SAUDI ARABIA
Bi-Weekly Summary
16 - 31 December 2017
Summary

- On 19 December, Houthi militants fired a Scud-type ballistic missile towards, Al-Yamama palace in the south of Riyadh. The missile was intercepted by Saudi air defence systems and destroyed. Although Houthi media outlets claimed that the missile strike inflicted a number of causalities, Saudi and international media sources have refuted this. The missile originated from Yemen’s Saada region, and is the second ballistic missile attack on the KSA capital in as many months.

- It was announced by an American cyber firm, Area 1 Security, in this reporting period, that Saudi Aramco was the victim of a major cyberattack in August 2017. According to the report, Triton malware was introduced to the computer systems through unknown channels. The malware attacked a safety system known as Triconex, which is used worldwide and provides an emergency shutdown function. Aramco is currently undergoing an IPO and is instrumental in the Kingdom’s desired economic diversification. Any threat to this could jeopardize the long term goals of Saudi Vision 2030.

- The body of a kidnapped judge, Sheikh Mohammed Abdullah Al-Jirani, was found by security forces on a farm in the Eastern Province. The judge was kidnapped in December 2016 by members of an unspecified Islamic extremist group. One of the group was killed in a shootout with security forces, while one member of the security forces was also killed. The security forces and Ministry of Interior consider this group to be a terrorist cell. No ransom demand was reported.

- Saudi Arabia released its budget for 2018, with total spending of $261 billion set, a $10 billion increase in the budget from 2017. The budget stresses that the country will continue to run on a deficit, but to a smaller extent than 2018. The projections also state that fuel prices will increase, new taxes will be applied on a number of individuals and entities, including expatriates and foreign businesses. Overall, the Saudi budget indicates that the county is in a strong financial situation, and is moving toward a more diverse economy, with projected growth in the non-petrochemical sector.

- There was a number of reported break outs of the H5N8 strain of avian influenza within Saudi Arabia in this reporting period. This is the first time in ten years that any strain of avian flu has been reported within the Kingdom. Cases were reported in Riyadh, Al-Kharj, Dhurma, and Al-Muzahimya. A number of birds were culled to stop the spread of infection, but trading partners such as the UAE have already begun to stop poultry imports from Saudi Arabia as a preventative measure against the spread of infection.
### Significant Events: 16 - 31 December 2017

**Saudi Arabia Bi-Weekly Summary**

**Al Awamiyah: 25 December**

The body of a judge who was kidnapped in December 2016 was discovered in a farm in Al Awamiyah. Security forces engaged in a shootout with the abductors, leading to the death of one militant and one member of the Saudi security forces.

**Riyadh: 19 December**

Houthi forces fired a Scud-type missile towards the Al-Yamama palace in the south of Riyadh. The missile originated from the Saada province in the north of Yemen. Saudi security forces intercepted the missile. No material or human damage was reported by Saudi media, but Houthi media sources claimed a number of people were injured by the attack.

**Dhahran: 18 December**

A report released this week by American company, Area 1 Security, announced a major cyberattack on a safety system at Saudi Aramco in August 2017.

---

**Saudi Arabia Country Threat Ratings**

<table>
<thead>
<tr>
<th>Locations &amp; Ratings</th>
<th>Saudi Arabia</th>
<th>Riyadh</th>
<th>Jeddah</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crime</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Security Services</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Civil Unrest</td>
<td>3</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Terrorism</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Kidnapping</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Geopolitical</td>
<td>3 (N/A)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Overall Rating</strong></td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

**Threat Ratings**

1 - Minimal
2 - Low
3 - Moderate
4 - High
5 - Very High

---

**Commercial in Confidence & Subject to Contract**

Copyright Constellis 2017. All rights reserved.
KSA government containing H5N8 avian flu outbreak

The Ministry of Environment, Water and Agriculture announced on 24 December that the country’s food security is safe after cases of the H5N8 avian flu had been reported in Riyadh. Poultry farms and incubation chambers across the kingdom are being monitored. These are the first reported cases of bird flu in Saudi Arabia in ten years.

The initial cases were discovered on 18 December at the Al Azizia Birds Market in Riyadh, leading government officials to intensify quarantine measures. According to official reports, the Ministry of Environment, Weather and Agriculture worked in tandem with the Ministry of Municipal and Rural Affairs and security forces to exterminate all of the infected livestock, including up to 16,000 ducks. They were able to successfully disinfect the area of the bird market, which remains closed.

There were a number of reported cases outside of Riyadh, namely in Al-Kharj and Dhoroma governorates, which were proved to be false following testing at a laboratory in Riyadh. However, a N5N8 bird flu case was detected in a fenced yard in Al-Muzahmiya province. An emergency quarantine plan was initiated, including a ban on the sale, circulation and transport of birds within a radius of 10km from the epicentre of the outbreak.

COMMENT: Saudi Arabia has had a successful track record in preventing the spread of diseases that threaten food security within their borders. In July 2017, Saudi Arabia banned the imports of poultry products from Zimbabwe, following a reported outbreak of avian flu there.

This outbreak in Saudi Arabia has already had negative consequences for local businesses within the Kingdom however. The United Arab Emirates banned the import of all chicken and egg products from the country in response to the recent outbreak, a ban that extends to all live domestic, wild, ornamental birds, chicks, hatchling eggs and any egg-based products not thermally treated. The UAE Ministry of Climate Change and Environment acted based on a notification and recommendation from the World Organization of Animal Health.

The World Health Organisation (WHO) concludes that the human infection from the H5N8 virus cannot be excluded, although the likelihood for the zoonotic shift of the pathogen is low. There have been no reported fatalities associated with this strain of the virus, although with the H5N6 strain of avian influenza, 6 out of 14 reported cases were fatal. Much like the MERS-CoV disease, whilst it is unlikely that this outbreak will serious impact the health of those within Saudi Arabia, the WHO issues the following public health advice:

- Avoid contact with birds (poultry or wild birds) or other animals that are sick or are found dead and report them to the relevant authorities.
- Wash hands properly with soap or a suitable disinfectant.
- Follow good food safety and good food hygiene practices.

COMMENT ENDS

Saudi Arabia & Djibouti sign economic cooperation agreement

On 21 December, Saudi Arabia and Djibouti signed a cooperation agreement in areas including...
energy, mineral wealth, telecommunications, information technology, housing health, agriculture, water and environmental protection.

The agreement included measures to speed up the development of air transportation between Saudi Arabia and Djibouti and measures to increase trade through improved maritime transport. The agreement also included ways of increasing the volume of trade and investment exchange between the two countries in accordance with both the Saudi Vision 2030 and Djibouti’s Vision 2035. The agreement also focused on strengthening cooperation with the Central Bank of Djibouti to exchange information and credit reports on banks and companies in Djibouti.

**Saudi Arabia & Turkey discuss regional issues**

High-ranking Saudi officials met with Turkish Prime Minister Binali Yildirim in Riyadh on 22 December and discussed a number of key regional issues which have been hampering the restoration of peace and security in the Middle East.

It is hoped that these talks will pave the way for renewed consultations between Saudi Arabia and Turkey on a range of bilateral and international subjects. Bilateral relations have been rapidly increasing in recent years. Recently appointed Turkish ambassador to Saudi Arabia, Ergodan Kok, stated that Turkey possesses deep-rooted historical and cultural ties with Saudi Arabia, and enjoys excellent relations based on friendship, mutual respect and common interests.

Currently, the economic and commercial cooperation between Saudi Arabia and Turkey constitute a major pillar of bilateral relations. By the end of 2016, the trade volume between the two countries reached $5 billion. A large number of Turkish companies, especially construction companies such as Mapa and Yuksel, have a number of active projects within Saudi Arabia.

**COMMENT** This meeting marks a positive turn in Saudi-Turkish diplomatic relations which have faced challenges as a result of the 2017 Qatar diplomatic crisis, in which Turkey supported Qatar against the Kingdom and other GCC members.

Amid assertions of support for terrorist groups in mid 2017, Turkey backed Qatar, reflecting the pair’s considerable diplomatic ties. Following the attempted coup in Turkey in 2016, the Emir of Qatar was the first to announce his support of President Erdogan, and the legitimacy of his presidency against any would-be ousters. By contrast, the majority of world-leaders, including those in the Gulf, were slow to express their support for the President.

Relations between the two countries are also complicated by wider efforts to support political movements in the MENA region. Notably, both Turkey and Qatar have supported the Muslim Brotherhood. The Gulf Monarchies of Saudi Arabia, UAE and Bahrain see the Muslim Brotherhood as a threat to their dynastic model of governance. Turkey and Qatar’s support for the Muslim Brotherhood is at odds with the political vision of Saudi Arabia and its allies. All of these factors served to make Qatar and Turkey natural allies within the region.

In Syria, Saudi Arabia and Turkey have both expressed their support for the Free Syria Army, against the Islamic State of Iraq and the Levant
(ISIL) and the al-Assad regime. However, in recent years, the common ground of fighting against rebels and the Assad regime, has been lost. Saudi Arabia have been preoccupied with the civil war in Yemen, turning their attention from the situation in Syria. Turkey has also unofficially abandoned its support for regime change in Syria.

During the 2017 diplomatic crisis, however, Saudi Arabia did not bring Turkey into the Gulf Cooperation Council disagreement. Saudi Arabia, Bahrain and the UAE did not take any economic action against Turkey in retaliation to the country’s pro-Qatar stance, indicating that they did not want the Qatar crisis cost them their relations with Turkey.

COMMENT ENDS
**SECURITY UPDATE**

On 21 November 2017 the US State Department updated its travel warning for Saudi Arabia, reiterating its call for US citizens to carefully consider the risk of traveling to Saudi Arabia, due to continuing threats from terrorist groups and the threat of ballistic missile attacks on civilian targets by rebel forces in Yemen. Yemeni forces regularly fire artillery at Saudi border towns and launch cross-border attacks against Saudi military personnel. The warning once again confirmed the prohibition of government personnel from travelling to within 50 miles of the Yemeni border, as well as to the cities of Jizan and Najran in the south, and to the towns of Qatif and Hofuf in Eastern Province without prior permission.

**Houthi rebels in Yemen fire missile at Riyadh**

On 19 December, at around 11:45 hrs, an explosion was heard by local residents in the south of Riyadh. Reports were first communicated on social media, with the hashtag #SoundOfAnExplosionRiyadh trending on Twitter (translated from Arabic). Houthi media then released a statement through their outlets claiming responsibility for the blast which was caused by a missile attack against Saudi Arabia. Subsequent reporting confirmed that a device had indeed been fired towards Riyadh, but was intercepted by Saudi air defence systems. Initial inspections by Saudi authorities uncovered the remains of a large device, believed to have been a ballistic missile, either a Burkan or Volcano 2-H. The trajectory of the missile indicates it was fired toward the Al – Yamama royal palace in southern Riyadh, where a meeting of members of the Royal Family was underway. To date, there have been conflicting reports on damages. Houthi media claims that there were several casualties in the attack. In the same statement, the Houthi spokesperson declared that they have the capability to hit any strategic target within Saudi Arabia. Official sources from Saudi Arabia and the wider international media stress that no material damage or loss of human life and social media videos support this claim. Burkan and Volcano missiles are Scud-type missiles that have a range of 800km. Reports indicate that the missile originated from the Saada region.

**COMMENT** The source of the Houthi’s military capability is the subject of much debate. US security firm Stratfor report that most of the Houthi-owned missiles are most likely modifications of missiles previously in the Yemeni arsenal. Yemen amassed a large stockpile of Scud missiles after the reunification with South – Yemen in 1990. In the years that followed, Yemen also acquired similar weaponry from North Korea, purchasing Hwasong – 6 missiles, which have range of up to 550km. However, reports from the United Nations and Saudi Arabian security forces who have examined the missile fragments have found that many of the missiles used have been Iranian in origin, indicating that Iran is providing a substantial amount of
military support to the Houthi militia.

For businesses operating in Saudi Arabia, missile strikes such as this present a clear threat to operations. Local businesses are unlikely to be targets of Houthi aggression, but foreign companies, especially those allied to Saudi Arabia diplomatically, are high-impact targets for rebel groups in Yemen. Large oil and gas sites are also assessed to be at risk due to their economic importance although to date, no major attack on international assets in the Kingdom from Houthi forces has been recorded. **COMMENT ENDS**

**Yemen updates**

The situation along the Saudi-Yemeni border remained relatively stable in this reporting period. Aside from the ballistic missile attack on Riyadh, only one confirmed incident was reported in the Asir province, although the potential for further raids and overspill from Houthi operations on the border remains high. Notable incidents over the reporting period included:

- **On 17 December** – a Southern Resistance colonel, Faisal Ali Al-Harty and his son were killed by an assault by the Houthi militia today in the Bayhan district of the Bahwah governorate. In addition, social media accounts reported pro-coalition forces lost 79 soldiers in a series of strikes in Shabwah.

- **On 17 December** – a pro-government forces vehicle struck on a Houthi mine in Jawf province. It is not known how many casualties were sustained.

- **On 18 December** – social media accounts reported that Houthi militia attacked Saudi military positions near the village of Muqaza in the Asir province of Saudi Arabia. No casualties were reported on social media accounts, and no statement has been issued from the Saudi security forces.

- **On 20 December** – Saudi-led coalition air raids killed 11 civilians, and wounded 19 other civilians in Saada governorate near the Saudi border. This strike is most likely retaliation for an attempted missile strike on Riyadh by the Houthi militia on 19 December. The missile in the attack also originated from the Saada governorate.

- **On 21 December** – a United States drone strike killed Al-Qaeda in the Arabian Peninsula (AQAP)’s propaganda chief in Yemen. Saudi-born Abu Hajar al-Makki and three other AQAP militants were among six jihadist killed when a drone strike hit their vehicle in the Wadi Obeida district of Marib province.

- **On 22 December** – Hadi forces general Abdhu Al-Maradi was killed by Houthi rebels in the Nihm district of the Sana’a governorate, in retaliation to Hadi forces launching an offensive on Houthi strongholds.

- **On 24 December** – Houthi militias failed to launch a ballistic missile from Al-Bayda on army posts in Maarib, it was announced by the Yemeni army. No casualties on either side were confirmed, and no civilians were harmed.

- **On 25 December** – at least 10 people were killed after the Houthi militias attempted to launch another missile towards coalition controlled areas from their base camp in Sana’a. Reports suggest that the launch failed and the rocket landed in a populated area near Sana’a.

- **On 26 December** – Houthi leader Yasser al-Amhar was reportedly killed in a coalition airstrike in Hodeidah.

- **On 27 December** – the Saudi-led coalition destroyed a Houthi rocket-manufacturing workshop in Saada, as well as stockpiles of surface-to-air and ballistic missiles. Weapons obtained by the Houthis from Iran were seized.

- **On 30 December** – Houthi media outlets claimed that four Saudi security force personnel were killed in the provinces of Najran, Jizan and Asir, reportedly by sniper fire. No official confirmation of the attacks has been made by Saudi authorities.
Cyberattack targets safety systems at Saudi Aramco

On 18 December, it was announced that malware attacked a safety system at Saudi Aramco in August 2017, with Triton malware allegedly introduced to the computer systems through unknown channels. The malware attacked a safety system known as Triconex, which is used worldwide and provides an emergency shutdown function. The malware attempted to alter one of these safety controllers, which resulted in the controller shutting down an unspecified industrial process. Aramco was not identified as the victim of the attack in initial releases, and the company has since denied claims, but through reports by Area 1 Security, a cybersecurity firm founded by US National Security Agency veterans, Aramco has been independently verified as the victim of the cyberattack.

This revelation comes as Aramco prepares for what will likely be the largest initial public offering (IPO) of all time. Area 1’s assessment of the attack on Saudi Aramco identifies Iran as the likely perpetrator, but other computer security experts who have examined the incident caution against prematurely assigning responsibility. The Area 1 report does not contain hard evidence to implicate Iran in the attack against Aramco.

COMMENT: The attack on Aramco is the first of its kind to directly attack the safety systems at a critical infrastructure facility, but comes against a backdrop of frequent digital assaults by Iran against Saudi Arabia as a component of the two countries’ regional rivalry. Hackers thought to be working on behalf of Iran attacked Aramco in 2012, succeeding in wiping out 30,000 computers at the company and posing a major risk to operations. Iran was previously the target of a similar cyberattack in 2010. Stuxnet, a malicious computer worm that targets SCADA systems, caused substantial damage to Iran’s nuclear program. Stuxnet reportedly ruined one fifth of Iran’s nuclear centrifuges. Therefore, Iran is likely to be cognisant of the damage that cyberattacks can cause to critical infrastructure. In addition, in September 2017, cybersecurity firm FireEye warned that a group of hackers from Iran had been targeting the aviation and petrochemical industries in Saudi Arabia, the USA and South Korea.

Targeting critical infrastructure and eliminating safety systems will become an increasingly popular way to damage an opponent’s critical industry. Cyberattacks will present a danger not just to Aramco, but other businesses operating in Saudi Arabia, given the relatively low risk/cost to the actor perpetrating the attack.

COMMENT ENDS

Kidnapped Saudi judge killed by captors

Over the reporting period, security forces recovered the body of a kidnapped judge after a shootout with militants in the eastern province. One of the kidnappers and a policemen were killed in the 25 December shootout, according to the Saudi Arabia Ministry of Interior. The kidnappers named in the kidnapping and killing of Sheikh
Mohammed Abdulla Al-Jirani were Salman bin Ali Salman Al-Faraj, Zaki Mohammed Salman Al Faraj, Maythen Ali Al-Qudaihy and Mohammed Husain Al-Ammar, all Saudi nationals. Salman Al-Faraj was killed in the shootout, in addition to Sgt. Khalid Mohammed Al-Samti of the Saudi Arabian Security Forces.

According to a spokesman for the security forces, Zaki Al-Faraj gave religious instruction to his group. This group was part of a wider network to plan and execute the crime; one group surveyed locations, whilst another kidnapped Sheikh Al-Jirani, and another collected money to finance the operation. The Saudi security forces are treating those involved in this incident as terrorists.

Al-Jirani was kidnapped in front of his house on Tarout Island, near Qatif in Saudi Arabia’s Eastern Province in December 2016. The judge’s remains were found on a farm in the town of Al-Awamiya in the Eastern Province. The remains were so badly decomposed that DNA and forensic testing was needed to prove the remains were Sheikh Al-Jirani. According to a Ministry of Interior spokesman, after kidnapping Al-Jirani, the offenders took him to a remote farming area, where his body was found buried. “They tortured him, threw him in a ditch and then opened fire at him, before burying his body to hide their atrocious crime”.

**COMMENT** Currently, the risk for kidnap within Saudi Arabia is rated as low. Instances of kidnap for ransom in Saudi Arabia remain relatively limited in the Kingdom, especially amongst towards foreign nationals. The vast majority of kidnappings and kidnapping attempts within Saudi Arabia are directed against locals, notably those within positions of prominence in the Saudi government.

Saudi citizens are at risk of kidnapping when travelling outside of Saudi Arabia. In November 2017, a Saudi national was kidnapped in Lebanon, leading Saudi Arabia, the UAE, Bahrain and Kuwait to advise against travel to Lebanon. This was believed to be a retaliation by Hezbollah to suspicions that former Lebanese Prime Minister Saad al-Hariri was being held by Saudi Arabia. The kidnapped Saudi was released 15 November and no ransom was mentioned.

Other notable incidents of kidnapping within Saudi Arabia include the attempted kidnapping of two children by a group of three individuals in Riyadh in November 2017. Security forces were able to track and arrest the suspects, all of whom were Saudi nationals. This attempt was not political in nature.

Individuals should remain vigilant, especially for those operating along the southern border regions with Yemen. Currently Yemen has a very high kidnapping threat throughout the country, with ransom demands ranging from $100,000 for local nations while demands for foreign nationals start at around $1 million, and can go as high as $20 million.

**Islamic State financier sentenced to 20-year jail sentence**

On 24 December, a Saudi national who supported and financed the Islamic State (IS) was jailed for 20 years. The Specialized Criminal Court in Riyadh sentenced the main after her had been convicted of joining and participating on online groups that spread extremist
ideologies, financing the group with SAR5000, assisting people with travel to warzones in Iraq, Syria and Yemen and evading arrest from authorities.

As a result, the court sentenced the individual to a 20-year jail sentence starting from the date of his arrest, with 10 years of the term in accordance with Royal Decree No. A/44, five years under Article-6 of the anti-money laundering system and two years for other charges. The sentence also included a ban from posting on the internet, cancelling his mobile SIM card and imposing a travel ban on him for a period equal to his imprisonment period after leaving jail.
EASTERN PROVINCE SECURITY SUMMARY

Following decades of discontent Shia majority areas in Eastern Province are at growing risk of instability. Numerous risk factors need to be closely observed.

Shia militancy. Low-level but relentless small arms fire attacks on security forces in Qatif and Dammam continue to sour relations between the local community and security forces, in turn driving youth radicalization. With villages such as Awamiya having existed under a prevailing state of emergency since popular protests in 2011, there is a growing risk that confrontations between Shia militants and the Saudi state will escalate. On 1 August 2017, hundreds of people fled Awamiya, due to government forces fighting Shia gunmen. Tensions had been escalating since May 2017, due to authorities’ attempts to tear down the old quarter to prevent fighters using the narrow streets to evade capture.

Popular mobilization. There is an enduring risk that discontent among Shia communities will translate into popular protests such as those seen in 2011. On 2 January residents of Awamiya reportedly took to the streets to commemorate the first anniversary of the execution of Sheikh Nimr Baqir al-Nimr. Al-Nimr – a revered cleric and the spiritual leader of Shia dissent in Saudi Arabia – was extremely popular with disaffected Shia and his execution has helped further alienate the community. Other local issues such as the planned demolition of historic homes in Mosawara may combine with the growing militancy of the youth to trigger wider protests with little warning.

Regional rivalries. The situation in Shia areas of Eastern Province is sensitive to developments in Bahrain, which is currently witnessing a period of significantly heightened tensions. Most recently, on 27 February there was a bomb attack on a police bus, wounding five officers. Against a background of growing militant attacks, Bahraini authorities have been escalating their prosecution of leaders of the Shia protest movement, fueling further dissent. The House of Saud strongly supports Bahrain’s ruling family in its confrontation with elements of the Shia population, which it sees as part of the broader conflict with Iran.
Saudi Arabia budget 2018

On 19 December, King Salman announced the Kingdom’s budget and other financial data for 2018. The 2018 budget demonstrates the government’s plans for economic diversification and expansion. The data shows that even if the government’s plans fall short, the country is still in a very stable financial situation.

The announced budget is $261 billion, which is a $10 billion increase on the 2017 budget. Saudi Arabia projects it will bring in about $209 billion in revenue. Relative to many countries, the Saudi budget is large compared to the size of its population.

After the price of oil dropped from above $100 per barrel in 2014, Saudi Arabia enacted austerity measures, where ministries were instructed to cut spending on contracts by 5% in 2016. By mid 2017 was heading toward recession. The 2018 budget indicates that the government is reversing its strategy and recommitting to investing in the future. This may stimulate growth in the Saudi equity market, which had a disappointing 2017. Some cost cutting measures will continue. Gasoline will not be subsidized as much as it previously had been. The price of fuel is set to rise by 80% in January 2018. Increasing fuel costs can often slow economic growth, but because prices in Saudi Arabia are so low (about $10 for a full tank), this move suggests the government believes the population will continue to consumer at higher rates. In addition, Saudi Arabia is implementing new fees and taxes, included a valued added tax. This is a drastic new move, as previously the country has never collected personal income taxes.

Saudi Arabia is planning to run a deficit in 2018, but one that will be smaller than in 2018. In addition, the country claims to have about $48 billion in foreign reserves, which is money sitting in the treasury. All of this indicates a strong financial position in a world in which it is typical for industrialized nations to be in debt. While Saudi does hold debt, its net treasury is positive.

COMMENT The large budget, coupled with projections of a balance in six years, is indicative that Saudi Arabia is expecting significant growth in the near future. The financial information released by the Saudi government also provides a vision for the ongoing economic transformation and indicates where oil prices and energy equities are headed.

Economic analyst Ellen Wald sees the three primary drivers of this massive revenue growth to balance the growing budget in 2023: higher oil prices; higher tax/fee rates to increase revenue and a diversified economy and revenue source.

1. Higher oil prices would aid Aramco’s bottom line, but Aramco’s tax rate was cut from 85% to 50% last year, so higher Aramco profits would be less influential on Saudi revenues than they once were.

2. Saudi Arabia is trying to bring in more revenue through new taxes and fees, including a VAT, extra fees on expatriates working within Saudi Arabia and potential additional costs imposed on foreign businesses. However, new taxes and fees are not likely to increase revenue so much without also stalling economic growth.

3. It seems clear that Saudi is relying on plans for economic diversification to increase the revenue and build its capital. Saudi projections suggest non-oil GDP growth to be 3.7% in 2018. In 2017, Saudi’s non-oil sector grew by 1.5%. Therefore, these projections may be more optimistic than realistic, as non-oil sectors are underdeveloped, and far behind the petrochemical sector. That said, the non-oil sectors are at such a low baseline, so there is certainly plenty of room for growth.

There are a number of implications for foreign business in the 2018 budget. Whilst expatriates and foreign business will be subject to new taxation laws that may increase the operating costs of conducting business within Saudi Arabia, the strong financial situation of Saudi Arabia makes it economically stable to conduct business for foreign investors.

COMMENT ENDS
Fines for Saudi businesses late in filing for VAT

On 25 December, the General Authority on Zakat and Tax (GAZT) announced that any company with an annual revenue exceeding SAR 1 million ($266,666) that fails to register with the VAT system before the deadline will face a fine of SAR 10,000.

The GAZT urge institutions that have not registered yet to do so before January 1 2018 to avoid legal consequences. The consequences will not be limited to fines, but include other penalties related to violating the tax systems. The GAZT stressed that the penalty for not settling the payable tax before the deadline is equal to 5% of the value of the unpaid tax for each month.

The GAZT called for all institutions to present their tax-related documents and ensure the accuracy of the data, as providing inaccurate information to avoid tax may incur a strict set of penalties.

Any institution which is not registered with the VAT system and issues a tax bill will be fined a maximum of SR100,000, without infringing any more severe penalties stipulated in other systems. The implementing regulations of the Value Added Tax (VAT) system has defined exempted activities in the financial sector that include many types of transactions and services, such as interest on loans or lending fees charged with an implicit profit margin.

These exempted activities include loans, credit cards, mortgages, finance leases, banknotes or securities transactions, current accounts, deposits and savings accounts. The transfer of funds from the tax has also been exempted and charged to the transfer fees.

KSA launches new export bank

Energy, Industry and Mineral Resources Minister Khalid Al-Falih announced on 15 December the launch of a new export bank with SAR 30 billion in capital to boost Saudi Arabian exports. Khalid Al-Falih said SAR 5 billion was allocated to the new bank as the first capital payment.

Stressing the importance of government funding for industrial and mineral projects, Al-Falih said the capital of the Saudi Industrial Development Fund was increased from SAR 500 million to SAR 65 billion this year.

Half the Saudi population receiving welfare in new system

Saudi Arabia paid SAR2 billion ($533 million) on 21 December in the first monthly instalment of a new welfare system for low and middle income families that make up approximately 50% of the Saudi Arabian populations.

These payments come ahead of the introduction of a 5% VAT on most goods, as well as subsidy cuts that will raise the price of electricity and gasoline, that are coming as part of the Saudi Arabian 2018 budget.

Minister of Labour and Social Development Ali Al-said that bank transfers were made to approximately 3 million families, reaching around 10.6 million beneficiaries. He said half of those families received the maximum payment of SAR938 ($250). The minimum payment is SAR300 ($80).
Between 15 and 24 December 2017 Saudi Arabia’s Ministry of Health (MOH) 4 additional cases of MERS-CoV.

According to the MOH, the latest figures for 2017 bring the national total to 1,626 MERS-CoV cases, including 64 asymptomatic cases, 707 deaths and 7 patients still receiving treatment. On 21 November, the Ministry of Health announced two Saudi women, aged 75 and 77, died in Al-Qassim region the previous week. Notably, accurate accounting of MERS-CoV cases remains generally difficult because of historically poor reporting by officials and slow international confirmation.

The US CDC maintains an "Alert - Level 2" travel advisory for Saudi Arabia due to the risk of MERS infection. The CDC's "Alert – Level 2" advisory is the second of three advisory levels, notifying travelers of elevated risk at a destination, often associated with specific risk factors. This level also encourages travelers to take specific actions and emphasizes the need for travelers to enhance their usual health precautions - predominantly ensuring all vaccinations are current and diligence in personal health precautions, in the case of MERS. People with diabetes, renal failure, chronic lung disease, and immunocompromised persons are thought to be at highest risk and are advised to avoid contact with camels, consuming raw camel milk or camel urine, and eating meat that has not been properly cooked.
<table>
<thead>
<tr>
<th>DATE</th>
<th>EVENT</th>
<th>COMMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>19 Dec 2017</td>
<td>Saudi Government Forum</td>
<td>Conference</td>
</tr>
<tr>
<td>16 May - 15 Jun 2018</td>
<td>Ramadan</td>
<td>Religious observance - reduced working hours for public sector and some commercial organizations.</td>
</tr>
<tr>
<td>11 Sep - 12 Sep</td>
<td>Isla mic New Year</td>
<td>Public Holiday</td>
</tr>
<tr>
<td>23 Sep</td>
<td>Saudi National Day</td>
<td>Public Holiday</td>
</tr>
</tbody>
</table>
Constellis is a leading provider of risk management, protective security, crisis management and enabling support services to governments, international organisations and major corporations across the globe. We specialize in serving the energy, construction, extractives, critical infrastructure, development and national security sectors—assisting our clients in understanding risk and in conducting their operations safely and securely, no matter their location. Constellis takes pride in our strict adherence to an exacting code of ethics and rigorous focus on standards and compliance—reinforcing the pioneering role we play in fostering stability, efficiency and sustainable economic development.

Representing client interests around the world, we maintain operations in more than 25 countries as well as a global network of strategic and local partners. Connected via our state-of-the-art operations command and control centres, we provide a rapid response capability spanning North America, Europe, the Middle East, Africa and Asia. Constellis is headquartered in just outside Washington, D.C. in the United States, and possesses regional offices in the UAE, UK, Afghanistan, Iraq, Nigeria and Kenya. The core values underpinning our operating philosophy are the provision of international best practices while conducting all activities with respect for people, cultures and traditions; to uphold the principles of integrity, reliability and trust; to build capacity through knowledge transfer and to strengthen and empower local economies and communities.

Ultimately, our commitment is to prioritize local talent and local suppliers and to develop a profound understanding of the societal, legislative and operational situation ‘on the ground’. This affords us and our clients a unique freedom of movement and enables us to create safe and secure environments in a discrete and sustainable manner.

For more information about Constellis, please visit our website at: www.constellis.com
Constellis’ intelligence analysts and security consultants produce bespoke political and security reports, threat assessments and security risk assessments to inform decisions and to protect people and assets across the Middle East.

For more information on this report please contact:

James Borrelli
Programme Director
james.borrelli@constellis.com

For all enquiries on Constellis’ advisory & consulting services please contact:

Mark Allison
Vice President Crisis and Risk Services
Mark.Allison@constellis.com

www.constellis.com