



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

Saudi Arabia

Type: Modest Growth

Saudi Arabia was the 20th largest destination for U.S. auto parts exports in 2015, and the market has some, but relatively few, barriers for U.S. companies. U.S. parts exports are assumed to overwhelmingly be for aftermarket use, since Saudi Arabia currently has very limited local vehicle and parts production.

Original
Equipment
Rank

25

Aftermarket
Rank

13

In the recent past, Saudi Arabia's auto and auto aftermarket have developed at a robust pace thanks to the strength of the Saudi Arabian economy, favorable auto financing, low gas prices, high private consumption levels and a growing population. The recent decline in oil prices, announced spending cuts for 2016 by the Saudi Government, and weak global growth, however, are expected to negatively affect Saudi Arabia's economy, at least in the short term. This economic slowdown is likely to result in fewer new vehicle purchases but could positively impact auto aftermarket sales if vehicles are kept for longer periods of time.

Overview of the Automotive Parts Market in Saudi Arabia

Saudi Arabia is the largest auto market for both new and used vehicles and the largest auto parts market in the Gulf Cooperation Council (GCC). It is also the region's largest importer of automotive products with some of these imports being re-exported within the region. Currently, there is a small amount of local auto parts and truck production, but there is no light vehicle production. The majority of all types of vehicles and parts sold in the country are imported.

U.S. auto parts exports to Saudi Arabia have grown from \$273.1 million in 2010 to \$355.1 million in 2015. In 2013 (latest figures available), the United States was Saudi Arabia's fifth largest source of auto parts with 9 percent of the import market. Japan was the largest source, comprising 23 percent of the imports, followed by Germany, China and Korea.

There is a lack of official government statistics for new vehicle sales (passenger cars, commercial vehicles and trucks) in Saudi Arabia, but annual sales are estimated to be 900,000 for 2015, which is double the size from 2006. Sales are forecasted to increase to 1 million units in the next couple of years. Some of the popular passenger vehicles in Saudi Arabia include Toyota's Hilux, Corolla, Yaris, Land Cruiser and Camry; Hyundai's Elantra and Accent; General Motors' Yukon, Tahoe, Suburban and Impala; and Ford's Expedition, Ranger, Taurus and Explorer. Toyota is estimated to have over a third of total market share, and Hyundai has approximately a fifth of total market share.

According to Ward's, the country was estimated to have 4 million passenger vehicles and 2.1 million

Figure 1: 2015 Saudi Arabia Automotive Market

Sales (units)	870,000
U.S. Auto Parts Exports to Saudi Arabia	\$355,116,297
Total Saudi Arabian Auto Parts Imports	\$5,337,491,280
Total Domestic Vehicle Production	unknown
Vehicles in Operation	3,803,000
U.S. Auto Parts Export Growth 2009-2015	+30%

commercial vehicles on the road in 2013. This could increase to a total of almost 8 million vehicles in the next couple of years. There is a mix of both newer vehicles and older models. The most popular pre-owned vehicle brands are Toyota, Hyundai and Chevrolet, according to SellAnyCar.com.

Saudi Arabia's growing youth population, rising disposable income levels, favorable financing environment, and greater public and private sector investments have all contributed to Saudi's increased vehicle demand over the past few years. The recent slowdown in Saudi's economy, however, could decrease the growth rate for new vehicle sales over the next couple of years. For 2016, BMI estimates a growth rate of 4.9 percent. If consumers keep their vehicles longer, this could result in an increased demand for aftermarket repair parts.

The growth of vehicle sales and the increase in the number of dealerships and aftermarket distributors in Saudi Arabia have inevitably generated more demand for aftermarket parts. In addition, the region's demanding climate necessitates an increased need to regularly replace auto parts, such as tires and batteries. BMI reports that there are over 200 auto parts dealers in Saudi Arabia. Frost & Sullivan estimates that demand for aftermarket parts in Saudi Arabia could grow to \$5.5 billion by 2020.

Sales of commercial vehicles in Saudi Arabia are also expected to increase slightly. Frost & Sullivan estimates that there are approximately 750,000 trucks and buses currently in use in Saudi Arabia.

This is expected to increase to 1.2 million units by 2020. Therefore, demand for aftermarket parts for these vehicles is also expected to grow, reaching an estimated \$3.65 billion by 2020. Isuzu and Mitsubishi are estimated to have a 70 percent market share of the light commercial vehicle market.

In 2014, Saudi Arabia established corporate average fuel economy standards (CAFE) similar to the standards in the United States to reduce domestic oil consumption. The standards, implemented in 2016, aim to improve fuel economy in Saudi Arabia for total road transportation by 2025. The regulations are applicable until the end of 2020. Given the relatively large size of families in Saudi Arabia, these changes are not expected to significantly impact exports of larger American-made SUVs and light trucks, as well as their aftermarket parts. However, engine sizes are expected to decrease, and more fuel-efficient vehicles will be offered to comply with the standards. For example, Toyota just launched the Prius in Saudi Arabia.

In an effort to diversify the domestic economy by moving away from dependence on petroleum and to generate jobs for its young and growing population, the Saudi government is advocating for the development of a domestic automotive industry and has encouraged global vehicle manufacturers to establish local manufacturing. Currently, there is some limited local production and assembly of filters, radiators, batteries, hydraulic oils, lubricants, exhaust systems and converters. Also, Isuzu, Daimler, Volvo and MAN are assembling trucks on a small scale in Saudi Arabia. As automotive sales in the Middle East and North Africa grow, there is increased interest within the region to have global automakers establish local production.

Challenges and Barriers to Automotive Parts Exports

Saudi Arabia's industrial standards and conformity assessments are the most significant trade barriers affecting U.S. manufacturers. The Saudi Arabia Standards Organization (SASO) has issued numerous industry standards and regulations affecting the automotive industry. As with other imports, SASO mandates that a Certificate of Conformity is needed for the importation of auto aftermarket parts. Shipments arriving without a Certificate of Conformity will be rejected at the Saudi port of entry. In addition, labeling and marking

requirements are also compulsory for any products exported to Saudi Arabia. For example, the country of origin must be marked on all imported products.

U.S. auto parts suppliers have expressed difficulties with understanding Saudi's import requirements and with complying with the burdensome documentation and certification necessary for importing parts. In addition, U.S. exporters have also experienced customs clearance delays and enforcement inconsistencies.

The Saudi Arabian automotive market is highly competitive. The large number of global automakers selling in the market, as well as the market's growth, has aftermarket suppliers from around the globe competing for sales. In addition, currency exchange rates can obviously affect U.S. automakers' and suppliers' price competitiveness. Suppliers to Japanese and Korean vehicles have the greatest potential for volume sales, as these vehicles are estimated to account for almost 70 percent of the existing car sales.

Most used parts are banned from being imported into Saudi Arabia, including tires, but reconditioned engine and transmission parts are exempt if they comply with certified standards. The current ban applies to the import of auto parts over five years old as well as autos and light trucks (under five tons) over five years old.

Intellectual property protection has steadily increased in the Kingdom and anti-counterfeiting laws exist. In addition, the Saudi government has made efforts to stop counterfeit products from entering the country. The continued availability of counterfeit aftermarket parts, however, remains a concern for U.S. automotive companies.

Opportunities for U.S. Companies

Currently, there are relatively few barriers to exporting automotive products to Saudi Arabia beyond the conformity requirements previously mentioned. Since there is currently negligible automotive-related production in Saudi Arabia, auto-

specific protective barriers do not exist. In addition, auto sales growth, favorable demographics and disposable income levels, and low import tariffs and fuel prices contribute to good export potential for aftermarket parts to Saudi Arabia. The tariff for radiators and filters is 12 percent and is 5 percent for all other spare parts. There is no VAT or other taxes added to the sales price.

U.S. vehicle exports to Saudi Arabia are currently supported by Saudi Arabia's acceptance of vehicles produced to U.S. standards. Relatively few homologation changes are needed prior to export. Saudi Arabia currently is the fifth largest destination for U.S. exports of new passenger cars (by units) and the ninth largest destination for used vehicles (by units), which presents an opportunity for increased exports of U.S. aftermarket parts for those vehicles. U.S. exports to Saudi Arabia of new passenger vehicles and light trucks totaled almost 92,000 units with a value of \$3.1 billion in 2015. In addition, 15,500 used vehicles, totaling \$256 million, were exported from the United States to Saudi Arabia in 2015. Finally, the country was the fifth largest destination for U.S. exports of medium-duty and heavy-duty trucks.

Aftermarket parts for off-road vehicles and SUVs have excellent potential in Saudi Arabia. SUVs and 4x4 cars are especially popular in Saudi Arabia and there is a high level of interest in off-road and desert driving. Larger vehicles are popular in order to accommodate large families, and the Detroit Three excel in this competitive segment, particularly the larger SUV market. In addition, the recently implemented CAFE standards and higher gas prices in Saudi Arabia are likely to generate interest and demand for products related to increased fuel efficiency.

Given Saudi's high disposable income levels and an interest in modified/luxury vehicles, there is great demand for specialty performance and appearance products. U.S. companies command a leading position in the supply of transmissions, tuning and high performance parts and kits, steering, suspension, and brake components and parts.