Reciprocal benefits
Paving the road for greater Saudi-French relations

- **Saudi-French trade on the rise, with balance of trade favouring the kingdom. Saudi imports from France more than quadrupled, exports almost tripled between 1990-2008**

- **French FDI into Saudi Arabia surged five-fold between 2000-'08 on greater investments in energy, infrastructure**

- **France and Saudi Arabia have room for more collaboration in civilian nuclear energy**

Saudi Arabia has long benefited from its trade relationship with France, the balance of trade usually swinging in favour of the kingdom, which provided more crude oil to France last year than any other OPEC member. Foreign Direct Investment (FDI) into Saudi Arabia from Europe’s second-largest economy also surged five-fold between 2000 and 2008, during which period France’s total global FDI flows tripled.

The Saudi-French commercial and diplomatic relationship has involved reciprocal benefits. For France – the world’s fourth biggest arms exporter after the United States, Britain and Russia – Saudi Arabia is a crucial market for an arms industry striving to secure new business to support the strategic sector. The kingdom, embarking on a renewed military procurement programme, was France’s third-biggest customer of arms in 2008.

France is also well placed to collaborate with Saudi Arabia in its quest to develop civilian nuclear energy to meet growing domestic energy needs. A number of privately held French companies have also secured billion-dollar deals tailored to enable the kingdom boost to energy output and improve infrastructure. We view French President Nicolas Sarkozy’s visit to Saudi Arabia this month - his third trip to the Kingdom in less than two years - as an attempt to build upon these commercial and diplomatic interests.
Established trading ties

France already has a good basis from which to expand its role in Saudi Arabia and the wider Gulf. Among European countries, only Germany exports more to Saudi Arabia than France. In 2008, France was Saudi Arabia’s eighth largest source of imports, valued at SR15.24 billion, according to data of the Saudi Arabian Monetary Agency (SAMA). France’s share of total Saudi imports was 3.5% in 2008, having fallen gradually from 4.1% in 2000 as the kingdom’s imports more than quadrupled over the period, which was marked by an economic boom.

France accounted for 15% of Saudi exports to the European Union in 2008. France’s imports from the kingdom, comprised mainly of crude oil, amounted to SR18.6 billion in 2008, SAMA data show. The bilateral trade relationship has predominately preferred Saudi Arabia as a result of its oil exports, with the balance of trade swinging in favour of France only two times (in 1987 and 1998). Still, the delivery of military equipment has historically helped keep France’s trade deficit with Saudi Arabia under control.

Formal relations between Saudi Arabia and France date back to the mid-1920s. France has maintained a consulate in Jeddah since 1841, prior to becoming one of the first countries to recognize King Abdul Aziz’s government in 1926. Ties between the two nations strengthened during the early 1930s when France sent an economic delegation to the kingdom, followed by a diplomatic delegation in 1936.

After the Al-Jazirah Pact in 1931, France established a weapons factory in Al-Kharj – one of the very first in the greater Arabian Peninsula. The foundations of the current strategic relationship were laid by King Faisal and former President Charles de Gaulle in 1967. King Abdullah paid an official visit to Paris in July 2007 and President Sarkozy has visited the kingdom in January 2008 and again this month.

Surging FDI flows

France has been a considerable source of FDI into the oil-exporting Gulf region in the past decade. FDI flows into Saudi Arabia from France surged five-fold between 2000 and 2008 to 1.41 billion euros in 2008, according to data of France’s central bank, Banque de France. Saudi Arabia accounts for the Gulf region’s biggest share of French FDI to the region, attracting 45% of direct investments into five of the six Gulf states last year.

French investors have had their eyes on plans to expand oil production capacity and build infrastructure in the kingdom, which has embarked on a $400-billion stimulatory, state-financed investment programme that crosses many sectors. The largest, most-notable French investment is the Jubail
oil refinery, a joint venture between Saudi oil giant Aramco and France’s Total. The 400,000-bpd refinery is projected to cost more than $12 billion and come online in 2013. Also in the energy space, Industrialization and Energy Services Co has a joint venture with France Air Liquide for the supply of industrial gases in Saudi Arabia.

French companies are further contending for some big-ticket transportation deals that account for a key portion of the kingdom’s expansionary spending programme. France’s Alstom Transport has its sights set on Saudi Arabia’s major railway projects, including the 450-kilometre, high-speed Haramain Railway that will link Saudi holy cities Makkah and Medina. This and two other railway developments – including the 950-kilometre Landbridge line spanning east to west and the North - South rail linking Riyadh to the North close to the Jordanian border – are estimated to cost the kingdom SR26 billion each.

In early November, meanwhile, Saudi Arabian Airlines signed an SR10 billion contract with Airbus - part of Franco-German-Spanish aerospace group EADS - to purchase 58 aircraft with advanced facilities, including A320s, A321s and A330s, as part of the carrier’s efforts to modernize its fleet. This is a significant break from the norm for the national carrier, whose fleet was until recently comprised entirely of U.S.-built airplanes. EADS won a five-year contract in July to help enhance Saudi border security, months after European group and Saudi firm Al-Rashid Trading & Contracting signed a deal to install a razor-wire fence along the kingdom’s northern border with Iraq, spanning 900 kilometres.

Aeronautics exports account for roughly 57% of French exports, most notably contracts for the A330 MultiRole tanker and transport aircraft to Australia, Saudi Arabia and the UAE. Currently, France is holding discussions with Saudi Arabia for the sale of three FREMM multi-mission frigates. Despite the headway, Paris has failed to clinch a large fighter deal since the late 1990s, when the UAE bought 32 Mirage 2000-9 aircraft, thus justifying greater diplomatic efforts to endorse future sales.
Our view

In our perspective, France’s relationship with Saudi Arabia and the wider Gulf region is undergoing change as the country makes clear attempts to raise its profile in the world’s biggest oil-exporting region, which gained global prominence during this decade’s oil price rally. The Gulf lies within the geopolitical aegis of the United States and Britain, while France’s profile in the Middle East and North Africa (MENA) region has historically focused on the Levant and Maghreb. A foreign policy shift under Mr. Sarkozy’s administration has changed the name of the game and we see great potential for deepening bilateral ties between France and Saudi Arabia.

France’s overtures in the Gulf under President Sarkozy have become deeply commercial in nature, sometimes filling a vacuum created by the United States and Britain, which have suffered from a politically tainted popular image in the region. France’s Gulf military base in Abu Dhabi, inaugurated in May 2009, marked a small step toward enhancing its presence in the Gulf, with the support of Gulf Arab leaders. Up to now, France’s main military base serving the Gulf is in Djibouti, a former colony on the mouth of the Red Sea serving as a hub for its operations against pirates.

French foreign policy shifted last year with the adoption of a white paper that sought to better prepare the country for the multitude of complex global risks that have replaced conventional military threats. The paper identified a strategic geographical axis of priorities from the Atlantic to the Indian Ocean and marked a shift from the policies of former President Charles de Gaulle, which had stressed the independence of French foreign policy. Under Mr. Sarkozy, France has rejoined the military command of NATO, sent troops to Afghanistan and joined the international effort to protect vital shipping lanes in the Gulf.

By partaking in official visits to the region, Mr. Sarkozy is encouraging the sale of France’s Dassault Rafale jet fighters, satellite equipment and trying to push ahead a civilian nuclear contract. France has succeeded in selling its Rafale jet fighter to the United Arab Emirates and Qatar’s small-sized military is almost entirely equipped with French military equipment.

While France will continue to play an important role in the modernisation of the Saudi naval fleet, Saudi Arabia has had a traditional preference for U.S. and British-made jet fighters, which could disadvantage France in making any inroads in the medium to long-term. As U.S. congressional politics continue to make it more difficult for Saudi Arabia to procure advanced aviation technology for its jet fighters, Britain’s arms industry is well-positioned to get more business. Saudi Arabia’s 2006 purchase order for 72 Eurofighter Typhoon aircraft from Britain is a key symbol of this.

Still, the kingdom’s purchases from France were significant enough to make it the third-biggest market for French arms last year. France’s arms sales rose 13% in 2008 to an eight-year high as it sold 6.58 billion euros of arms into the world market.

![France’s trade balance with key trading partners, 2008](image-url)
Nuclear energy cooperation

On the energy front, we see more room for collaboration between the two countries, especially on civilian nuclear energy. The Gulf and wider Middle East are becoming more aware of the importance of using nuclear technology to meet growing energy needs. The Gulf has the potential to provide an estimated $40 billion in contracts for civilian nuclear plants, while Egypt and Jordan also have plans to build nuclear power facilities.

Egypt signed a cooperation agreement with Russia last year, and Libya and Algeria have reached similar deals with France. The French government has also reportedly promised assistance to Qatar and Morocco to launch nuclear programmes. Although the process will be long (an average nuclear power generation plant takes about seven years to be installed), the region is moving in that direction. France appears to be more proximate than others (the United States, Canada, South Korea and Japan) in the UAE to provide the entire nuclear know-how.

While Saudi Arabia’s position on nuclear energy remains to be seen, France is well-placed to help the kingdom as it looks to build its first nuclear power plant to meet surging power demand to support economic growth. French Economy Minister Christine Lagarde said in June heads of state of the two countries could sign an agreement soon on a civilian nuclear energy programme.

French nuclear power is efficient and low-cost – which helps make the country’s electricity tariffs the lowest in Europe. Saudi Arabia, meanwhile, needs to diversify its energy sources, reducing current and future fossil-fuel power generation. The nuclear electricity sector could be a viable option for the kingdom as we estimate Saudi Arabia will require at least 30 gigawatts (gw) of additional power-generating capacity by 2025. The bulk of this new capacity should be nuclear energy.

Taking part in the infrastructure boom

We regard French companies as being favourably positioned to take part in the multi-billion-dollar expansion of the kingdom’s rail system. For locomotives, competition remains between Spanish, French, U.S., German and Chinese firms. Already, U.S.-based Electro-Motive Diesel (EMD) has secured a contract build trains for the North-South rail line. Spanish train builder CAF Group and French firms like Alstom are well-placed to win others.

While commercial ties have clearly grown, the development of Saudi-French cultural and educational ties has faced some hurdles due to the language barrier. There are more than 26,000 Saudis pursuing higher studies in the United States and 8,700 in Australia, but only 800 in France (a significant number of these are Saudi doctors who are on specialized training courses and research). Still, France continues to be a popular holiday destination for well-to-do Saudis, with some 35,000 visiting France last year.

Both members of the G20, France and Saudi Arabia could also collaborate more closely to further their respective and complementary interests in bringing stability to the global economy and reforming financial institutions. France has been active in calling for greater regulations of the global

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Top world arms exporters, 2007

- **United States**: 49%
- **United Kingdom**: 15%
- **Russia**: 8%
- **Israel**: 6%
- **France**: 7%
- **Other**: 15%

**Source**: France Ministry of Defence
financial system, while Saudi Arabia has sought to bring balance to global energy markets. Also, Saudi Arabia is of the view that there has to be better representation in the international financial institutions but not at the expense of other emerging and developing countries. It should come from the share of developed countries that are overrepresented.

We view France’s drive to become more involved in the Gulf during the Sarkozy era as an attempt not only to push its political agenda but also to greatly enhance the chances for French firms to conduct business in a region where states are spending oil windfalls to build infrastructure, upgrade military technology and diversify energy resources. France’s business-focused approach is bearing fruit in the region, both in military procurement and civilian trade. The fact that France’s trade with Saudi Arabia has grown almost four-fold since 2002 is one very clear testament of this, although it is fast becoming only a segment of a much more multifaceted, mutually beneficial relationship.
Disclosure appendix

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2 - All market data included in this report are dated as at close 15 November 2009, unless otherwise indicated in this report.
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