Saudi Arabia has recently adopted new policies aimed at transforming its economy, including plans to sell shares in the state oil company, Saudi Aramco, and to expand its Public Investment Fund (PIF) to diversify its activities to reduce dependency on oil revenues. The Kingdom plans to transfer funds raised by the sale of shares of Saudi Aramco to PIF. PIF plans to use at least half of the proceeds from the Aramco IPO to develop other economic sectors.

The Saudi Vision 2030 plan was unveiled on April 25, 2016 by Deputy Crown Prince Mohammed bin Salman, the Chairman of the Council of Economic and Development Affairs, and many administrative changes have followed since its announcement. The Saudi government has developed a National Transformation Program (NTP 2020) to help achieve Vision 2030 and to address the challenges faced by government entities implementing the program. Each year, NTP 2020 identifies the initiatives necessary...
for accomplishing strategic objectives, and develops detailed plans and interim indicators that measure performance.

Many opportunities are opening up for both domestic and foreign investors. The Saudi Arabian General Investment Authority (SAGIA) is the entity responsible for overseeing investment affairs in the Kingdom, including foreign investment. SAGIA’s “fast track” mechanisms for foreign investors has, over the years and with varying degrees of success, benefited foreign investors with quicker applications’ processes and licenses’ issuances.

**Aramco IPO**

Saudi Arabia is the world’s largest oil exporter, and it derives about 90 percent of its revenue from exporting oil. The Saudi government is transforming Aramco into a more transparent company with improved disclosure and governance systems that will help withstand the scrutiny of global markets and investors. Saudi Arabia intends to sell up to 5 percent of the company’s shares. The IPO could be the largest ever. Aramco is likely to be listed on the Tadawul and on one or more international markets. Since the Saudi government will remain the 95 percent owner, it will retain full control. The IPO announcement comes after a volatile period for global oil prices, which reached more than $100 a barrel in 2014, fell to below $30 a barrel in 2016, and currently are in the vicinity of $50 a barrel. However, Aramco is still attractive because of its enormous oil reserves and particularly low production costs. During President Donald Trump’s first foreign visit to Saudi Arabia, Aramco is expected to sign deals with 12 U.S. companies.

The IPO is expected to occur in late 2018. On March 27, 2017, the Saudi government reduced its tax rate from 85 percent to 50 percent for producers of oil and hydrocarbons whose total invested capital in Saudi Arabia exceeds $100 billion. The tax reduction could boost Aramco’s attractiveness to investors as it adds tens of billions of dollars to its value. It is difficult to accurately determine Aramco’s value today due to the lack of information about actual production costs and capacity. Engineering studies are reportedly underway to establish the oil reserves.

**Opening Up Saudi Capital Markets**

Under its Vision 2030 plan, Saudi Arabia is aiming to make its stock market more attractive to foreign investors. It wants to increase foreign direct investment from 3.8 percent to 5.7 percent of GDP by 2030. Tadawul is the largest stock exchange in the region, with a market value of more than $400 billion and 176 listed Saudi companies. Last month, Tadawul introduced regulated short selling as a step toward becoming a more attractive market.

Saudi Arabia adopted rules in 2015 to allow certain foreign investors to invest in Tadawul. The rules were amended in 2016 to further relax restrictions. A foreign investor can only invest if it is registered as a Qualified Foreign Investor, with at least $1 billion in assets under management globally. A Qualified

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Foreign Investor can own up to 49 percent of any listed company. Since opening the market to foreign investors, Tadawul has registered more than 50 international financial institutions.

In February 2017, Tadawul launched a parallel market called Nomu. With seven listed companies and a market value of $518 million, Nomu has lighter listing requirements for domestic companies that seek to raise funds through a public market. Nomu is also open to Qualified Foreign Investors.

On April 13, 2017, Tadawul announced reforms that have been made or are in the process of being made. The changes include: new corporate governance rules; adoption of the Global Industry Classification Standard (GICS) used to group companies by industry and sub-industry, amendment of the settlement cycle to two business days for all listed securities, and permitting foreign investors to participate in Saudi IPOs. In April 2017, HSBC predicted that Saudi Arabia’s privatization drive was likely to result in about 100 new IPOs in various sectors, including mining, healthcare and retail.

On May 15, 2017, Saudi Arabia’s Capital Market Authority (CMA) issued a draft regulation regarding Class Action Suits for public comment on the CMA website for 30 days. The draft regulation aims to facilitate litigation procedures for lawsuits where the plaintiff is a large group of persons who share the same complaint.

**Renewable and Nuclear Energy**

The King Abdullah City for Atomic and Renewable Energy (K.A.CARE) was established in 2010 with the goal of developing an ambitious nuclear and renewable energy program by 2032. In January 2015, K.A.CARE announced that it was delaying its planned implementation of these goals by eight years.

In May 2016, the Saudi government renamed the Ministry of Petroleum and Mineral Resources. It is now called the Ministry of Energy, Industry and Mineral Resources (and also includes the former Ministry of Electricity). Various government agencies, including K.A.CARE, now report to this Ministry and it is better positioned to develop new policies and goals. However, further delays may still occur.

While the NTP 2020 does not specify a target for nuclear energy, its first strategic objective for K.A.CARE is to “[e]nable atomic energy to contribute to the national energy mix in accordance with local requirements and international obligations.” The second strategic objective is to “[e]nable renewable energy to actively contribute in the national energy mix.” On December 18, 2016, Saudi Arabia announced that the first wind turbine had been delivered and it was described as a “historic milestone for renewable energy.”

Saudi Arabia recently shifted its approach with respect to the development of renewable energy. Newly-announced Saudi renewable energy goals reduce the more ambitious goals developed by K.A.CARE. Under the new structure, Saudi Arabia now plans to produce about 10 gigawatts of renewable energy by 2023. Saudi Arabia should be able to power 10 percent of its grid using renewable energy sources by
2023. The estimated cost under the revised program is between $30 billion and $50 billion.

On April 10, 2017, the Ministry of Energy, Industry and Mineral Resources received 128 applications, from which a number of firms were shortlisted, to bid on a 400 megawatt wind farm and a 300 megawatt solar project. For a second round, Saudi Arabia will be seeking bids to build an additional 400 megawatts of wind power and 620 megawatts of solar power. Investors selected to build the renewable energy facilities will own and operate them for between 20 and 25 years, and then will be able to renew their operating licenses or sell them.

Saudi Arabia plans to privatize the power industry. The government will create a new company to trade power locally and eventually internationally. On April 6, 2017, a memorandum of accord to establish a joint Arab electricity market was signed by the Kingdom of Saudi Arabia, the United Arab Emirates, Bahrain, Algeria, Sudan, Iraq, Oman, Qatar, Union of the Comoros, Kuwait, Egypt, Libya, Morocco and Yemen.

In addition, Saudi Arabia is a party to the Paris Climate Change Agreement, adopted on December 12, 2015. It requires all countries to develop climate action plans to mitigate greenhouse gas emissions, starting in the year 2020, to prevent global warming. On November 14, 2016, Saudi Arabia reaffirmed its climate change commitment at the United Nations Climate Change Conference (COP 22) in Marrakech, Morocco.

**Arms Manufacturing**

On May 17, 2017, PIF announced the launching of a new national military industries company, Saudi Arabian Military Industries (SAMI). The company is wholly government-owned. It seeks to become one of the world’s top 25 defense companies by 2030. According to the Stockholm International Peace Research Institute, Saudi Arabia is the top buyer of U.S. weapons. Only about 2 percent of the Kingdom’s military procurement is domestic. Vision 2030 states that 50 percent of the Kingdom’s military procurement spending will be localized.

By partnering with universities, SAMI intends to provide students with apprenticeships and careers in new technologies previously unavailable in Saudi Arabia. SAMI is expected to establish joint ventures with global equipment manufacturers and work with local military companies.

**Entertainment**

The Kingdom has begun a new series of important changes with respect to entertainment. While movie theaters are still not permitted, concerts and other entertainment options are more common. The General Entertainment Authority (GEA), which was established in May 2016, has overseen over 100 events since its inception, and plans to support more than 3,000 events in the future. An entertainment city is also planned near Riyadh, featuring sports facilities, a safari, and Six Flags theme park, with a projected opening date of 2022. PIF intends to be the main investor in that project. In April, the Chairman of the
GEA, Ahmed Al-Khatib, stated that the entertainment initiatives have been “[V]ery encouraging. Every event is sold out.”

Mining
According to the Saudi Vision 2030, the government hopes that mining will contribute $26 billion annually to its economy by 2020 (and $46 billion by 2030) so that it is the “third pillar” of the economy, after oil and petrochemicals.

More than 48 minerals have been discovered in Saudi Arabia, including aluminum, phosphate, gold, silver, copper, iron and uranium. The Saudi Arabian Mining Company (Ma’aden) was established in 1997 to promote private investment in and development of the mining sector. Ma’aden plans to double gold production by 2020, from about 200,000 ounces last year to 500,000 ounces. Through a joint venture with Alcoa Corp. in the United States, aluminum production has the potential to increase to one million metric tons from 760,000 metric tons last year. Other successful joint ventures to mine minerals and certain changes to the regulatory system are still needed to meet these goals.

In 2004, Saudi Arabia adopted a mining code aimed at easing private sector investment in the mining industry and making it more profitable. Under this code, there are no mineral royalties and only a 20 percent corporate tax liability. In addition, foreign companies may be entitled to tax-free importation of equipment and machinery. In October 2016, Saudi Arabia announced its willingness to grant more investment licenses in the mining sector.

Conclusion
The changes in the Kingdom of Saudi Arabia are transformational and real. Aramco’s IPO and the announcements described above are attracting foreign investors and private equity firms to the Saudi market. However, caution should be exercised by potential domestic and foreign investors. The applicable Saudi and Islamic laws and market rules and regulations, including required approvals and enforceability and dispute resolution options, should be studied carefully with experts.