Why You Need To Know About Foreign Bribery and its Implications: Bribing, attempting to bribe or facilitating bribery of a foreign public official is a serious crime and amendment to the Australian Criminal Code in 1999 makes acts of this nature overseas punishable in Australia.

Companies can also be held criminally responsible for the acts of their agents. The extraterritorial nature of these penalties reflects the serious criminal nature of bribery and the detrimental effects it has on Australian trade and reputation, and international governance.

It is no defence that such acts may be common practice in some countries. You must be aware of the types of activities that are legal and illegal when interacting with foreign officials. The offence applies regardless of the outcome or result of the bribe or the alleged necessity of the payment: companies and individuals may be held liable regardless of whether or not the bribe obtains the advantages sought and whether or not the bribe was considered necessary to do business. Refer to Attorney-General’s Department Foreign Bribery website: http://www.ag.gov.au/foreignbribery

Copyright Notice The content of this report is copyright to the original authors or publishers. Under no circumstances should further copies be made either electronically or by photocopy. All quotations from the material must be acknowledged.
**Introduction**

It is our pleasure to present the following report on the mining sector in Saudi Arabia to support your business strategy in the country. Detailed market analysis and industry contacts in Saudi Arabia are provided and we look forward to providing you with assistance in market.

**Country outlines**

**Saudi Arabia**

The Kingdom of Saudi Arabia, with an area of 2.1 million km², is the largest economy in the Middle East, accounting for 50% of the GDP of the Gulf Cooperation Council (GCC).

**Increasing population and unemployment**

The Saudi population is estimated to have reached 29.9 million in 2015, with 29 % of the population under 15 years of age and 67 % aged between 16 and 60 years old. Saudi Arabia hosts 8 million expatriates that account for around 60% of the work force. The petroleum sector accounts for 80% of budget revenues, 50% of GDP, and 85% of export earnings. Saudi Arabia is encouraging the growth of the private sector in order to diversify its economy from the traditional oil-based enterprises and provide job opportunities for young Saudi nationals with increasing unemployment rates. Economic diversification efforts are focused on mining, power generation and telecommunications. The Government has substantially boosted spending on job training, technical skills development and education, most recently with opening of the King Abdullah University of Science and Technology - Saudi Arabia's first co-educational university, and the investment in Technical and Vocational Training Corporation.

**Oil based Economy**

Saudi Arabia is an oil-based economy with strong government controls over major economic activities. It possesses around 20% of the world's proven petroleum reserves, ranks as the largest oil and petrochemicals exporter, and plays a leading role in OPEC. With the recent fluctuations in oil prices, the Kingdom released its 2015 budget, deriving 90 percent of government revenues from hydrocarbons, with a budget deficit of SAR 145bn (US$38.7bn), its largest ever, projecting a significant decrease in oil-generated revenue. Nevertheless, the country holds substantial reserves (around $US750bn) that are being used to develop major infrastructure projects around the kingdom. A statement issued by the Ministry of Finance forecast the 2015 record government spending at SAR 860bn ($229.3bn), an increase of 0.6 percent compared to 2014.

**Diversification into Other Sectors – Including Mining**

The government has proclaimed the mining sector a development priority, as the third pillar of economic diversification (after oil & gas and petrochemicals production) and has set ambitious growth targets, given that the country could be a net oil importer by 2030, according to Citi Bank Group. Deutsche Bank estimated an oil price of $104 for the government to balance its budget in 2015 (DB Research 2014), highlighting the critical importance of the Mining growth strategy to help offset the loss from oil revenue.

With some of the world's largest reserves of phosphate and tantalum, and up to 20 Moz of gold in known deposits, Saudi Arabia is becoming a significant market for mineral extraction and processing. The central and northern parts of the country contain large amounts of bauxite, in addition to deposits of silver, zinc, copper, magnesite, and kaolin. The region's booming construction industry created a demand for Saudi iron ore, limestone, feldspar, silica, gypsum, marble, and dolomite. Over 40 types of mineral deposits have been identified so far in the Kingdom, with at least 15 industrial minerals with potential for extraction.
While the State controlled Saudi Arabian Mining Company (Ma’aden) is the leading company in developing the country’s solid minerals potential and exploiting its mineral wealth, opportunities exist for other mining companies to take advantage of the significant potentials that exist. In 2004, the Government implemented the revised Mining Investment Code (the Code) and Mineral Resources Executive Regulation (the Regulation) in order to encourage private investments in the sector. These measures streamlined procedures, set up competitive tender selection processes and introduced incentives for investors. Total Saudi investments in the mining sector reached around US$50 billion, with 1,700 exploration licences so far awarded, covering an area of 73,000 square kilometres, (according to the Minister for Petroleum and Mineral Resources).

More than US$25 billion is being invested in plants to process industrial ores and in new mining ventures. As a result, the mining sector is poised for significant growth in the next few years, with a growing role for the private sector, whose participation is seen by the Government as an essential means of optimising output and developing related downstream industries. The Kingdom is already the Middle East’s largest gold producer, with Ma’aden’s gold production at 3.8 tonnes in 2013 and plans to increase its annual output to 14.2 tonnes by 2017.

A combination of Government support to investors, low cost energy for output processing and ongoing development of transport infrastructure, place Saudi Arabia as an attractive mining destination. In view of the Kingdom’s strategy to integrate mining ventures with downstream value added processing, a growing range of opportunities are likely to open up to companies and organisations able to provide relevant technology, equipment and expertise. There is a particular requirement for environmental protection techniques and consultancy as well as training and upskilling to fill supply chain gaps across the mining lifecycle.

A New Mining Code

The government implemented the revised Mining Code and the Mining Regulations in 2004, aimed at encouraging private companies’ participation and investment in the sector. There are no mineral royalties and corporate tax liability is reduced to 20%. In accordance with the Saudi Foreign Investment Act, foreign entities enjoy full ownership of property, may be entitled to tax-free importation of equipment and machinery, and are given the same legal protection as local companies. A number of reconnaissance, exploration, material collection, and exploitation licenses are available to companies and individuals, to be processed within an approximate 15 day period.

| Strengths | Geological surveys indicate large deposits of economically viable precious metals and industrial minerals that have not yet been exploited
| Access to relatively cheap labor and energy resources
| Economy has been proven more resilient than other countries during the economic downturn
| Government’s commitment to investing in large projects to keep the economy strong
| The Saudi Government offers incentives for foreign and domestic private investments
| Very relaxed monetary policy with 13-15% increase in lending.
| Weaknesses | Government, not private entreprise, is currently the primary driver of growth in the sector
| The sector has a shortage of engineering skills and expertise and lack of sufficient drilling service providers
| Non-petroleum mining represented only 0.4% of the Kingdom’s GDP in 2012.
| Opportunities | With an average annual growth rate of 5.23% in the mining sector, demand for related infrastructure projects will increase in the coming years
| Government are looking to encourage foreign investment in mining projects by providing a favorable business environment and investing in new infrastructure to support the industry
| Saudi Arabia is a member of the World Trade Organisation
| Threats | Global economic climate has made credit and capital less available for large-scale projects around the world
| The country’s infrastructure is not yet fully developed, leading to delays in the transportation of both people and supplies

(CEEMEA Business Group)
Current Market Situation

New Venture

Saudi Arabia is the largest gold producer in the Middle East with a production estimated to reach 256 Koz in 2018. Al Masane Al Khobra (Trecora Resources) Company has started production of zinc, gold, copper and silver from a mine in Najran province (around 700,000 tonnes), 640 kilometres southeast of Jeddah. Ore will be taken by road, 414 kilometres to Jazan on the Red Sea for shipment, initially to smelters and refineries in Europe and the Far East. Zinc will be processed at facilities to be developed in Yanbu. Australia’s Perth-based Alara Resources signed a joint venture with Saudi Arabia’s United Arabian Mining Company (MANAJEM) in October 2012, for a feasibility study of zinc and copper project at Khnaiguiyah and adjacent sites at Mutiyah and Umm Hijja. The venture, located 200 kilometres west of Riyadh, is one of the most advanced base metals project in Saudi Arabia. A feasibility study undertaken by MANAJEM targets a production of 55,000 tonnes of zinc per year over a ten year period, using open pit mining methods.

Ma’aden is looking to exploit magnesite deposits at Zarghat, 700 kilometres northeast of Jeddah. The raw material will be processed at a calcining and fusion plant to be built on the Red Sea to produce 20,000 tonnes a year of electro-fused magnesia, which is used to line furnaces. The company has already begun initial production of caustic calcined magnesia at its processing plant in a manufacturing complex, 17 kilometres southwest of Medina. The plant uses ore produced from the Al Ghazalah mine, 350 kilometres northeast of Ha’il.

Ambitious outlook

Operational and environmental challenges create opportunities for innovative solutions from Australian companies that operate in similar environments in Australia and globally. Gold demand in 2015-16 will predominantly be driven by jewellery consumption, especially in China and India, that will offset declining industrial usage. Ma’aden, which operates five mines, is looking to develop additional gold mines to meet global demand. New mines are expected to raise production to 400,000 ounces a year by end of 2015. In addition, the company has two large mining and processing projects north of the country and on the Gulf coast, that will define the Kingdom’s growing credentials as a global force in the extraction and marketing of industrial raw materials. Ma’aden’s US$16 billion investment strategy, backed by the Public Investment Fund and Saudi Industrial Development Fund, is designed to play a major role in the diversification of Saudi Arabia’s hydrocarbon based economy. A key element features Ma’aden Phosphate Company (MPC), a joint venture with SABIC, developing a world class phosphate deposit at Al Jalamid, north of the country.

Phosphate rock is being transported by the new North-South railway to Ras Al Khair, a purpose-built industrial city on the Arabian Gulf coast. The ore is then processed into diammonium phosphate (DAP), a key component of fertilisers. At full capacity, three million tonnes of granular DAPS, representing 10% of global demand, will be produced per year. The plant will also produce 400,000 tonnes of excess ammonia and 200,000 tonnes of sulphuric acid. Ma’aden signed a further mining contract in December 2012 with Fluor Corporation of the United States of America, for development of an additional mining project at Umm Waal, 40 kilometres northeast of Turaij. A feasibility study is underway that could see an open pit mine and beneficiation plant developed to produce 1.5 million tonnes a year of phosphate concentrate. In three years’ time, Ma’aden will bring another major mining venture on stream at Az Zabirah near the town of Qiba, 180 kilometres north of Buraidah. Production of four million tonnes a year of bauxite for about 30 years is envisaged from that mine once development works are completed. The bauxite will be transported by train from the north to Ras Al Khair, where several platforms are under construction: an alumina refinery, aluminium smelter, rolling mill and related infrastructure, including a 2,400MW power and
combined desalination plant. In addition to phosphate and aluminium plants at Ras Al Khair, the newly constructed industrial facility will include an industrial zone with proximity to the mines.

**Specific Projects**

<table>
<thead>
<tr>
<th>Country</th>
<th>Company</th>
<th>Mine</th>
<th>Metal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>Ma'aden</td>
<td>Ad Duwayhi</td>
<td>Gold (1.82 moz in measured and indicated resources).</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Ma'aden</td>
<td>Al Jalamid</td>
<td>Phosphate</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Ma'aden</td>
<td>Az Zabirah</td>
<td>Kaolin and low grade bauxite</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Ma'aden</td>
<td>Al Ba’itha</td>
<td>Bauxite</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Ma’aden</td>
<td>Zarghat</td>
<td>Magnesite</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Ma’aden</td>
<td>Mahd ad Dahab</td>
<td>Gold and Base Metals</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Ma’aden</td>
<td>Sukhaybarat</td>
<td>Gold and Base Metals</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Ma’aden</td>
<td>Bulghah</td>
<td>Gold and Base Metals</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Ma’aden</td>
<td>Al Hajar</td>
<td>Gold and Base Metals</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Ma’aden</td>
<td>Al Amar</td>
<td>Gold and Base Metals</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Barrick Gold &amp; Ma’aden</td>
<td>Jabal Sayid</td>
<td>copper (estimated 60kozpa from 2013)</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Alara, United Arabian Mining Co (Manajem) / Khnaiguiyah Mining Co LLC (KMC)</td>
<td>Khnaiguiyah</td>
<td>Zinc-Copper (Proved and Probable JORC Reserves of 26.1Mt at 3.3% Zn and 0.24% Cu.)</td>
</tr>
</tbody>
</table>

**LICENCE CATEGORIES**

**NON-EXPLOITATION**

The “non-exploitation” grouping includes licences for:

1. **Reconnaissance** – to survey and investigate a licence area for a period of two years (renewal possible for a single additional two-year period subject to certain requirements) and granting a non-exclusive right to examine the licence area for minerals and samples collection.
2. **Exploration** – to engage in detailed scientific and technical activities with the aim of discovering natural deposits of metallic or non-metallic ores in addition to the exclusive right to explore for all minerals specified in the licence in an area not exceeding 100 sq km for a period not exceeding five years (renewal possible for a period not exceeding five years subject to certain requirements).
3. **Material Collection** – to collect materials (limited to specimens, decorative work or materials for similar purposes) specified in the licence, without the use of power tools and equipment, on a non-exclusive basis.

**EXPLOITATION**

The “exploitation” category of licences includes four kinds of licences that are differentiated by (i) type of mineral permitted to be extracted (Article 3 of the Regulations), (ii) duration of licence, and (iii) size of licence area:

1. **Exploitation Mining** – specified class 3 minerals; initial duration of up to 30 years (renewal possible for up to 30 years subject to certain requirements); licence area not to exceed 50 sq. km.
b) Raw Materials Quarry – specified class 1 and 2 minerals; initial duration of up to 30 years (renewal possible for up to 30 years subject to certain requirements); licence area not to exceed 50 sq. km.

c) Small Mine – specified class 1 and 2 minerals; initial duration of up to 20 years (renewal possible for up to 30 years subject to certain requirements); licence area not to exceed one sq. km.

d) Building Materials Quarry – specified class 1 minerals; initial duration of up to five years; licence area not to exceed 0.25 sq. km.

Critically, the various exploitation licences confer upon holders an exclusive right to extract minerals, as per the licence terms. If a licensee discovers any minerals not covered by the terms of a licence, the licensee may apply to the Ministry in writing within 90 days from the date of such discovery for an exploitation licence for these additional minerals.

An exploitation licensee, however, is not permitted to commence any development or mining activities in the licensed area unless a feasibility study has been submitted in acceptable form to the Ministry. Such study must include information regarding capital and operating costs of the project, expected rate of return on investment and proposed mining methods to be used. In addition to the feasibility study, an exploitation licence holder (with the exception of building materials quarry licences) must, during the term of the licence, furnish the Ministry with an environmental study prepared by a specialist. Such study must include a rehabilitation plan specifying how the licensee, at the end of the licence term and at the licensee’s expense, will rehabilitate the exploited area.

COMPETITIVE BIDDING AND TRANSFER OF LICENCES

In certain limited circumstances, licences are granted on a competitive basis: (i) where the Ministry delineates a licence area as one requiring competitive bidding, for the award of an exploitation licence in the form of a public tender process, and (ii) where more than one applicant applies for a licence over the same area. In such cases, the winning applicant is determined on the basis of evaluating factors such as the respective technical and financial competence of the applicants, the proposed technical work program and commitment to the training and employment of Saudi nationals, with each of the respective criteria being given a weighting as set out in the Regulations.

After having been granted an exploration or exploitation licence, a licence holder may transfer such licence to another party that possesses the technical and financial capability and adequate experience to fulfil the obligations of the licence and that would also be qualified to obtain a similar licence under the terms of the Mining Code.

FEES AND TAXES

The mineral resources licensing process in the KSA entails paying certain fees relating to matters such as licence application submission, licence issuance, renewal and extension, and licence transfer, and such fees vary in amount between the different types of licences. Licensees are subject to (i) KSA income tax, or (ii) if income tax is not applicable, a severance fee representing 25% of annual net income or the equivalent of the income tax, whichever is lower, with any applicable Zakat being deducted from this amount. The current applicable income tax rate for mining activities in the KSA is 20% and an additional withholding tax of 5% is applied against distributions to shareholders outside of the KSA.
### Australian Companies Active in the Saudi Arabia mining sector

<table>
<thead>
<tr>
<th>Company name</th>
<th>Site/Project</th>
<th>Project Status/Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>HLG</td>
<td>Ma’aden Alcoa Aluminium joint venture</td>
<td>HLG in joint venture with Dragados Gulf Construction Company/ Intecsa Industrial (ACS Group) was awarded a US$169 million contract in Saudi Arabia for the construction of mine-related infrastructure for the Ma’aden Alcoa Aluminium joint venture’s bauxite mine. HLG’s share of the contract is worth US$85 million.</td>
</tr>
<tr>
<td>Gulf &amp; Asia</td>
<td>JV with Barriq</td>
<td>Gulf &amp; Asia in partnership with Barriq signed JV agreement with Ma’aden for the $20 billion Jabal Sayid copper Mine project. 50% of this project was recently sold to Ma’aden</td>
</tr>
<tr>
<td>Ausenco</td>
<td>North-South Mining Railway Project</td>
<td>Consulted on expansion program of Mahd Ad’Dahab Gold mine and providing engineering services to Saudi Railway company for the North South Mining railway project</td>
</tr>
<tr>
<td>Wallis Drilling</td>
<td>Drilling Services</td>
<td>Provided drilling services to Maaden</td>
</tr>
<tr>
<td>Arafura Resources</td>
<td>Rare Earth Minerals Separation Project (Jubail)</td>
<td>To establish $200million Rare Earth Minerals Separation project in Jubail in cooperation with Sabic, Maaden and local investors to support their Nolan mines in Australia</td>
</tr>
</tbody>
</table>
Opportunities

The major expansion plans for the Saudi Arabian mining industry, particularly for phosphate projects, combined with the vast tracts of unexplored and unmapped areas indicate that there are excellent opportunities for Australian METS companies in:

- Mineral production concessions
- Mineral exploration
- Mine software
- Mining processing technologies
- Mining equipment
- Engineering services
- Dump body and transportation technologies
- Mine safety
- Environmental equipment and consulting
- Mining education and training services
- Mining research and university collaboration

Industry Contacts

<table>
<thead>
<tr>
<th>Country</th>
<th>Company</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>Ministry for Mineral Resources (sub-ministry of the Ministry of Petroleum and Natural Resources)</td>
<td><a href="http://www.dmmr.gov.sa/">www.dmmr.gov.sa/</a></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Saudi Geological Survey (mapping, exploration, development, training, laboratories and logistics)</td>
<td><a href="http://www.sgs.org.sa/">www.sgs.org.sa/</a></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Saudi Arabian General Investment Authority (SAGIA)</td>
<td><a href="http://www.sagia.gov.sa/">www.sagia.gov.sa/</a></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>The Saudi Arabian Mining Co (Ma’aden)</td>
<td><a href="http://www.maaden.com.sa">www.maaden.com.sa</a></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>United Arabian Mining Company</td>
<td><a href="http://www.manajem.com">www.manajem.com</a></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Al Masane Al Kobra Mining Company</td>
<td><a href="http://www.trecora.com">www.trecora.com</a></td>
</tr>
</tbody>
</table>

How can we help you?

Austrade is actively engaged in promoting Australian capability in the mining sector right across the supply chain from mining training, R&D, equipment, technology and services, through to heavy machinery and the promotion of foreign investment in the sector.

- Austrade can assist Australian companies in the following: Opportunity Briefings and Market insights
- Introductions to potential partners/agents & Australian partners
- Introductions to Government Mining Authorities & decision makers
- Upcoming events:

Austrade has offices in Dubai, Abu Dhabi, Rabat, Riyadh and Jeddah and actively identify opportunities for Australian involvement in the mining industry plus promote Australian METS capability.

Furthermore, Austrade has a mining industry network of 35 staff in key international mining markets including the Americas, the Pacific, South East Asia, North Asia, India, South Africa, Russia and the Middle East.
Testimonials

“On the positive side, the government are committed to the development of the mining sector as the third pillar of the Saudi economy. Fuel, water and power are all less expensive compared to most other countries.

I will avoid listing the challenges here, but suffice to say that an in-country presence and a trusted local partner are critical to success.

While it continues to play a role in some business transactions, the government is making real progress to combat corruption. This risk can be addressed by proper due diligence and local partner selection, and need not be seen as a cost of doing business in the region.

Similarly, the importance of networking should not be ignored, nor overstated. Building relationships of trust at a senior level is important, but needs to be complemented by a good local government relations officer (GRO) who is familiar with the procedures and processes of various government departments, including ministry of commerce and industry, ministry of labour, ministry of petroleum and mineral resources etc. If you don't have your own GRO, you will need to engage a business services office or law firm to help out.”

 Justin Richard, Country Manager Alara Resources

“The personal support and skilled input, guidance and on occasion hands-on assistance from the Austrade (this can be spelled out as well) team has been invaluable for an Australia company setting up to do business in KSA for the first time. We have learned to trust and rely on this knowledge and guidance as we move forward”

 Philip Hopkins, Managing Director Alara Resources

Austrade Key Contact

This report has been prepared by Mr. Abed Hakmi, Business Development Manager, Riyadh.

Mobile: +966 555714318

Direct Telephone: +966 11 2816177

Email: abed.hakmi@austrade.gov.au