

# THE AL YAMAMAH ECONOMIC OFFSET PROGRAMME



**A Guide to Business Procedures in Saudi Arabia**  
**Helping Business in Saudi Arabia Series**

The Saudi British Bank



البنك السعودي البريطاني

# A Guide to Business Procedures in Saudi Arabia

## THE AL YAMAMAH ECONOMIC OFFSET PROGRAMME

Helping Business in Saudi Arabia Series

## Introduction

As the economy in Saudi Arabia develops there will be an increasing emphasis upon local production with less reliance upon imports. This process of import substitution is already underway in many sectors of the economy and in relation to many consumer and capital products. For example, in relation to household products, local producers now supply over 80% of domestic demand for bleach, detergents, washing liquids and glass cleaners. Exporters to Saudi Arabia therefore must consider the possibility of forming joint-ventures in Saudi Arabia - to operate within the Saudi marketplace rather than exporting to the Kingdom. The Al Yamamah Economic Offset Programme (AYEOP) is one major mechanism for establishing a joint-venture, particularly for British companies. It is also an attractive option for those companies with little experience of the Saudi market place and the procedures for establishing businesses in the Kingdom.

## Background

The Al Yamamah Project was initiated in September 1985. It involves the supply and support of Tornado, Hawk and PC-9 aircraft and specialised naval vessels to Saudi Arabia. The UK Government's prime contractor for the project is BAE Systems plc.

The related Al Yamamah Economic Offset Programme was launched in 1989. It is designed to encourage and assist the transfer of technology to Saudi Arabia through joint-ventures or licensing arrangements. The value of the investment under the Offset Programme is currently around £1 billion. The essence of the Al Yamamah Economic Offset Programme is its flexibility. Offset projects can be civil or military, and may be in the service or manufacturing sectors. Participation is not limited to defence contractors involved in the Al Yamamah programme, and foreign investors may participate as well as UK companies. All projects must however be commercially viable. The key aims of the programme are:

- technology transfer through research, development, manufacturing or production processes;
- import substitution;
- export promotion by assisting in the manufacture of products with export potential;
- establishment of service industries which support and develop the Kingdom's economic infrastructure;
- develop Saudi technical, professional and managerial skills;
- effective use of Saudi Arabian resources.

Among the projects which have already come forward under the Al Yamamah Economic Offset Programme are a sugar refinery in Jeddah involving Tate and Lyle

which is now producing 760,000 tonnes per annum by July 2002 and a major pharmaceutical plant again in Jeddah, built by Glaxo and the Saudi Import Company and operated by SAVOLA and other local partners.

More recently two new major petrochemical complexes have received offset support under the BAE Systems Project Finance Initiative (PFI). The first project is the polypropylene (PP) manufacturing facility developed by National Industrialization Company (NIC). The Saudi Arabian partner will be National Petrochemical Industrialization Company (NPIC), a Saudi joint stock company established by NIC (the major shareholder) along with other Saudi Arabian and GCC investors.

The foreign partner is Basell, who is the world's largest PP manufacturer and is itself a 50/50 joint venture between Royal Dutch/Shell Group and BASF. Basell will hold 25% of the equity in the Saudi Arabian venture.

Saudi ARAMCO will supply propane feedstock to the new complex. The capacity of the facility will be 450,000 tonnes pa and the total investment cost in the complex will be SR2.0 billion (equivalent to US\$530 million).

The second project is the Gulf Advanced Chemical Industries Company (GACIC), which will manufacture butanediol (BDO) from butane via maleic anhydride (MAN). The capacity of the plant will be 50,000 tonne pa of BDO. The original sponsor of the GACIC venture was the Al Zamil Group but it is intended that the major Saudi Arabian partner will be Saudi International Petrochemical Company (SIPC) with other Saudi Arabian investors. SIPC, like NPIC, is a Saudi joint stock company. The shareholders in SIPC include the Al Zamil Group (who formed SIPC) along with other Saudi Arabian and GCC investors. The total investment cost of GACIC will be about US\$220 million. There will be two foreign partners in GACIC each subscribing 10% of the equity: Huntsman Corporation from the USA and Davy Process Technology (formerly Kvaerner), the Norwegian engineering group. Huntsman is a major manufacturer of MAN. Huntsman will license its MAN process to GACIC and Davy Process Technology will license the BDO technology.

Both projects are now moving towards financial closure preparatory to starting engineering work.

Both projects are important developments for the Saudi Arabian petrochemical sector. They each represent transformation of LPG into high added-value products in attractive markets using 'best-in-class' technologies. Both ventures will possess high competitive advantage and will be low cost producers of their respective products. They bring foreign partners of the highest calibre into the Kingdom and provide potential for the Saudi partners to develop a regional marketing capability. In time, each project should spin-off further downstream investment further adding value inside the Kingdom.

The key sectors which the Al Yamamah Economic Offset Programme is pursuing include:

- Healthcare;
- Petrochemicals;
- Agrotechnology;
- Telecoms and IT;
- General manufacturing;
- Training and Education;
- Environmental technology.

## **Procedures**

The Al Yamamah Economic Offset Programme is run by the British Offset Office (BOO), which has staff in Riyadh and London. Companies who have identified a potential project should contact the BOO to explore the scope for taking it forward under the programme. In addition to offering advice on local regulations and markets, the BOO can help with identifying partners for the venture. The BOO also produces a helpful booklet which explains the operation of the programme in more detail, which can be obtained from the address in Appendix 1.

## **Advantages of Using AYEOP**

There are a number of investment incentives for joint-ventures in Saudi Arabia including:

- interest free loans;
- exemption from import duty on equipment and raw materials;
- low cost rents and utilities;
- world-class infrastructure;
- tariff-free access to neighbouring markets;
- no restrictions on repatriation of funds;
- government procurement policies giving preference to Saudi producers and joint-ventures;
- financial support (see later).

In addition, there are benefits from association with a high profile programme like the Al Yamamah Economic Offset Programme. For companies who have little experience of the Kingdom, it can be helpful to draw upon the knowledge and expertise of the BOO and their advisers. But experienced companies such as Glaxo, Tate & Lyle, Basell and Huntsman Corp have also found it useful to be associated with the

programme, because of the access it gives to high level decision-makers. The important Government-to-Government links which underpin the programme can help to bring early resolution of problems which stand in the way of joint-ventures. And the BOO offer a comprehensive “after sales” service, continuing to help and advise companies once projects are up and running.

### **Financial Assistance via BAE Systems plc**

An attractive financial initiative, adding to the package of incentives available through the economic offset route, reduces the risks of investment for the ‘technology partner’ and also increases its potential return. This represents a major step forward in encouraging companies to form joint-ventures in Saudi Arabia through Offset.

Typically a Joint-Venture Company will have a 50% ownership by the Saudi partner and 50% by the foreign or ‘technology’ partner. The source of funding is usually characterised by 50% funding from the Saudi Industrial Development Fund (SIDF), which would require security on the assets of the company. The remaining 50% is normally split between the two partners, each taking a 12.5% equity stake and a 12.5% commercial loan, the latter secured by parent company guarantees.

Whilst this type of financial structure is itself attractive by international standards, BAE Systems have substantially improved the financial package available by:

- offering a bank facility, through The Saudi British Bank, whereby the technology partner can have an equity loan secured by BAE Systems and which matches the equity raised by the technology partner. The interest rate on the equity loan will be relatively low, set at SIBOR +0.375%, taking advantage of BAE Systems financial ‘muscle’.

The loan repayment will be structured to reflect the returns under the business plan of the joint-venture; in the event that returns do not match those predicted in the business plan, BAE Systems will make the scheduled repayments. The debt will remain outstanding for as long as it is thought the joint-venture is capable of making a return;

- BAE Systems will offer a Bank Guarantee to match the Parent Company guarantee offered by the technology partner - the result is a halving of the Parent Company’s exposure.

There are conditions attached to the provision of these financial benefits other than the obvious need to use the Al Yamamah Economic Offset Programme; these are that:

- the technology partner makes a real investment and therefore a real commitment to the success of the joint-venture; the joint-venture project must, of course, be judged financially viable;

- the joint-venture should have a minimum initial capitalised value of £10 million, but there are exceptions dependent in particular upon the desirability of the technology for Saudi Arabia;
- the maximum value of loan/guarantee support for a joint-venture is £6.25 million;
- the loan/guarantee must be arranged through The Saudi British Bank.

Using this financial structuring and assistance the technology partner will have the risks of investment drastically reduced and potential returns should improve, not least because of the lower interest charges brought about through greater involvement from **BAE Systems** plc.

The Al Yamamah Economic Offset Programme is now a tried and tested procedure for investment in Saudi Arabia and one which should be seriously considered by any company thinking of forming links with the Kingdom. Contact details for the BOO in Riyadh and London are listed in Appendix 1.

## Appendix 1

### Key Addresses

#### 1. The British Offset Office

Ministry of Defence  
Castlewood House  
77-91 New Oxford Street  
London, WC1A 1DT  
Tel: +44 (0)20 7829 8129  
Fax: +44 (0)20 7829 8116  
E-mail: AYOffset@aol.com

#### UK MOD Team

PO Box 1003, Riyadh 11431  
Kingdom of Saudi Arabia  
Tel: +966 (0)1 419 5957 Ext 4210  
Fax: +966 (0)1 419 5957 Ext 4214  
E-mail: booriy@hotmail.com

#### 2. The Saudi Arabian Economic Offset Secretariat

SRECO	From the UK:
Salabuddin Road, Malaz	Tel: 00 966 1 478 4330
PO Box 27040, Riyadh 11417	Tel: 00 966 1 478 4123
Kingdom of Saudi Arabia	

## Appendix 2

### The Facilitators

#### The British Offset Committee (BOC)

The BOC is chaired by the Head of Defence Export Services and comprises representatives of the MOD Saudi Armed Forces Project; FCO; British Ambassador, Riyadh; Trade Partners UK; Investment Bank advisors; BAE Systems and Rolls Royce.

#### The British Offset Office (BOO)

The BOO is part of the Ministry of Defence and is responsible for identifying projects, and planning, and administering the UK side of the Offset programme. It offers advice and assistance to potential participants in the programme.

#### The Saudi Arabian Economic Offset Committee

This is the Saudi Arabian counterpart of the BOC and comprises representatives (at Deputy Minister level) from the Ministries of Commerce, Industry and Planning; Public Investment Fund; Saudi Telecomms Committee; as well as SABIC. It is chaired by HRH Prince Fahd bin Abdullah, the Assistant Minister of Defence and Aviation. The Committee is supported by its own secretariat who help in encouraging the rapid processing of Offset proposals by government agencies and ministries, as well as helping in the implementation of projects in the Kingdom.

## **SABB Branches**

### **Head Office:**

Prince Abdulaziz Bin Mossaad Bin Jalawi Street (Dabaab),  
P.O. Box 9084, Riyadh 11413, Saudi Arabia.

Tel: (966 1) 405-0677 - Fax: (966 1) 405-0660

Telegram: SABRIT RIYADH.

Treasury: Tel: (966 1) 405-0020 - Fax: (966 1) 405-8652

SABB Direct: Toll Free Number: 800-124-8888

Website: [www.sabb.com](http://www.sabb.com)

### **London Branch:**

18C, Curzon Street, London W1J 7SX, United Kingdom

Tel: (44 207) 409-2567 - Fax: (44 207) 495-2329

### **Central Province Area Management Office:**

Salah Al-Din Al-Ayubi Road (Sitteen), P.O. Box 2907, Riyadh 11461, Saudi Arabia.

Tel: (966 1) 479-4400 - Fax: (966 1) 476-5672

### **Central Province Branches:**

#### **Riyadh:**

Riyadh Main: Salah Al-Din Al-Ayubi Road, Malaz, P.O. Box 2907, Riyadh 11461.

Tel: (966 1) 479-4400

King Faisal Street: King Faisal Street, Batha, P.O. Box 43069, Riyadh 11561.

Tel: (966 1) 404-3196

Dabaab: Prince Abdulaziz Bin Mossaad Bin Jalawi Street, P.O. Box 17682,  
Riyadh 11494. Tel: (966 1) 405-0677

Olaya Road: Olaya Main, P.O. Box 10914, Riyadh 11443. Tel: (01) 465-7171

Al-Faisalyiah: Al-Faisalyiah Tower, King Fahd Road, P.O. Box 2907, Riyadh 11461.

Tel: (966 1) 273-4459

Al-Faisalyiah, Ladies Section: P.O. Box 2907, Riyadh 11461. Tel: (966 1) 273-4208

Al-Deirah: Al-Mu'aigiliyah Center, Deirah, P.O. Box 2907, Riyadh 11461.

Tel: (966 1) 411-4482

Sinnaiyah: Prince Salman Bin Abdulaziz Street, P.O. Box 26973, Riyadh 11496.

Tel: (966 1) 446-5849

North Olaya: Owdah Bldg. Olaya Main Road, P.O. Box 10914, Riyadh 11443.

Tel: (966 1) 456-0334

Dharat Al-Badia: Anas Bin Malik Street, P.O. Box 2907, Riyadh 11461. Tel: (966 1) 431-1250

Dharat Al-Badia, Ladies Section: Anas Bin Malik Street, P.O. Box 2907, Riyadh 11461.

Tel: (966 1) 431-6033

Al-Worood: King Abdulaziz Road, Warood, P.O. Box 2907, Riyadh 11461.

Tel: (966 1) 456-5125

Al-Takhassusi: Takhassusi Street, P.O. Box 2907, Riyadh 11461. Tel: (966 1) 464-9446

Al-Rawdah: Khalid Bin Al-Walid Street, P.O. Box 2907, Riyadh 11461. Tel: (966 1) 230-0101

Al-Suwaidi: Al-Suwaidi Main Street, P.O. Box 2907, Riyadh 11461. Tel: (966 1) 426-3961

Al-Shifa: Ibn Taymiyah Street, Al-Shifa, P.O. Box 2907, Riyadh 11461. Tel: (966 1) 421-2984

Mohammadiyah: Prince Abdullah Bin Abdulaziz Street, P.O. Box 2907, Riyadh 11461.  
Tel: (966 1) 488-0260

Al-Nozha: Abubaker Al-Siddiq Street, P.O. Box 2907, Riyadh 11461.  
Tel: (966 1) 456-4441

Al-Naseem: Saad Ibn Ali Al-Wakkas Street, P.O. Box 2907, Riyadh 11461.  
Tel: (966 1) 231-7456

Al-Hassa Street: Al-Hassa Street, P.O. Box 2907, Riyadh 11461. Tel: (966 1) 476-9028  
Al-Hassa Street, Ladies Section: Al-Hassa Street, P.O. Box 2907, Riyadh 11461.  
Tel: (966 1) 477-4007

Shumaisi: Prince Fahad Bin Faisal Al-Farhan Al-Saud Street, P.O. Box 2907, Riyadh 11461.  
Tel: (966 1) 434-1115

**Al-Kharj:**

King Fahd Road, Al-Kharj District, P.O. Box 698, Al-Kharj 11942. Tel: (966 1) 544-4000

**Onaizah:**

Al-Zulfi Road, P.O. Box 877, Onaizah. Tel: (966 6) 362-0490

**Al-Rass:**

Al-Quds Street, Al-Rass, P.O. Box 101, Al-Rass. Tel: (966 6) 333-7060

**Al-Amanah Islamic Branches:**

**Riyadh:**

Rabwah: Omar Bin Abdulaziz Street, P.O. Box 2907, Riyadh 11461. Tel: (966 1) 493-2439

**Buraidah:**

Al-Khubaib Street, P.O. Box 1829, Buraidah. Tel: (966 6) 324-5494

**Western Province Area Management Office:**

Ali Ibn Abi Talib Street, Sharafieh, P.O. Box 109, Jeddah 21411, Saudi Arabia.  
Tel: (966 2) 651-2121 (12 lines) - Fax: (966 2) 653-2816

**Western Province Branches:**

**Jeddah:**

Jeddah Main: Ali Ibn Abi Talib Street, P.O. Box 109, Jeddah 21411. Tel: (966 2) 651-2121

Caravan: Hail Street, P.O. Box 6885, Jeddah 21452. Tel: (966 2) 651-2840

King Abdulaziz Street: King Abdulaziz Street, Al-Balad, P.O. Box 7002, Jeddah 21462.  
Tel: (966 2) 642-7008

Makkah Road: Kilo 3, Al-Nuzlah Al-Sharqeyyah, P.O. Box 11633, Jeddah 21463.  
Tel: (966 2) 688-4526

Palestine Street: Al-Mukhmal Commercial Centre, Palestine Street, P.O. Box 109,  
Jeddah 21411. Tel: (966 2) 660-2728

Palestine Street, Ladies Branch: Al-Mukhmal Commercial Center, Palestine Street,  
P.O. Box 109, Jeddah 21411. Tel: (966 2) 668-2254

Prince Mutaib Street: Al-Rehab Market, P.O. Box 109, Jeddah 21411. Tel: (966 2) 672-9046

Sary Street: Sary Street, Al-Salamah, P.O. Box 109, Jeddah 21411. Tel: (966 2) 683-2416

Sary Street, Ladies Section: Sary Street, Al-Salamah, P.O. Box 109, Jeddah 21411.  
Tel: (966 2) 698-1802

Al-Tahliah: Prince Mohammed Ibn Abdulaziz, Al-Rawdah, P.O. Box 109, Jeddah 21411. Tel: (966 2) 665-9641

Al-Tahliah, Ladies Section: Prince Mohammed Ibn Abdulaziz, Al-Rawdah, P.O. Box 109, Jeddah 21411. Tel: (966 2) 665-9614

Hera Street: Hera Street, Al-Nahda, P.O. Box 109, Jeddah 21411. Tel: (966 2) 699-1356

Hera Street, Ladies Section: Hera Street, Al-Nahda, P.O. Box 109, Jeddah 21411.

Tel: (966 2) 622-6007

Balad: Al-Dahab Street, Al-Balad, P.O. Box 19513, Jeddah 21455. Tel: (966 2) 647-1145

Al-Safa District: Amir Majed Street, Al-Safa, P.O. Box, 109, Jeddah 21411. Tel: (966 2) 679-2424

Al-Amir Fahad Street: Prince Fahad Street, Al-Bawadi, P.O. Box 109, Jeddah 21411.

Tel: (966 2) 655-0862

**Makkah:**

Makkah: Abdullah Areef Street, Al-Nuzha, P.O. Box 9559, Makkah Al-Mukarramah.

Tel: (966 2) 545-9191

Makkah, Ladies Section: Abdullah Areef Street, Al-Nuzha, P.O. Box 9559,

Makkah Al-Mukarramah. Tel: (966 2) 548-2925

Al-Aziziah: Aziziah Main Road, P.O. Box 6052, Makkah Al-Mukarramah. Tel: (966 2) 557-0134

**Medinah Al-Munawwarah:**

Medinah: Abu Baker Al-Siddiq Street, Sultana, P.O. Box 135,

Medinah Al-Munawwarah. Tel: (966 4) 826-7472

Medinah, Ladies Section: Shara Abu Bakr Al-Siddiq, Sultana, P.O. Box 135, Medinah

Al-Munawwarah. Tel: (966 4) 823-2530

**Taif:**

King Faisal Street, Al-Balad, P.O. Box 822, Taif. Tel: (966 2) 738-1360

**Abha:**

King Abdulaziz Street, Al-Khasha'a, P.O. Box 698, Abha. Tel: (966 7) 224-4628

**Khamis Mushait:**

Al Khairia Commercial Centre, P.O. Box 1846, Khamis Mushait. Tel: (966 7) 222-2302

**Yanbu:**

King Saud Street, Al-Nawa, Yanbu Industrial City, P.O. Box 31220, Yanbu Al-Sinaiyah,

Tel: (966 7) 325-4445

**Al-Amanah Islamic Branches:**

**Makkah:**

Misfalah: Ibrahim Al-Khaleel Street, P.O. Box 9559, Makkah Al-Mukarramah.

Tel: (966 2) 537-8501

**Medinah Al-Munawwarah:**

King Abdulaziz Street: Al-Hakrah Al-Sharqeyyah, P.O. Box 135,

King Abdulaziz Street. Tel: (966 4) 838-5984

**Eastern Province Area Management Office:**

King Abdulaziz Boulevard, P.O. Box 394, Al-Khobar 31952, Saudi Arabia.

Tel: (966 3) 882-6000 - Fax: (966 3) 882-1669.

## **Eastern Province Branches:**

### **Dammam:**

Dammam Main: Dhahran Street, P.O. Box 1618, Dammam 31441. Tel: (966 3) 833-1553

Ibn Khildoun Street: King Fahd Road, P.O. Box 1618, Dammam 31441.

Tel: (966 3) 842-5242

Al-Jalawiah: King Khalid Street, P.O. Box 1618, Dammam 31441. Tel: (966 3) 842-4105

Al-Anoud: King Abdulaziz Street, P.O. Box 1618, Dammam 31441.

Tel: (966 3) 834-1087

Dammam Super Branch: Corniche Street, Al-Shati District, P.O. Box 1618, Dammam 31441. Tel: (966 3) 830-1000

Dammam Super Branch, Ladies Section: Corniche Street, Al-Shati District, P.O. Box 1618, Dammam 31441. Tel: (966 3) 830-1000

### **Al-Khobar:**

Al-Agrabiah: 10th Street crossing Abu Haidria, P.O. Box 1618, Dammam 31441.

Tel: (966 3) 894-8297

Thugbah: Makkah Street, P.O. Box 394, Al-Khobar 31952. Tel: (966 3) 898-5580

### **Qatif:**

Qatif: Al-Imaam Al-Sadiq Street, P.O. Box 209, Qatif 31911. Tel: (966 3) 855-2059

Taroot: Main Street, P.O. Box 1618, Dammam 31441. Tel: (966 3) 823-2444

Safwa: Main Road, Safwa, P.O. Box 1618, Dammam 31441. Tel: (966 3) 664-2620

Saihat: King Abdulaziz Street, P.O. Box 1618, Dammam 31441. Tel: (966 3) 856-0008

Ras Tanura: Al Malik Street, Ras Tanura, P.O. Box 607, Rahima 31941.

Tel: (966 3) 667-0056

Ohud: Ohud Street, Al-Qatif, P.O. Box 209, Qatif 31911. Tel: (966 3) 852-0266

Ohud, Ladies Section: Ohud Street, Al-Qatif, P.O. Box 209, Qatif 31911.

Tel: (966 3) 852-0526

Jubail: Jubail International Markets, Al-Safah Street, P.O. Box 119, Jubail 31951.

Tel: (966 3) 362-0250

Jubail Industrial City: 213 Road, P.O. Box 10015, Jubail 31961. Tel: (966 3) 341-9147

### **Al-Hassa:**

Hoffuf: King Khalid Street, P.O. Box 365, Hoffuf 31982. Tel: (966 3) 586-6000

Mubarraz: Al-Hazam Street, P.O. Box 365, Hoffuf 31982. Tel: (966 3) 587-2269

Al-Khaldia: University Street, P.O. Box 365, Hoffuf 31982. Tel: (966 3) 580-5186

Al-Khaldia, Ladies Section: University Street, P.O. Box 365, Hoffuf 31982.

Tel: (966 3) 580-7209

Al-Jafr: Main Street, Al-Jafr, Hoffuf, P.O. Box 365, Hoffuf 31982. Tel: (966 3) 539-3156

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**(Prepared by the Economic Advisor of The Saudi British Bank, Professor John Presley)**