



مجلس الأعمال السعودي الأمريكي
U.S.-Saudi Arabian Business Council

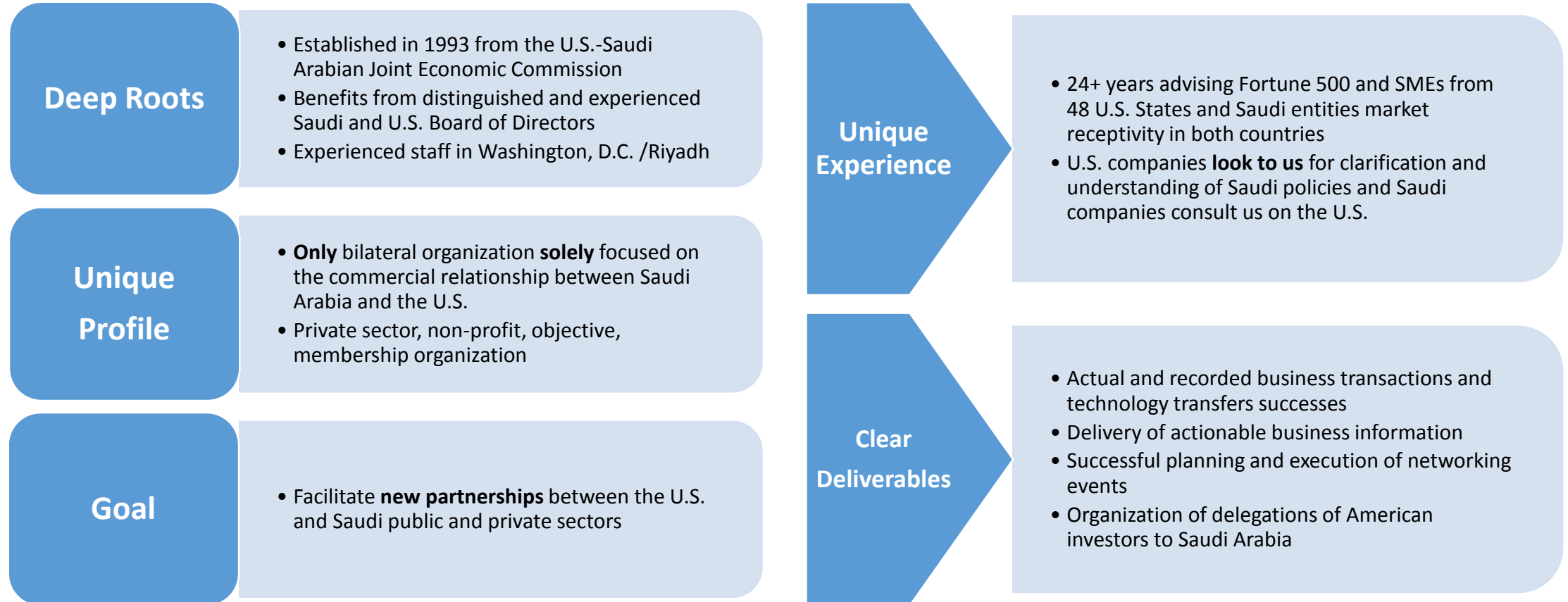
Opportunities in the Saudi Defense Sector and the Impact of U.S.-Saudi Defense Spending

Tuesday August 8, 2017

In collaboration with:



About the USSABC



USSABC Programs and Services



Programs

- ✓ Business Development Missions
- ✓ Sector-Focused Conferences
- ✓ Business Opportunities Forum

Publications

- ✓ A Business Guide to Saudi Arabia
- ✓ U.S.-Saudi Business Brief
- ✓ Industry Sector Reports

Business Advisory Services

- ✓ Market Entry Strategy
- ✓ Partner Identification and Introduction
- ✓ In Country Appointments

What Makes Us Different

We are not...



but we are...



an **IMPLEMENTER** of business partnerships

Alliances Across Borders

Our relationships have refined our ability to understand the needs of American and Saudi companies and government agencies and improve our tools to best respond to their requirements

Strategic Alliances

Saudi Stakeholders

- MOU for Strategic Promotional Collaboration with Royal Commission for Jubail and Yanbu



- Marketing Agreement with King Abdullah Economic City

U.S. States and Government Agencies



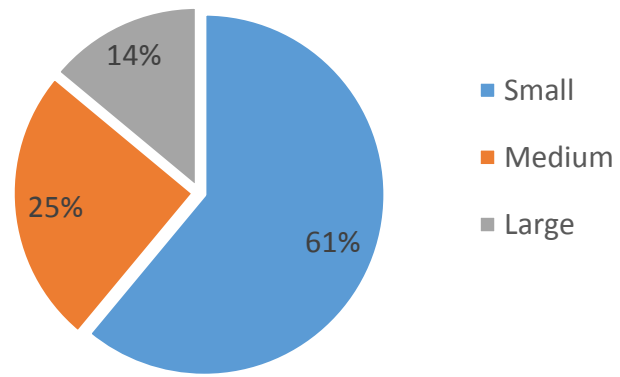
- State of Pennsylvania
- State of Virginia
- State of Washington
- State of Oregon
- State of Florida
- U.S. Department of Commerce

U.S. and Saudi Private Sector Players



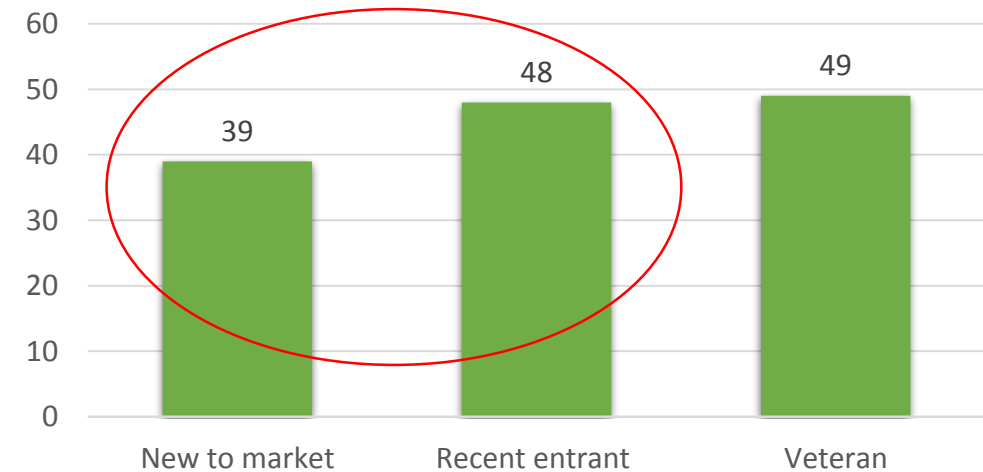
USSABC Success Highlights

Known USSABC Success by Company Size,
2012-2017



86% are SMEs

Known USSABC Success By Company
Presence In KSA, 2012-2017



Total recorded successes: 136

USSABC - Conduit to the Saudi Market



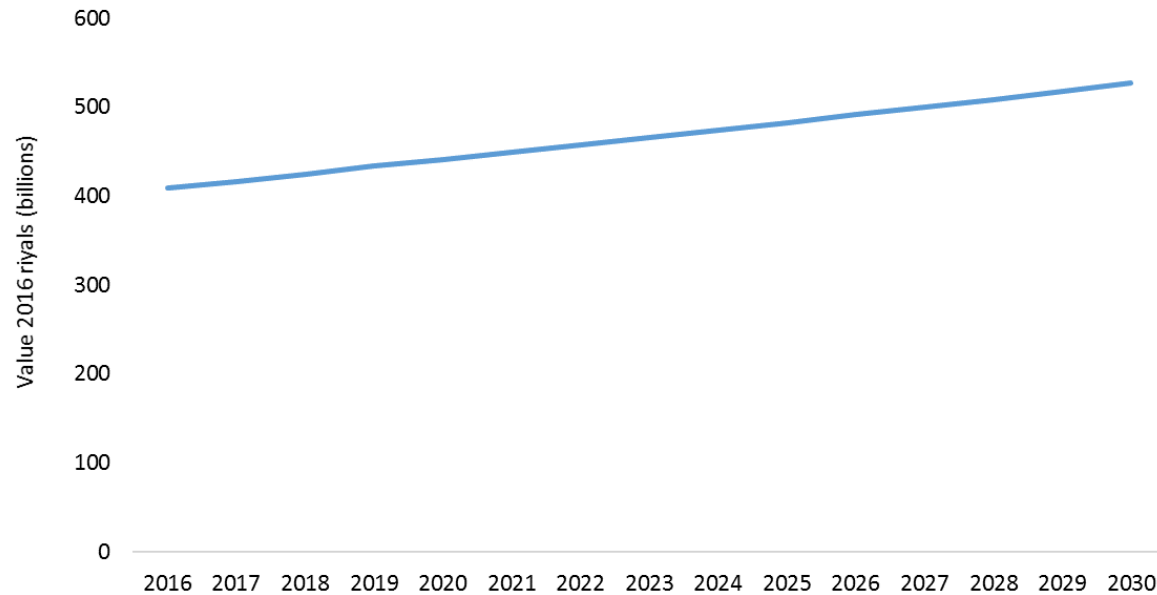
Defense in Saudi Arabia

- Saudi Arabia is the world's third largest military spender behind the U.S. and China and the largest importer of arms.
- **Ministry of Defense and Aviation (MoDA) Structure:**
 - Saudi Arabian Army, Royal Saudi Air Force, Royal Saudi Navy, Royal Saudi Air Defense, Royal Saudi Strategic Missile Force.
 - The Saudi Arabian National Guard (SANG) is an independent entity reporting directly through the Minister of the National Guard.
- In 2016, Saudi Arabia spent \$82 billion on defense, not including military operations.
- The 2017 budget allocated \$50.9 billion to military and security services.
- Security has emerged as a theme – homeland security in securing northern and southern borders, counter-terrorism, cybersecurity.



Increasing Sector Demand

Saudi Arabian defense sector demand, national forecast, 2016-2030



Source: USSABC, REMI

- There is a strong outlook for the security and defense sector as Saudi Arabia continues investment, signs contracts with international firms, and increases JVs for the design, assembly, manufacturing and maintenance of military equipment.
- The Saudi defense sector has a 1.8 percent forecasted compound annual growth rate (CAGR).
- Local employment in this sector related to government expenditure is expected to grow steadily at a 1.3 percent CAGR.
- Continued growth of the sector reflects the region's geopolitical situation.

Defense Priorities and Initiatives Under Vision 2030

- **Localization:** Vision 2030 calls for localizing 50 percent of procurement for Saudi Arabia's military requirements. This target is in line with KSA goals for self-sufficiency and growth by directing spending toward in-country suppliers. At the creation of Vision 2030, only around 2 percent of all military purchase are produced in Kingdom.
- **Creation of Saudi Arabian Military Industries (SAMI) in May 2017:** Vision 2030 called for a government-owned holding company for military industries. SAMI seeks to be one of the world's top 25 defense companies by 2030.
- **Defense industrialization:** Saudi Arabia has begun to develop less complex industries like spare parts, armored vehicles, and basic ammunition.
- **Applying offsets and contract mechanisms:** Saudi Arabia aims to promote "direct" offset projects where the selling country will join in co-production, licensing, and supply arrangements for the purchased products.



Localizing Defense

- Looking forward, contracts with foreign suppliers, strategic partnerships, and funding of research facilities will be key focuses for development of the defense sector.
- In the short term, localization will require setting up JVs between international defense equipment manufacturers and Saudi firms, especially for assembly and repair.
- Saudi Arabia can achieve localization in the long-run by requiring that Saudi companies manufacture domestically, including the design and production of hardware.
- Goal to develop the domestic aeronautics sector, including civil aviation, aimed at military capabilities.
- There will be a need for human capital and continued training to maintain expertise to effectively operate military systems and technology in Kingdom.



Saudi Arabian Offset Programs

- Saudi Arabia established an Offset Program in 1984, and was the first country in the Gulf Cooperation Council (GCC) to do so. The program began with the Peace Shield programs with the U.S.
- **Indirect offset projects:** (previous arms agreements)
 - The country making the sale assists the importing country with investment strategies and general development, unrelated to the contract item.
- **Direct offsets:** (promoted under Vision 2030)
 - Licensing, co-production, technology licenses, other supply arrangements between the purchasing and selling countries to supplement elements of the purchased product.
- **Offset models:**
 - **Co-production overseas:** government-to-government or producer agreements permitting acquisition of the technical information and tooling to manufacture all or part of a defense contract. While the most advanced offset and localization, is dependent on a high degree of local technology and R&D expertise.
 - **Technology transfer:** assistance in establishing defense industry capabilities by providing valuable technology and manufacturing expertise.
 - **Directed subcontracting:** procurement of components made domestically for incorporating or installation of items sold under direct contracts.

Saudi Arabian Military Industries (SAMI)

- Formed in May 2017 as a subsidiary of the Public Investment Fund.
- SAMI to change procurement procedures for the Ministry of Defense.
- The goal is for SAMI to become the offset partner for Western defense groups and the backbone of Saudi Arabia's military-industrial complex.
- Establishment of companies through JVs with global equipment manufacturers.
- Manufactures products and provides services across business units that complement KSA's future military requirements.
- Cooperates with local military companies and is charged with creating new business units to ensure alignment with latest developments in military industries.
- The creation of SAMI is a move to consolidate the military industry.

Key Players in the Saudi Defense Sector

Leading Saudi companies and institutions in defense:

- **Military Industries Corporation (MIC):** Currently largest defense company in Saudi Arabia. Supports national security through the creation of a sophisticated military industry – purchase of arms, ammunition, military equipment.
- **Advanced Electronic Company (AEC)**
- **Alsalam Aircraft**
- **Middle East Propulsion Company (MEPC)**
- **International Systems Engineering (ISE)**
- **Saudi Arabian Military Industries (SAMI)**



Selling to the Market and Restrictions

- U.S. companies may work alongside U.S. and Saudi Government to find partnerships that are permissible with regulations and commercially viable.
- CEDA maintains a 'negative list' of sectors in which foreign investors have limitations. The list prevents defense contractors from participating in certain activities in the military sector (manufacturing of military equipment, devices, uniforms). Within the service sector, it has included a restriction on catering to military sectors.
- The local client, normally the Saudi government, oversees the importation of products and customs clearance as part of the sale and purchase of armaments and other military equipment.
- Non-Saudi companies that are registered in GCC countries may obtain SAGIA licenses to undertake the activities in sectors with restrictions on a case-by-case basis.
- Before applying for a SAGIA license, it may be beneficial for defense contractors to arrange meetings with the Ministry of Defense or with branches of the Saudi Arabian Armed Forces to gain support in the process.



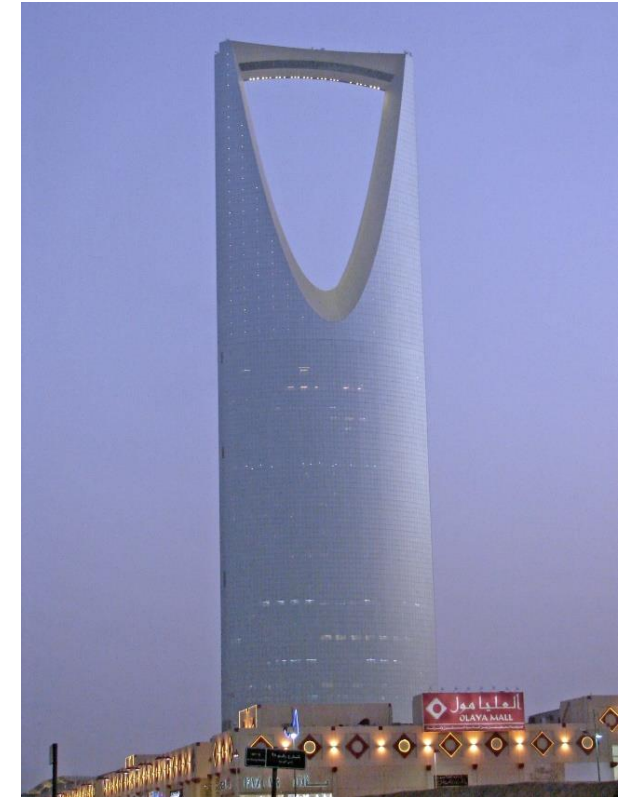
U.S. Support to Develop Saudi Arabia's Local Defense Industry

- **Boeing** announced in Aug. 2015 that it would open an in-country helicopter MRO facility, joint venture with Alsalam Aircraft Co. and Saudia Aerospace Engineering Industries.
- **Lockheed Martin** opened an in-country sensor maintenance facility in Jan. 2016 with Advanced Electronics Company. Subsidiary Sikorsky MOU with TAQNIA in 2016 for in-country production of S-70 Black Hawk helicopters.
- **Raytheon** signed agreement with Saudi Arabia Military Industries Company in 2017 during state visit of President Trump, also announced formation of Raytheon Arabia subsidiary to develop defense, aerospace and security capabilities in Kingdom.



Emerging Opportunities Summary

- Strategic partnerships between research institutions and companies aligned with Vision 2030, including JV's intended to localize military spending
- Security needs for the oil & gas industries, including offshore facilities (Saudi Aramco bids to increase security – July 2017)
- Investment in military hardware
- Non-Saudi companies registered in GCC countries may in some cases obtain SAGIA licenses for military manufacturing and other activities on 'negatives list'
- IT protection – cyber security needs:
 - **Cyber Security Summit (Riyadh 2016)** – KSA's cybersecurity market will grow to over **\$3.5 billion** by 2019 with an annual growth rate of **14.5%**
 - **Active foreign companies** – Includes Microsoft, IBM, Lockheed Martin, BAE Systems, Raytheon, Selex ES, Symantec
- Development of industrial and manufacturing capabilities
 - Meeting industrialization goals as part of Vision 2030 will require building local expertise through training and building a supporting infrastructure, such as IT



U.S.-Saudi Defense Deals

- The United States remains a major defense supplier to Saudi Arabia, with **\$97 billion** in active and open Foreign Military sales cases.
- New defense spending as of the May 2017 visit to Saudi Arabia by U.S. President Donald Trump:
 - **Boeing** reported **\$50 billion** worth of deals, expected to support Saudi Arabia's goals of localizing spending.
 - Saudi Arabia expression of interest in acquiring over **\$28 billion** in weapons from **Lockheed Martin**.
 - **JV** between **TAQNIA Aeronautics** and **Lockheed Martin** for final assembly and completion of 150 S-70 Black Hawk utility helicopters for the Saudi government.
 - **General Dynamics** letter of intent to localize the engineering design and manufacturing of armored combat vehicles.
 - Nearly **\$18 billion** of spending discussed to upgrade Saudi Arabia's military command and control.
 - A **\$6 billion** deal for Saudi Arabia to purchase Littoral Combat Ships.
 - As part of the arms deal, the U.S. State Department approved the potential sale of over **\$1.4 billion** of military training equipment to Saudi Arabia. This included **Lockheed Martin** radar systems (**\$662 million**) and a training program for the **Royal Saudi Air Force (\$750 million)**.
 - As much as **\$110 billion** of defense commitments announced.

About REMI



Regional Economic Models, Inc. (REMI) is a World Leader in Economic Policy Modeling

Software

- **REMI tools are the industry standard for rigorous policy analysis.**
- PI+
- TranSight
- Tax-PI
- E3+
- Metro-PI

Support

- REMI licenses include access to full remote technical support and model assistance.
- REMI users have myriad resources to enhance their understanding and skill in the model.

Services

- Macroeconomic impact consulting
- Analysis of prominent state and federal legislation
- Led by REMI's team of highly experienced and qualified research economists

About REMI



REMI's 35-year history of rigorous academic research and software development has led to the development of the the industry standard in macroeconomic research methodology:

Input-Output

Close analysis of inter-industry relationships

General Equilibrium

Estimate of long-run stability of the economy allows for analysis of policy decisions

Econometrics

Advanced statistical analyses underpinning the model

Economic Geography

Effects of geographic concentration of labor and industry

**Integrated REMI
economic modelling
approach**



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Sandia
National
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U.S.-Saudi Arabian Business Council



Transportation
Security
Administration

what does **REMI** say? sm

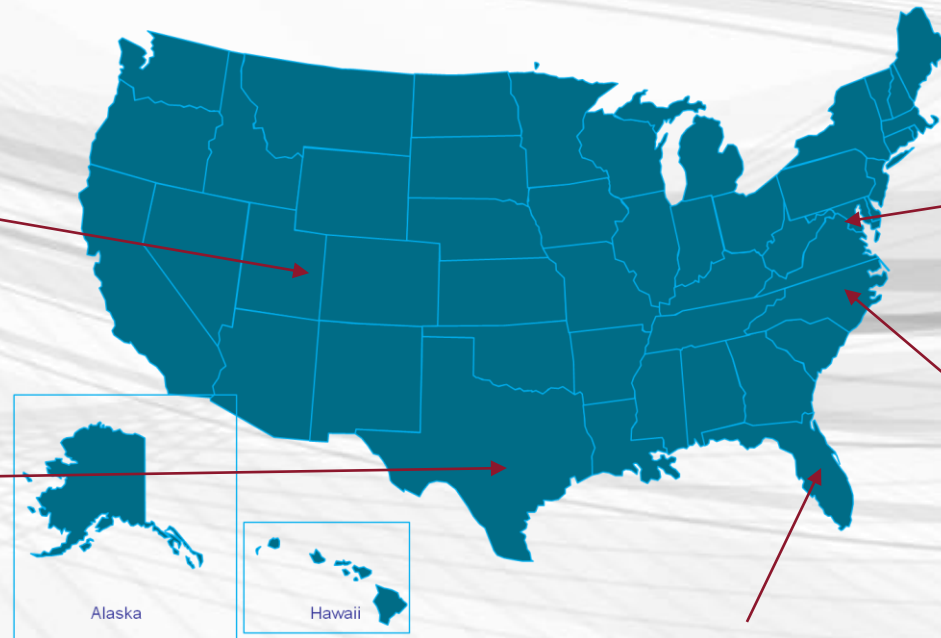
Prior Analyses



REMI's flagship product, PI+, is the industry standard for comprehensive analysis of the economic and demographic consequences of military spending.

Utah's Defense Sector: Economic Impacts of the Military and Veterans (2017)

Joint Base San Antonio: Estimated Contribution to the Texas Economy (2015)



Economic Impact of DoD Activity in Maryland (2017)

Economic impact of the military in North Carolina (2015)

Florida Defense Factbook (2015)

Military Spending and the Economy



		Government Consumption Expenditures and Gross Investment		
		1	2	3
Index	Row Names	Federal Defense Purchases	Federal Non-Defense	State & Local
	Total	1.00000	1.00000	1.00000
69	Federal Military	0.78481	0.00753	0.00000
49	Professional, scientific, and technical services	0.05792	0.12083	0.01000
16	Other transportation equipment manufacturing	0.04315	0.00778	0.00100
13	Computer and electronic product manufacturing	0.03332	0.01678	0.00200
15	Motor vehicles, bodies and trailers, and parts manufacturing	0.02378	0.02050	0.01100
28	Wholesale trade	0.00814	0.00298	0.00600
7	Construction	0.00814	0.02375	0.12300
26	Chemical manufacturing	0.00565	0.00993	0.00000
12	Machinery manufacturing	0.00529	0.00318	0.00200
11	Fabricated metal product manufacturing	0.00384	0.00225	0.00000
68	Federal Civilian	0.00301	0.74259	0.00000
67	State and Local Government	0.00288	0.00539	0.81900
39	Publishing industries, except Internet	0.00280	0.00694	0.00200
50	Management of companies and enterprises	0.00240	0.00496	0.00000
53	Educational services; private	0.00198	0.00370	0.00000
18	Miscellaneous manufacturing	0.00186	0.00225	0.00000
41	Internet publishing and broadcasting; ISPs, search portals, and e-mail	0.00145	0.00360	0.00000
33	Truck transportation	0.00113	0.00042	0.00000
47	Real estate	0.00102	0.00272	0.00900
14	Electrical equipment and appliance manufacturing	0.00089	0.00035	0.00000
9	Nonmetallic mineral product manufacturing	0.00074	0.00119	0.00000
51	Administrative and support services	0.00072	0.00218	0.00000

Input-output supply chain linkages specific to federal defense purchases

The top five supply chain suppliers make up over 94% of intermediate demand

High concentration in skilled/technical labor; high-tech components; and vehicle parts

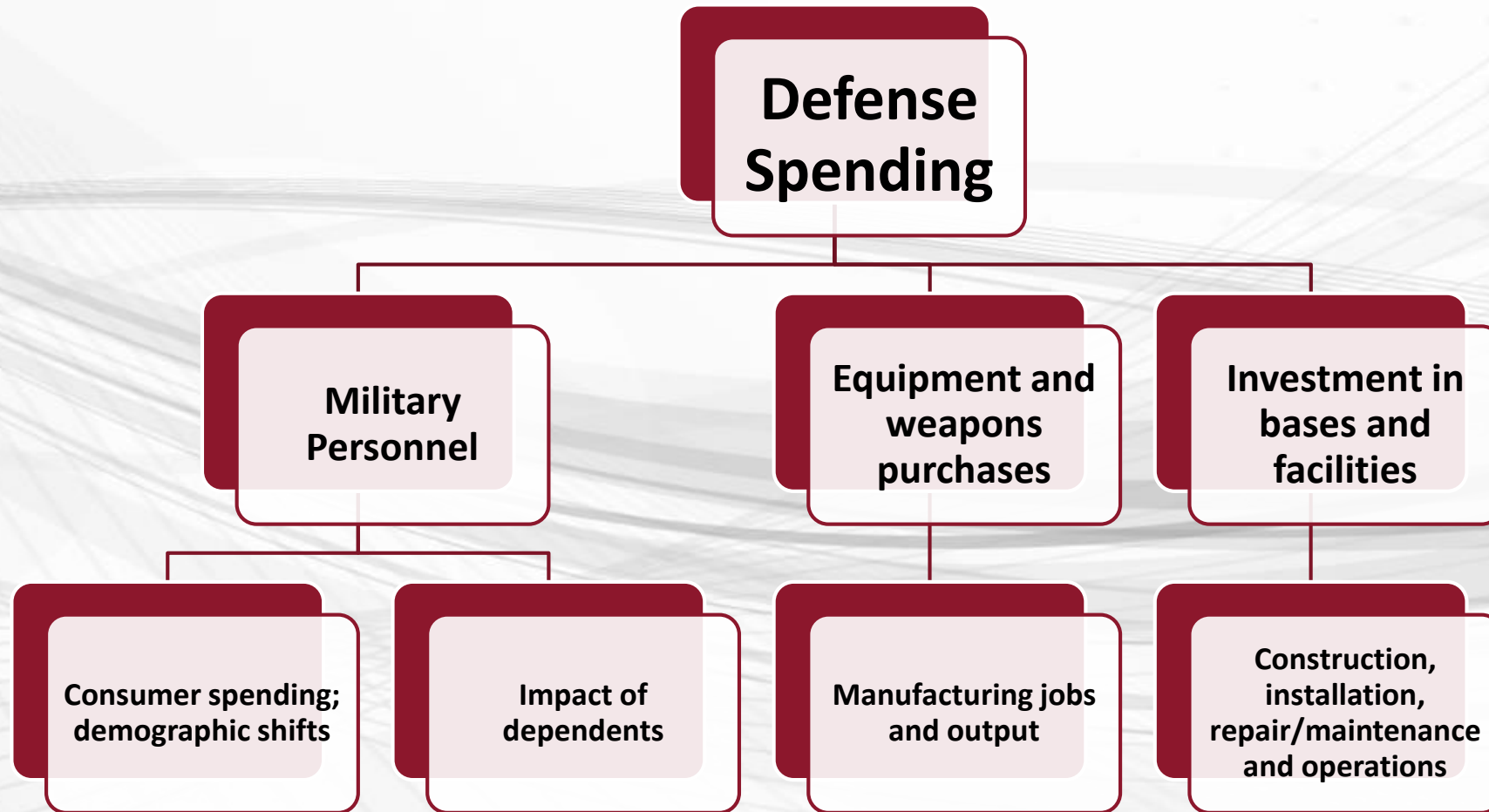
Military Spending and the Economy (cont'd)



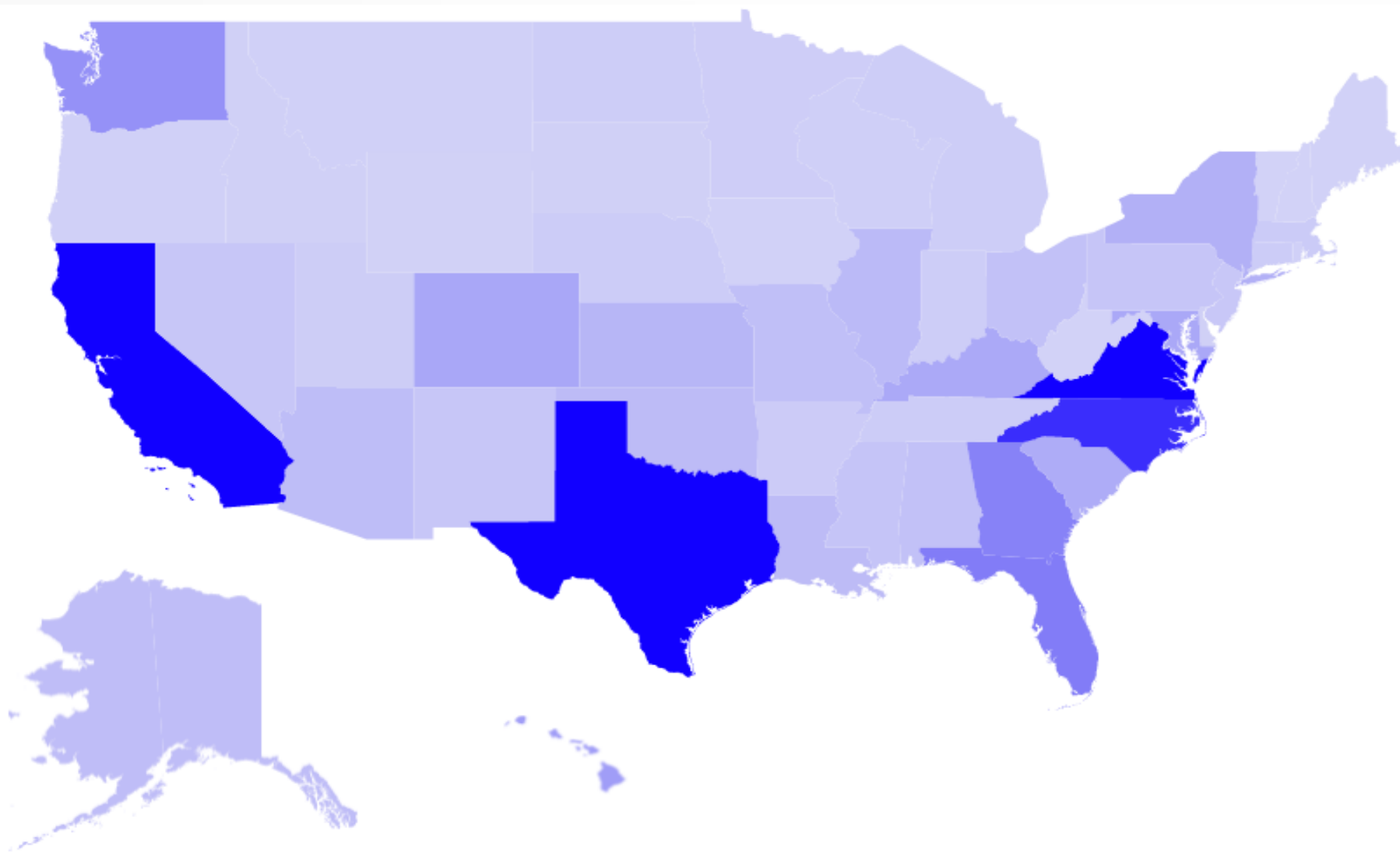
			69
			Federal Military
Type	Index	Row Names	
Total		Total	1.00000
			1.00000
Factor Inputs / Value Added		Capital	0.52449
		Labor	0.41684

Labor intensiveness:
Military spending creates a large
number of direct US jobs

Defense Spending and Economic Development



Current Distribution of US Defense Spending



what does **REMI** see

Impact Simulation Scenarios



- Scenario 1: **\$10B defense spending**
- Scenario 2: **\$30B defense spending**
- Scenario 3: **\$50B defense spending**
- Scenario 4: **\$110B defense spending**

- **Variable:** Federal Military Spending
 - ▣ Spread according to current distribution of defense spending across states

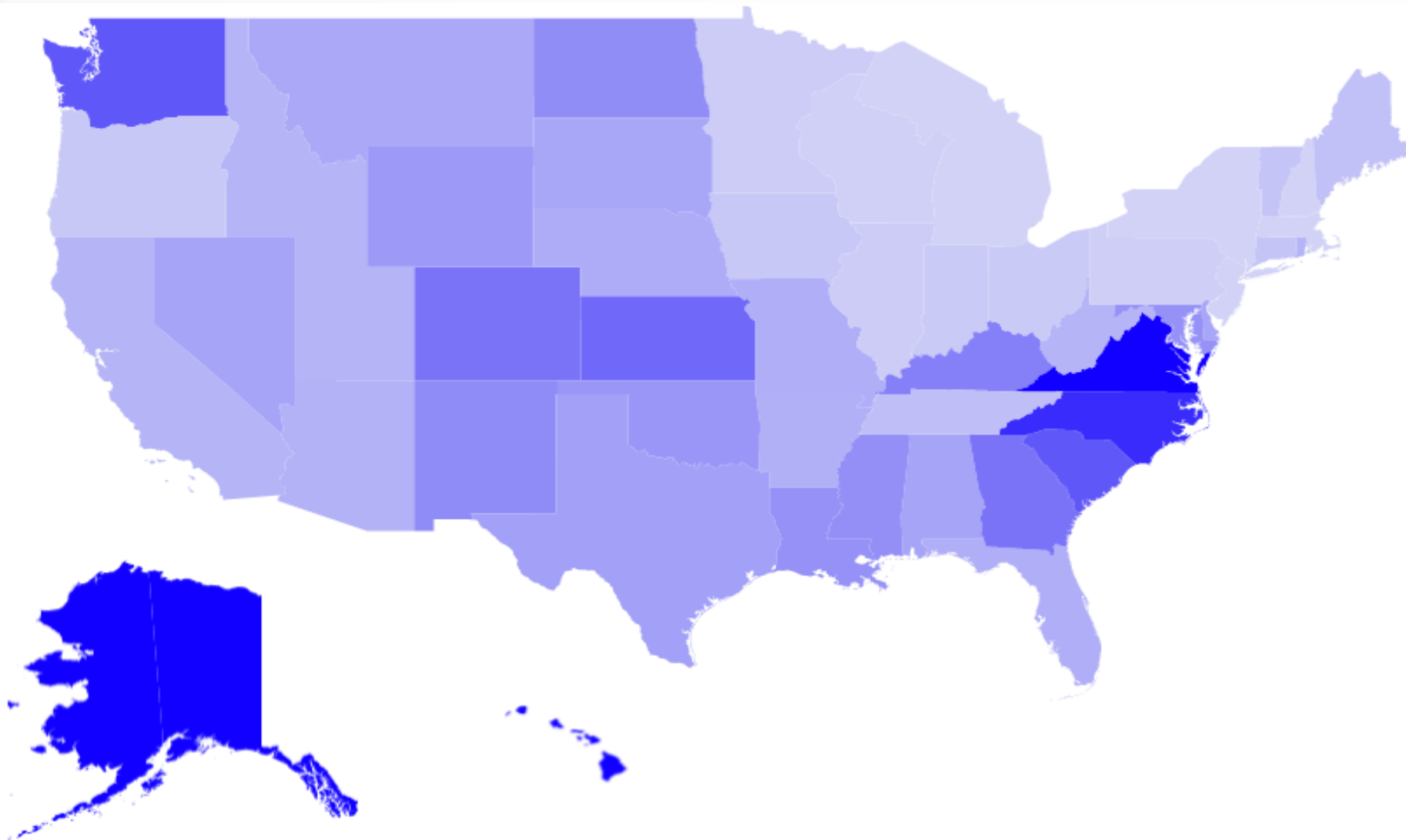
Critical Results



Employment – by State (2025)

Absolute Terms	Percentage Terms
1. California	1. Hawaii
2. Texas	2. Alaska
3. Virginia	3. Virginia
4. North Carolina	4. North Carolina
5. Florida	5. South Carolina
6. Georgia	6. Washington
7. Washington	7. Kansas
8. Colorado	8. Georgia
9. New York	9. Colorado
10. Hawaii	10. Kentucky

Employment – by State (2025) Percentage Terms



what does **REMI** stand for?

Critical Results



Employment – by Industry (2025)

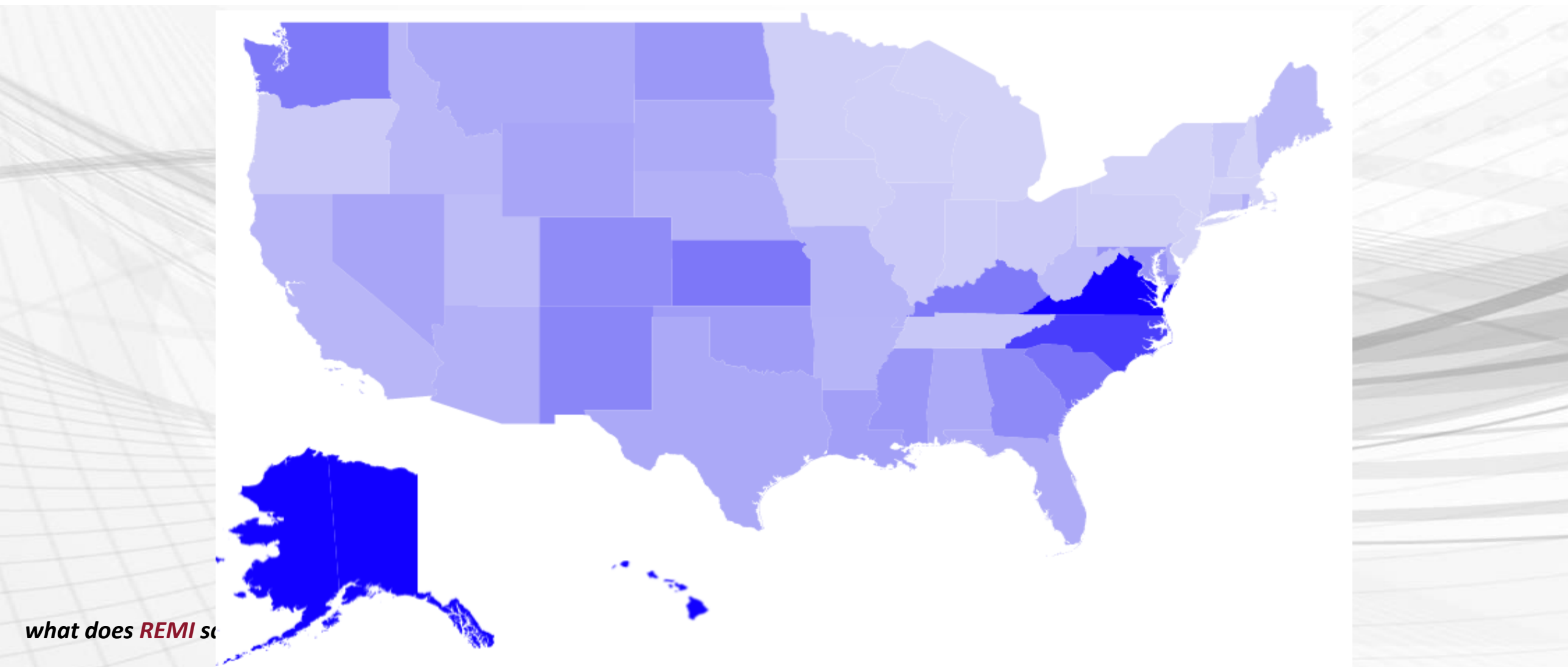
Absolute Terms	Percentage Terms
<ol style="list-style-type: none">1. Federal Military2. Administrative and Support Services3. Professional, Scientific and Technical Services4. State and Local Government5. Retail Trade6. Construction	<ol style="list-style-type: none">1. Federal Military2. Water Transportation3. Other Transportation Equipment Manufacturing4. Air Transportation5. Support Activities for Mining6. Administrative and Support Services

Critical Results



Output – by State (2025)

Absolute Terms	Percentage Terms
1. California	1. Hawaii
2. Texas	2. Alaska
3. Virginia	3. Virginia
4. North Carolina	4. North Carolina
5. Florida	5. South Carolina
6. Georgia	6. Kansas
7. Washington	7. Washington
8. Hawaii	8. Kentucky
9. Colorado	9. New Mexico
10. New York	10. Georgia

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Critical Results



Output – by Industry (2025)

Absolute Terms	Percentage Terms
1. Federal Military	1. Federal Military
2. Professional, Scientific and Technical Services	2. Water Transportation
3. Real Estate	3. Other Transportation Equipment Manufacturing
4. Wholesale Trade	4. Air Transportation
5. State and Local Government	5. Support Activities for Mining
6. Retail Trade	6. Administrative and Support Services

US International Imports Demand – by Industry (2025)

Absolute Terms	Percentage Terms
1. Computer and Electronic Product Manufacturing	1. Other Transportation Equipment Manufacturing
2. Other Transportation Equipment Manufacturing	2. Petroleum and Coal Products Manufacturing
3. Petroleum and Coal Products Manufacturing	3. Air Transportation
4. Motor Vehicles, Bodies and Trailers, and Parts Manufacturing	4. Computer and Electronic Product Manufacturing
5. Oil and Gas Extraction	5. Truck Transportation

Model Demonstration

Questions

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Strengthening Bilateral Business Relations through Trade and Investment