

Saudi Arabia, opportunity in the Food and Beverage sector

Buying and selling in Saudi Arabia

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Gulf Cooperation Council

- The Kingdom of Saudi Arabia is part of the Gulf Cooperation Council (GCC), an organization created in 1981 on the scheme of the European Union. The GCC is aimed to creating a single customs area and an area of free trade and a harmonized tax system between various member states.
- The GCC includes Saudi Arabia, Bahrain, Oman, the United Arab Emirates, Qatar and Kuwait. This area could extend to Egypt in the future.
- Therefore, the customs barrier for these countries is unique and the duties are uniform. As regards the operating principles, VAT is also the same for everyone, while its implementation and related rates can change from country to country, as happens in Europe.

Value Added Tax (I.V.A.)

On November 27, 2016, the states adhering to the GCC signed the "Common VAT Agreement" for the joint adoption of a new consumption tax: VAT.

On January 1, 2018, VAT entered into force in the United Arab Emirates and in the Kingdom of Saudi Arabia. And in Bahrain starting from January 1, 2019. To date, in the other states that are part of the GCC, VAT has not yet been implemented.

The rate was initially set at 5% in all participating countries, but starting from 1st July 2020, in Saudi Arabia, with the motivation to mitigate the financial impacts due to Covid-19, the VAT rate was high at 15%.

The VAT corresponds to the import with the reverse charge method if the importer is a commercial operator subject to VAT and with payment to the Customs if it is a private individual or a person not qualified for VAT purposes. Some products such as health care products and some precious metals may have a 0% VAT rate.

Duty and Exice

The customs area is harmonized between the various states of the GCC and the duties, for c.a. 80% of the goods, are on average of 5%.

There is also an Excise Good system, implemented for those products that can be considered to some extent harmful to human health and the environment. The excise system, although similar between the various countries, can have different rates as it is adopted with legislative measures within each Member State. In the case of Saudi Arabia, excise duties concern:

- Tobacco and related products, with an excise duty equal to 100%;
- Electronic cigarettes and related products (devices and liquids), with an excise duty of 100%;
- Energy Drinks, with an excise duty equal to 100%;
- Sugary Drinks, with an excise duty of 50%;
- Soft Drinks, with an excise duty of 50%.

Restriction to import

The Kingdom of Saudi Arabia is based on the principles of Sharia which are an integral part of the "Basic Law of Governance", it must therefore be taken into account that certain foods, according to Muslim religious precepts, are prohibited, therefore it is strictly forbidden to import:

- Products based on swine or its derivatives, as meet of pork, also processed;
- The frog meat;
- Foodstuff and preparations from animal blood
- Nutmeg seeds, fruit and powder;
- Alcoholic products (wine included).

Sometimes the attention to these principles is never too much and even big players have slipped on these limitations, as happened to Barilla in 2018 with the Bolognese sauce, due to the use of pork in the product.

Law and Entity

In Saudi Arabia, the Entity responsible for the import / export of food products is the “Saudi Food and Drug Authority” (SFDA), which defines import standards and procedures for food, pharmaceutical and health products.

But there is also a regulatory body at GCC level, the "GCC Standardization Organization" or "GSO" which issues specific directives, for example the GSO9 "Packaged Food Product Label"; as well as a GCC regulation issued on 1st January 2015, which must be complied with. Prescriptions that are added to those of each body in charge in each country of the GCC.

Given the organizational structure and legislation in force in the area, therefore, imports are subject to both the GCC regulations, as well as those of each state. So it may happen that what is prohibited to import into one GCC state may, under certain conditions, be allowed into another GCC state.

The process to import in Saudi Arabia

To import a product into Saudi Arabia, is necessary:

- For the importer, open an account with the Saudi Food and Drug Authority (SFDA) and register the products to be imported;
- Verify that the products comply with the technical and regulatory requirements and standards required by the GSO and the SFDA;
- The importer must have an import license consistent with the goods he wants to import. For example, an ad hoc license was recently created for the import of fresh fruit and vegetables, and in the absence of such a license it is not possible to import fruit and vegetables;
- Issue invoices (not pro forma) in English or Arabic and acquire the relevant certification of origin from the competent authorities of the exporter and acquire the certificate of conformity from SFDA;
- Submit health certifications, which obviously vary depending on the type of product to be imported.

Recently the process of importing and acquiring the certificate of conformity has been fully digitized, and the technological partner that assists SFDA in this process and in its correct development is COTECNA, a multinational consultancy based in Geneva (Switzerland), which carries out document checks.

L'export from the Italian side

As is known, export activities enjoy a particular tax regime, provided for by art. 8 paragraph 1 of Presidential Decree 633/72, which is embodied in the non-taxability for VAT purposes of the sale.

However, this regime is recognized only in the event that it is possible to provide the proof of exportation of the goods. From some years, thanks to the ECS (Export Control System) electronic process through the system called AIDA, the customs declaration is presented in electronic format and the path of the goods can be traced through a unique code: the Movement Reference Number (MRN).

This process, however, implies that the export is managed by the supplier. If, on the other hand, the sale takes place Ex Work, or ex factory, the supplier must rely on the customer to obtain proof of export. With the risk that if the customer does not do so, in the event of a tax audit, the transfer will not be recognized as an export, with the application of penalties and the obligation to pay VAT (even if not collected). For this reason, other forms of delivery are advisable, such as the better known CIF (Cost Insurance and Freight).

- The proof of export to Saudi Arabia for Italian Customs, to the MRN, is alternatively:
- The Custom Declaration with in Arabic wording in field 3 of the equivalent of "import";
- The Import Customs Declaration;
- The Import Certificate.

How operate in Saudi Arabia

You can operate in Saudi Arabia in various ways:

- Fly in Fly out / export and import abroad;
- Contract the commercial relationship with a distributor or agent;
- Establish a legal entity in the country or open a branch.

Each of these ways has implications, advantages and disadvantages. Undoubtedly, the presence on site, as trading or even just as services can represent a commercial advantage, especially if you want to operate with Government entities, which usually require a local entity for the stipulation of the contract for the supply of goods or services.

Conclusions

The Kingdom of Saudi Arabia is a rapidly developing, rich market, with a population of about 36 million inhabitants and an average age of c.a. 35 years old, which is rapidly opening up to the outside world. It is therefore an interesting market, not only for Italian commercial operators, and will soon become a very competitive market.

- Hence the need to position itself on the market as soon as possible in order to acquire market share and retain its customers.
- However, there are non-customs barriers to be carefully considered, which are:
- The local bureaucracy, the approach is different to the Italian approach;
- The Arabic language which is the only official language with related documentation (only partly in English today);
- The religious theme of Sharia and cultural differences.

Thanks



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