

Saudi-German Trade Relations

Good business, good figures, good football.

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Disclaimer

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- ▶ **Germany is the Kingdom's largest trading partner in the European Union**
- ▶ **Imports from Germany are expected to reach a record high in 2007**
- ▶ **The 2006 World Cup sparked an increase in Saudis visiting Germany**

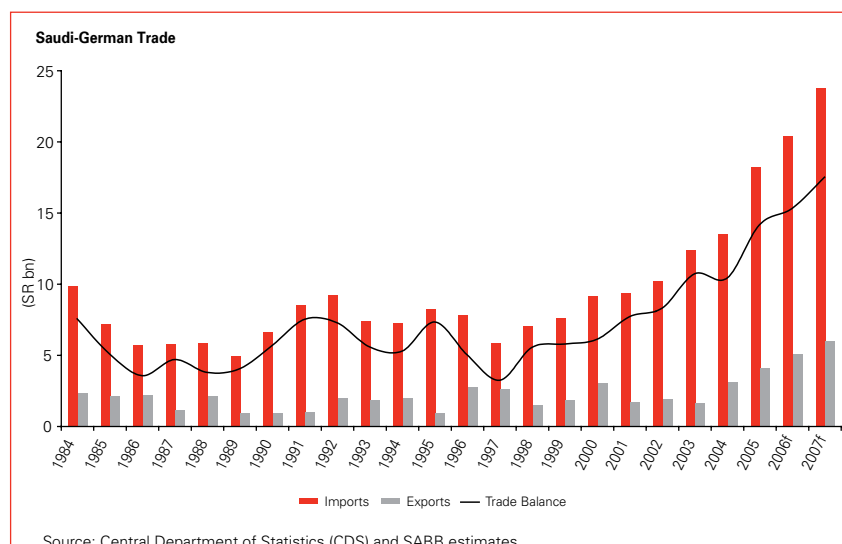
Deep roots

Saudi-German trade has a long history and historic roots. Formal ties between the two countries can be traced back to 1926, but relations were significantly strengthened by the Najd Treaty in 1929 (before the formation of the modern Saudi state) and by the appointment of a German Consul General in Jeddah two years later. The first Saudi monarch to visit Germany was King Saud in 1959.

Of the 25 nations which make up the European Union, Germany is the Kingdom's leading trade partner. Worldwide, it ranked third – after the USA and China – among the sources of imports into Saudi Arabia during 2006.

This ranking has been maintained over the past few years, despite the rise of China to become the Kingdom's second largest trading partner and the fall of Japan to the fourth slot. The gap between German and Japanese imports, however, is very small – and does not represent a significant shift in trading patterns.

Future years are expected to see China rapidly increase the variety and market share of its exports to the Kingdom, further widening its lead over both Germany and Japan.



Ventures and volumes

Saudi Arabia is one of Germany's largest economic partners in the Middle East. Some 220 German companies are currently active in the Kingdom and, according to the latest available data (2005), there were 120 joint-venture firms with a total capital value of SR 13.4bn (\$ 3.5bn) – of which 63% was in the hands of Saudi investors.

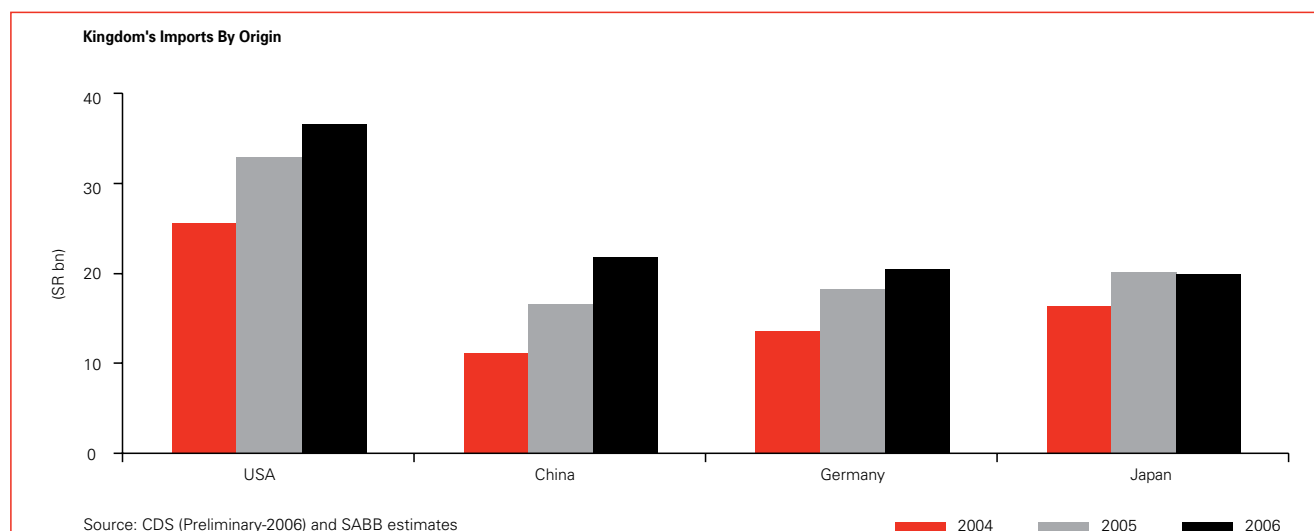
In fact, since 1975, the period of fastest capital growth in these joint-ventures was at the start of the new century. During the entire decade of the nineties, a mere SR 1bn (\$ 266m) had been invested in Saudi-German initiatives; but the five-year period up to 2005 saw a 65% increase in the number of joint-ventures and a rise of more than 1200% in the amount of capital invested.

This has helped boost the overall level of German exports to Saudi Arabia. Since 2000, the figure has increased by 124% – Western Europe's second-highest rate of export growth (after Austria, which saw its exports rise from a

very low base by 387% over the same period). German exports to the Kingdom grew from SR 9.1bn (\$ 2.4bn) in 2000 to a record high of SR 20.4bn (\$ 5.4bn) in 2006 (preliminary figures).

Since 2004, this growth has coincided with the second boom in the Saudi economy – with imports from Germany increasing by 51% in that three-year span. We forecast further growth in excess of 16% for 2007, taking the figure to SR 23.8bn (\$ 6.1bn).

Although the UAE is officially Germany's leading economic partner in the region – with German imports amounting to SR 27bn (\$ 7.2bn) in 2006 – we believe that the Saudi figure does not reflect full picture. As in the case of UK imports, a large amount of German products enter the Kingdom through neighbouring GCC countries in the form of re-exports. We estimate that around SR 2.9bn (\$ 773m) worth of German goods was trans-shipped via other GCC countries in 2006. During that year, Saudi Arabia's imports from the GCC rose by 19.3% to SR 30.6bn (\$ 8.1bn).



Market drivers

Germany's main exports to Saudi Arabia are machinery (29%), motor vehicles and parts (16%), electrical goods (8%) and pharmaceuticals (4%).

It's true to say that German automobiles occupy a special place in the hearts of many Saudis. Yet, despite a 14% rise in vehicle sales across the Kingdom since 2005, German luxury cars do not command the same leading position in the Saudi market which they enjoy in the UAE. In fact, it is Japanese automobiles that dominate – with a 35% market share in the Kingdom, against a mere 5.3% for German cars (SABB figures 2006).

However, German companies have traditionally dominated sales of new trucks (110,000 in 2006, according to SABB figures, which represents one of the largest commercial-vehicle sectors in the region). The truck market looks set to expand further, fuelled by the boom in construction projects across the Kingdom.

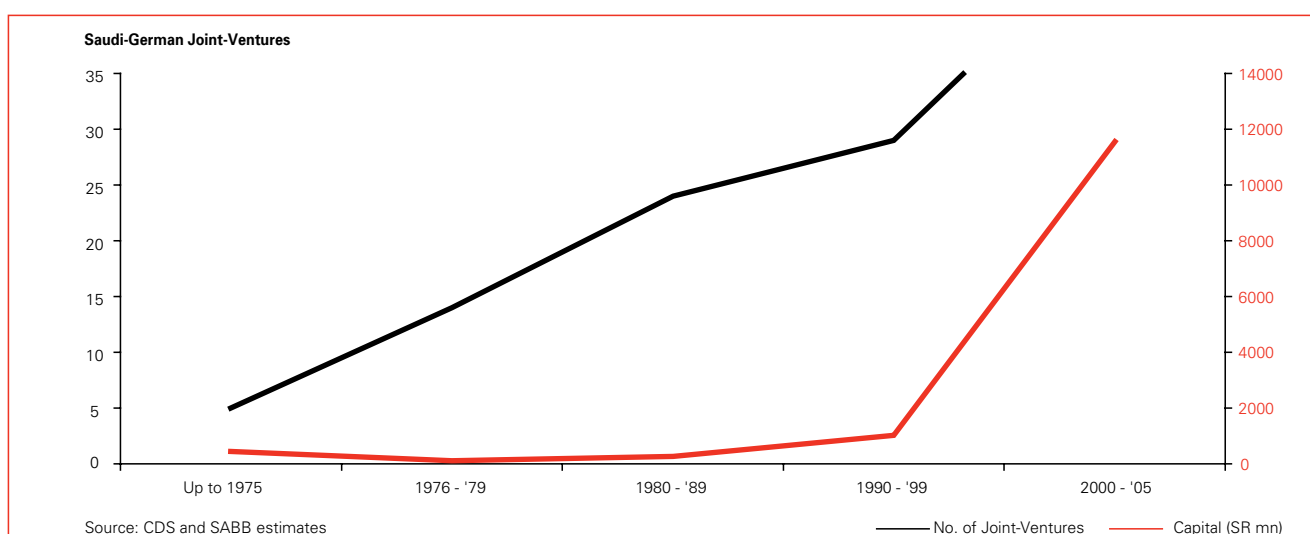
Since 1977, Mercedes-Benz has run a joint-venture with the local National Automotive Industry, producing up to 8,000 heavy-duty trucks a year at its plant in Jeddah – one of the two truck-assembly plants in the Kingdom.*

Oil exports

For more than two decades now, the balance of Saudi-German trade has favoured German exports – due largely to Germany's low level of oil imports from the Kingdom.

Only in the past three years has an increase in the volume and value of Saudi exports helped alleviate somewhat that rising German trade surplus. At the same time, EU-25 exports to Saudi Arabia, as a whole, are moving into surplus as the EU increases exports in line with the Kingdom's booming economy.

In 2006, we estimate that Saudi exports to Germany grew by 25% to SR 5.1bn (\$ 1.3bn) – from SR 4.1bn (\$ 1.1bn) the previous year. For 2007, we forecast a near-24% increase to



* Arabian Vehicles and Trucks Industry (AVTI) runs the second plant and builds up to 1,000 Volvo trucks per year.

SR 6.3bn (\$ 1.5bn). The Kingdom's exports to Germany are predominantly oil-based (around 76%), with the remainder comprised largely of machinery (13%) and plastics (6%).

From the mid-80s to the mid-90s, Saudi exports to Germany never broke through the SR 3bn (\$ 800m) barrier. Indeed, they dipped below the SR 1bn (\$ 266m) mark in 1989 and 1990, despite high oil prices, and did so again in 1995. But in the following two years – as oil prices rose further – Saudi exports surpassed SR 2.6bn (\$ 693m) for the time in the Kingdom's trade relations with Germany.

Although oil prices have again significantly increased since 2003, the volume of Saudi oil exports to Germany has remained static. Saudi Arabia meets less than 3% of German oil needs, with Syria supplying a little over 3%. While the OPEC countries as a whole provide 23.1% of its annual consumption, Germany is now highly dependent on Russian-controlled oil. In 2006, Russia supplied 36.9% – with a further 9.7% sourced from the Central Asian Republics (mainly Kazakhstan) and delivered via Russia.

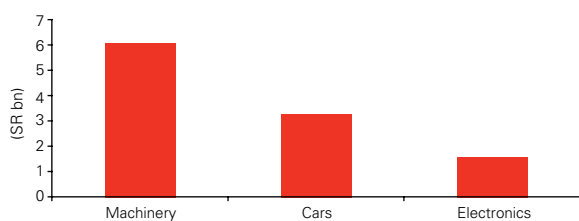
New goals

As host country of the 2006 football World Cup, Germany received many visitors from the Kingdom – with some 17,000 visas issued to Saudis that year. As of early November, over 12,000 visas (both Schengen and German visit visas) have been issued in 2007. Conversely, about 1,500 Germans currently live and work in Saudi Arabia.

Saudis are also increasingly interested in studying in Germany. About 160 students from the Kingdom are currently pursuing higher degrees in the country, many being Saudi-government scholarship holders. There were only 50 students in 2005, when the scholarship programme was launched; but by 2006, almost 80 outstanding school-leavers had been selected and sent by the Saudi Ministry of Higher Education to study at universities in a number of German cities.

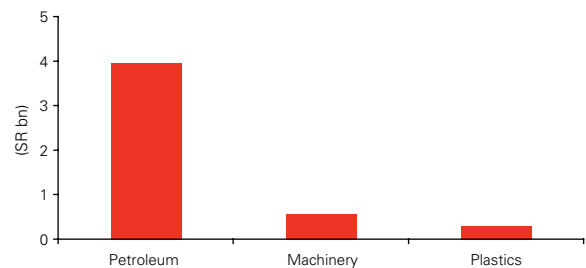
Over the next few years, the Government plans to further increase the number of these scholarships. Shared thinking and the exchange of ideas, it is hoped, can become the seeds of future cooperation and trade growth.

Key German Exports to Saudi Arabia 2006



Source: CDS (Preliminary) and SABB estimates

Key Saudi Exports to Germany 2006



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