the country dependent on imported wheat for the foreseeable future. In the long run, the government's policies will stimulate local production to the degree that imports of wheat and flour will be dramatically reduced.

In the case of coarse grains, barley imports in 1980 totalled almost 1 million tonnes. The rapid growth in imports reflects the growing size of Saudi livestock and poultry production, coupled with relatively constant, domestic production of 200,000 to 300,000 tonnes annually. Since total domestic barley requirements are estimated to be 600,000-750,000 tonnes, it is suspected that substantial quantities of barley have been re-exported. The long-run prospects for coarse grains appear to be brighter, with both increasing investment in livestock production, and decidedly less support (0.15 SR per kilo vs. 3.50) for domestic barley vs. wheat production. In the case of flour, the Saudi-Arabian Grain Silos and Flour Mills Organization (GSFMO) has just

recently released the first flour milled from domestic wheat which, in the long run, will help reduce Saudi dependence on imports of flour.

The major importing agency for wheat and flour is the Grain Silos and Flour Mills Organization (GSFMO). Under its purchasing system, this organization normally tenders for quantities of grain, for nearby delivery (6 to 12 weeks from tender), as opposed to longer-term contracts. With the current volume of imports, tenders are called relatively frequently and are often for quantities up to 100,000 tonnes. Barley imports are handled by the private sector.

Canadian exports of wheat, wheat flour and barley to Saudi Arabia to date have been limited. The GSFMO would like to increase its wheat purchases from Canada. The Saudis are anxious to diversify suppliers for strategic reasons, and Canada's reputation for quality is well known. In addition, the Saudis who have attended the International Grains Institute courses, returned with glowing reports -- a fact which could be advantageous to Canadian sellers.

Saudi imports of vegetable oils in 1980 totalled more than 113,000 tonnes. Corn and soybean oils accounted for 42,000 T and 15,000 T, respectively. Imports of Canola/rapeseed oil are not listed in Saudi trade statistics, although imports may be lumped in the almost 46,000 T classified as "other oils."

Canadian Canola and its products can be partially or fully substituted for soybeans and other oilseeds. While on the surface it would appear that there is a large potential for displacement of other oilseeds and oilseed products with Canadian Canola and Canola products, Canola is not a traditional or familiar product in Saudi Arabia, and extensive market development and promotional activity will be required.

b) The Canadian Industry

The major Canadian cereal grains, in order of commercial importance, are wheat, barley, corn and oats. Annual production has approximated 20 million tonnes of wheat, 10.5 million tonnes of barley, 5 million tonnes of corn and 3.6 million tonnes of oats.

In terms of volume, wheat dominates Canada's grain export trade with exports of approximately 15 million tonnes annually, including durum, accounting for 60 to 70 per cent of production. Wheat flour exports have been stable over the past 10 years, averaging 650,000 tonnes annually.

Barley exports averaged 3.8 million tonnes annually over the past 10 years. Exports of malting barley accounted for approximately 400,000 tonnes of the annual total. Barley malt exports have grown steadily in recent years and reached 236,000 tonnes in 1980. Canadian malt production capacity is 567,000 tonnes per annum, divided among three firms operating a total of eight plants.

Corn exports are increasing and were in excess of 1,000,000 tonnes in 1980-81. Production is concentrated in Ontario, but is expanding rapidly in Manitoba and Alberta.

Canada produces four edible oilseeds: Canola/rapeseed, soybeans, sunflower seed and mustard seed, as well as an industrial oilseed - flaxseed. Oilseed export activity is conducted by about 12 grain-trading firms -- both Canadian and multinational -- based in Winnipeg and Vancouver.

Oilseed products, i.e. oils and protein meals, are produced by 10 Canadian companies operating 12 processing plants. Approximately two-thirds of the production is consumed in Canada, and one-third is exported. Canola oil and meal are the principal export commodities. Large volumes of soybeans and soybean meal are imported from the U.S. to meet Canadian market requirements.

Installed processing capacity in Canada is as follows:

Canola	4,400 tonnes/day
Soybeans	3,400 tonnes/day
Flaxseed	330 tonnes/day
Sunflower seed	500 tonnes/day

Direct employment in the processing industry is approximately 1,200. Capital investment is approximately \$350 million (not including edible oil refineries or food processing plants).

The Canola processing industry has expanded greatly over the past five years. It is likely one or two processing plants will be built over the next three years. A new plant was recently completed at Windsor, Ontario to process soybean, rapeseed, flaxseed and sunflower seed in replacement of an older facility in Toronto.

The Canola processors are largely export-oriented, while the processors of the other oilseeds tend to be oriented to the domestic oil and meal market. Canola oil is exported through Vancouver and Quebec City, while Canola meal moves through Vancouver and Thunder Bay. With the recent growth in the Canola processing industry, even more of the production has been geared to the export

market. Principal oil markets are currently India, Hong Kong and Algeria, while the meal is exported mainly to Western Europe and the United States.

The major Government agency is the Canadian Wheat Board (CWB). The CWB is the sole, export-marketing agency for Prairie wheat, oats, and barley, which constitute roughly 80 per cent of Canadian grain exports annually, and export sales are negotiated, either directly by the CWB, or through private grain companies acting as its agent. Eastern grains, including Ontario wheat sold through the Ontario Wheat Producers' Marketing Board, are exported by private grain companies. Other Canadian crops such as rye, rapeseed, flaxseed, buckwheat and mustard are also marketed by the private grain trade.

The Canadian Grain Commission is the Government agency responsible for the grading and quality control of grain, and for the supervision of its handling at all terminal elevators in Canada.

The Canadian International Grains Institute (CIGI), 60 per cent funded by Industry, Trade and Commerce and 40 per cent funded by the CWB, is an important promotional agency whose purpose is to help maintain and enlarge domestic and export markets for Canadian grains, oilseeds and their products. CIGI offers instructional programs to foreign participants selected from countries purchasing these commodities or with the potential to purchase these commodities. These instructional programs are also offered to Canadians associated with their respective industry.

The capacity of the Canadian grain-handling and transportation system has been substantially improved in recent years by such government-funded measures as the purchase of 14,000 rail hopper cars and an ongoing rail branch line improvement program. Private sector-funded reconstruction and expansion, such as the Pioneer Grain Company terminal in Vancouver and the construction of high throughput country elevators, has also contributed greatly to the capacity and efficiency of the system. The 1982 crop acreages are an indication that Canadian producers are rising to the challenge of current and future export markets which, in the estimation of the CWB, will present an opportunity to export 36 million tonnes of grains and oilseeds by 1990.

c) Recent Canadian Marketing Activity

Cereal Grains and Products

Some market development efforts have been undertaken by the Canadian Wheat Board and the Canadian International

Grains Institute (CIGI). Among the major marketing initiatives were two Saudi/CWB/Government-of-Canada sponsored millers' courses, conducted in Winnipeg for 30 young Saudi millers, in 1976 and 1978. Under the guidance of CIGI, Saudi course participants were provided with detailed programs of instruction over two 4-month periods in the milling of Canadian wheat, and given direct exposure to many sectors of Canada's grain industry.

Although a long-term supply agreement would facilitate sales of Canadian grains to Saudi Arabia and such an agreement has been under active consideration by the CWB since 1974, an agreement has not been finalized to date. The CWB, however, continues to maintain communications with the Saudi Arabia Grain Silos and Flour Mills Organization, and there are hopes that a long-term agreement may yet be concluded. In the interim, the CWB is responding to Saudi tenders for cereal grains, as supplies and forward shipping commitments permit.

#### Oilseeds and Oilseed Products

Little marketing activity has been carried out to date concerning oilseed or oilseed product exports to Saudi Arabia. An Agriculture Canada Mission has recently returned from this area, but it was not concerned specifically with oilseed promotion. Canada's Grain Marketing Office has planned technical seminars in February 1983, as the start of a series of market promotional activity in this potential market.

#### d) Market Impediments and Advantages

##### Cereal Grains

Canada's major obstacle to be overcome in obtaining a satisfactory share of the Saudi market is the tradition of the Saudi Arabian Silos and Flour Mills Organization for limiting its purchasing methods to tenders for nearby delivery. This obstacle would virtually be removed if a long-term agreement is reached, giving the CWB the opportunity to program shipments to Saudi Arabia, well in advance, and to reserve supplies against this commitment.

A second impediment is the transportation advantage enjoyed by Australia for wheat, and the price advantage for barley enjoyed by the EEC exporters as a result of export subsidies.

One advantage which Canada can exploit is our ability to deal government-to-government through the CWB. Saudi officials favour state trading or, as a minimum, dealing with large, recognized, international organizations which

offer a solid reputation, price competitiveness and an ability to deliver on time -- all key elements in any dealings with the Kingdom. The GSFMO will be reluctant to deal with agents of the Canadian Wheat Board, unless the agents are themselves large international traders, who can assure that the elements listed above can be met.

#### Oilseeds and Oilseed Products

Although Canola can be partially or fully substituted for other oilseeds, traditional Saudi preferences will have to be overcome. There are no other trade or non-trade barriers against imports of rapeseed or Canola presently in place in Saudi Arabia. Transportation costs of Canadian products to Saudi Arabia would be a major factor in the price competitiveness for Canola and Canola products in the Saudi Arabian market.

It should be noted that, as with many foodstuffs, there are two separate and distinct markets in Saudi Arabia. At one extreme are the "high-priced" supermarkets which cater to Westerners and the middle and upper income Saudis, and account for only an estimated 15 per cent of food sales. At the other extreme are the small "souk" stores which supply the bulk of the Saudi and expatriate population. At the top end of the market, Canola will compete with corn oil (Mazola) products which are currently well established and enjoy brand loyalty. On the bottom end, our competition will be a whole range of "cheap" oils, i.e., palm and ghee. In this market where price is paramount and traditional preference strongest, it is difficult to envisage an immediate Canola penetration.

An additional constraint, particularly for the retail market, is the scarcity of firms with the ability to market within a region, let alone Kingdom-wide. These firms are invariably well-established Saudi trading houses with both long-standing and exclusive rights to imports and distribution of international brands, i.e. Mazola. This situation often makes it difficult, but not impossible, to introduce new and competing products. However, it will require time and aggressive marketing.

#### e) The Competition and Competition Activity

##### Cereal Grains

Canada's principal competitors in the Saudi wheat market are the U.S., E.E.C. and Australia. Market shares held during the period 1978 to 1980, were the U.S. (43 per cent), E.E.C. (43 per cent) and Australia (14 per cent). Principal suppliers of corn and sorghum, other than the U.S., are Thailand and The Sudan.

Three flour mills were constructed and subsequently managed by Pillsbury U.S.A. on behalf of the Saudi Arabian Government between 1976 and 1978. The presence of Pillsbury in this capacity is, in all likelihood, of some advantage to U.S. wheat exporters.

Principal suppliers of barley are Australia and the E.E.C.

#### Oilseeds and Oilseed Products

Soybeans and soybean products, sesame seed, corn oil and olive oil are established products in the Saudi Arabian market, as are several other vegetable oils and meals. Current suppliers of these products, and countries which will likely remain as Canada's competitors in Saudi Arabia, are the United States, Sudan and exporters of olive oil, such as Spain, Italy, Greece and Tunisia.

#### f) The Action Plan

- i) Finalize a mission, led by senior Wheat Board officials, to the Kingdom to begin discussions of a long-term agreement with the Saudi Arabian Grain Silos and Flour Mills Organization. The mission should be prepared to discuss and set to rest any Saudi fears about Canada's ability to meet delivery requirements.
- ii) Organize a technical seminar in early 1983, sponsored by the Grain Marketing Office. The objective of the seminar mission would be: to familiarize Saudi Arabian oilseed crushers, refiners and feed manufacturers with Canadian Canola products, the technology involved in processing Canola, and to encourage the use of Canola products over those that have traditionally been imported.
- iii) Continue to assist Canadian firms in seeking and discussing market opportunities in the development and management of the Saudi Arabian grain-handling and processing sector. Canadian firms are presently known to Saudi interests in the grain sector, and an opportunity currently exists for Canadian firms to participate in the construction and subsequent operation of a proposed grain storage and handling facility in Saudi Arabia.
- iv) As in the past, offer places for Saudi flour and grain industry personnel in future courses conducted by the Canadian International Grains Institute.

### 3. Telecommunications Equipment and Services

#### a) The Opportunity

Saudi Arabia is one of the few countries that can afford to take advantage of the spectacular opportunities that telecommunications technology offers, and it is doing so at an impressive rate. In the six and one-half years since the end of the first Five Year Plan in 1976, until the beginning of 1982, telephone lines in service have quadrupled from 126,000 to more than half a million and will more than double again by the end of the current Five-Year Plan in early 1985. State-of-the-art exchanges have been installed to allow automatic domestic and international service, and to work on the 18,000-subscriber first phase of the mobile telephone system expansion (from the present 2,000 subscribers) which has been slated for completion by 1985.

In the same period, telex lines have gone from 200 to about 15,000 at present, and will double by 1985. As an indication of the size of this project, the number of telex multiplexers required is equal to the entire world production in a year.

Also intended for this Five-Year Plan period, are a spectrum monitoring system, another satellite earth station (in Jeddah), and upgrading (from 12 to 60 MHz) the existing coaxial cable linking Kuwait, Damman, Riyadh and Taif and extending it by some 2,500 km to include Medina, Tabuk and some of the Gulf States. In addition to this work by the Ministry of PTT is the expansion of radio and television services and coverage by the Ministry of Information, which, during the plan period, will include second radio and TV services, and a direct-broadcast, television satellite.

Other ministries, such as Defence and Aviation, National Guard, Foreign Affairs and Interior, have ambitious external telecommunications plans, many of which (except e.g. air traffic control systems) are suspended at present, to review the possibility of PTT supplying some, or all of the desired services. The current plan calls for restructuring the air traffic control system of the Kingdom, by adding three terminal radar installations, 13 en-route radar systems and navigation aids. The other ministries named above also have plans for communications systems within their installations, bases and compounds, and these are being implemented, but the requirements will continue. Similar internal requirements will exist

with other larger organizations such as Saudi Airlines staff cities, oil company compounds and hospitals. With this should be included requirements for cable distribution of TV programming in residential compounds etc.

For the period beyond 1985, it is difficult to foresee what will be needed, but PTT plans to add another 750,000 lines in the 1985 to 1990 period and offer service to 300 more villages, in addition to the 400 cities and villages which will be served by 1985.

Bell Canada is, of course, already working on the telephone-system expansion and much of the equipment for that will come from the Phillips-Ericsson joint venture, but there will be opportunities for the PABXs, data modems and so on, which will be used by the subscribers. There will also be room for consultants and equipment suppliers: in the cable/microwave trunk expansion; the internal communications system of ministries and large organizations; the broadcasting facility expansion and in the market for miscellaneous equipment engendered by the growth in the telecommunications base.

b) The Canadian Industry

Canada is well-recognized as a leader in advanced telecommunications. Responding to the demands of an affluent society and the world's second largest country in territory, telecommunications companies have made Canada self-sufficient in telecommunications. Currently there are three major microwave networks using many interconnecting spur microwave links across Canada. This system also includes more than 100 satellite earth stations, which play a crucial role in joining many communities through the country. In 1980, an eight-GHz digital radio system was incorporated to overbuild on the existing Trans Canada Telephone System's four-GHz analogue system between Toronto and Calgary.

With the launching of the ANIK A series of satellites in 1972, Canada established the western world's first geostationary domestic satellite communications system. Three satellites of this version have provided communications/services to 10 million square kilometres in Canada. Since ANIK A, a second, third and fourth series of satellites have either been built or are under development in collaboration with U.S. and European industry. Most of the world's commercial communication satellites carry some form of Canadian mechanical and electronic sub-systems. In co-operation with the U.S. National Aeronautics and Space Agency, Canada has developed and manufactured the vital Remote Manipulation System (RMS)

for the space shuttle transportation system. The arm has been successfully tested in the space environment on space shuttle flights. On November 11, 1982, Spar RMS will be used to launch an Anik C Canadian Satellite.

Canada has had its own national digital data networks since 1973 when DATROUTE was introduced into the Trans Canada Telephone System (TCTS). Introduction of the Infoswitch and Datapac packet followed in 1977. These in turn linked into U.S. systems and should in time, form part of an integrated network for voice, data and visual services across Canada and into the United States. Today, Canadian manufacturers and system companies are involved in the design and development of some of the most sophisticated information processing services.

Many mobile radio systems (HF, VHF and UHF) are manufactured in Canada and provide an ever-increasing number of commercial and public services. These systems involve mobile stations, base stations and portables. There is a growing demand for mobile radio telephone systems that interface into telephone networks which provide access from coast to coast. The Alberta Government Telephone (AGT) operates the world's largest integrated mobile radio telephone service with more than 30,000 units in service.

There are numerous fibre optic field trials and experimentations underway in Canada involving industry, governments and numerous carriers, of which Bell, AGT, B.C. Telephone and Manitoba Telephone provide consulting services. Alberta Government Telephone, for example, has already begun installing a fibre optic network that will carry some 30,000 voice circuits over 50 km. When in operation, it will be one of the largest high-capability fibre optic links in the world, with a life expectancy of 30 years. A similar program being undertaken by Saskatchewan Telephone will provide about 32,000 km of fibre optic communications.

Canada also demonstrates its expertise in the manufacture of sophisticated ground and airborne systems. Typical systems are ILS, DME, beacons, military communications, and radar, as well as aircraft temperature control systems.

c) Recent Canadian Marketing Activity

The largest element of Canadian telecommunications sales to the Kingdom is the five-year, \$1.2 billion Bell Canada Limited contract (which ends in 1982) to supply management and training services to Saudi Telephone Company.

Sales of equipment have also shown good growth, with the major factor being miscellaneous commercial telecommunications equipment, which has increased from \$2.5 million in 1978 to a projected \$6.8 million in 1981. A very large sale of microwave equipment to ARAMCO and Petroline probably explains the \$10.5 million peak in 1979.

Bell Canada has been negotiating for an extension to its contract with Saudi Telephone and the results should be known soon. Also the Canadian government is presently negotiating a government-to-government contract for the development of a Saudi Arabian Spectrum Management organization.

A Canadian company tried to bid on the multiplexers for the telex system expansion, but was unsuccessful, and is now trying to form a joint venture to sell this equipment for some of the restricted telex networks (e.g. that of the Ministry of Interior). A telephone operating company has investigated the possibility of running a restricted communications system (e.g. Ministry of Defence base system) with encouraging results. An equipment supplier bid unsuccessfully on the Arabsat satellite but is now considering participation in the Arabsat receiving station program.

Mitel, and Northern Telecom are active through their agencies here. Several other companies have made sales through agents in the United States, often to the military and other government organizations. Still others are in the process of associating themselves with Saudi companies either as agents or as joint-venture partners to bid private mobile telephone or ministerial communications systems.

Another activity that will have a long-term positive effect on Canadian telecommunications marketing is the training being received by young Saudis in the Kingdom, and in Canada, from Bell Canada.

d) Market Impediments and Advantages

Language, distance and different business practices are the main impediments in this market. For small companies, the sheer cost of becoming established in business in the Kingdom, is an obstacle. Nevertheless, except for distance, the same problems are faced by competitors from any other country.

The established position of some competition in certain sectors of the market will be detailed below, but while it constitutes a real disadvantage, it usually does not

mean that the competitor's position is impregnable. Western Electric installed the \$400 million Microwave System starting in 1977, and maintained it until 1980, when it lost the \$80 million per year operations and maintenance contract to a subsidiary of SIRTI of Italy.

The high-profile presence of Bell Canada in the country, on the other hand, assists other Canadian companies, in that it lends credibility to the Canadian telecommunications industry as a whole. The fact that so many of the communications engineers are American-trained also assists Canadian companies, as they supply equipment to familiar standards and use common procedures.

e) The Competitors

As mentioned previously, Phillips and Ericsson won the original \$2.25 billion contract in 1977 to supply and install the equipment for the Telecommunications Expansion Project. A new \$420 million contract was signed in February, 1981 with these companies for most of the additional lines called for in the current Five-Year Plan. The total value of orders so far received by the consortium is \$4.5 billion. This includes the \$165 million for the first phase of the mobile telephone expansion noted above.

For the telex network expansion, the Beta Company [a Saudi organization] will supply additional line equipment needed, drawing largely on Siemens and its subsidiaries, while Siemens will supply the telex machines directly. Beta will also operate and maintain the system.

Since the Phillips-Ericsson joint venture won the contract to supply the first phase of the mobile telephone system (18,000), they are favoured to win the remaining portion in 1984-85. At least one Canadian manufacturer is looking into the possibility of making its system compatible so that it can realistically bid for the next phase.

A French-led consortium won the Arabsat satellite system contract and is a good contender to win the ground control station contract. Thomson-CSF and other French firms are well-established and promoting aggressively. A government-to-government agreement between the Kingdom and France, has furthered French domination of the broadcasting market exemplified by the French-designed Riyadh television complex, nearing completion under French supervision. Major American, British and Japanese

companies are well-established in the Kingdom so that, though the market is large, it is very competitive. A few statistics illustrate:

Total Saudi Imports

(C\$ Millions at exchange rate \$1 = SR2.80)

	<u>1981 (Jan.-June)</u>	<u>1980 (Year)</u>
<u>Line telephone and telegraph apparatus</u>	<u>172.9</u>	<u>389.6</u>
Netherlands	69.8	151.4
Sweden	56.7	102.9
Federal Republic of Germany (F.R.G.)	not major	46.2
U.S.	16.2	39.4
<u>Radio/TC transmitting apparatus</u>	<u>21.2</u>	<u>10.4</u>
France	13.4	2.3
U.S.	not major	3.1
Japan	not major	2.6
<u>Radio telephone transmitters</u>	<u>11.3</u>	<u>33.5</u>
U.S.	3.6	24.6
Britain	2.6	5.0
Sweden	2.2	not major
<u>Telecommunications wire</u>	<u>44.5</u>	<u>127.0</u>
Netherlands	19.1	40.0
Sweden	8.4	11.5
Japan	3.7	11.5
F.R.G.	not major	21.4

f) Action Plan

Telecommunications covers a very broad range of products and services. The following key areas are proposed for each product area:

- i) Mobile Telephone System - As the present 18,000-phone expansion will be followed by others until the 60,000-unit target is reached, establish whether the Canadian equipment suppliers are able to have their equipment compatible with the Nordic system used in this phase, and determine whether there is sufficient time to bid for the next phase sometime in 1983 or 1984.

- ii) Arabsat - Investigate to see if Arabsat is any clearer on the philosophy it will use in establishing the ground receiving stations. Potential Canadian participants in this program will be asked if they are interested in any joint-venture assembly in one or more of the Arabsat member countries.
- iii) Aviation - Support current initiative to package Air Traffic Controller training with radar, en route radar and control, ground-to-air communications, navigational aids etc.
- iv) Closed communications systems - Mount a small mission consisting of an operating company like AGT with a few radio and wire telephone equipment manufacturers, to visit oil companies, the Royal Commission, and government ministries (e.g. Interior), to ascertain their requirements and then visit with a selection of potential agents/joint venture partners to get a feel of how business should be done here.
- v) Fairs - Plan and co-ordinate Canadian activities with the attendance of appropriate Saudi officials at the International Telecommunications Exhibition in 1983 in Geneva.
- vi) Demonstrations - The Embassy could be made a show-place for modern Canadian telecommunications equipment, starting with the replacement of the ancient, temperamental Ericsson PABX.

4. Defence Equipment and Services

a) The Opportunity

Although an immediate threat to Saudi Arabia is considered unlikely, the strength of its military services is nevertheless being increased substantially -- including large purchases of modern military equipment. Self-defence is the main goal of Saudi military policy, however the U.S. looks to Saudi Arabia as an important stabilizing presence in the Middle East.

Since the late 1960s, and particularly since 1973, several events in the region dictated the need to establish a modern military machine quickly. Since 1973, the Saudis have made considerable progress towards this objective, and are presently applying massive financial resources to build up a credible deterrent in the Gulf and to protect the vital oil supplies which fuel the Western, as well as many of the Third World Economies.

Defence expenditures have grown from \$0.6 billion in 1973 to \$3.85 billion in 1979, and a 1981-82 defence budget of \$23.3 billion, plus \$6.2 billion for security programs.

Essentially there are three buyers: the Ministry of Defence and Aviation (MODA), the Saudi Arabian National Guard (SANG) and the Ministry of the Interior (MOI). As all three are involved, to a greater or lesser extent, in both defence and security, the sharing of the budget allocations is a matter for negotiation between the three Ministers, but MODA and SANG are the main recipients of the first item and MOI the second.

Massive expenditures have been made by MODA to build up military infrastructure such as accommodation for recruits in the form of military cities, schools, hospitals and ports. Increasingly expensive and sophisticated equipment has been procured over recent years, including F-15 fighters from the U.S., a multi-billion dollar naval deal with France involving two destroyers, four submarines and 30 high speed patrol boats and, most recently, the Airborne Warning and Control Systems purchase from the U.S.

SANG has also built up its own infrastructure (schools, hospitals, accommodation etc.) and equipped itself with light-armoured vehicles, communications equipment, and artillery, and the process of upgrading will continue.

MOI has spent heavily on infrastructure and has been expanding its capabilities with communications equipment, aircraft, small arms, and so on.

With all of this accelerated procurement, there is still much to be done if Saudi Arabia is to achieve its objective of a sufficiently large independent military posture to insure security for itself and the region. Virtually all of Saudi Arabia's requirements are imported, as there is no domestic defence production. There was a move to establish a regional industrial base for armaments production in co-operation with other nations in the region, including Egypt, but increasing political differences with Egypt led to the abandonment of the program in 1979.

Procurement by tender is common but can be waived in the instance of government-to-government procurement. Agents (official or otherwise) are usually essential to the procurement process. More often than not, these are firms or individuals well placed with the MODA and the service branches, rather than technically competent organizations. Financing presents no problems, of course.

Opportunities of considerable magnitude exist for Canadian companies in certain sectors, over the medium term: Aerospace, \$275 million, Electronic, \$60 million, Armaments and Vehicles \$500 million, according to recent gross market estimates.

b) Canadian Defence Industry

The Canadian defence industry is oriented towards the production of support products and components intended to sustain a high-technology industrial base. It is highly specialized and its development over more than twenty years has been concentrated on a few selected areas. Examples can be found around the world in communications equipment, avionics, navigation and flight safety systems; flight simulators, unmanned surveillance vehicles, gas turbine engines, STOL aircraft and chemical-warfare, personnel-protection products. Canadian defence manufacturers often act as suppliers of major sub-systems to foreign prime contractors, particularly in the U.S.

Canadian defence equipment exports in 1980 were approximately \$700 million and during the period 1959-80, defence exports totalled nearly \$8 billion, two-thirds of which were to the U.S. During that period, approximately 600 Canadian firms produced defence exports employing a highly-skilled labour force of more than 15,000 directly, and an additional 110,000 indirectly.

Canadian manufacturers have developed expertise and advanced technology which have enabled them to compete successfully for U.S. defence prime and subcontracts, and for other export markets to our allies and other friendly nations.

c) Recent Canadian Marketing Activity

As noted above, development in the defence sector has been relatively recent, and it is not surprising that enormous outlays for major hardware procurement have been placed in those countries most capable of filling Saudi's immediate needs. The market, though not ignoring the requirement for additional "big-nickel" items, is now recognizing the need for support systems to provide efficient use of their impressive, but far from complete, inventory. It is in this area that Canadian companies are becoming increasingly active.

d) Market Impediments and Advantages

For all exports to Saudi Arabia in this sector, an export permit is required. Each application is considered on its own merits, but its process of consideration does delay matters.

The competition is well-established with, in the case of the U.S., Britain and France, advisors attached to Military and SANG HQ.

At the same time, Canada is well-regarded politically and is apparently being given a chance to present its products.

e) The Competition

The U.S. is by far the largest supplier of military hardware to Saudi Arabia (over 45 per cent from 1968 to 1977), followed by Britain (26 per cent) and France (11 per cent for the same period). U.S. military sales to Saudi Arabia since 1950 have amounted to almost \$20 billion, the bulk of it in the last five years.

The U.S. Military Training Mission has served in Saudi Arabia since 1953 and is currently administering the U.S. military sales program there. Many of the Saudi military infrastructure expansion programs are administered from Washington, by the U.S. Army Corps of Engineers. Much of the market expansion in Saudi Arabia depends directly on that country's relations with the U.S., which, at present, are excellent.

The perception of U.S., British and French capability is good, while that of Canada is only now becoming known. The Saudis are comfortable with these traditional sources of supply and training, but as alluded to previously, there is a desire to demonstrate some independence in defence procurement.

f) The Action Plan

To present a general action plan for defence products per se in any formalized fashion is not practical, since market requirements for the non-offensive types of products made by the Canadian defence industry are only now being defined. Ministerial missions should expand the awareness factor in both directions and create positive political goodwill. Use could be made from the Incoming Buyers Program, since specific areas of interest are identified.

Plans for specific promotional programs for 1983-84 are only in their embryonic stages and it would be premature to mention them at this time. There will be definite activities which will be brought to the industry's attention in sufficient time for planning and budgeting.

5. Electrical Energy Equipment

a) The Opportunity

The government of Saudi Arabia recognized, in its early planning, that electrical power was essential to the country's economic and industrial diversification and development. Indeed, electrical power would play a major role in raising the standard of living, and unifying the Kingdom under Islam. The Ministry of Industry and Electricity provides central planning with Electrico and a series of SCECO's (Saudi Consolidated Electrical Company) handling power generation, transmission and distribution. Electrico concentrates on bringing power to rural areas. SCECO East, formed in 1976, by the amalgamation of 26 small companies, was the first step in what is hoped will be the establishment of a national power grid. At present, there are SCECO's in the Central, Southern and Western regions, which are in the process of consolidating the existing services.

Rapid industrial growth has meant a 36 per cent per annum increase in peak-load rates in the period 1975-1980. Government subsidies, which result in power rates being one-half actual costs, have induced a doubling of per capita power consumption. Investment of over \$1 billion was made in 1980, to upgrade the electrical system in the Kingdom.

Unfortunately, the pressures to simply supply the escalating demands of customers, have meant that consolidation of power systems into a national grid has been delayed. In addition, the Eastern region has adopted American standards (single phase), whereas other regions have opted for the European (three-phase) system -- a situation that will make consolidation more difficult. Conversations with Saudi officials indicate there is also a decided lack of co-ordination between the various SCECO's.

The current Third Development Plan (1980-85) sets out the government's objectives for the electrical sector. These objectives can be summarized as follows:

- i) provision of electrical service to all viable population centres and industries; and
- ii) development of a comprehensive electric power system capable of continuous growth to meet future demands.

To attain these objectives, the Plan envisages:

- i) expansion of generating capacity by about 8,000 MW using gas and steam turbines;
- ii) installation of over 6,000 km of transmission and sub-transmission lines;
- iii) distribution of power to 600,000 new consumers;
- iv) a comprehensive administrative and resource-development program to develop skilled Saudi manpower, the establishment of information systems, and the capability for further developmental studies.

While these ambitious projects would seem to provide immense scope for Canadian involvement, it should be remembered that a considerable amount of the basic infrastructure (generating plants and the backbone high-voltage transmission lines) are in place, particularly in the Eastern Province and that, in some other regions, the adoption of European standards closes the door on many Canadian manufacturers. In the Eastern region, opportunities will centre on supplying high-tension cable and significant quantities of all types of materials (low-tension cables, switches, transformers, poles, and meters) related to distribution, as there is a major emphasis toward electrification of rural villages. Generating capacity here is judged adequate for the foreseeable future, although one source did state there would be some demand for gas and steam turbines, given a forecast three-fold increase in peak demands by 1990.

In the other regions (Central, South and West), the situation, while less clear, would seem to offer more optimism, simply because there, regional SCECO's are less well-established. SCECO South and West may offer the best opportunities (SCECO Centre having opted for European standards).

SCECO South, for example, is just embarking on a huge development project worth about \$15 to 20 billion over the next 10 years. This region will, in all probability, be the next centre of growth (after Jubail and Yanbu) with the cities of Abha and Khamis Mushayt being joined into one large city of 350,000 persons, and new industries, colleges and medical facilities being established. Opportunities here appear to cover the whole spectrum of equipment for generation, transmission and distribution.

The opportunities in SCECO West are less clear, as this organization has just recently been established. It appears that the major construction "boom" in the Jeddah region has peaked and that, while this remains significant, as SCECO consolidates the operations of several existing power companies, future opportunities in the Western region may be in the huge industrial city of Yanbu, whose population is projected to be in the neighbourhood of 175,000 by the year 2000, and in other outlying cities and villages.

b) The Canadian Industry

The electrical industry produces the following classes of equipment: equipment which generates electricity (hydro and thermal generators, batteries); equipment which transmits and distributes electricity (wire and cable, transformers, conduits, switches); and equipment which uses electricity to perform some other function (light bulbs, appliances, motors).

The industrial electrical industry is the largest of the electrical industry's subsectors. Its products find their way into utilities and capital equipment for other industries. Half of this industry's output is equipment used in primary and secondary manufacturing industries, such as drive systems for mining, steel and pulp and paper industries. The other half of the output is sold to electric power utilities. For 1980, exports of heavy industrial equipment to Saudi Arabia amounted to \$5.2 million.

Due to Canada's hydro resources, the industrial electrical sector has acquired valuable technology and expertise in this field. While Canada does not enjoy adequate supply capability on turbine generators for thermal power generation, Canadian industry can provide all of the other equipment necessary for thermal power stations.

Large-capacity, power boilers used for generating steam and which represent a major capital cost, are produced in Canada by three companies: Babcock & Wilcox, Combustion Engineering and Foster Wheeler. Each of the Canadian producers is a subsidiary of United States-based multinationals. Canadian production encompasses all types of units for thermal power generation (i.e. oil, gas and coal, as well as waste materials) and requires sophisticated technological capability. Production capacity of the three manufacturers is such that the attainment of satisfactory levels of plant utilization necessitates the vigorous pursuit of export sales. While the Canadian industry is internationally competitive on the basis of

technology and price, it is at times hindered in seeking export sales, as a result of corporate affiliations and licensing arrangements.

Boiler room equipment (e.g. boiler feed pumps, feedwater equipment, baghouses, etc.) is also widely available from Canadian production on a competitive basis for both the domestic and export markets.

Peaking or standby, power-generating units are utilized for the most part in situations requiring fairly large blocks of power over short time intervals such as peak load periods, or for base-load applications in remote areas. Canadian industry has the capability to produce a wide variety of different sizes of gas turbine-driven generators. Diesel-driven, power-generation units of over 500 h.p. are also widely available from Canadian production. Canadian manufacturers of power-generation units have, for the most part, complete export autonomy and are internationally competitive. Canadian content for this equipment ranges from 50 to 70 per cent.

The wire and cable industry has a more or less balanced position in international trade while, at the same time, satisfying approximately 90 per cent of domestic demand. Raw materials, including copper, which accounts for a substantial proportion of cost, are readily available in Canada at competitive prices, therefore making Canadian-made products competitive in the world market. The problem encountered in trade for this particular sector is that most developed countries give a preference to domestic suppliers, while in some developing countries, they supply their own needs because of the relatively straightforward production technology employed. Canadian firms have supplied wire and cable to the Saudi Arabian market in the past few years and continue to do so, but in rather limited amounts. Exports for 1980 totalled \$15 million in this sector.

c) Recent Canadian Marketing Activity

Other than being invited to tender, and being successful in some bids, Canadian companies, both in the industrial electrical industry and wire and cable subsectors, have more or less kept out of this potential market. Due to the marketing strategy now employed by the Saudi Arabian buyers, only large companies will put up the required time and effort in preparing quotations. Small companies cannot afford the expenses incurred, and therefore do not reply to requests. Until the buyer's strategy changes, if ever, small manufacturing businesses will not pursue trade with Saudi Arabia. This was made evident in the

post-mortem study of the Qassim project, where there was important Canadian involvement. Recently, a major provincial utility has bid on two projects in the southern area of the Kingdom.

d) Success Stories

Some companies have been successful in exporting their Canadian-made products to Saudi Arabia. McGraw-Edison has shipped pole-line hardware, whereas Canada Wire and Cable and Phillips Cables have supplied power cables. Westinghouse Electric Corporation of the U.S.A. has received a Letter of Intent for 50-MW gas turbines. Since these turbines are manufactured in Canada under a world mandate agreement between the sister companies, it is a boost for Canadian production facilities.

Alcan is also in the final negotiation stages for constructing an aluminum-wire-manufacturing plant in Saudi Arabia. Probably the best known project undertaken with Canadian involvement was the \$1-billion rural electrification project in the Qassim region. The large SNC group provided engineering design and project management services on behalf of the state-run Electrico organization.

e) Market Impediments and Advantages

Based on interviews with Saudi companies and the post-mortem of the Qassim project, the following major obstacles to Arabian success have been identified:

- i) failure to aggressively pursue potential opportunities from Canada;
- ii) lack of technical/sales people actually in the Kingdom to promote and pursue opportunities on site;
- iii) poor cohesion among Canadian suppliers when required to bid on large, lump-sum contracts;
- iv) high prices, based on high labour, transportation and materials cost and unfavourable exchange rates, vis-à-vis European and Japanese competitors;
- v) arrangements with parent companies, which preclude the Canadian subsidiary from bidding in the Middle East market;

- vi) lack of national standards in the Kingdom, which results in some regions, i.e. Qassim, adopting European three-phase power and gas-cooled, switch-gear, that are not manufactured in Canada;
- vii) distance from the market and difficulties in direct shipping.

On the advantage side, Canada produces to American standards. In the eastern region, this is particularly important and rules out much of the competition from Europe. In addition, there is usually a decided preference for Western goods and equipment. Western consultants are also more highly regarded, simply because in the minds of many Saudis, something Western, particularly American, represents the pinnacle of sophistication, quality and engineering excellence.

f) Competition

There is still competition from the U.S., Europe and the Far East. With the decision in some regions to adopt European standards, there has, as a direct result, been a market increase in European content. For reasons already well-elaborated in some regions, U.S.-produced equipment is favoured, since only U.S. standards are acceptable. This is particularly true in the Eastern Province, where the influence of ARAMCO is all-pervasive. The other major players to arrive on the scene are contractors and suppliers from the Far East, whose labour rates, ability to produce whatever is required, and to supply large numbers of trained technical personnel able and apparently willing to work in the Kingdom, even under the most difficult conditions, gives them decided advantages over Canadian manufacturing.

g) Action Plan

- i) Priority will be given to obtaining information on specific electrical contract opportunities. To this end, an electrical trade mission will be organized to Saudi Arabia and other surrounding countries to gather information and establish appropriate contacts.
- ii) A special three-month study will be undertaken by a company in the electrical field to examine export opportunities.

- iii) Encourage companies to investigate market and identify specific opportunities under PEMD B.
- iv) Increase financial and human resources at post to handle increased demands for assistance by companies.
- v) Embassy will develop a list of potential Saudi partners and agents for interested Canadian companies.
- vi) Increase support for participation in trade shows through the use of PEMD C, to foster awareness of Canadian capability, and to provide the opportunity to meet potential Saudi partners and identify market opportunities.

**TABLE 1**  
**Government Budgetary Appropriations by Sectors**  
(Million Riyals)

	<u>1978-79</u> <u>1398-99</u>	<u>1979-80</u> <u>1399-00</u>	<u>1980-81</u> <u>1400-01</u>	<u>1981-82</u> <u>1401-02</u>	<u>1982-83</u> <u>1402-03</u>
Human Resource Development	15,712.2	18,288.4	22,602.3	26,248.1	31,864
Transport and Communications	18,952.5	24,446.9	32,096.9	35,343.8	32,532
Economic Resource Development	11,188.6	21,316.2	21,601.3	22,678.9	22,045
Health and Social Development	8,631.1	9,838.6	12,333.7	13,716.2	17,010
Infrastructure Development	6,859.5	6,774.6	11,844.0	14,125.7	11,705
Municipal Services	10,266.9	12,724.5	19,745.1	26,291.8	26,224
Defence and Internal Security	45,568.1	56,467.2	68,944.7	82,533.0	92,886
Public Administration	7,092.8	11,970.5	15,799.1	21,844.4	9,480
Government Lending Institutions	16,606.0	24,775.0	19,480.0	24,850.0	23,382
Miscellaneous	7,798.6	29,618.6	20,551.0	30,368.7	-
Expected shortfall	18,676.3	-	-	-	-
<b>TOTAL</b>	<b>130,000.0</b>	<b>216,220.5</b>	<b>245,000.0</b>	<b>298,000.0</b>	<b>313,400</b>

Source: Quarterly Economic Review of Saudi Arabia, Third quarter 1981, EIU.

TABLE 2  
World Crude Oil Production

(Thousand barrels per day)

	1978	1979	1980	% Change	
				1979	1980
World Total	60,335	62,812	59,670	4.1	-5.0
Total OPEC	29,898	30,825	26,841	3.1	-12.9
(Major Producers)					
Algeria	1,225	1,175	1,016	-4.1	-13.5
Iran	5,207	3,101	1,467	-40.4	-52.7
Iraq	2,629	3,434	2,638	30.6	-23.2
Indonesia	1,637	1,595	1,576	-2.5	-1.2
Kuwait	2,098	2,497	1,652	19.0	-33.8
Libya	1,993	2,066	1,785	3.7	-13.6
Nigeria	1,910	2,303	2,057	20.6	-10.7
Saudi Arabia	8,292	9,505	9,900	14.6	4.2
U.A.E.	1,833	1,831	1,709	-0.1	-6.7
Venezuela	2,163	2,356	2,167	8.9	-8.0
Total Non-OPEC	30,437	31,987	32,829	5.1	2.6
(Major Producers)					
U.S.S.R.	11,428	11,703	12,010	2.4	2.6
U.S.	8,680	8,544	8,569	-1.6	0.3
China	1,917	2,155	2,119	12.4	-1.7
Canada	1,324	1,496	1,412	13.0	-5.6
Mexico	1,207	1,461	1,936	21.0	32.5
Britain	1,082	1,568	1,619	44.9	3.2

Source: Oil and Gas Journal, March 1981.

TABLE 3

## Imports (FOB) from Major Industrial Countries

COUNTRIES	1979				TOTAL	1980				TOTAL	Change	Percent Change
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter			
U.S.	1,165	1,170	1,174	1,366	4,875	1,295	1,432	1,398	1,644	5,769	894	18.3
Japan	689	982	1,056	1,076	3,803	967	1,246	1,329	1,339	4,881	1,078	28.4
F.R.G.	607	557	616	632	2,412	568	604	633	553	2,358	-54	-2.2
Britain	385	535	489	486	1,895	587	569	648	661	2,465	570	30.1
Italy	369	515	439	560	1,883	428	578	537	561	2,104	221	11.7
France	251	256	249	344	1,110	332	352	359	414	1,457	357	32.5
Belgium	113	135	120	115	483	145	94	143	143	525	42	8.7
Netherlands	165	165	256	253	839	215	263	312	306	1,096	257	30.6
Switzerland	141	163	128	149	581	157	148	148	171	624	43	7.4
Austria	23	21	25	21	90	20	24	26	30	100	10	11.1
Sweden	118	113	97	127	455	120	89	119	157	485	30	6.6
Denmark	27	29	28	41	125	29	40	35	38	142	17	13.6
Norway	17	7	7	9	40	6	12	4	4	26	-12	-30.0
Canada	64	44	41	58	217	60	63	61	83	267	50	23.1
TOTAL	4,134	4,692	4,725	5,247	18,798	4,929	5,514	5,752	6,104	22,299	3,501	18.6

Source: IMF, Direction of Trade.

TABLE 4

Top 15 Trading Countries by Value of Imports- 1980  
With Three Major Commodities

RANK	TRADING COUNTRY	Value in '000 S.R.	% of Total
1.	<u>U.S.</u> Motor vehicles for the transport of persons, goods; for transport of persons, private motor vehicles and taxis Machinery parts, not containing electrical connectors, other Iron or steel structures, complete or incomplete	20,086,146 1,695,035 1,245,774 703,148	20.01    17.92
2.	<u>Japan</u> Motor vehicles for the transport of persons, goods; for transport of persons, private motor vehicles and taxis Motor vehicles for the transport of persons, goods; for transport of goods and materials; small trucks (pick-up) one or two cabin Bars and rods (including wire rod); of iron or steel.	17,992,168 2,054,578 1,638,012 867,411	    9.08
3.	<u>F.R.G.</u> Motor vehicles for the transport of persons, goods; for transport of goods and materials; large trucks Electrical apparatus for making and breaking circuits, other Iron and steel structures, complete or incomplete	9,111,944 748,172 470,068 433,753	    7.32
4.	<u>Italy</u> Articles of jewellery and parts thereof, of precious metals; of gold Iron or steel structures, complete or incomplete Other furniture and parts thereof; other; of wood and parts thereof	7,345,792 689,278 452,953 419,965	    6.48
5.	<u>Britain</u> Manufactured tobacco, tobacco extracts and essences; cigarettes Iron and steel structures, complete or incomplete Parts for flying machines and balloons	6,504,261 455,206 346,969 340,301	    5.42
6.	<u>France</u> Barley Dead poultry that is to say, fowls, ducks, geese, turkeys; meat of poultry chilled or frozen Iron or steel structures, complete or incomplete	5,439,569 511,906 318,209 300,634	    3.16
7.	<u>Netherlands</u> Gold, including platinum-plated gold, gold ingots Electrical line telephonic and telegraphic apparatus Machinery parts, not containing electrical connectors, other	3,176,662 581,750 424,038 128,602	    

RANK	TRADING COUNTRY	Value in '000 S.R.	% of Total
8.	<u>South Korea</u>	2,408,264	2.39
	Bars and rods (including wire rod); of iron or steel	347,448	
	Iron or steel structures, complete or incomplete	245,206	
	Rubber tyres; tyre cases, interchangeable tyre treads, tyre cases	131,277	
9.	<u>Taiwan</u>	2,237,702	2.22
	Men and boys outer garments; of synthetic and regenerated fabrics	175,177	
	Beet sugar and cane sugar, solid: purified (refined): crystallized of various degrees of smoothness	125,380	
	Bars and rods (including wire rod); of iron or steel.	87,946	
10.	<u>Sweden</u>	1,803,525	1.79
	Electrical line telephonic and telegraphic apparatus	287,994	
	Wood sawn lengthwise, sliced or peeled, other	147,195	
	Other engines and motors; gas turbines not for aircraft	60,112	
11.	<u>Spain</u>	1,799,658	1.79
	Portland cement, cement fondu, slag and ordinary cement	580,425	
	Bars and rods (including wire rod); or iron or steel	74,621	
	Glazed setts, flags and paving, hearth and wall tiles	73,114	
12.	<u>Switzerland</u>	1,740,907	1.73
	Pocket-watches, wrist watches and other watches, other	183,259	
	Other engines and motors; other	149,244	
	Medicaments, including veterinary; human medicaments	98,570	
13.	<u>Belgium</u>	1,541,318	1.53
	Barley	73,559	
	Iron or steel structures, complete or incomplete	68,764	
	Other carpets, carpeting, rugs, mats and matting, other carpets, including rugs, made up or not; moquette carpets and rugs	56,006	
14.	<u>Greece</u>	1,362,260	1.35
	Portland cement, cement fondu, slag cement, ordinary cement	405,806	
	Machines and mechanical appliances; other	60,624	
	Universal plates of iron or steel	58,344	
		1,246,073	1.24
15.	<u>Lebanon</u>		
	Articles of jewellery and parts thereof, of precious metals; of gold	77,614	
	Women, girls and infants outer garments of synthetic and regenerated fabrics	60,525	
	Waters, including spa waters and aerated waters; ice natural waters and spa waters	45,651	
	<b>TOP 15</b>	<b>83,796,255</b>	<b>83.43</b>
	<b>GRAND</b>	<b>100,349,148</b>	<b>100.00</b>

Source: Saudi Economic Survey, December 30, 1981.

TABLE 5

Top 50 Import Commodities by Value - 1980  
With Three Major Trading Countries

RANK	COMMODITY DESCRIPTION	Value in '000 S.R.	% of Total
1.	Motor vehicles for the transport of persons, goods; for transport of persons, private motor vehicles and taxis	4,080,554	4.06
	Japan	2,056,578	
	U.S.	1,695,035	
	F.R.G.	148,154	
2.	Iron or steel structures, complete or incomplete	3,615,467	3.60
	U.S.	703,148	
	Japan	536,097	
	Italy	452,953	
3.	Machinery parts, not containing electrical connectors	2,515,421	2.50
	U.S.	1,245,774	
	F.R.G.	260,412	
	Britain	254,073	
4.	Bars and rods (including wire rod); of iron or steel	2,041,277	2.03
	Japan	867,411	
	South Korea	347,448	
	Qatar	197,616	
5.	Motor vehicles for the transport of persons, goods; for transport of goods and materials; small trucks (pick-up) one or two cabin	2,004,038	1.99
	Japan	1,638,012	
	U.S.	341,614	
	Not defined	6,015	
6.	Portland cement, cement fondu, slag cement, ordinary cement	1,893,479	1.88
	Spain	580,425	
	Japan	492,308	
	Greece	405,806	
7.	Electrical apparatus for making and breaking circuits, other	1,770,202	1.76
	F.R.G.	470,068	
	U.S.	388,395	
	Britain	220,986	
8.	Parts and accessories of the motor vehicles	1,586,067	1.58
	U.S.	581,011	
	F.R.G.	348,937	
	Japan	343,397	

RANK	COMMODITY DESCRIPTION	Value in '000 S.R.	% of Total
9.	Electrical goods of the following descriptions: generators	1,488,498	1.48
	U.S.	667,353	
	Japan	214,780	
	F.R.G.	210,016	
10.	Insulated electric wire: other: insulated	1,413,419	1.40
	Japan	372,670	
	F.R.G.	267,020	
	U.S.	139,384	
11.	Other furniture and parts thereof: other: of wood and parts thereof	1,148,958	1.14
	Italy	419,965	
	U.S.	191,869	
	F.R.G.	163,242	
12.	Articles of jewellery and parts thereof, of precious metals: of gold	1,141,719	1.13
	Italy	689,278	
	Bahrain	189,521	
	Lebanon	77,614	
13.	Woven fabrics of man-made fibres (continuous), of synthetic fibres: printed or artistically worked	1,134,579	1.13
	Japan	796,867	
	South Korea	92,891	
	North Korea	48,459	
14.	Barley	1,118,908	1.11
	France	511,906	
	Australia	270,731	
	Belgium	73,559	
15.	Electrical line telephonic and telegraphic apparatus	1,090,756	1.08
	Netherlands	424,038	
	Sweden	287,994	
	F.R.G.	129,319	
16.	Tubes and pipes and blanks thereof, of iron or steel	1,046,143	1.04
	Japan	354,346	
	U.S.	143,239	
	F.R.G.	130,951	
17.	Motor vehicles for the transport of persons, goods: for transport of goods and materials: large trucks	1,021,840	1.01
	F.R.G.	748,172	
	U.S.	142,677	
	Japan	56,646	

RANK	COMMODITY DESCRIPTION	Value in '000 S.R.	% of Total
18.	Rubber tyres, tyre cases, interchangeable tyre treads, tyre cases	950,692	.94
	Japan	406,906	
	South Korea	131,277	
	France	118,549	
19.	Dead poultry (that is to say, fowl, ducks, geese, turkeys) meat of poultry, chilled or frozen	882,838	.87
	France	318,209	
	Brazil	222,528	
	Hungary	69,067	
20.	Live sheep and goats: sheep, other	872,280	.86
	Somalia	247,673	
	Australia	207,805	
	Sudan	181,292	
21.	Air conditioning machines, self contained, airconditioners	795,965	.79
	U.S.	530,700	
	Japan	138,085	
	France	28,060	
22.	Other articles or iron or steel: other	777,849	.77
	U.S.	210,418	
	F.R.G.	103,548	
	Italy	101,736	
23.	Manufactured tobacco, tobacco extracts and essences: cigarettes	731,371	.72
	Britain	455,206	
	U.S.	215,105	
	Switzerland	10,263	
24.	Gold, including platinum-plated gold, gold ingots	701,935	.69
	Netherlands	581,750	
	Not defined	59,469	
	U.S.	27,205	
25.	Medicaments, including veterinary: human medicaments	696,598	.69
	Britain	153,010	
	U.S.	131,858	
	F.R.G.	98,570	
26.	Parts for flying machines and balloons	675,180	.67
	Britain	340,301	
	U.S.	192,454	
	F.R.G.	54,074	

RANK	COMMODITY DESCRIPTION	Value in '000 S.R.	% of Total
27.	Electrical parts of machinery and apparatus	660,185	.65
	U.S.	479,701	
	Japan	36,802	
	Sweden	31,440	
28.	Transmission and reception apparatus: radiotelegraphic, television reception apparatus	651,874	.64
	Japan	581,256	
	F.R.G.	16,048	
	Belgium	7,767	
29.	Cereal flours: wheat flour	631,868	.62
	F.R.G.	250,514	
	U.S.	222,701	
	France	80,323	
30.	Men and boys outer garments: of synthetic and regenerated fabrics	616,992	.61
	Taiwan	175,177	
	Hong Kong	95,232	
	China	59,110	
31.	Maize	585,766	.58
	Sudan	321,349	
	Thailand	187,725	
	U.S.	49,830	
32.	Lifting, handling, loading or unloading machinery, hoists: machines and equipment with insepar. mobil bases	582,977	.58
	U.S.	200,858	
	South Korea	83,152	
	France	73,571	
33.	Excavating, levelling, tamping and boring machinery, stationary machinery	580,671	.57
	U.S.	191,482	
	Japan	95,683	
	France	74,104	
34.	Structures, and parts of structures, of aluminum	575,460	.57
	Italy	145,949	
	U.S.	140,261	
	France	16,705	
35.	Beet sugar and cane sugar, solid purified (refined): crystalized of various degree of smoothness	560,612	.55
	Czechoslovakia	167,522	
	Taiwan	125,380	
	France	110,195	

RANK	COMMODITY DESCRIPTION	Value in '000 S.R.	% of Total
36.	Excavating, levelling, tamping and boring machinery, other	556,725	.55
	Japan	189,933	
	U.S.	185,107	
	F.R.G.	39,947	
37.	Women, girls and infants outer garments of synthetic and regenerated fabrics	504,500	.50
	Britain	83,176	
	Taiwan	82,355	
	Lebanon	60,525	
38.	Glazed setts, flags and paving, hearth and wall tiles	499,445	.49
	Italy	302,483	
	Spain	73,114	
	F.R.G.	21,903	
39.	Motor vehicles for the transport of persons, goods: for transport of goods and materials: dump trucks, ready-made	490,895	.48
	Japan	325,203	
	F.R.G.	71,358	
	U.S.	26,218	
40.	Sheets and plates of iron or steel	489,958	
	Japan	323,362	
	F.R.G.	35,701	
	U.S.	32,376	
41.	Motor vehicles for the transport of persons, goods: for transport of persons, tourist motor vehicles with less than nine seats	489,250	.48
	U.S.	342,249	
	Japan	129,973	
	France	7,979	
42.	Wood sawn lengthwise, sliced or peeled, other	478,826	
	Sweden	147,195	
	Austria	47,252	
	Singapore	38,108	
43.	Gramophones, dictating machines; dictating machines and other sound recorders	471,517	.46
	Japan	419,699	
	Hong Kong	12,820	
	F.R.G.	7,937	

RANK	COMMODITY DESCRIPTION	Value in '000 S.R.	% of Total
44.	Petroleum oils and oils from bituminous minerals, lubrication oils and lubrication preparations	459,061	.45
	Singapore	170,490	
	U.S.	142,570	
	Netherlands	46,306	
45.	Pocket-watches, wrist watches and other watches, other	457,334	.45
	Japan	215,953	
	Switzerland	183,259	
	Hong Kong	35,062	
46.	Refrigerators and refrigerating equipment, electrical domestic refrigerators	427,292	.42
	U.S.	184,876	
	Italy	80,902	
	Japan	72,823	
47.	Articles of a kind commonly used for domestic purposes	425,764	.42
	Italy	81,771	
	Japan	61,843	
	U.S.	46,068	
48.	Electrical goods of the following description: transformers	411,319	.40
	U.S.	99,899	
	F.R.G.	81,835	
	Japan	75,661	
49.	Flying machines, gliders and kites: rotochutes: for use by government or its agencies	408,565	.40
	U.S.	405,573	
	F.R.G.	2,992	
50.	Plywood, blockboard, labinboard, battenboard, laminboard, battenboard	406,993	.40
	South Korea	108,795	
	Taiwan	78,196	
	North Korea	40,963	
	<b>TOP 50</b>	<b>49,619,908</b>	<b>49.1</b>
	<b>GRAND</b>	<b>100,349,637</b>	<b>100.00</b>

Source: Saudi Economic Survey, December 30, 1981.

**TABLE 6**  
**Composition of Imports**

(Millions Riyals)

Commodity Group	1975	1976	1977	1978	1979r	1980p
<b>Total Imports</b>	<b>14,823</b>	<b>30,691</b>	<b>51,662</b>	<b>69,180</b>	<b>82,223</b>	<b>100,350</b>
1. Live animals and animal products	642	925	1,465	2,057	2,840	4,131
2. Vegetable products	934	1,478	1,647	2,730	3,906	5,322
3. Animal and vegetable fats, oils and their products	100	147	224	296	386	549
4. Prepared foodstuffs, beverages, spirits, vinegar and tobacco	625	986	2,029	2,719	3,379	4,153
of which:						
Sugar	119	148	202	217	238	730
Flour	256	366	315	430	590	632
5. Mineral products	324	919	1,827	2,192	2,249	3,141
of which: Cement	169	589	1,334	1,511	1,436	2,138
6. Products of the chemical and allied industries	668	900	1,739	2,234	2,667	3,421
7. Artificial resins and plastic materials, cellulose esters, rubber, synthetic rubber	376	624	1,171	1,496	2,094	2,783
8. Rawhides and skins and articles thereof, travel goods and handbags	50	101	201	277	307	375
9. Wood and articles of wood, charcoal, cork and articles of cork and wicker work	372	1,535	2,138	2,058	2,332	2,588
of which: Wood	349	505	1,998	1,845	2,280	2,281
10. Paper making materials, paper cardboard and articles thereof	604	254	566	771	940	1,090
11. Textiles and textile articles	1,291	2,170	3,496	4,178	4,996	6,518
12. Footwear, headgear, umbrellas, sunshade whips, artificial flowers, articles of human hair and fans	77	120	242	270	395	521
13. Articles of stone plaster, asbestos ceramic products, glass and glassware	189	513	1,460	3,247	2,680	3,410

TABLE 6 (Cont'd)

(Millions Riyals)

Commodity Group	1975	1976	1977	1978	1979r	1980p
14. Pearls, precious and semi-precious stones, precious metals, articles and imitation jewellery	429	1,374	1,906	1,659	1,304	2,393
15. Base metal and articles of base metal	1,383	3,586	7,650	9,588	12,730	14,593
16. Machinery, mechanical appliances, electrical equipment and parts thereof	2,883	7,454	13,961	19,844	22,552	24,524
17. Transport equipment of which: Cars (including buses, trucks, pickups, etc.)	3,063 2,070	5,632 3,309	6,607 5,100	9,036 5,562	10,992 6,940	13,919 7,968
18. Optical, photographic, measuring, checking, precision, medical and surgical instruments and apparatus, clocks and watches, musical instruments, sound records and reproducers, and parts thereof	516	1,139	1,714	2,653	2,903	3,606
19. Arms, ammunition and parts thereof	17	171	182	44	18	60
20. Miscellaneous manufactured articles	275	571	1,216	1,818	2,340	2,764
21. Work of art collection pieces and antiques	5	92	221	13	213	206
22. Goods valuing less than million Riyals	-	-	-	-	-	301

Source: Ministry of Finance and National Economy, Central Department of Statistics, Foreign Trade Statistics Yearbooks

r = Revised

p = Preliminary

APPENDIX I

List of Government Contacts

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Department of External Affairs  
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Ottawa, Ontario  
K1A 0H5

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Jeddah, Saudi Arabia

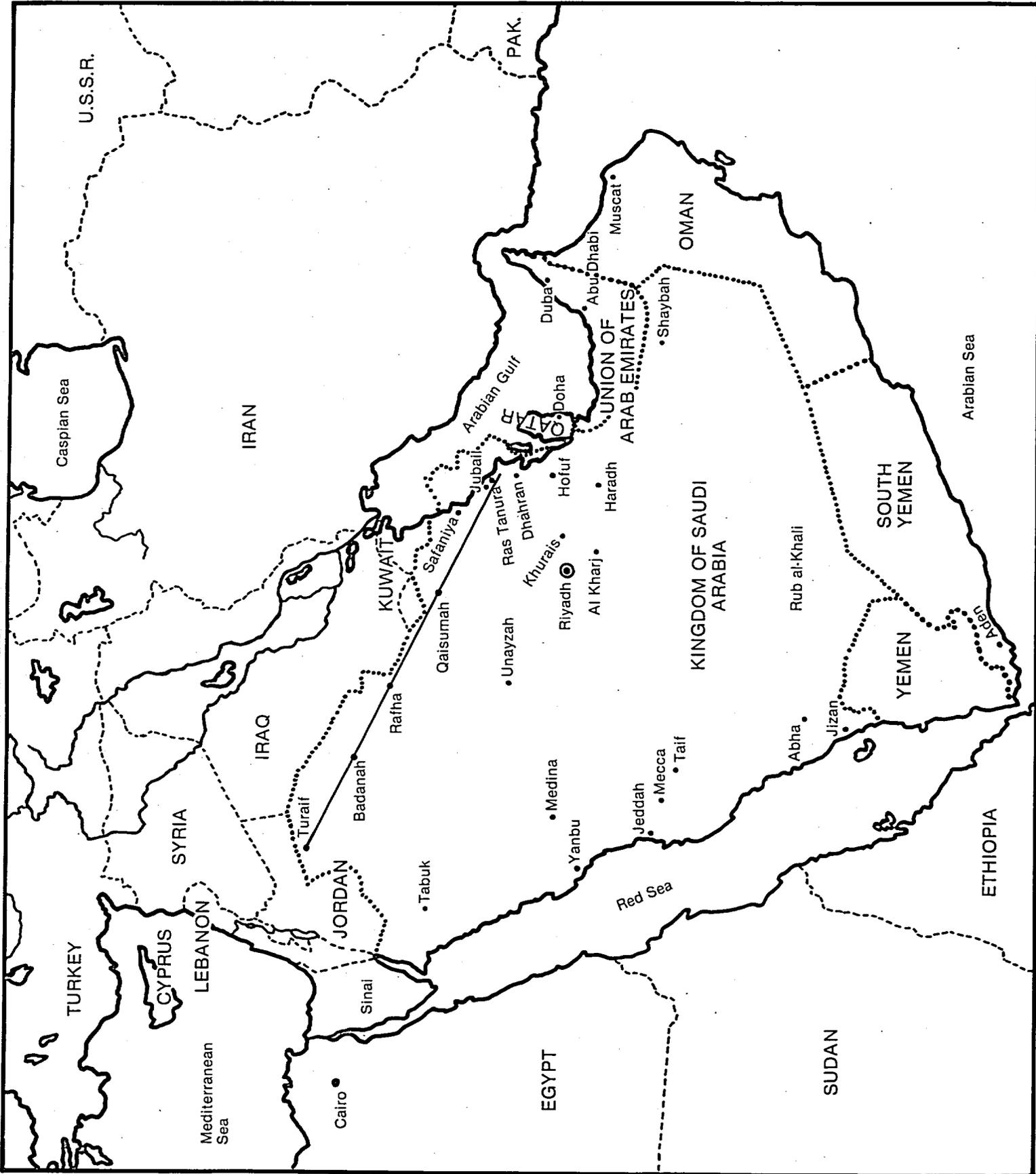
Cable: DOMCAN JEDDAH  
Tel: 6434900/4597/4587  
6429798

Telex: 401060 DOMCAN SJ

APPENDIX II

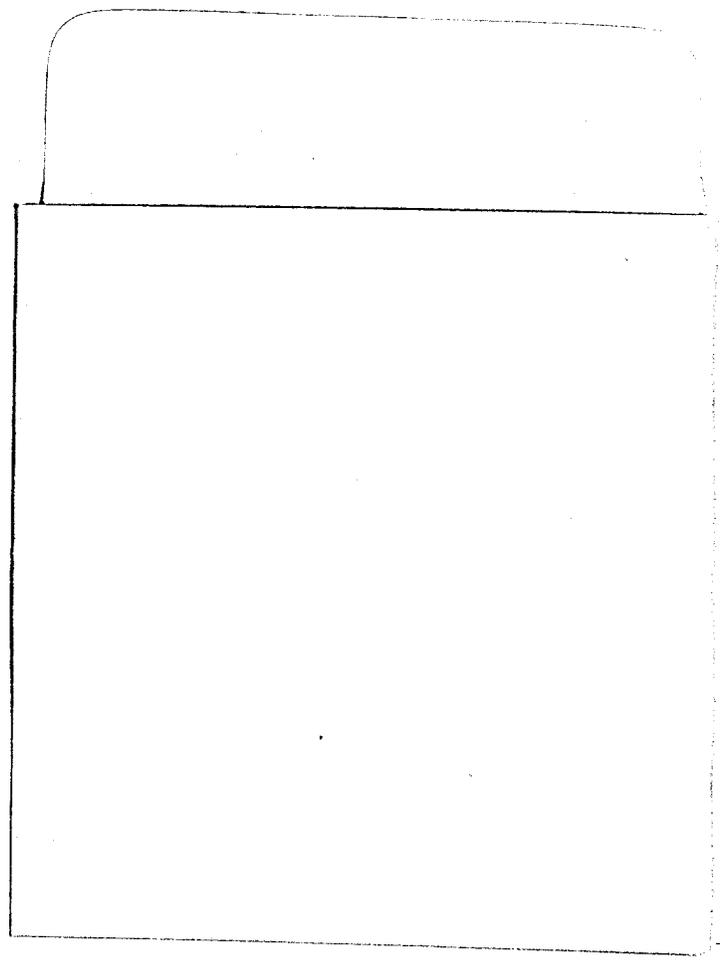
Existing and New Mining Operations

- 1) Gold Fields Mahd al-Dhahab mines, north of Jeddah, is to be opened once again by 1983 for gold production.
- 2) Precious metals exploration at Massane (near the North Yemen border).
- 3) Three hundred million tons of iron ore are being examined by the British Steel Corporation as a potential source for Jubail's steel industry. The deposits located at Wadi Sawwawin near Tabuk, however have low ore content (40 per cent).
- 4) Extensive phosphate explorations are taking place in the Sirhan Basin and West Thaniyat along the Red Sea coast. The extensive gypsum deposits between Yanbu and Umm Lajj are to be developed to boost local cement production.



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