The Water Sector in the Kingdom of Saudi Arabia

U.S.-SAUDI ARABIAN BUSINESS COUNCIL

Strengthening Bilateral Business Relations through Trade and Investment
LETTER FROM THE PRESIDENT

Dear Reader,

The U.S.-Saudi Arabian Business Council (USSABC) is pleased to offer you this summary of our recently released Water Sector in the Kingdom of Saudi Arabia report. Based on extensive research gathered from Saudi Government documents, media agencies, and studies by non-governmental organizations, this report presents a concise yet thorough overview of Saudi Arabia’s water industry, including billions of dollars worth of investment opportunities.

The report provides an analysis of the most recent statistics and ongoing trends in the industry. It describes the sector’s regulatory structure and major developments. More importantly, these topics are discussed within the framework of private and foreign investment opportunities. A current list of key contacts for government ministries and leading Saudi companies in the industry is also included.

The 2009 Water Sector report is a great resource for companies interested in learning more about one of Saudi Arabia’s fastest growing industries. Combined with the Council’s other business development services, the report provides companies with a valuable “first step” toward breaking into the Saudi market, which boasts a combined $1.4 trillion worth of investment opportunities through 2020.

To obtain a complete copy of the report, please see the back cover for additional information.

Sincerely,

Edward Burton
President and Managing Director
U.S.-Saudi Arabian Business Council
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SWOT ANALYSIS

Strengths

- The water sector is the 5th largest recipient of Foreign Direct Investment in Saudi Arabia.
- The Saudi Government has consistently increased spending and investments in the water sector.
- As a country, Saudi Arabia is the 3rd largest consumer of water in the world, according to the Saudi Arabian Monetary Agency.
- As a country, Saudi Arabia is the largest producer of desalinated water in the world.
- The Saudi Government has streamlined the water sector’s regulatory regime.
- The Saudi Government has put in place an extensive water transmission system.

Weaknesses

- An average of 20% of distributed water is unaccounted for in Saudi Arabia.
- The water sector’s infrastructure is outdated and, in some areas, deteriorating.
- The Saudi Government’s low water tariffs serve as a disincentive for conservation.

Opportunities

- Privatization and liberalization of the Saudi economy present numerous investment opportunities in the water sector.
- Accession into WTO has fostered an improved investment environment by lowering barriers to trade and tariff rates.
- Large government revenue generated from high oil prices will likely be invested in new development projects including those in the water sector.

Threats

- Challenges associated with debt financing resulting from the global economic downturn may slow the rate of sector privatization.
- The perception of Saudi Arabia as a high security risk has, at times, deterred potential investors.
- Saudi Arabia’s dependence on oil for government revenue means public spending and investment could be disrupted by a severe shock in the oil market.
OVERVIEW OF THE WATER SECTOR IN SAUDI ARABIA

With a population forecast to reach 29.3 million by 2015, the supply of fresh water is essential to Saudi Arabia, a desert country with a large agricultural and industrial base. As the largest country in the world without running surface water, Saudi Arabia has been dependent on desalinated water for potable water since the 1950s. Today, Saudi Arabia is the world largest producer of desalinated water and home to the Marafiq complex in Jubail, the world’s largest independent water and power project (IWPP). Moreover, Saudi Arabia will soon have one of the world’s largest water pipelines, a more than 900-kilometer transmission system that will pump nearly 4 million cubic meters per day (cum/d) of water from Jubail Industrial City to the capital of Riyadh.

As water becomes an increasingly scarce resource, issues of water quality, quantity, management, and planning are essential for the future of the Kingdom’s growing population. In addition to mounting demographics, industrialization and modernization have placed increasing pressure on Saudi Arabia’s water infrastructure. Official sources indicate that an average of 20 percent of the Kingdom’s water is unaccounted for due to a 25 year old infrastructure and resultant leakages. Further, a low tariff of only $0.027 (SR0.10) per cubic meter of water that encourages non-rationalization of water consumption. Plans have been underway, however, to increase the water tariff to as much as $1.40 (SR5) per cubic meter.

These challenges have paved the way for the restructuring and gradual privatization of the Kingdom’s water sector. The sector’s privatization initiative will come in large measure through the establishments of public-private partnerships (PPPs). While the global economic downturn has recently led the Kingdom to bring a number of projects back under government control, Saudi Arabia recognizes that PPPs will remain instrumental in developing the industry and delivering water and wastewater services to residents throughout the country. The establishment of PPPs is expected to present a wealth of investment opportunities for U.S. companies engaged in this sector. Build-operate-transfer (BOT) will be a preferred method of PPPs with the private sector expected to finance design, build, and operate the project for a specified period of time, after which ownership will be transferred back to the government.

According to Samba Financial Group, the utilities sector, including electricity and water supply, is currently the fifth largest recipient of foreign investment in Saudi Arabia, and is expected to rise further in investor attractiveness over the next five years. The desalination, water, and sewage sector have already been earmarked as one of the sectors targeted for privatization for 2009. The Saline Water Conversion Corporation (SWCC), for example, is currently undergoing a large-scale restructuring and privatization plan.

Private investors and developers are already taking advantage of the opportunities that the sector’s restructuring is offering. In 2008, the Ministry of Water and Electricity (MoWE) awarded more than 743 contracts worth over $3.1 billion (SR11.9 billion). Moreover, the Saudi Government has resolved to continue developing the sector in the face of the economic downturn. While the global financial crisis has presented the Kingdom with new challenges and has served to adjust a number of infrastructure projects, the Saudi Government views the development of the water sector as a matter of national importance.
SELECT USSABC MEMBERS ENGAGED IN THE WATER INDUSTRY

Abdel Hadi Abdullah Al-Qahtani & Sons Group
Website: www.ahqsons.com

A.K. Al-Muhaidib Group
Website: www.muhaibid.com

Al-Rushaid Investment Company
Website: www.al-rushaid.com

M. & A. Albawardi Group
Website: www.albawardi.com

Rezayat Company
Website: www.rezayat-commercial.com

Seder Group
Website: www.sedergroup.com

Trading and Development Partnership Company
Website: www.tdpco.com

Yusuf Bin Ahmed Kanoo
Website: www.ybakanoo.com

Al Dhahry Group
Website: www.al-dhahry-group.com

Al-Rashid Trading & Contracting Co.
Website: www.rtcc.com.sa

Hajjan Trading Establishment
Website: www.hatcon.com.sa

M.H. Sherbiny for Commerce
Website: www.sherbinyforcommerce.com

Saudia Binladin Group
Website: www.sbg.com.sa

Tamimi Group of Companies
Website: www.al-tamimi.com

Xenel Group
Website: www.xenel.com

Zamil Group Holding
Website: www.zamil.com

U.S.-SAUDI ARABIAN BUSINESS COUNCIL PRODUCTS & SERVICES

Taking full advantage of the experience and expertise of Business Council staff in both the Washington, D.C. metropolitan area and Riyadh, the USSABC offers a wide range of tailored products and services offers a full menu of business development, networking, and communications and information services to Members and Non-Members. Products and services include:

Business Development Services

- Market Insight & Analysis
- Competition Analysis
- Market Entry Strategy
- Partner Identification & Introduction
- Company Profiles & Contact Information
- In-Country Partnership Screening & Analysis
- In-Country Appointments & Logistical Support
- Trade Show Support Services
- Trade Missions to and from Saudi Arabia
- Advisory Services

Networking Services

- Annual Business Conference/Plenary Meeting
- Business Round Tables/Issue Luncheons
- Business Dialogue Sessions
- Pre-dinner or reception meeting with dignitaries

Communications & Information Services

- Newsletter
- A Business Guide to Saudi Arabia
- Industry Sector Reports
U.S.-SAUDI ARABIAN BUSINESS COUNCIL MEMBERSHIP BENEFITS

$5,000 Platinum Member
- Priority notice of special events
- Priority Table Seating for CEO/Chairman at selected events
- CEO receives direct access to dignitaries at events
- Pre-dinner or reception meeting with dignitaries
- Special invitations to round table executive discussions
- Unlimited Saudi visa sponsorships
- Limit of ten copies of Business Guide, limit of ten sector reports per year; additional copies at a discount
- Ten free hours for research requests; additional hours at a discount
- Ten free hours for identifying partners or distributors; additional hours at a discount
- Corporate logo displayed on the Council’s website with link to company site

$2,500 Gold Member
- Priority notice of special events
- Special invitations to round table executive discussions
- Limit of five Saudi visa sponsorships per year
- Limit of five copies of Business Guide, limit of five sector reports per year; additional copies at a discount
- Five free hours for research requests; additional hours at a discount
- Five free hours for identifying partners or distributors; additional hours at a discount

$1,000 Silver Member
- Invitations to special events
- Limit of three Saudi visa sponsorships per year
- Limit of three copies of Business Guide, limit of three sector reports per year; additional copies at a discount
- Three free hours for research requests; additional hours at a discount
- Three free hours for identifying partners or distributors; additional hours at a discount

ABOUT THE U.S.-SAUDI ARABIAN BUSINESS COUNCIL

The U.S.-Saudi Arabian Business Council (USSABC) was established in December 1993 to improve the mutual knowledge and understanding between the private sectors of the United States and Saudi Arabia, and to promote and facilitate increased trade and investment between the two countries. Our mission is to foster, develop, and expand the strategic business alliance between the U.S. and Saudi Arabia by promoting trade and investment between the two countries and contributing to the accurate depiction of the business environment within the Kingdom of Saudi Arabia. The USSABC also seeks to create awareness of the opportunities for small and medium sized businesses in both countries.

The USSABC has built a membership base of leading companies in the U.S. and Saudi Arabia, enjoys strong government support from both countries, and interacts regularly with officials to promote issues of mutual interest to U.S. and Saudi firms. The Business Council serves as the central source of information and assistance for companies that want to pursue specific business activities in the Kingdom of Saudi Arabia. Furthermore, the USSABC organizes conferences and seminars in both countries to promote dialogue between the two private sectors, as well as trade and investment missions that provide networking opportunities for U.S. and Saudi companies.

The USSABC provides a wide variety of business development services to Council members and non-members alike. These services include market entry strategy, partner identification and introduction, in-country appointments and logistical support, and the organization of trade missions to and from Saudi Arabia. The USSABC also provides up-to-date information on market opportunities in Saudi Arabia through a number of publications, including A Business Guide to Saudi Arabia, a bi-monthly newsletter, the U.S.-Saudi Business Brief, and special reports on Saudi Arabian industry sectors. For more information on Council membership or services, please visit www.us-sabc.org.
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