

# At the crossroads

Millennia-old tradition and modernity co-exist in today's Saudi Arabia, a nation focused on economic development and diversification. Shown here is the capital city of Riyadh and the distinctive Kingdom Tower (at right), the nation's tallest building and one often called the "necklace" for its distinctive shape.

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## Inside

This comprehensive package of articles explores why Saudi Arabia is important to Boeing—and what Boeing is doing to position itself for long-term growth and success there.

**Relationships, potential:** Boeing continues to build upon its six decades of presence and relationships within Saudi Arabia. **Page 43**

**One company:** Why Boeing must take a cross-enterprise approach to doing business in Saudi Arabia. **Page 44**

**Aviation taking off:** Saudi Arabia sees transportation as a “priority sector” for investment. Here’s why that’s important to Boeing and its customers there. **Page 46**

**Partnerships matter:** Boeing is helping create a new Saudi university. Here’s why the company is involved—and what it means for the future. **Page 48**

**First-person perspective:** How respecting the culture of Saudi Arabia relates to Boeing employees representing a global company. **Page 49**

## A young, tech-savvy population. Interest in international investment, economic development, diversification. That’s why Boeing sees Saudi Arabia as a market of extreme importance

By MAUREEN JENKINS

Saudi Arabia is a place of stunning contrasts, where a rich, millennia-old culture with Bedouin roots coexists with urban landscapes and familiar Western landmarks such as Starbucks Coffee and KFC.

It’s a monarch-led country that owns 25 percent of the world’s known petroleum reserves and exports more oil than any other nation. Yet it’s seeking to move beyond its dependence on oil sales and equip its young citizenry with broad-based technological skills and well-paying jobs that will contribute to its pro-business economy.

Because economic development and diversification is a top priority for the Saudi government, it’s encouraging international investment and private-sector growth. Plans to create six “economic cities,” each with its own industry focus and located across the country, are helping lead the charge. In the past three years, for example, the kingdom has risen from No. 76 to No. 23 in the World Bank’s “Ease of Doing Business” in-

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—Shep Hill, President of Boeing International

dex and is currently ranked first in the Middle East.

That’s where global corporate partners like Boeing come in, doing far more than just selling commercial airplanes and defense solutions to the nation. Instead, through a memorandum of understanding with the Saudi Arabian General Investment Authority, privately owned joint ventures such as Alsalam Aircraft Co., and university partnerships, Boeing is leveraging its cross-enterprise expertise to make itself a valuable resource to Saudi Arabia.

Make no mistake: Saudi Arabia is a key strategic and high-priority market for Boeing, and the company continues to build upon its six decades of presence and mutually beneficial relationships within the kingdom.

“What we’re seeing [in Saudi Arabia], as in other places around the world, is the expectation of partnerships versus simply sales,” said Boeing International President Shep Hill. “From Integrated Defense Systems’ and Commercial Airplanes’ own standpoints, Saudi Arabia has the ‘3Rs’—requirements Boeing can uniquely fit; the resources to pay for it; and the relationships with Boeing that should give us a competitive advantage.”

But it takes more than just technical and business skills to succeed in Saudi Arabia, located in the often-volatile Middle East. It’s equally important that Boeing people understand the kingdom’s culture—one shaped by Islam, geopolitical change and shifting economic realities.

“To gain the know-how to operate in this kind of environment is going to take time, experience,” said Ahmed Jazzar, president of Boeing Saudi Arabia. “It takes the right attitude and right personality. Some people see the differences as only negatives; others see them as richness and diversity.

“For us to make Boeing global,” continued Jazzar, “we need to work very hard to make this understandable. We have to be accustomed to working in all these countries and different cultures.”

And Boeing is replicating this business philosophy around the world. ■

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# A Gulf 'giant'



ALSALAM AIRCRAFT CO. PHOTO

Workers at Alsalam Aircraft Co. perform inspections on an F-15 following a Programmed Depot Maintenance functional check flight. A Boeing-led consortium and local investors and companies founded Riyadh-based Alsalam 10 years ago.

## Saudi Arabia might be IDS' largest market outside the US, but a one-company approach is critical for Boeing

By MAUREEN JENKINS

Stanley Roth, Boeing International vice president of International Government Relations, calls Saudi Arabia “the giant on its side of the Gulf.”

This strategically important nation is the largest market for Integrated Defense Systems products outside the United States. With more than 100 F-15s, five AWACS (Airborne Warning and Control System) aircraft, seven 707 air refueling tankers, and 12 AH-64A Apaches that are being upgraded to D models, the Saudi military force is well-equipped with Boeing platforms.

Although IDS enjoys strong relation-

ships in the kingdom, Boeing leaders said it's especially critical the company take a cross-enterprise approach to doing business there. Joint Boeing Integrated Strategy Teams were created in 2005 to address the Middle East, India and Japan, ensuring business units were on the same page in key strategic world regions.

“The number of decision makers in Saudi Arabia is very, very small,” said Boeing Saudi Arabia President Ahmed Jazzar, and is the same for both IDS and Commercial Airplanes products. Any contract of \$30 million or more has to be approved by King Abdullah Bin Abdulaziz. Moreover, HRH Crown Prince Sultan Bin Abdulaziz is the minister of defense and aviation—and the chairman of Saudi Arabian Airlines.

“When they look at us,” Jazzar said, “they don't look at us as BCA or IDS. This is one place where we really have to be one team. I spend a lot of time with the teams from both business units on the business culture in the kingdom. I help in the strategies for different campaigns so there's an element that answers the (government) requirements.”

One such current campaign is fleet modification of Saudi Arabia's massive F-15 fleet, which could include new fighters and the upgrade of existing jets, said Michael Probasco, president of Boeing Middle East Limited, which handles IDS business development in the kingdom. “We want to replace their airplanes with new ones,” he said. Such a replacement sale could be worth \$10 billion. Then there's the possibility of selling 12 additional Apaches.

“One of the benefits we have as a company is a nice portfolio of systems developed for the United States that have been exported to other countries,” said Jeff Johnson, IDS vice president of Middle East and Africa business development. “That gives you a nice production run where Saudis can buy upgraded models off the shelf.”

Another Boeing advantage, said Johnson: Linking the AWACS, upgraded Apaches and F-15s, so the Saudi services have much better situational awareness. “NCO (network-centric operations) can be a big idea, so we're real focused on phasing this in based on aircraft we have in the-ater,” he said.

**SECURITY AND GROWTH**

For sure, the often-volatile Mideast region faces threats from terrorism just like other parts of the world, leading the kingdom to procure military products for self-protection.

“How do you stabilize the Gulf? You have to start with Saudi Arabia,” Roth said. “They want jobs for their young people and a sustainable economy. That fits very well with the Boeing model—to be a partner, with an emphasis on the word *partner*. It’s not just about sales.”

In January, IDS President and CEO Jim Albaugh attended and spoke at the Saudi Arabian General Investment Authority’s Global Competitiveness Forum in Riyadh. SAGIA sponsored this second Forum, featuring top executives from multinational firms and heads of state, to show companies the strategic benefits of locating and investing in Saudi Arabia.

Last spring, Boeing established a wholly owned subsidiary in Saudi Arabia, Boeing International Support Systems–Saudi Arabia Ltd. Its employees will provide engineering, depot maintenance, modifications and upgrade capabilities in support of several Royal Saudi Air Force programs, including AWACS and F-15.

The subsidiary was created to better support Boeing partner Alsalam, a leading maintenance, repair and overhaul (MRO) facility in the region. Alsalam, the prime contractor for maintenance programs to the RSAF, was founded in 1988 by a Boeing-led consortium and local investors and companies as an MRO service provider for the RSAF and regional commercial customers.

**ALSALAM’S SIGNIFICANCE**

When it comes to growth opportunities for Boeing within the country, Johnson said the past five years have been focused on support services and systems. Much of that work currently is performed by Alsalam, which performs heavy maintenance on F-15s and will complete upgrades on the Saudi AWACS fleet after the first is finished in the United States.

In Saudi’s economic transformation efforts, “the human element is the core,” said Fahd M. Hamidaddin, general director of SAGIA’s Marketing Sector. Thanks to work performed by Alsalam’s 2,600 employees—with the average worker in his 20s—Saudi fleets achieve self-sufficiency.

“These things that can be done more efficiently locally met [the government’s] objectives of industrial growth and jobs,” said

Probasco of Boeing Middle East Limited. “You’re creating a job that’s not going to be done in the States, yet you’re sustaining jobs in the States” by keeping aircraft lines open.

In addition, Probasco said this partnership takes “the direction of moving Boeing presence closer to the customer and facilitating solutions to the Kingdom’s problems.” It also helps the U.S. government’s relationship with a key Gulf ally, he noted.

With a profitable business since 2001, Alsalam President and CEO Mohammed Fallatah said the company enjoyed about 10 percent sales growth over the past two years. While 70 percent of its work is performed on Boeing platforms, Alsalam services Sikorsky UH-60 Black Hawks and European-

built Tornado aircraft, among others.

“What we really want is to take this to the second level, assembling airplanes and getting into the manufacturing,” Fallatah said. “We’d like to get into the support of airplanes in their totality and we have the resources available to do this, including a lot of young Saudi talent who are eager to enter the growing aviation industry in Saudi Arabia.”

Saudi officials have recognized the capabilities Alsalam has developed, Fallatah said: “When they come and see with their own eyes what we are doing and what we have done, they cannot believe we can do this in Riyadh.” ■

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**Saudi Arabia at a glance**

**Official name:** Kingdom of Saudi Arabia

**Location:** Middle East, bordering the Arabian Gulf and the Red Sea. Bordered by Iraq, Jordan, Kuwait, Oman, Qatar, the United Arab Emirates and Yemen. (Bahrain, an island, is linked by the King Fahd Causeway.)

**Area:** About 2,250,000 square kilometers (868,730 square miles). Nearly one-fourth the size of the United States.

**Population:** 27 million, including about 5.6 million non-nationals (July 2007 estimate)

**Language:** Arabic

**Religion:** Islam

**Capital:** Riyadh

**Other key cities:** Jeddah, Dammam, holy Islamic cities of Mecca and Medina

**Gross domestic product, 2006:** \$371.5 billion (2006 estimate)

**Estimated gross domestic product growth rate, 2006:** 4.3 percent

**Major export partners, 2006:** Japan, United States, South Korea, China, Taiwan, and Singapore

**Major import partners, 2006:** United States, Germany, China, Japan, United Kingdom, Italy, South Korea

**Key industries:** Crude oil production and petroleum refining (which represents 45 percent of GDP and 90 percent of export earnings). Oil is located in the country’s Eastern Province.

**Military spending as part of GDP, 2006:** 10 percent

*Sources: CIA World Factbook, Saudi Arabian General Investment Authority, Saudi Arabia Information*

# Taking to the air

Riyadh-based Sama, a low-cost airline that flies leased Boeing 737-300 jets, has become the kingdom's second largest carrier two years after launching service. Sama executives plan to aggressively grow the airline with additional airplanes and destinations.



SAMA PHOTO

## Strong aviation forecast as kingdom emphasizes transportation growth

BY MAUREEN JENKINS

Ever since the DC-3 first landed in Saudi Arabia in 1945—a gift from U.S. President Franklin D. Roosevelt to Saudi King Abdulaziz Al-Saud—Boeing, the kingdom and commercial aviation have been indelibly linked. This single airplane inspired the king to order more DC-3s, which led to the creation of Saudi Arabian Airlines, a state carrier that currently flies 83 Boeing single- and twin-aisle airplanes.

Much has changed since then, but what remains are strong relationships between Boeing and Saudi airlines. Those relationships put Boeing in an ideal position. With the government focused on economic expansion and sustained growth beyond oil revenues, the Saudi Arabian General In-

vestment Authority (SAGIA) has pegged transportation as a “priority sector” for investment and privatization.

The Saudi Arabian General Authority of Civil Aviation has opened competition and licensed two private low-cost airlines, Sama and NAS Air (a National Air Services company), to operate within the country. It's expected shortly to let private airlines operate chartered flights within the nation. And like neighboring nation the United Arab Emirates, Saudi Arabia intends to capitalize on its location at the crossroads between Europe, Asia and Africa.

“We think our geographical location is ideal not just to serve our region, but to be a launch pad [from] the region,” said Abdulaziz Y. Al-Babtain, SAGIA Director General of the Transportation Sector. “We can leverage our location between East and West.”

“This is a big country, with no railroad system to talk about,” said Boeing Saudi Arabia President Ahmed Jazzar. “And there are no water channels. The only practical means for transportation in the kingdom is aviation. It has the people

and the sustainable market from within.”

What does this mean for Boeing? Sama operates six leased 737-300 jets and is looking to bolster its fleet. Saudi Arabian Airlines is considering adding the 787 Dreamliner to its fleet. And Boeing Business Jets has had success placing VIP jets in the kingdom.

Outside the United States, the Middle East region has the largest business jet presence in the world, with 485 VIP aircraft currently in operation or on order. Boeing owns 57 percent of the single-aisle VIP market and 64 percent of the twin-aisle category, giving this region the largest combined Boeing Business Jets presence in the world. Within the Middle East, Saudi customers own the largest number of VIP jets.

With Saudi Arabian Airlines, “the opportunity for us is really with the 787 because it's perfectly mated to replace some of their Airbus A300 aircraft,” said Marty Bentrutt, Commercial Airplanes vice president of Sales for the Middle East and Africa. He added that Boeing hoped “to have an indication from the airline” within six months.

“There are a number of opportunities in work for VIP 787s,” Bentrout continued. “That will help put us in a competitive position. For Sama, we think the 737 Next-Generation will be a great tool of expansion. From the cargo standpoint, what you’re going to see is some replacement possibilities. There may be a market opportunity to place converted freighters into Saudi.”

BCA’s Current Market Outlook forecasts that the Middle East will need 1,160 new airplanes, valued at \$190 billion, over the next 20 years. And the potential market for airplanes inside Saudi Arabia over the same two decades is at least 150.

### HERITAGE, PRIVATIZATION

Just like the rest of Saudi industry, Saudi Arabian Airlines is embracing privatization as a means of long-term growth. And airline leaders believe competition from other domestic airlines will make the carrier stronger over time. As part of this effort, its maintenance, repair and overhaul, catering, cargo and ground service will be spun off into a subsidiary owned by a consortium of Saudi and other investors.

“We’re excited because the holding company will own substantial interest in a lot of businesses,” said His Excellency Khalid Abdullah Almolhem, the airline’s Director General. He said this new business model will not only offer more comfortable service and lower flight costs for fliers, but will allow the carrier to more actively pursue the lucrative haj and umrah market that delivers Muslim pilgrims to

the holy cities of Mecca and Medina.

As the airline shifts its brand strategy, said Abdulaziz Al-Hazmi, executive vice president of marketing, it will spend \$350 million to upgrade its Boeing 777 interiors and first-class cabins. It’s also overhauling its information technology system, upgrading its Web sites and call-reservation centers, and its Alfursan loyalty program. “That’s where it’s really going to be adding a lot of competitive advantage for us,” he said.

But one key trait won’t change: the airline’s commitment to education. It sends some workers for university degrees; some are sent to school for pilot or certified mechanic training. Even degree-holding employees “need to know what accounting, marketing, selling is all about, whether he’s an engineer, systems person, or a pilot,” Almolhem said. “We’re putting a lot of emphasis on training, because we are changing and we need to get people to change with us. All of this is moving toward getting people in shape to compete.”

The airline also is competing successfully in the cargo market. Flying eight 747-200s, -400s and MD-11s, its cargo operation has grown 6 percent in the last two years, said Cargo Sales & Services Vice President Fahad A. Hammad.

“Privatization can only improve the efficiency of our operation,” he said, “because it will modernize our infrastructure, our fleet and our ground support.”

### SAMA RIDES LOW-COST WAVE

Inspired by long-time Boeing customer

Southwest Airlines, Sama founders took advantage of the kingdom’s privatization push and beat out 15 other potential airline startups for a license. With \$15 million from 30 private and institutional investors, this low-cost carrier started flying leased Boeing 737s at the end of 2005.

In just two years, Sama has become the kingdom’s second-largest carrier. “We’ve really been picking up unsatisfied demand,” said Sama CEO Andrew Cowen, noting that the airline carried 500,000 passengers in its first six months. Sama employs pilots from Malaysia and Indonesia (they tend to be Muslim—and thus better fit with Saudi culture) and Brazil, and its call center in Riyadh is staffed entirely by Saudi women.

“We deliberately called it an Arabic name,” said Cowen about Sama, which colloquially refers to the “sky” or “majestic heavens.” “We wanted to create a home-grown Saudi brand. We wanted to get a buzz going, and I think it’s working.” Borrowing from the lighthearted spirit Southwest made famous, Sama remains respectful of its Saudi heritage while incorporating whimsy into its brand, from its Saudi National Day livery to its lively offices.

Very recently, the airline started flying international charter flights to seven destinations, including Sharjah and Abu Dhabi in the United Arab Emirates; Beirut, Lebanon; and Amman, Jordan—and Cowen said more will follow. To accommodate growing demand, Sama executives plan to boost their fleet to 35 airplanes by 2010. ■

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Saudi Arabian Airlines—which operates the Boeing 747-400 (above)—is in the midst of a groundbreaking privatization effort. While this will lead to increased competition for the large state carrier, airline executives believe the strategy will lead to strong, long-term growth.

TIM STAKE PHOTO

# Lesson well learned

How Boeing's role in a new university illustrates the value of building partnerships

By MAUREEN JENKINS

For Boeing in Saudi Arabia—as in other countries—doing business is about more than merely selling products and services. It's also about helping the kingdom develop a high-tech and aerospace infrastructure so that Saudi companies can support the products the nation buys, including those from Boeing. It also will help these companies develop technologies that will help them create—and compete in—new markets worldwide.

This assistance positions Boeing as a partner with the kingdom as it develops a key asset: its young population. And a well-trained future work force benefits the Saudi Arabian and Boeing high-tech supply chains, highlighting the company's global strategy of working with top technology providers across the globe.

That's the main factor behind Boeing's support of Alfaisal University, a Riyadh-based school scheduled to open officially in September, and that counts Boeing as a founding member. Boeing Saudi Arabia President Ahmed Jazzar is on the school's Board of Trustees. Not only does this involvement allow Boeing to be viewed as a long-term corporate partner of the kingdom, but it's one of the tangible outcomes of Boeing's industrial participation program in Saudi Arabia.

It's important that the company “look at offsets not as an obligation, but as an opportunity,” said Boeing International President Shep Hill. “You can access resources, talent and innovation.”



A physics instructor (right) assists two students from King Faisal Foundation's University Preparatory Program in preparing a lab report. Top-performing students at UPP will be able to pursue college studies at the new Alfaisal University, which officially opens its doors in September with Boeing as a corporate “founding member.”

One objective of this first private Saudi university is “Saudization,” or the government's goal of increasing the percentage of Saudi nationals in the work force while reducing its dependence on international employees. Today, about 20 percent of those living in the country are foreigners.

With its young population—the Saudi Arabian General Investment Authority says that 50 percent of the kingdom's citizens are age 25 and younger—Saudi Arabia knows it must develop viable, long-term employment options. Universities like Alfaisal, which will equip students with skills they'll need for the high-tech 21st century, play key roles in this strategy.

“Countries want technology; they want to move up the value chain. They don't just want to buy,” said Stanley Roth, Boeing International vice president of International Government Relations.

Alfaisal will use an engineering curriculum developed by international consultants from the Massachusetts Institute of Technology and the United Kingdom's Cambridge University.

“When we design curriculum, we are not hampered by old ways,” said College of Engineering Dean Ashraf M. Alkhairy.

And as technically skilled classes graduate from Alfaisal and move into the work

force, Boeing hopes eventually to tap into this expertise. Since September, many high-achieving high school graduates have been attending King Faisal Foundation's University Preparatory Program (UPP), which offers English language training and intensive academic coursework in key subjects. High-performing students at UPP, affiliated with Alfaisal, can pursue college studies at the new university or at other Saudi and international higher-learning institutions.

Maher A. Alodan, Alfaisal vice president for research, said he hopes to establish corporate-sponsor scholarships for students—as the university's cost is high relative to others in the region, which often are free. Another goal: exchange programs between students and corporations, which would send professionals to lead classes, workshops and conferences.

“What we would very much like,” Alkhairy said, “is for systems engineers at Boeing to come on site and teach and build internships into this. In addition, we want our students to be able to be licensed in the U.S. and the U.K. The outlook is really global. We want to be a world-class university that takes care of problems that are global concerns.” ■

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# When in Riyadh, do as the people there do



Boeing Frontiers writer Maureen Jenkins stands next to an aircraft display case at the Boeing Middle East Limited office in Riyadh, Saudi Arabia. She recently spent several days in the kingdom reporting on Boeing business activities.

## How a Saudi Arabia trip relates to Boeing as a global company

By MAUREEN JENKINS

*Editor's note: In this article, Boeing Frontiers writer Maureen Jenkins offers her opinions on how working in Saudi Arabia connects to the importance at Boeing of respecting cultural and social differences.*

As a writer for *Boeing Frontiers*, I've been fortunate to visit many countries. But when I told friends and family that I'd be traveling to Saudi Arabia, the reactions varied from fascination to fear.

The more adventurous couldn't wait to hear about my experience. Those who viewed the visit with trepidation wondered if I'd encounter danger as a Western woman traveling alone to a Middle Eastern nation with conservative views on female roles in society.

Nothing could have been further from

the truth. From the moment I arrived at King Khaled International Airport in Riyadh, I was treated like an honored guest. When Boeing employee Mohammed Ali greeted me, he presented me with an elegant *abaya* from Boeing Saudi Arabia President Ahmed Jazzar, as I would don the black floor-length gown and head scarf during interviews with Boeing executives, at Alsalam Aircraft Co., and with key Saudi customers in Riyadh and Jeddah.

(To comply with Saudi requirements that women be covered when out in public, I brought a couple of borrowed *abayas* with me from Chicago to wear when deplaning.)

As someone who's traveled—and moved—to the other side of the world by herself, I saw the trip to the kingdom as a welcome journey. After all, this should be what it means to work for a global company: a willingness to interact with people and cultures different from one's own. Rather than shrinking from such opportunities, why not embrace them as a chance to make one-on-one connections with customers who support our livelihood—and with diverse colleagues who share the

same passion for their work, albeit half a world away?

Granted, life is different in the kingdom for women—even professionals. They must be escorted by male relatives when out in public; they don't drive; they don't mingle with men socially or in the workplace. In restaurants, they must eat in "family sections," whether alone or accompanied by men. Although I'm an independent American woman, I could feel the general respect and courtesy afforded to females in Saudi culture, and during my short visit learned to appreciate the anonymity offered by my *abaya*.

Know that age-old adage, "When in Rome, do as the Romans"? I translated that to "When in Riyadh ..." and had a far richer experience than I would have if I'd tried to view everything through an Americanized cultural lens.

For sure, visiting Saudi Arabia is different from a work assignment in Italy, Spain or Japan. Indeed, it's nearly impossible for non-Muslim independent travelers to enter the kingdom. (Because the Boeing Middle East Limited office handled my visa application—and because I would be the guest of a well-regarded corporation—it was processed with no problem.) But that difference is the point. If we Boeing employees are going to be successful business partners around the globe, it's imperative that we become adaptable and willing to step out of our comfort zones. It's all about being respectful of cultural, social and religious differences, even when we don't always understand them. And that's just as true in our Boeing offices with our own colleagues, whether we work in Seattle, Seal Beach, Calif., or Seoul.

Months before my visit, retired Boeing International President Laurette Koellner traveled to Saudi Arabia and met with high-level officials, Saudi executives and Boeing and Alsalam staff during what Boeing International Vice President Stanley Roth called an "extremely positive" visit. The warm reception Koellner received from her Saudi hosts, Roth said, stemmed from her willingness and desire to fit in culturally during her stay.

Boeing builds products that connect the world and make it a smaller place. How appropriate it is for those of us who work here to build bridges of our own, one cross-cultural visit at a time. ■

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