

## Multiple Factors Ensure Robust Saudi Defense Market

NEWTOWN, Conn. [May 19, 2008] — Faced with both internal and external threats to its security, Saudi Arabia will continue to boost defense spending significantly over the coming years according to a new military market study by Forecast International. Record-high oil prices, substantial influxes of energy revenues and an unyielding global demand for Saudi petroleum, meanwhile, will continue to serve as enablers for the Saudi regime to expand its procurement horizons.

Although defense spending among its fellow Gulf Cooperation Council (GCC) partners could peak over the coming years, Saudi Arabia is unlikely to see any such slowdown in the near future and will instead continue serving as the locomotive for Middle East defense growth.

Saudi defense and security spending – estimated by Forecast at around \$36 billion for 2008 – will reach almost \$44.5 billion by 2012. Together with Israel, Saudi Arabia represents the biggest defense market in the Middle East. Unlike the Israelis however, the fledgling Saudi defense industrial base is limited primarily to maintenance work thus leaving Riyadh heavily dependent upon international suppliers for its equipment. As a result the Saudi market is not only the largest for defense equipment in the Middle East, but one of the largest worldwide.

In the area of procurement the Saudis have recently launched a host of big-ticket programs, including the roughly \$9 billion contract for 72 Eurofighter Typhoon aircraft from the U.K. (dubbed Project Salam), a \$2.2 billion purchase of 150 Russian-built Mi-17 and Mi-35 helicopters, an agreement for three EADS-Airbus A330 multi-role tanker/transport aircraft, and a \$180 million air-defense protection system (Al Madhallah) with Thales.

There are also a slew of potential U.S. Foreign Military Sales (FMS) including a \$630 million contract for light-armored vehicles, a \$220 million contract for AN/AAQ-33 SNIPER advanced targeting pods for the Royal Saudi Air Force's F-15 jet fighters, and the controversial \$123 million potential contract for Joint Direct Attack Munitions (JDAMs) kits.

Meanwhile, the Saudi government is attempting to rectify its defense industrial shortcomings, partly by increasingly insisting on offsets and technology transfers as conditions for arms purchases. The defense ministry is also initiating a program to domestically-produce spare parts for its weapons platforms, and a 'Saudization' process whereby a shortage of

technically-qualified workers is filled through increased ranks of trained, qualified Saudi workers.

Despite these initiatives progress in developing the Saudi defense sector is slow and its projects and workforce remain foreign-dominated. One significant exception has been Riyadh-based Alsalam Aircraft Company (AAC), which is to provide final-assembly for 48 of the 72 Eurofighter Typhoons being purchased from the U.K.

As for Saudi defense spending itself, various factors are combining to drive it upwards - most prominently the issue of Riyadh's relationship with Iran. Unnerved by Iran's nuclear ambitions, increasing territorial sway, and the appeal of the Iranian leadership's radical Islamic worldview within select quarters of the Arab Middle East, the Saudis remain locked in a power struggle for regional influence with Iran. Riyadh is attempting to counter Tehran's distinct manpower edge through the technological superiority of its defense inventory. Detering potential Iranian military threats is one concern; another is halting any extension of Iranian influence throughout the greater Arab Middle East.

"The Saudis are nervous that a fixed Shiite line running from Tehran through Baghdad and into Damascus will provide Iran with a Shiite bulwark opposing the Sunni-dominant nations to the south," said Forecast Middle East analyst Dan Darling. "As a response they are positioning themselves as the primary obstacle to Iranian expansionist designs and using their edge in military hardware as but one hammer of deterrence in their geopolitical toolbox."

Internal concerns are spurring Saudi defense/security expenditure as well. Al Qaeda sleeper cells, domestic unease with the ruling regime, and the possibility that jihadists returning from Iraq will unleash honed guerilla skills upon the state all combine to present significant worries. So does the threat of terrorist attacks on Saudi Arabia's energy infrastructure. One such failed attack occurred in February 2006 at the Abqaiq oil-processing facility, resulting in a day-after 4 percent spike in the price of a barrel of light crude oil. Awoken to the threat, the Saudis are currently creating a 35,000-strong oil infrastructure security force to be in place no later than 2010.

All of these factors serve to drive Riyadh's defense expenditures upwards, with little end in sight.

"Iran is not going anywhere, oil security will always be a distinct concern, and socio-economic domestic pressures will continue to build unless job creation matches population growth," said Darling. "Therefore it has to be assumed that Saudi defense and security spending will continue expanding unabated. The Saudis have been spending roughly a third of their annual

national budgets in this area, and even if one were to estimate more conservative future budgetary allocations the trend in defense expenditure would remain sharply upwards. Despite Saudi King Abdullah's efforts at funding needed internal reforms investment in national security will continue apace. "

Forecast International, Inc., is a leading provider of Market Intelligence and Analysis in the areas of aerospace, defense, power systems and military electronics. Based in Newtown, Conn., USA, Forecast International specializes in long-range industry forecasts and market assessments used by strategic planners, marketing professionals, military organizations, and governments worldwide. To arrange an interview with Forecast International's editors, please contact Ray Peterson, Vice President, Research & Editorial Services (203-426-0800, [ray.peterson@forecast1.com](mailto:ray.peterson@forecast1.com)).