

Franchising in Saudi Arabia

FRANCHISING IN SAUDI ARABIA

The World's first oil exporter opens to foreign investors

Counting more than 21 million consumers, Saudi Arabia represents the Persian Gulf's most important consumer market.

In December 2005, Saudi Arabia became the 149th member of the International Trade Organization. Saudi membership promotes foreign investment, including in the franchising sector, authorizing, at last, foreign investors to detain majority of the local companies' capital.

In 2006, foreign investment in Saudi Arabia reached 18 billion dollars. Saudi authorities consider Foreign Direct Investment as one of the most effective ways to diversify national economy and ensure employment to the young generations.

The adoption of a new investment Code in the year 2000 has created a new organism, the SAGIA (Saudi Arabian General Investment Authority) endowed with a very large jurisdiction over local or foreign investment inside the Kingdom. Every investment project is subject to the delivery of a license by the SAGIA.

Nowadays the economic expansion and development potential are still concentrated in the major cities of Riyadh, Jeddah and Al Khobar. The majority of the agreements executed in the franchising sector takes the form of a Master franchise or a license.

A favorable development potential

Every foreign franchisor willing to implant its franchise network in Saudi Arabia must have its concept operated as a franchise in its own country, during a minimum period of five years. It must be the real Franchisor and not a master franchisee of a third country.

The Saudi trade department supplies an official franchise contract model. If the parties are not legally bond by the use of this convention model, the franchise contract executed by the parties will have to be validated by the trade department's services.

No procedure equivalent to the French concept of "Information Précontractuelle" of the future franchisee or "disclosure document" is expressly mentioned by the Saudi rules.

Still, providing a disclosure document to potential franchisees is a good way of transmitting to the latter the network's essential characteristics.

More generally, a company must carefully elaborate an implantation procedure for its franchise network in Saudi Arabia. Some of the concepts will have to be adapted to the cultural and religious specificities including with regard to the strict gender separation principal or the control of images broadcasted as part of advertising campaigns.

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