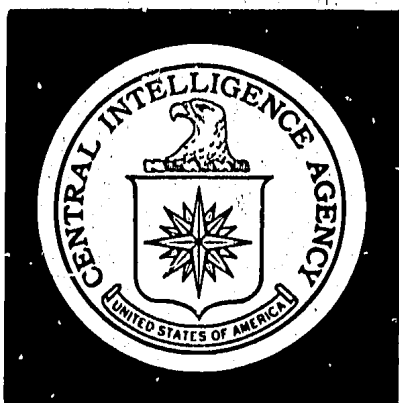


Declassified in Part - S IN ARAB WORLD 25X1
Sanitized Copy Approved for
Release 2011/10/31 : 
CIA-RDP85T00875R00160003


Declassified in Part -
Sanitized Copy Approved for
Release 2011/10/31 : 
CIA-RDP85T00875R00160003


CIA/OER/IM 70-145 ~~Confidential~~

25X1



DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

French Economic Interests In The Arab World

~~Confidential~~

ER IM 70-145
October 1970

Copy No. 47

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
Excluded from automatic
downgrading and
declassification

CONFIDENTIAL

25X1

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
October 1970

INTELLIGENCE MEMORANDUM

French Economic Interests In The Arab WorldIntroduction

French determination to become more active in the Mediterranean area has focused renewed attention on France's political, economic, and cultural ties with the Arab states. Once an important market for the French, the Arab world is of immediate economic importance to France as its principal source of crude oil.* The French apparently fear that increasing nationalism, growing Soviet influence, and, possibly, an East-West confrontation in the area might endanger the vital flow of oil. This fear is one of the major factors underlying France's efforts to enhance its position in the area. In the longer run, the French look forward to an easing of tensions in the Middle East that might provide opportunities for an increase in French exports to the Arab world.

* *The term Arab world as used in this memorandum embraces (a) North Africa -- Algeria, Libya, Morocco, and Tunisia, and (b) the Middle East -- Egypt, Iraq, Jordan, Kuwait, Lebanon, Saudi Arabia, Syria, Yemen, and the Persian Gulf sheikdoms. The term Maghreb refers to Algeria, Morocco, and Tunisia. Use of the term Maghreb implies only a geographic association.*

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence and the Office of National Estimates.

CONFIDENTIAL

25X1

CONFIDENTIAL

This memorandum examines French economic relations with the Arab world and the short-term prospect for their expansion in support of French policy objectives in the area. It reviews France's key interest in crude oil and examines the main trends in French-Arab trade (including the special case of arms sales) and in flows of investment and foreign aid to the Arab world.

Background

1. France developed pervasive influence in the Arab world through its colonial possessions in North Africa -- Algeria, Morocco, and Tunisia -- and, following World War I, its mandates in Lebanon and Syria. Although French cultural prestige remains strong, particularly in the Maghreb, political and economic influence was seriously eroded by growing Arab nationalism, French participation in the abortive Suez campaign of 1956, the long and bloody civil war in Algeria, and most recently the rapid rise of Soviet influence. Nevertheless, in addition to its oil interests in the Arab world, France retains many economic links with the Maghreb and Lebanon.

2. De Gaulle sought to reestablish France's "special relation" with the Arab world. This was facilitated by the negotiation of the Evian Accords in 1962 which recognized Algeria's independence and brought to a close the Algerian crisis. During the early and mid-1960s, De Gaulle was able to improve French political relations with the Arab countries while continuing French military assistance to Israel. His decision to embargo the shipment of arms to the belligerents in the June 1967 Arab-Israeli war -- a move that adversely affected only Israel -- represented a marked and overt pro-Arab shift in French policy. More recently, Pompidou's statements concerning the political importance of the Mediterranean, the continued embargo on arms shipments to Israel, and the increased French efforts to sell military equipment to selected Arab states all indicate a broadening of the policy to restore and expand French influence in the Arab world.

CONFIDENTIAL

CONFIDENTIAL

3. The principal immediate economic objective of improved relations with the Arab world is to secure an uninterrupted flow of oil. France depends on imports to meet virtually all its crude oil requirements, and the Arab countries account for more than 90% of French crude oil imports. Because the rising tide of nationalism, Soviet influence, and anti-Western feeling make the Arab world an increasingly unreliable source, Paris is making strenuous efforts to develop alternative sources. But prospects are dim. In the foreseeable future, the Arab countries will remain the only ones capable of meeting the rapidly growing French demand for crude oil.

4. The French have no illusions that the Arab world represents a promising market ripe for immediate expansion. They believe, however, that their present pro-Arab stance will give them an advantage over other Western powers in seizing whatever opportunities might arise for increasing sales to the area in a post-crisis era. An increase in exports is seen as one means of enhancing French influence and offsetting some of the rapidly rising costs of oil imports.

French Trade With the Arab World

The Rising Import Bill

5. With French demand for petroleum products rising at an average annual rate of over 12%, crude oil imports from Arab countries more than doubled -- from \$530 million in 1960 to \$1.3 billion in 1968. Total French imports from the Arab world rose more slowly -- from \$1.2 billion in 1960 to nearly \$1.7 billion in 1968, or about one-third (see Table 1). French purchases of Arab goods other than oil -- primarily fruits and vegetables, wine, and selected minerals from the Maghreb -- fell from \$680 million to \$421 million. France's failure to live up to the terms of its wine agreement with Algeria, one of the continuing irritants in Franco-Algerian relations, was the major cause of this decline. Under strong pressure from domestic wine growers, imports of Algerian wine fell from \$235 million in 1960 to about \$50 million in 1968.

Table 1
French Foreign Trade With the Arab Countries a/

	Million US \$						Percent Change			
	Exports			Imports			Exports		Imports	
	1960	1964	1968	1960	1964	1968	1964/1960	1968/1964	1964/1960	1968/1964
Total French trade	6,868	8,997	12,708	6,284	10,073	13,986	31	41	60	39
Of which:										
All Arab countries	1,528	907	993	1,210	1,409	1,674	-41	9	16	19
Maghreb states	1,418	790	720	780	910	787	-44	-9	17	-14
Algeria	1,093	495	471	514	610	557	-55	-5	19	-9
Morocco	200	187	169	196	232	189	-6	-10	18	-19
Tunisia	125	107	80	70	68	41	-14	-25	-3	-40
Other Arab countries	110	117	273	430	499	886	6	133	16	78
Egypt	29	17	64	12	16	16	-41	276	33	0
Iraq	2	5	20	158	151	270	150	300	-4	79
Kuwait	6	7	12	142	176	126	17	71	24	-28
Lebanon	35	45	75	2	2	4	29	67	0	100
Libya	11	16	30	Negl.	45	175	45	88	--	289
Muscat and Oman	0	1	15	0	27	150	--	1,400	--	456
Qatar	Negl.	1	2	35	28	61	--	100	-20	118
Saudi Arabia	4	6	19	65	42	76	50	217	-35	81
Syria	18	13	24	16	10	7	-28	85	-38	-30
Others	5	6	12	Negl.	2	1	20	100	--	-50

a. Because of rounding, components may not add to the totals shown.

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

Export Trends

6. French exports to the Arab world -- primarily machinery and manufactured consumer goods -- followed two distinct patterns during the 1960s. Reflecting the severance of colonial ties, exports to the Maghreb declined nearly 50%, with most of the decline occurring between 1960 and 1964. Exports to the other Arab countries more than doubled, with most of the increase occurring from 1964 to 1968. Because the Maghreb traditionally has been France's most important market in the area, the net effect was a substantial decline in total French exports to the Arab world -- from \$1.5 billion in 1960 to \$900 million in 1964, recovering slightly to \$1.0 billion in 1968. Preliminary data suggest that 1969 exports remained at approximately the 1968 level. The Arab countries' share in total French exports dropped from 22% in 1960 to 8% in 1968. The sharp reduction in exports, combined with increased imports, produced rapidly rising deficits -- nearly \$700 million in 1968 -- replacing the former surpluses in French trade with the Arab world. These trade deficits contributed to the drain on foreign exchange reserves that ultimately led to the August 1969 devaluation of the franc.

7. The decline in French exports to the Maghreb is attributable primarily to the sharp drop-off in sales to Algeria from \$1.1 billion in 1960 to less than \$500 million in 1964. Although sales to Algeria have stagnated at approximately that level in recent years, the French share of the Algerian market declined from about 80% in 1964 to 60% in 1968. Prior to its independence, Algeria was considered an integral part of metropolitan France and absorbed nearly three-fourths of French exports to the Arab world. The drastic reduction in French exports to Algeria after 1962 was precipitated by the large-scale emigration of French *colons* and the consequent sharp decline in overall Algerian economic activity.

8. The bitter struggle for Algerian liberation considerably disrupted the close economic ties that had developed with France. The exodus of nearly one million French *colons*, who emigrated in the wake of widespread nationalization and

CONFIDENTIAL

CONFIDENTIAL

confiscation of French property, deprived Algeria of almost 10% of its total population, including the major part of its middle class and, more seriously, its most important agricultural, industrial, and commercial entrepreneurs, as well as its cadre of trained government administrators. The depressing effects of this loss led to a sharp curtailment in Algerian import demand for both consumption and investment goods. This decline was aggravated by a reduction in French foreign aid and, subsequently, by a deliberate government austerity program designed to conserve foreign exchange. Total Algerian imports declined from \$1.2 billion in 1960 to \$640 million in 1966 before recovering to some \$800 million in 1968. As Algeria's principal supplier, France was most severely affected.

9. Because of the ties remaining from their colonial period, Morocco and Tunisia still rank second and third, respectively, among French export markets in the Arab world. As with Algeria, however, the determined efforts of these countries to reduce their economic dependence on the former mother country have had an adverse impact on French exports. France is still the most important supplier to Morocco and Tunisia. But where once it enjoyed virtually a captive market, France must now compete increasingly with other industrial countries. The result is clearly shown in Table 2. French exports to both Morocco and Tunisia declined between 1960 and 1968, while those of other industrial countries generally increased. As a result, the French share of the Moroccan and Tunisian markets declined from 49% and 59%, respectively, in 1960 to 32% and 33% in 1968.

10. The other Arab countries in the Middle East and in North Africa traditionally have been markets of decidedly lesser importance. Except for Lebanon and Syria, which were French mandates from 1919 to 1944 and 1946, respectively, most countries in the area came within the Anglo-American sphere of influence and their economies were largely dominated by British, Dutch, and US firms, especially oil companies. French influence, already weakened because of the French debacle during World War II, suffered a further blow as a result of France's participation in the abortive Suez campaign.

CONFIDENTIAL

Table 2
Exports of Selected Industrial Countries to Morocco and Tunisia

	Morocco					Tunisia				
	Million US \$			Percent Change		Million US \$			Percent Change	
	1960	1964	1968	1964/1960	1968/1964	1960	1964	1968	1964/1960	1968/1964
France	200	187	169	-6	-10	125	107	80	-14	-25
West Germany	20	32	42	60	31	9	12	19	33	58
Italy	22	16	30	-27	88	11	15	24	36	60
United Kingdom	15	15	22	0	47	7	10	6	43	-40
United States	34	41	65	21	59	21	33	47	57	42

CONFIDENTIAL

- 7 -

CONFIDENTIAL

CONFIDENTIAL

11. French efforts to improve relations with the Arab world following the settlement of the Algerian crisis paid France some economic dividends -- although generally not in the oil-rich countries. As shown in Table 3, French exports to non-Maghreb Arab countries increased more rapidly between 1964 and 1968 than those of such key competitor countries as the United States, the United Kingdom, and West Germany, all of which are identified in varying degrees with military, political, and economic support of Israel, a cardinal sin in Arab eyes. France was thus able to increase its market share in some non-Maghreb Arab states at the expense of these traditional suppliers. In the aggregate, however, the gains were relatively small and in certain cases succeeded only in again establishing the export levels that prevailed prior to the Algerian crisis. In 1968, France still ranked only sixth among Free World exporters to the area, providing less than half of the value of goods shipped by the United States, the leading exporter (see Table 3).

Prospects for French-Arab Trade

12. While imports from the Arab world are expected to continue to rise rapidly -- reflecting the rising demand for crude oil -- France faces formidable obstacles to a large-scale expansion of its exports to the area. Paris believes improved political relations with the Arab world will aid the expansion of French exports to the Arab market. But in the Maghreb, where remaining economic ties should favor French suppliers, Morocco and Tunisia lack the resources for rapid internal development that would generate greatly rising import requirements. And Algeria, which has such resources, tends to discriminate against French goods.

13. In the non-Maghreb states, the return to traditional pro-Arab policies has significantly improved the French image but will not help French exporters much. The large oil-producing countries are too closely tied to US and UK companies, and their markets, as well as the Lebanese market, are small. Egypt's imports are limited by a perennial shortage of foreign exchange and heavy indebtedness to the USSR. A substantial expansion of French exports to Egypt would require large long-term

CONFIDENTIAL

Table 3

Exports of Selected Industrial Countries to Non-Maghreb Arab States ^{a/}

	Million US \$			Percent Change	
	<u>1960</u>	<u>1964</u>	<u>1968</u>	<u>1964/1960</u>	<u>1968/1964</u>
United States	439	679	599	55	-12
United Kingdom	351	444	517	26	16
Italy	140	213	382	52	79
West Germany	287	310	350	8	13
Japan	122	190	333	56	75
France	110	117	273	6	133

a. Including Bahrein, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Muscat and Oman, Qatar, Saudi Arabia, Syria, and Yemen.

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

credits at favorable interest rates. Because of poor repayments prospects, however, neither the French government nor private business interests have thus far shown any inclination to extend such credits.

Arms Sales

14. French arms sales to Arab countries have both benefited from and contributed to improved Franco-Arab relations. With the United States and the United Kingdom reluctant to aggravate the arms race in the Middle East, and many Arab countries hesitant to become totally dependent on Soviet arms, French military equipment has found ready buyers, and France's readiness to supply arms has enhanced its political acceptability in the area. Arms sales to the Arab world also yield economic benefits to France. They not only constitute a welcome source of foreign exchange but also reduce per unit costs of research and development for weapon systems.

15. Some French arms sales to the Arab Middle East were concluded in the mid-1960s, primarily aircraft to Lebanon and modest quantities of other military equipment to Iraq, Jordan, and Saudi Arabia. The French arms sales effort in the area was stepped up following the Arab-Israeli war in June 1967. Although France imposed an embargo on the shipment of arms to all of the belligerents in the war, the embargo was clearly directed against Israel, which alone among the belligerents had come to depend extensively on France for the supply of advanced weapons, especially the French Mirage fighter planes.

16. French efforts to sell some 50 Mirage fighters to Iraq in 1968 failed, reportedly because of disagreements on price, but negotiations continue for other military equipment. In 1969, France signed an agreement with Algeria, providing for the sale of miscellaneous military hardware. Although the quantities involved were not large, this agreement was significant because it was the first to break the Soviet monopoly on arms sales to Algeria and the first to provide French arms for Algeria since the Algerian crisis. The most important French arms agreement with an Arab country thus far was signed with Libya early in 1970.

CONFIDENTIAL

CONFIDENTIAL

Providing for the sale of more than 100 Mirage fighters during 1971-75, this agreement may involve payments exceeding \$300 million. With no end of the political instability and arms buildup in the Middle East in sight, and with US and UK influence in the area declining, the French have the inside track on Western arms sales to Arab countries.

Investments

17. A large share of French investments in the Arab world was lost through expropriation following the end of French colonial rule in the Maghreb states. The most important of the remaining French investments in the area is in the Algerian oil industry, where French-owned companies -- primarily the Compagnie Française des Pétroles (CFP) and the Entreprise des Recherches et d'Activités Petrolières (ERAP) -- still account for about two-thirds of annual crude petroleum production. France also has a substantial investment in the Iraqi oil industry. CFP owns a 23.5% interest in the Iraq Petroleum Co., Ltd., a consortium of British, Dutch, US, and French companies that accounts for almost all the crude oil produced in Iraq. Finally, France has extensive investments in Lebanon. While detailed information is not available because of the traditional Lebanese reticence to divulge business information, French interests are strongly represented in Lebanese banking, industrial, and commercial enterprises.

18. In recent years there has been no significant increase in the flow of private investment into the Arab world. French direct private investment in the Arab world during 1964-68 averaged approximately \$150 million annually, somewhat more than two-fifths of total French private direct investment abroad. Algeria received the lion's share -- about \$110 million annually -- much of this pursuant to the Franco-Algerian oil agreement which requires the French partner in Cooperative Association (ASCOP), the jointly owned French-Algerian oil company, to put up 80% of total investment expenditures. New French direct investment in other Arab states averaged \$40 million annually during 1964-68 and declined during the latter part of this period, when Arab-Israeli tension was increasing.

CONFIDENTIAL

CONFIDENTIAL

19. The prospects for large-scale new French investment in the Arab world during the next few years are not bright. The recent softening of Algeria's harsh negotiating position on revising the 1965 oil accord gives promise that a compromise solution will be reached permitting French oil companies to continue profitable operations while affording the Algerian government larger revenues from, and increased control over, Algerian oil production. Nevertheless, the French oil companies will remain wary and will be reluctant to increase investment there.

20. Elsewhere in the Arab world, the continuing political instability and the attendant threat of nationalization -- the expropriation of Italian holdings in Libya is the most recent drastic example -- make investment highly risky. With the requirements for additional investment in the metropole rising rapidly, the French government and private entrepreneurs are unlikely to commit large additional resources where the risks are so high.

Foreign Aid

21. French foreign aid to Arab countries is concentrated almost exclusively on the Maghreb states, primarily on Algeria. Aid expenditures have declined steadily through the 1960s, in both absolute and relative terms. The Evian Accords set up a three-year French aid program on a declining scale. In 1962, French government aid to Algeria was nearly \$360 million, more than two-fifths of French official bilateral aid in that year. By 1965, French aid to Algeria had declined to \$135 million, or 18.5% of the total. Since the expiration of the three-year program, French aid to Algeria has remained relatively constant, somewhat more than \$100 million annually. In 1968, Algeria's share of total French official bilateral aid declined to 13%.

22. French aid to the Arab states outside the Maghreb is restricted to technical assistance (including teaching personnel). At present there are no indications that Paris intends to expand its aid program to the area or otherwise to use it in support of political objectives there. In fact

CONFIDENTIAL

CONFIDENTIAL

President Pompidou -- who repeatedly has emphasized the key importance of the Mediterranean area to France -- has expressed hope that French aid will concentrate increasingly on Black Africa, leaving multilateral agencies to supply aid to the rest of the "third world."

Conclusions

23. French economic interests in the Arab world are still concentrated in the former colonies of the Maghreb, although these long-established ties are loosening. Apart from oil (mainly in Iraq), French economic interests in other Arab states are comparatively small.

24. France will remain dependent on Arab oil in the foreseeable future, and its policies must take account of this fact. On the basis of recent rates of increase, French crude oil imports in 1975 will exceed \$3 billion, more than double the \$1.4 billion imported in 1968. Crude oil imports from the Arab countries in 1975 may reach as high as \$2.7 billion. Although imports of other Arab commodities are not expected to rise much during the next few years, total imports from the area may reach \$3 billion to \$3.5 billion.

25. The prospects for significantly expanding French exports to the Arab countries during the next few years are poor. Despite its improved political image, France will continue to face serious difficulties in overcoming rising Arab nationalism and traditional trading patterns that favor competitor countries.

26. Arms exports to the Arab world have a promising potential. In addition to enhancing France's political position in the area, they provide a welcome source of foreign exchange and reduce the domestic burden of research and development costs in the French armaments industry. But even under the most optimistic assumptions, arms exports are not likely to cut substantially the widening trade deficit with the area resulting from rapidly rising French imports of Arab oil.

CONFIDENTIAL

CONFIDENTIAL

27. Political instability, nationalization, and xenophobia in the area create a hostile climate for private foreign investment. And the French government gives no indication of planning to expand its foreign aid programs in the area as a means of gaining greater political leverage. In fact, it is likely that aid to the area will decrease as budgetary strictures force the French government to concentrate aid in Black Africa where development projects promise early returns to the French economy.

28. Expansion of its political influence in the Arab world is an important objective of France's foreign policy and will no doubt be given a high priority in the next few years. The French see their role as a counterweight to the growing Soviet role in the area and they see the decline in US and British influence as presenting opportunities for extending their own influence. The economic motivation of this policy, however, appears to be relatively minor. The area's markets are either too small or too protected to offer France much in the way of commercial opportunity. Access to oil is important to France, as it is to the rest of Western Europe, but France does not seem willing to pay much of a price to expand its economic links with the area. In general, it is clear to the French themselves that, while the Arab states may be one of the most promising areas for French political initiatives, France's economic interests are primarily bound up with the European community and the industrialized countries generally.

CONFIDENTIAL