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## The New Saudi Special Economic Zones

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On 14 April 2023, the Economic Cities and Special Zones Authority (**ECZA**) announced the launch of four special economic zones (**SEZs**) in the Kingdom of Saudi Arabia (the **Kingdom**) to accelerate the diversification of the national economy from oil, improve the investment environment and attract multinational companies, as part of the Kingdom's Vision 2030. This article summarizes the key business and regulatory highlights related to the SEZs based on the current existing information. Further changes or regulatory announcements may affect the general information provided herein.

### AN OVERVIEW OF SEZS IN SAUDI ARABIA:

The Regulation of the Economic Cities Authority (the **Regulation**) was first introduced in February 2010. The Regulation was amended in December 2019 to include the establishment of SEZs and delegated ECZA with authority to supervise entities and businesses established within SEZs.

The recently announced SEZs are promoted with the objectives of supporting the national economy to build competitive business hubs of targeted sectors, primarily logistics, automobile and maritime industries, pharma and med-tech, technology and other priority sectors for the Kingdom. Each announced SEZ is positioned with a particular business activity area(s) based on its competitive qualities and geographical advantages as described below:

#### King Abdullah Economic City:

King Abdullah Economic City (**KAEC**) is located in the heart of global trade pathways on the Red Sea in Makkah Province with a total area of 60 square kilometres designated to focus on (a) automobile supply chain and assembly; (b) consumer goods; (c) electronic light manufacturing; (d) pharmaceutical; (e) medical technology and (f) logistics. KAEC is anchored by Saudi Arabia's newest and fully serviced commercial port (King Abdullah Port), with facilities to service light and bulk shipping cargos (up to 30 million tons per year), in addition to a roll on/off terminal.



### **Jazan Special Economic Zone:**

Jazan Special Economic Zone (**JSEZ**) is strategically located on the Red Sea in Jazan Province, with proximity to African markets, industrial investments and key mining sites. JSEZ is set on an area of 24.6 square kilometers, and investors are able to benefit from regional economic developments, including NEOM and other international infrastructure projects surrounding the zones. The main sectors of focus in JSEZ are (a) logistics; (b) metal conversion; and (c) food processing.

### **Ras Al Khair:**

Ras Al Khair (**RAK**) is located in an area of 20 square kilometers in the Eastern Province, 100 kilometers from Jubail Industrial City. RAK is planned to host a comprehensive, state-of-art shipyard and integrated offshore cluster to supply maritime manufacturing services and other industrial activities. The main sectors of focus are (a) shipbuilding; (b) maintenance, repair, operations, and overhaul (MRO); and (c) rig platforms and MRO.

### **Cloud Computing SEZ:**

The Cloud Computing SEZ is located at the King Abdulaziz City for Science and Technology (**KACST**) at the Innovation Tower in Riyadh City, Saudi Arabia. The Clouding Computing SEZ is mainly driven and stimulated by the National Strategy for Digital Transformation and the Information and Communications Technology (ICT) Sector Strategy. The Cloud Computing SEZ enables investors to establish data centers and cloud computing infrastructure within the Kingdom. While the Cloud Computing SEZ offers investors with supporting offices at KACST, investors may set up cloud computing infrastructures elsewhere within the Kingdom.

### **Special Integrated Logistics Zone:**

On 31 October 2022, GACA launched the first Integrated Logistics Bonded Zone (**ILBZ**), which is an SEZ located adjacent to the King Khalid International Airport in Riyadh with a total area of 3 million square meters, as part of the National Transportation and Logistics Services Strategy (**NTLS**) plan to increase the Kingdom's participation in global supply chains and consolidate its position as a global logistic hub. Apple Inc. (NYSE: AAPL) was the first major investor to establish a presence in the ILBZ.

The ILBZ was established by Royal Order (A/17) dated 10 October 2018 (the **SILZ Regulation**), the regulatory framework for the formation of Special Integrated Logistics Zones (**SILZs**) in the Kingdom and the regulating businesses established within the SILZs. Unlike other SEZs, the General Authority of Civil Aviation (**GACA**) is the governing authority for entities operating within SILZ. The ILBZ offers aviation and cargo-handling facilities, government-sponsored training, and advanced cargo-tracking technology, and the list of activities within SILZs was set out in the SILZ Regulation to mainly include the following activities:

- (1) Maintenance, repair, processing, modification, development, assembly and storage of goods;
- (2) Sorting, packaging, re-filling, trading, distributing, handling and use of goods, including any simple manufacturing processes;
- (3) Import, export and re-export;
- (4) Logistics and value-added services, and after-sale services; and
- (5) Recycling of waste and electronic waste.

Following the official launch of the ILBZ, GACA, in conjunction with Zakat and Tax and Customs Authority (**ZATCA**), has issued the Integrated Logistics Bonded Zone Customs Service Rules, setting out the customs ground rules that apply to companies operating within SILZs.



ILBZ offers incentives to companies to establish operations at its site adjacent to the international airport in Riyadh, provided certain conditions are met, including direct and indirect tax exemptions. The regulator has announced a tax relief period of 50 years commencing from the incorporation of the SILZ entity, including:

- a. value-added tax (VAT) exemption while under the ILBZ territory. Upon the removal of the goods from the ILBZ, the applicable Customs and VAT levies will likely apply in accordance with the applicable rules in Kingdom;
- b. full exemption from corporate income tax and withholding tax on certain payments;
- c. 100% foreign investment ownership;
- d. 100% suspension of customs and import restrictions: and
- e. No restrictions on capital repatriation.

The regulator has announced that entities incorporated within SILZs are exempted, during the first five years of their incorporation, from the standard Saudization condition that applies to companies incorporated outside of the SILZs. In addition, the ILBZ will include a dedicated governmental services office to serve as a "one-stop-shop" for investors and businesses.

#### KEY INCENTIVES FOR INVESTMENTS WITHIN THE NEWLY ESTABLISHED SEZs:

As one of the incentives, ECZA has indicated is that it will support investors at every step of the investment application, to provide a streamlined application and approval process. Also, ECZA will dedicate a "one-stop-shop" government center, to access all governmental and specialist services. The one-stop-shop center includes services relating to real estate development and services, assistance with licensing, tax and customs-related services, employment services, regulatory services, and accommodation services to investors.

Additionally, the new SEZs offer a range of unusual benefits to the participants – based on the current guidance, these include:

- a. **Corporate income tax:** 5% Corporate Income Tax rate for up to 20 years (we note that non-GCC foreign owned entities normally pay a 20% tax on profits);
- b. **Withholding tax:** 0% withholding tax permanently for repatriation of profits from an SEZ to outside the Kingdom (we note such is normally 5%);
- c. **Customs duties:** 0% customs duties deferral for equipment and goods inside the SEZ;
- d. **Expat levy:** expat levy exemptions for employees and their families in the ILBZ;
- e. **Value Added Tax:** 0% VAT on goods exchanged within each SEZ and between other SEZs;
- f. Tax treatment in line with OECD principles for the avoidance of double taxation; and
- g. **Foreign talent:** regulations fostering the recruitment of foreign talent during the first five years.

The tax advantages should be reviewed and discussed with licensed tax advisors in Saudi Arabia.

On 13 April 2023, ECZA published the Companies' Regulation, Tax and Customs Regulation, and Employment Regulation in connection with businesses established and operating in the SEZs. Therefore, we anticipate further guidance and details relating to the SEZs' regulations and incentives.



**CONCLUSION:**

While the business and regulatory SEZs regime is being analyzed and examined for the first time, the initiative represents an unprecedented opportunity for investors. Furthermore, the promotion of SEZs and foreign-investment incentive regimes reflects a clear commitment to attract foreign investment and world-class talent to the Kingdom, promoting a competitive business environment, and offering distinct investment opportunities to diversify the Kingdom's economy. We expect such to further attract foreign investment into Saudi Arabia.

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