



2016 Top Markets Report **Aircraft Parts** Country Case Study

Saudi Arabia

Saudi Arabia ranks 18th on our list of top markets for U.S. aircraft parts exports and is the largest market for aircraft parts in the Middle East region. The rapid growth of numerous Middle Eastern airlines has created a demand for parts and repair stations, which has fueled Saudi Arabia's aerospace parts import growth and will continue to do so for at least the next decade. Simultaneously, falling oil prices are more strongly impacting Saudi Arabia's budget than other Middle East countries, which will create uncertainty for several years. Saudi Arabia's large fleet of U.S. manufactured military aircraft requires parts for routine MRO activity but may also be impacted by potentially shrinking budgets. While the percentage growth of GDP in neighboring countries may be larger, Saudi Arabia's 5.3 percent average GDP growth from 2004 to 2014, its close ties with the United States, its ease of doing business in this sector and the growing demand for MRO services for aircraft operating in the region make the country an excellent starting place for U.S. manufacturers seeking to enter the Middle East market or for established exporters seeking new opportunities in the region.

Overall Rank

18

The rapid growth of numerous Middle Eastern airlines has created a demand for parts and repair stations, which has fueled Saudi Arabia's aerospace parts import growth and will continue to do so for at least the next decade. Saudi Arabia is the largest market for aircraft parts in the Middle East region. Due to the country's large fleet of operating aircraft and the high number of aircraft on order, as well as the six FAA-certified MRO facilities, Saudi Arabia generates an ongoing demand for U.S. aircraft parts.

Saudi Arabia also operates a large fleet of U.S. manufactured military aircraft that requires parts for routine MRO activity. While the percentage growth of GDP in neighboring countries may be larger, Saudi Arabia's 5.3 percent average GDP growth from 2004 to 2014, its close ties with the United States, its ease of doing business and the growing demand for MRO

services for aircraft operating in the region make the country an excellent starting place for U.S. manufacturers seeking to enter the Middle East market or for established exporters seeking new opportunities in the region.

Saudi Arabia is the leading importer of U.S. aircraft parts within a region experiencing rapid financial growth and customer demand. The combination of the country's economic diversification plan that hopes to stimulate domestic manufacturing, an ever-growing fleet of commercial aircraft, and a wide array of U.S. military aircraft creates opportunities for U.S. aerospace parts exporters. The country also boasts six FAA-certified commercial aircraft repair stations, clearly demonstrating its role as an important hub for MRO activity in the region.

Unfortunately, the decline in oil prices that began in mid-2014 is forcing Saudi Arabia to re-evaluate spending plans. As the world's largest oil exporter, Saudi Arabia's budgets are highly dependent upon oil prices but can withstand lower prices due to large reserve funds. The economy will need to diversify, which could imply an increased focus on airline expansion; however, reduction in fuel subsidies could mean lower profits in that sector. This uncertainty will remain until oil prices rebound closer to the range of \$100 per barrel.

Overview of the Aviation and Aerospace Manufacturing Market

U.S. aerospace parts exports to Saudi Arabia averaged over \$1.5 billion annually between 2004 and 2013. Parts represented 96 percent of Saudi Arabia's aerospace imports from the United States during that period. U.S. companies have established a dominant position in the country, with 59 percent of Saudi Arabia's aircraft parts imports originating from the United States.

Saudi Arabia has two domestic airlines. Saudi Arabian Airlines, a major international carrier, is growing quickly and operates a cross-section of 122 wide and narrow-body aircraft with another 80 large civil aircraft on order, as of January 2016. The airline serves over 80 cities in Europe, North America, Asia and Africa from five hub cities—Riyadh, Jeddah, Madinah, Dammam and Abha. Saudi Arabia's low-cost carrier, Nas Air, has mainly served the domestic market and is now solely flying 26 Airbus A320-200 passenger jets while expanding service into international markets in Europe, North Africa and South America.

Saudi Arabia is the second largest MRO market in the Middle East, behind the United Arab Emirates. With the local fleets in the Middle East expected to double in size over the next 10 years, Saudi Arabia has positioned itself through infrastructure development, funding and high-technology skills to become an increasingly important MRO market. Many of the current MRO providers benefit from Saudi Arabia's location, just a few hours' flight time from Europe, India and Africa. Western companies, such as Rockwell Collins, Bell, Bombardier, Cessna and Gulfstream, among others, have opened offices and facilities in Saudi Arabia, and many U.S. companies are now entering into joint ventures with local firms in order to position themselves for military procurements.

The Ministry of Defense and Aviation is responsible for the Kingdom's Army, Navy and Air Force, as well as for the construction of civilian airports. Unifying these activities within one organization allows sellers to more simply work throughout various sectors within one country. The \$11.3 billion King Abdulaziz International Airport expansion project in Jeddah intends to increase the airport's capacity to 80 million passengers per year by 2035, creating additional MRO activity with the corresponding sales opportunities for U.S. parts exporters. The first phase is expected to boost capacity to 30 million passengers and will begin operations in 2016.

The Royal Saudi Air Force utilizes a wide-range of U.S. military aircraft. The Air Force operates over 300 F-15 fighter aircraft, 42 C-130J transport aircraft, 61 Bell helicopters, 25 Cirrus trainers, 16 S-70 Black Hawks, several narrow and wide-body large civil aircraft, and a number of business jets (Raytheon King Air, Gulfstream, Lear Jet and Cessna aircraft), among others. Other government entities that make significant purchases of aircraft include the Ministry of Interior, the Saudi Arabian National Guard and the Saudi Red Crescent Authority. U.S. aerospace companies that produce parts for these aircraft have a natural market for follow-up sales.

Challenges and Barriers to Aircraft Parts Exports

According to the World Bank, Saudi Arabia is the 82nd out of 169 countries in terms of ease of doing business. The United States and Saudi Arabia, however, have neither a Bilateral Aviation Safety Agreement nor a Free Trade Agreement in place. Either or both of these frameworks would institutionalize obligations to the benefit of U.S. exporters. Saudi Arabia has taken other steps that partially mitigate the lack of these agreements. Saudi Arabia committed during its accession to the WTO to apply a zero rate of tariff on imports of goods related to the WTO's Agreement on Trade in Civil Aircraft. This includes aircraft parts and engines. As a result, U.S. companies do not face tariff obstacles in Saudi Arabia.

For government procurements, contractors are required to subcontract at least 30 percent of the contract's value to firms that are majority-owned by Saudi nationals and to establish a training program for Saudi nationals. The government may also favor bids that involve a joint venture with a Saudi company.

Thus, many U.S. companies have found it helpful to establish themselves in-country to increase their chances of success on government contracts. Due to the skilled, yet low-cost, labor in Saudi Arabia, this has generally provided an overall benefit for U.S. firms who have been able to stand up a presence there.

Opportunities for U.S. Exporters

U.S. aircraft parts and related products are very competitive in Saudi Arabia. The relative ease of doing business, zero tariffs and growing regional market make Saudi Arabia a good starting point for U.S. firms wishing to enter the Middle Eastern regional market. Many large companies are already established there and work closely with domestic companies throughout the sector.

Key activities and trade events include:

- MRO Middle East Show, Dubai World Trade Center, Dubai, UAE, February 3-4, 2016;
- Aircraft Interiors Middle East, Dubai World Trade Center, Dubai, UAE, February 3-4, 2016;
- Abu Dhabi Air Expo, Abu Dhabi, UAE, March 8-10, 2016;
- Middle East Business Aircraft Association Show, December 6-8, 2016;
- International Defense Exhibition, Abu Dhabi, UAE, February 19-23, 2017;
- Dubai Air Show, Dubai, UAE, November 12-16, 2017;
- Regional Gold Key Services; and
Global Aerospace Summit, Abu Dhabi, UAE, April 18-19, 2016.