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Saudi Arabia: Current Issues and U.S. Relations

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Saudi Arabia: Current Issues and U.S. Relations

SUMMARY

Saudi Arabia, a monarchy ruled by the Saudi dynasty, enjoys special importance in the international community because of its unique association with the Islamic religion and its oil wealth. Since the establishment of the modern Saudi kingdom in 1932, it has benefitted from a stable political system based on a smooth process of succession to the throne and an increasingly prosperous economy dominated by the oil sector. Decrees by King Fahd in March 1992 establishing an appointive consultative council and provincial councils and promulgating a basic law providing for certain citizens' rights could signal a gradual trend toward a more open political system.

Since late 1995, King Fahd has suffered increasingly from ill health, and Crown Prince Abdullah has assumed many routine governmental functions. The upsurge in oil prices that began in 1999 has relieved pressure on Saudi budgets but created concern in the U.S. Administration and Congress. In March 2000, Members of Congress introduced legislation to reduce or end U.S. assistance or arms sales to countries engaged in oil price fixing.

The United States and Saudi Arabia have long-standing economic and defense ties. Between World War II and 1975, the United States provided a total of \$328.4 million in economic and military aid to Saudi Arabia, reducing and ultimately terminating these programs as Saudi oil derived income burgeoned in the 1960s and 1970s. A series of informal agreements, statements by successive U.S. administrations, and military deployments have demonstrated a strong U.S. secu-

rity commitment to Saudi Arabia. Saudi Arabia was a key member of the allied coalition that expelled Iraqi forces from Kuwait in 1991, and approximately 5,000 U.S. troops remain in the country. Saudi Arabia continues to host U.S. aircraft enforcing the no-fly zone over southern Iraq; however, Saudi Arabia has not offered the use of its territory for major air strikes against Iraq in response to Iraqi obstruction of U.N. weapons inspections in recent years. Bombing attacks against a U.S. operated training facility and a U.S. military apartment in 1995 and 1996, respectively, have raised some concerns about security of U.S. personnel and further security measures have been implemented. Saudi Arabia convicted and executed four Saudi nationals for carrying out the 1995 bombing. After extended investigations, on June 21, 2001, a U.S. federal grand jury indicted 14 members of Middle East terrorist organizations for the 1996 bombing. None is believed to be in U.S. custody. U.S. officials have cited Saudi support in the aftermath of the September 11, 2001 attacks, including intelligence sharing, law enforcement activities, and tracking of terrorist financing.

Principal issues of bilateral interest include the Saudi position on the Arab-Israeli conflict, security in the post-war Gulf region, arms transfers to Saudi Arabia, Saudi external aid programs, bilateral trade relationships, and Saudi policies involving human rights and democracy. In early 2002, Crown Prince Abdullah proposed a peace initiative based on Israeli withdrawal from occupied territories in return for normal relations between Arab states and Israel.

MOST RECENT DEVELOPMENTS

At an Arab League summit conference on March 27-28, 2002, attendees adopted a resolution based on a peace proposal by Saudi Arabia's Crown Prince Abdullah to resolve the Arab-Israeli conflict. The proposal, among other things, called for Israeli withdrawal from territories it had occupied since 1967, a "just solution to the problem of Palestinian refugees," and establishment of normal relations between Arab states and Israel.

On April 25, Crown Prince Abdullah visited President Bush at the President's ranch in Texas, where the two leaders discussed Prince Abdullah's peace proposal, U.S.-Saudi relationships, the U.S.-led campaign against terrorism, and the general situation in the Middle East. According to White House spokesman Ari Fleischer, there are areas of disagreement between U.S. and Saudi plans for peace in the Middle East but significant areas of overlap as well. In related discussions, President Bush expressed support for Saudi accession to the World Trade Organization (WTO), and Saudi officials said their government did not plan to use oil production as a political weapon.

BACKGROUND AND ANALYSIS

Current Issues

Security in the Gulf Region

Saudi Arabia and the United States maintain a close defense relationship, although they do not have a formal defense pact. Saudi Arabia was a key member of the U.S.-led allied coalition that expelled Iraqi forces from Kuwait in 1991, and over 5,000 U.S. military personnel are still in Saudi Arabia. Most of these are from U.S. Air Force units involved in enforcing a no-fly zone over southern Iraq and from U.S. Army units involved in air and missile defense. In addition, a number of U.S. contractor personnel work with the Saudi Armed Forces and National Guard, and many U.S. civilians work in the commercial sector. Press reports variously put the number of U.S. personnel in Saudi Arabia between 35,000 and 40,000, but according to some other estimates this number has declined to approximately 27,000.

Containment Policies toward Iraq. Saudi Arabia remains committed to the containment of Iraq and has called on Iraq to implement resolutions of the U.N. Security Council. Although permitting U.S. and other allied overflights to enforce the no-fly zone over southern Iraq (Operation Southern Watch), Saudi authorities are opposed to large-scale military action against Iraqi targets. On several occasions, Saudi Minister of Defense Prince Sultan has said his country would not permit allied aircraft to launch preemptive or major retaliatory campaigns against Iraq from bases in Saudi Arabia. Saudi officials have not usually opposed smaller scale U.S. responses to Iraqi aircraft or air defense units when they challenge U.S. or British aircraft conducting overflights under Operation Southern Watch. In the aftermath of the September 2001 terrorist attacks, Saudi authorities have expressed

concern over any expansion of the U.S. campaign against terrorism [see below] to Iraq or Iran. In an interview published on February 25, 2002, Saudi Crown Prince Abdullah told reporters that “I do not believe that the war on terrorism applies to Iran and Iraq.”

At an Arab League summit conference on March 27-28, 2002, attendees including Saudi Arabia rejected “threats of aggression” against Arab states, particularly Iraq, and welcomed assurances by Iraq that it would respect the independence of Kuwait. On March 30, Crown Prince Abdullah expressed confidence that Iraq would honor a promise it made at the summit conference to respect Kuwait’s sovereignty. Previously, however, in a March 18 interview with *USA Today*, the Saudi Foreign Minister appeared to leave the door ajar to a change of regime in Iraq, stating that such a change “will only happen if the Iraqi people do it.”

U.S. Troop Presence.

With regard to the U.S. military presence, Saudi Defense Minister Prince Sultan stated on April 10, 2000, that U.S. troops in Saudi Arabia “are within the frame of United Nations assignments and directions to continue the surveillance of southern Iraq, and also the border of Kuwait and Saudi Arabia, as well as the other GCC [Gulf Cooperation Council] countries.” Some commentators suggest that the U.S. troop presence, which is unpopular among some Islamic fundamentalists both in the kingdom and elsewhere in the region, could undermine the stability of the Saudi regime. Others believe the U.S. presence is crucial to U.S. efforts to maintain security in the Gulf region. Both for reasons of security and host country sensitivities, U.S. military personnel are housed in remote compounds away from major population centers or Islamic holy places.

Saudi Arabia in Brief

Population (July 2001): 22,757,092*
(includes 5,360,526 foreign residents)
Growth rate: 3.27%

Area: 1,945,000 sq. km. (750,965 sq.mi.)
(almost 3 times that of Texas)

Ethnic Groups: (native Saudis only)
Arab 90% Afro-Asian 10%

Religion: (native Saudis only)
Muslim 100% (Sunni 85-95%; Shi’ite 5-15%)

Literacy (1995):
63% (male 72%, female 50%)

GDP: \$168.8 billion (2000);
\$170.5 billion (2001)

External Public Debt: \$28.9 billion (2000)

Inflation: -1.2%, 1999; -1.0%, 2000; 0%, 2001

*Some estimates are 15-30% lower

Sources: IMF; U.S. Dept. of Commerce; CIA World Fact Book

A *Washington Post* article on January 18, 2002, described Saudi leaders as increasingly uncomfortable with the U.S. military presence in their country and indicated that senior Saudis would like to devise “other forms of less conspicuous military cooperation” once the Afghan campaign is over. Earlier, on January 15, a Member of the U.S. Senate had reportedly expressed “unease about our presence in Saudi Arabia.” Officials of the Bush Administration and Saudi officials have denied that there has been any change in long-standing U.S.-Saudi defense relationships. In an interview carried by media on February 26, when asked if “the U.S. military has worn out its welcome in Saudi Arabia”, Prince Abdullah replied that “[w]e don’t think about raising this issue at all. If and when the time comes, it will be discussed by both governments.” According to a senior Administration official, the

subject of bases did not arise during the visit of Crown Prince Abdullah to President Bush on April 25, 2002.

A subsequent *Washington Post* article, on April 6, 2002, reported that the U.S. Defense Department has prepared plans to move a sophisticated military command center known as the "Coalition Air Operations Center" (CAOC) from Saudi Arabia to the neighboring state of Qatar, in an effort to reduce U.S. dependence on Saudi Arabia in supporting military operations in the region. Secretary of Defense Donald Rumsfeld did not confirm this report, telling reporters that "we're constantly moving people from one place to another place." Earlier, on March 26, the unified theater commander General Tommy Franks told reporters that "I have no plans to move the CAOC from its current location." But he added that this would not preclude plans "to replicate it some place."

Bombings of U.S. Military Facilities. Two attacks on U.S. military facilities in Saudi Arabia in the mid-1990s created concern in the United States over the security of U.S. military personnel stationed in Saudi Arabia and other U.S. service members stationed elsewhere in the Gulf. The first, which occurred on November 13, 1995, at the headquarters of a U.S. training program for the Saudi National Guard in the capital of Riyadh, killed seven persons (including five U.S. citizens). Several months later, Saudi authorities charged four Saudis with the crime. The four, who confessed to being influenced by Islamic fundamentalist exiles, were convicted and executed.

The second and more lethal explosion, which occurred at Khobar Towers (a housing facility for U.S. Air Force personnel near Dhahran Air Base) in June 1996, killed 19 U.S. Air Force personnel, wounded many others, and prompted the relocation of most U.S. military personnel to more remote sites in Saudi Arabia to improve security. Press reports allegedly based on Saudi investigations and reported statements by other suspects have suggested involvement by Iran, but Saudi officials have called these reports inaccurate. Earlier reports had suggested involvement by exiled Saudi terrorist Osama bin Ladin, who has praised the bombings in Saudi Arabia but has not claimed responsibility for them. On May 22, 1998, Saudi Minister of Interior Prince Nayif told reporters from Kuwait that the Riyadh and Khobar bombings "were carried out by Saudis with the support of others" (whom he did not identify). The Minister further stated in November that bin Ladin was not responsible for either the Riyadh or the Khobar bombings but acknowledged that individuals influenced by bin Ladin might have conducted the attacks.

In September 1999, media cited purported U.S. intelligence information that three Saudi men linked to the bombing had taken refuge in Iran. On October 2, 1999, Iran's foreign minister rebuffed an alleged request from President Clinton to Iranian President Khatemi for Iranian assistance in resolving the case. Asked on March 12, 2000, if any suspects in the Khobar case were currently in Iran, Prince Nayif told reporters that "we cannot hold anyone responsible until the facts become clear to us." Later, on October 30, 2000, he commented that "[t]he main suspects are not in Saudi Arabia" and added that "[w]e are making efforts for their return to the kingdom." There have been numerous reports, denied by both the U.S. and Saudi governments, that both governments fear that a finding of Iranian involvement could complicate relations with Iran or force U.S. retaliation against Iran.

On June 21, 2001, U.S. Attorney General John Ashcroft announced that a federal grand jury had indicted 14 individuals in connection with the Khobar Towers bombing. According

to the Justice Department, 13 of those indicted belong to the pro-Iranian Saudi Hizballah organization and the 14th is linked to the Lebanese Hizballah organization. (Saudi Hizballah appears to be a chapter of the parent Hizballah organization in Lebanon.) According to the press, none of the persons indicted is in U.S. custody at this time; 11 of them are in Saudi jails. Although no Iranian is named or charged in the indictment, Ashcroft said “[t]he indictment explains that elements of the Iranian government inspired, supported and supervised members of Saudi Hizballah [variant spelling]. In particular, the indictment alleges that the charged defendants reported their surveillance activities to Iranian officials and were supported and directed in those activities by Iranian officials.” Ashcroft said the investigation is continuing and additional charges will be brought, as appropriate.

During the investigation, U.S. law enforcement officials criticized Saudi counterparts for not providing U.S. investigators with access to suspects in the Khobar bombing. According to a May 14, 2001 article in *The New Yorker* and other media reports, starting in late 1998, Saudi officials began allowing FBI agents to watch behind a one-way mirror as Saudi interrogators posed questions provided by the FBI to suspects and witnesses. In a phone call on June 21, 2001—the day the indictments were announced—President Bush thanked Saudi Crown Prince Abdullah for Saudi cooperation in the investigation. The FBI Director also expressed his appreciation, along with his hopes that the suspects would be brought to justice in the United States. In an interview published on June 23, however, Saudi Interior Minister Prince Nayif appeared to rule out extradition of the suspects to the United States, stating that “[t]he trials must take place before Saudi judicial authorities....” He added that “[n]o other entity has the right to try or investigate any crimes occurring on Saudi lands.” In a CNN interview on September 23, 2001, Prince Nayif added that some of the suspects may be in Europe.

Response to September 11 Terrorist Attacks. Top Saudi leaders expressed condolences to the United States after the terrorist attacks of September 11, 2001, and offered assistance in tracking down the perpetrators. Crown Prince Abdullah, who is effectively running the country (see below), told President Bush that “[w]e in the kingdom of Saudi Arabia are fully prepared to cooperate with you in every way that may help identify and pursue the perpetrators of this criminal incident.” On September 25, Saudi Arabia severed relations with the Taliban leadership in Afghanistan. Earlier, in 1994, the Saudi government had revoked the citizenship of prime suspect Osama bin Laden. On November 27, presidential spokesman Ari Fleischer mentioned several examples of Saudi support to the campaign against terrorism, including Saudi help in extending economic assistance to Pakistan, humanitarian relief to the people of Afghanistan, and intelligence sharing with the United States. At a donors’ conference in Tokyo on January 21, 2002, Saudi Arabia pledged \$220 million over a 3-year period to help rebuild Afghanistan after 23 years of war.

Saudi officials were non-committal about their willingness to allow allied use of bases in Saudi Arabia to launch strikes against targets in Afghanistan. At a press conference on September 26, Saudi Foreign Minister Prince Faysal told reporters that “Saudi Arabia will do what is within its capability” to support the coalition against terrorism but did not provide specifics. On October 3, Secretary of Defense Donald Rumsfeld told reporters that “[w]e are not going to be making requests of the Saudi Arabian government. We have a long-standing relationship with them.” Some speculate that Saudi leaders bases may have allowed the use of bases for logistical support of allied operations targeting Afghanistan but not as points of departure for combat missions.

President Bush's Executive Order 13224, which has blocked assets of 189 individuals or organizations with ties to exiled terrorist leader Osama bin Laden or other terrorist groups, reportedly includes a Saudi businessman and a Saudi-based charitable organization. On October 21, Saudi Minister of Interior Prince Nayif said Saudi authorities have not found any bank accounts linked to bin Laden or other terrorist organizations, but according to press reports, U.S. officials are not sure how thorough the Saudi investigation was. On December 11, the Saudi embassy in Washington released a progress report enumerating steps taken by Saudi Arabia to combat money laundering and terrorist financing. Among these steps is a requirement for all Saudi banks to have anti-money laundering units to work with the Saudi Arabian Monetary Agency (SAMA) and with law enforcement agencies. On February 5, 2002, a Saudi official was quoted as saying that every charity in Saudi Arabia (reportedly 230) will be monitored. On the following day, news agencies reported that SAMA is monitoring 150 bank accounts associated with prominent Saudi businessmen to prevent the possible diversion of funds in these accounts to terrorist organizations.

During a visit to Saudi Arabia, U.S. Secretary of the Treasury Paul O'Neill told reporters on March 6 that "the government of Saudi Arabia has been very good in its cooperation with us" in seeking to uncover money laundering activities. On March 12, Secretary O'Neill announced a joint operation with Saudi authorities to cut off funding to several overseas subsidiaries of a large Muslim foundation known as al-Haramain. The subsidiaries, though not the parent organization itself, have allegedly been involved in terrorist activities in Bosnia, Somalia, and other locations. The parent organization reportedly has ties to senior levels of the Saudi government.

Arab-Israeli Conflict

Saudi Arabia supports Palestinian aspirations and strongly endorses Muslim claims in the old city of Jerusalem. It has supported Israeli-Palestinian peace agreements, and joined with neighboring Gulf states in 1994 in terminating enforcement of the so-called secondary and tertiary (indirect) boycotts of Israel while retaining the primary (direct) boycott. Saudi leaders have been increasingly critical of Israel since the Palestinian uprising began in September 2000. According to a *New York Times* article of May 17, 2001, Crown Prince Abdullah declined an invitation to visit the United States in June 2001, to indicate displeasure over what Saudis regard as insufficient U.S. efforts to restrain Israeli military actions against Palestinians. On April 16, 2002, the White House announced that the Crown Prince will meet with President Bush at the President's ranch in Crawford, Texas on April 25, 2002. Presidential spokesman Ari Fleischer said the President and the Crown Prince will discuss Prince Abdullah's peace proposal, U.S.-Saudi relationships, the next phase in the war against terrorism, and the general situation in the Middle East.

Saudi Arabia, like other Arab states, recognizes the Palestine Liberation Organization (PLO) as the legitimate representative of the Palestinian people and provides some financial support to Palestinian institutions. At an Arab League meeting on October 22, 2000, Crown Prince Abdullah took the lead in creating a \$1 billion fund: \$800 million to help preserve the "Arab and Islamic identity of Jerusalem" and \$200 million to help families of Palestinians killed in the current unrest. Saudi Arabia reportedly pledged a total of \$250 million to these two funds, and provided an additional \$30 million to the Palestinian Authority (PA) on November 5 as a separate donation. At an informal international donors' conference at Stockholm on April 11, 2001, Saudi Arabia pledged \$225 million in direct

monetary support to the PA over a 6-month period to cover emergency expenses. PLO/PA Chairman Yasir Arafat received a \$45 million grant during a visit to Saudi Arabia on July 23, 2001, but it is not clear whether this represented part of the \$225 million grant pledged by Saudi Arabia in April.

There have been unsubstantiated reports of Saudi assistance to the PLO's rival organization, the fundamentalist Hamas, particularly after the Saudi-PLO rift that occurred after the PLO supported Iraq in 1990. In its report entitled *Patters of Global Terrorism, 2000*, the State Department noted that Hamas receives funding from "private benefactors in Saudi Arabia" and some other countries but does not estimate amounts involved. Saudi Arabia has provided aid (variously estimated at \$33 million and \$59 million) to families of Palestinians killed or injured in the 17-month-old Palestinian uprising; in addition, Saudis raised additional funds (over \$100 million according to one report) for this purpose at a telethon sponsored by King Fahd on April 11, 2002. Saudi officials told U.S. counterparts in late April that proceeds of the telethon are funneled through non-governmental organizations to provide some humanitarian support to needy Palestinian families; the Saudis drew a distinction between their fund raising activities and those of Iraq, which pays families who will sacrifice their children as suicide bombers. In early May, Israel officials, citing captured Palestinian documents, said the Saudi Government has given money to 13 charities, seven of which provide support to Hamas. The Saudi Ambassador denied this report.

Crown Prince Abdullah's Peace Initiative. On February 17, 2002, *New York Times* columnist Thomas Friedman reported an off-the-record conversation with Crown Prince Abdullah. According to Friedman, the Crown Prince said he had prepared a draft speech calling for full Israeli withdrawal from Israeli occupied territories in return for full normalization of relations between Arab states and Israel. The Crown Prince added that he had planned to give the speech before an Arab summit conference at the end of March but had delayed doing so after what he regarded as Israeli Prime Minister Ariel Sharon's resorting to increased oppression in the Palestinian territories. However, Prince Abdullah's office did authorize Friedman to put the prince's comments on the record. Abdullah did not provide details of his proposal, and some commentators believe the prince's comments represent nothing new over and above long-standing Arab land-for-peace proposals. Other commentators believe that such comments from an Arab leader of Abdullah's stature carry special weight and could portend a breakthrough in Arab-Israeli peace negotiations.

Crown Prince Abdullah's proposal was the centerpiece of the Arab League summit conference held on March 27-28, 2002, and an expanded version of his proposal was included in a resolution adopted at the conference. The proposal, as agreed upon by the attendees, called among other things for Israeli withdrawal from territories it had occupied since 1967, a "just solution to the problem of Palestinian refugees," and establishment of normal relations between Arab states and Israel. During a meeting with U.S. Secretary of State Colin Powell on April 9, however, the Crown Prince expressed the view that Israeli Prime Minister Ariel Sharon's current military operations against Palestinian self-rule areas in the West Bank territory are undermining U.S. efforts to fight terrorism.

The Saudi-initiated peace proposal was a major topic of discussion during Crown Prince Abdullah's visit to President Bush at the latter's ranch in Texas on April 25. A senior Administration official told reporters that "[t]he President congratulated him [Abdullah] again on his statesmanship in putting the [initiative] forward." In addition, according to

press reports, Prince Abdullah brought an eight-point plan to resolve the then on-going Israeli-Palestinian fighting on the West Bank. (The month-long fighting subsided at the end of April.) According to White House spokesman Ari Fleischer, there are areas of disagreement between U.S. and Saudi peace plans but significant areas of overlap as well.

Arms Transfers to Saudi Arabia

U.S. Arms Sales. The United States is currently Saudi Arabia's leading arms supplier. Total value of arms agreements with Saudi Arabia from 1950 through March 31, 1997, was \$93.8 billion, while arms agreements with Saudi Arabia from 1991 through 1998 amounted to \$22.8 billion. The upsurge in Saudi arms purchases from the United States after 1990 was due in large measure to the Persian Gulf crisis and its aftermath. The largest recent sale was a \$9 billion contract for 72 F-15S advanced fighter aircraft, signed in May 1993. As **Table 1** shows, approximately 21% of the value of U.S.-Saudi arms contracts from 1950 to 1997 were for lethal equipment (i.e., weapons, ammunition, and combat vehicles, aircraft, and ships); the largest portion (32%) went for support services (repair, rehabilitation, supply operations, and training). Another major component of the Saudi program has been construction of military bases and facilities, accounting for 19%, although most military infrastructure projects were completed by 1990.

A downward trend has marked Saudi arms procurement since the mid-1990s as Saudi Arabia completed many of its post-Gulf War purchases and the country faced straitened finances. Since the late 1990s there have been occasional reports of Saudi interest in renovating further their model combat aircraft fleet, but no significant deals have emerged. On May 7, 2001, the Saudi Assistant Minister of Defense described his country's priority as sustaining existing weapon systems rather than large-scale procurement of new weaponry, despite mounting oil revenues. He ruled out additional F-15 fighters aircraft to replace aging F-5s this year as well as tank modernization. Reports in April 2001, however, indicated continued Saudi interest in more and newer F-15s or possibly F-16 or F-22 fighter aircraft (both made by Lockheed Martin Corporation in Bethesda, Maryland.)

Table 1. U.S. Arms Transfers to Saudi Arabia, 1950-1997

Category	Orders		Deliveries	
	\$ in Billions	% of Total Orders	\$ in Billions	% of Total Deliveries
Weapons & Ammunition	19.893	21.2	9.092	15.6
Support Equipment	16.614	17.7	9.815	16.8
Spare Parts & Modifications	9.778	10.4	5.259	9.0
Supply, Repair, Training	29.615	31.6	17.804	30.6
Construction	17.924	19.1	16.197	27.8
TOTALS	93.824	–	58.167	–

Note: All figures are current through March 31, 1997.

On September 8, 2000, the U.S. Defense Department announced that Saudi Arabia has asked to buy three arms packages from the United States: (1) \$416 million in light armored vehicles, anti-tank missiles, and advanced communications equipment for the paramilitary Saudi National Guard; (2) \$690 million in contractor training and maintenance support for Saudi Arabia's fleet of F-15 fighter aircraft; and (3) \$1.6 billion in flight simulators, repair parts, and other technical services for the F-15 aircraft. The prime contractors for the first package would be the Diesel Division of General Motors of London, Ontario, and Raytheon Corporation of Tucson, Arizona. The prime contractor for the second package would be al-Salam Aircraft Company of Saudi Arabia, which is 50% owned by Boeing Co. The prime contractor for the third package has not yet been determined.

Successive U.S. Administrations have entered into military sales agreements with Saudi Arabia because of its prestige in the Arab world, its importance as a major source of oil, and its vulnerability to threats from neighboring states supported in the past by the Soviet Union. Heightened threats from Iran in the late 1980s and subsequently from Iraq provided rationale for an expansion of the arms supply relationship, and some observers believe further sales are needed to redress a continuing gap between Saudi weapons inventories and those of potential adversaries. Also, the Saudi arms market has helped maintain the U.S. industrial base and create jobs.

Some critics doubt that Saudi forces can absorb large quantities of advanced military hardware and voice concerns that such equipment could fall into the wrong hands in the event of external invasion or a radical change in the Saudi regime. Many are concerned that arms being sold to Saudi Arabia might be used one day against Israel. Others doubt that Israel is seriously threatened by Saudi Arabia, but oppose sales to Arab countries technically at war with Israel and fear that enhancement of Saudi air and missile capabilities could increase the costs to Israel of a future conflict. Another concern is that continuing arms sales to Saudi Arabia undermine efforts to restrain the flow of advanced weaponry to an already heavily armed Middle East.

Trade Relationships

Saudi Arabia was the largest U.S. trading partner in the Middle East in 2000. For that year, Saudi exports to the United States were estimated at \$14.3 billion and imports from the United States at \$5.9 billion. Comparable figures for Israel, the second largest U.S. trading partner in the Middle East, were \$12.9 billion in exports and \$6.2 billion in imports. To a considerable extent, this high volume of trade is a result of U.S. oil imports from Saudi Arabia and U.S. arms exports to that country. The Saudis buy significant amounts of U.S. commercial equipment as well. Also, a *Washington Post* article of February 11, 2002, estimates that Saudi nationals have invested between \$500 and \$700 billion in the U.S. economy.

Saudi Arabia has applied to join the 128-member World Trade Organization (WTO) as a developing country, an arrangement that would give it a special transition period to bring its commercial procedures in line with WTO rules. The U.S. State Department notes that accession will require the Saudi government to initiate substantial reforms, including tariff reduction, opening up financial services (insurance and banking), allowing competition in telecommunications and other services, and better protection of intellectual property rights. In recognition of its progress in protection of intellectual property rights, Saudi Arabia was

removed from the U.S. Trade Representative's Priority Watch List in 1996, but remains on the basic Watch List pending further progress. The U.S. Trade Representative reportedly has also cited Saudi observance of the secondary boycott against Israel as an obstacle to admission to the WTO. In March 2001, WTO officials reportedly expressed disappointment over a recent list issued by the Saudi government of activities off limits to foreign investment (see below) and predicted that these restrictions could delay Saudi accession to the WTO. During Crown Prince Abdullah's April 2002 visit, however, President Bush expressed support for Saudi accession and said the United States is making technical assistance available to Saudi Arabia to support the Saudi application.

Problems in Commercial Transactions. Complaints have arisen within the U.S. business community over commercial disputes that have resulted in hardships for U.S. companies doing business in Saudi Arabia and for their employees. These disputes center on allegations by U.S. firms that Saudi clients have not paid for services rendered or have sought to expand terms of a contract without further reimbursement, and in some cases have taken reprisals against U.S. employees of the firms involved. (For further information, see CRS Report 95-666, *Saudi Arabia: Commercial Disputes With U.S. Firms.*)

Oil Production. With the world's largest proven oil reserves (estimated at 263.5 billion barrels in January 2000), Saudi Arabia produced an average of 7.83 million barrels per day (bpd) of crude oil during 1999. Approximately 14.1% of U.S. oil imports and 8.0% of total U.S. oil consumption came from Saudi Arabia during 2000. Formerly the largest foreign supplier of oil to the United States, Saudi Arabia has been exceeded in this role by Venezuela and/or Canada during recent years (see **Table 2**).

Table 2. Oil Consumption and Imports
(in millions of barrels per day)

Category	1997	1998	1999	2000
Total U.S. Consumption	18.620	18.917	19.519	19.476
Total U.S. Imports	10.162	10.708	10.852	11.093
Imports from Saudi Arabia	1.407	1.491	1.478	1.566
Imports from Venezuela	1.773	1.719	1.493	1.519
Imports from Canada	1.563	1.598	1.539	1.686

Source: DOE.

In recent years, Saudi Arabia has alternately supported cuts and increases in production as oil prices on the international market have fluctuated. Resurgence of oil prices to their highest post-Gulf War levels by January 2000 created concern in the U.S. Administration and Congress, prompting proposals in Congress to increase domestic production of oil and to restrict trade with oil producers unless they agreed to increase production. On March 22, 2000, by a vote of 382 to 38 (with one present and 13 abstentions, Roll Call 65), the House passed H.R. 3822, which requires the President, *inter alia*, to determine which oil producing nations are engaged in oil price fixing to the detriment of the U.S. economy, submit reports to Congress, and "take the necessary steps to begin negotiations to achieve

multilateral action to reduce, suspend, or terminate bilateral assistance and arms exports to major net oil exporters engaged in oil price fixing as part of a concerted diplomatic campaign with other major net oil importers....”

Since then, with strong Saudi backing, nine OPEC members agreed on the following three increases in oil production during 2000:

- March 27: 1.452 million barrels per day (bpd), including 585,000 bpd from Saudi Arabia;
- June 21: 708,000 bpd, including 230,000 from Saudi Arabia; and
- September 10: 800,000 bpd, including 260,000 from Saudi Arabia.

Under a “gentlemen’s agreement” reached at the June 21 meeting, OPEC also established a mechanism to adjust the supply of oil by 500,000 bpd if the 20-day average price of oil moved outside a \$22 to \$28 price band. Members disagree, however, as to whether this mechanism is automatic or requires separate action by OPEC to implement, and Saudi Arabia has spoken of a target price of \$25 rather than a price band. After initially rejecting calls for a production cut as oil prices dropped by 20% in December 2000, Saudi leaders became concerned that oil supply was exceeding demand; consequently Saudi Arabia supported a series of four cuts in oil production in 2001, as follows:

- January 17: 1.5 million bpd, including 486,000 bpd from Saudi Arabia;
- March 18: 1 million bpd;
- July 25: 1 million bpd; and
- December 28 (effective January 1, 2002): 1.5 million bpd, including 488,000 bpd from Saudi Arabia.

According to a February 12, 2002 press article, on the day after the September 11 attacks on the United States, Saudi leaders revoked a previous promise to other OPEC countries to cut production; instead, Saudi Arabia rushed additional oil to the United States to ensure adequate oil supplies to meet U.S. needs during the crisis. It was not clear whether this involved a delay in Saudi implementation of the July 25 production cut or cancellation of some other projected cut. With regard to Iraq’s call in April 2002 for a halt in oil production to protest Israeli actions toward Palestinians, a senior Administration official told reporters after the visit of Saudi Crown Prince Abdullah that Saudi officials assured their U.S. hosts that oil would not be used as a weapon. In May, the Saudi Oil Minister added that “Saudi Arabia is keen to maintain stability in the international oil market ...”

Foreign Investment. Saudi leaders have shown increasing interest in attracting foreign investment in their energy sector, although projects in upstream oil apparently remain off limits. On April 10, 2000, King Fahd approved a new foreign investment law which allows international investors to have full ownership of projects and related property in Saudi Arabia, reduces taxes from 45% to 30% on corporate profits, and restructures (but apparently does not abolish) requirements for foreign businessmen to have a Saudi sponsor. On February 11, 2001, the Saudi Supreme Economic Council issued a so-called “negative list” of those investment activities that remain off limits to foreign investment. In general, the list covers oil exploration and production, some manufacturing activities, radio and telecommunications, transport, electricity transmission and distribution, and a range of services including tourism, publishing, real estate brokerage, and insurance. According to

news reports in March 2001, international trade officials expressed disappointment over the length and scope of the list. The list will be reviewed annually, however, and some observers have speculated that it will be shortened as the country adjusts to an expansion in foreign investment. In a later development, according to a news report in April 2002, Saudi officials are considering a draft law that would tax the earnings of expatriate employees in Saudi Arabia for the first time since the 1970s, in addition to the annual corporate taxes already levied on foreign firms operating in Saudi Arabia.

On June 3, 2001, Saudi Arabia signed preliminary agreements worth approximately \$25 billion with eight international oil companies to develop three natural gas fields, together with related power plants, transmission pipelines, and water desalinization projects. Five of these companies are U.S.-based, including Exxon Mobil Corporation, Conoco, Phillips Petroleum Company, Occidental Petroleum Corporation, and Marathon. Exxon Mobil is the lead manager for two of the three gas field projects. Conclusion of final agreements, originally set for mid-December, has been delayed, as Saudi and company negotiators continue trying to resolve several issues including taxes, rate of return on investments, and size of the gas reserves being offered. On May 17, 2002, according to a press report, "a source close to the talks" predicted that the Saudis would re-open the projects for new bids if final agreements are not reached with the above-mentioned companies "within the next couple of months or so." The source emphasized, however, that the Saudi Government wants the current negotiations to succeed and denied that political considerations (such as Israeli-Palestinian fighting) play any role in Saudi decisions on this matter.

Human Rights, Democracy, and Other Issues

Of particular concern to Westerners are pervasive restrictions on women's activities and an injunction against the practice of other religions throughout the Kingdom. This injunction has been applied not only against non-Islamic faiths but also at times against the Shi'ite Muslim community in Saudi Arabia, estimated at 500,000 or more persons mainly in the Eastern Province. Since 1990, the Saudi government has moved quietly to ease some restrictions on Shi'ites. Also, according to the State Department, high-level Saudi officials have said that Saudi policy allows for private non-Muslim worship, for example, in private homes or secluded compounds. On April 6, 2000, responding to criticisms by the London-based Amnesty International, a Saudi Under Secretary in the Foreign Ministry maintained that "non-Muslims enjoy full freedom to engage in their religious observances in private." Earlier, in April 1999, Crown Prince Abdullah told a local audience: "Taking into account the teachings of Islam, we will do our best to enable Saudi women to continue to contribute."

Political reforms promulgated by King Fahd appear to represent a limited move toward democracy and protection of individual freedoms. The "main law" announced by the King on March 1, 1992, bans arbitrary arrest, harassment, or entry of individual homes without legal authority and specifies privacy in telephone calls and mail. On August 20, 1993, the King appointed a 60-member consultative council (increased to 90 in 1997 and to 120 in 2001), with limited powers to question cabinet members and propose laws. On the other hand, King Fahd has said that free elections are not suitable for his country; he stated on March 30, 1992 that elections "do not fall within the sphere of the Muslim religion, which believes in the al-shura (consultative) system and openness between ruler and his subjects and which makes whoever is in charge fully answerable to his people."

Background to U.S.-Saudi Relations

Oil and national security concerns have combined to produce a close and cooperative relationship between the United States and Saudi Arabia. Since the award of the first Saudi oil concession to a U.S. company in 1933, both states have had an increasing interest, respectively, in the marketing and acquisition of Saudi petroleum supplies. As regional threats multiplied in the latter half of the century, mutual concerns over the stability of Saudi Arabia and other moderate regimes in the Arabian Peninsula engendered a significant degree of defense cooperation.

Political Development

Saudi Leadership. As the birthplace of the Islamic religion in 622 A.D. and as the home of Islam's two holiest shrines, the Arabian Peninsula has always occupied a position of special prestige within the Middle East. With the establishment of Arab empires based in Damascus and Baghdad, the peninsula gradually lost its political importance and sank into disunity. In the 16th century, much of the Arabian Peninsula came under the nominal rule of the Ottoman Empire; however, tribal leaders effectively controlled most of the region. During this period, an alliance developed between an influential eastern tribe, the House of Saud, and the leaders of a puritanical and reformist Islamic group known as the Wahhabi movement. During the first quarter of the 20th century, a chieftain of the Saud family, Abd al-Aziz ibn Abd al-Rahman (later known as Ibn Saud) overcame numerous rivals with the support of his Wahhabi allies and succeeded in unifying most of the Arabian Peninsula under his rule, with the exception of Yemen in the southwest and the small, then British-protected principalities along the eastern coast. On September 23, 1932, Abd al-Aziz proclaimed the establishment of the Kingdom of Saudi Arabia, which he ruled until his death in 1953. Four of his sons have succeeded him: Saud (1953-1964), Faysal (1964-1975), Khalid (1975-1982), and the present King Fahd, who acceded to the throne in 1982.

Royal Succession. King Fahd, a dynamic leader for many years, is almost 80 years old and suffers from medical problems including diabetes and arthritis. In early 1996, King Fahd temporarily turned over affairs of state to his half-brother, Crown Prince Abdullah, for a six-week period while the King recuperated from a stroke. More recently, amid conflicting reports about the King's condition, Crown Prince Abdullah has increasingly carried out many governmental functions since 1996, together with other senior princes of the royal family. Another key figure is Defense Minister Prince Sultan, a full brother of King Fahd, who is generally considered next in line of succession after Prince Abdullah. (King Fahd, Prince Abdullah, and Prince Sultan also hold the positions of Prime Minister, First Deputy Prime Minister, and Second Deputy Prime Minister, respectively.)

Most commentators believe the royal family would back Crown Prince Abdullah in a smooth transfer of power if King Fahd should pass from the scene. Various sources describe Prince Abdullah as more traditional and less western in outlook than King Fahd and more oriented toward the Arab world. On balance, the Crown Prince seems likely to maintain Saudi Arabia's long-standing strategic and economic ties with the United States. U.S. officials commented that President Bush and Crown Prince Abdullah established a very good personal rapport during the latter's visit in April 2002. Some speculate, however, that succession could become more intricate after Abdullah (who is only two years younger than

Fahd but believed to be in better health) and fear that future intra-family rivalries could weaken the Saud dynasty over the long term. Possible future candidates include some 25 brothers and half-brothers of King Fahd and a number of sons and nephews. In June 2000, Saudi Arabia formed a council consisting of 18 senior princes representing leading branches of the royal family, chaired by Crown Prince Abdullah with Prince Sultan as deputy chairman. An observer speculated that its role seems to be to organize family matters, provide a family forum, and deal with other family issues.

Economy and Aid

Economic Conditions. Oil is the dominant factor in the Saudi economy, accounting for 35-40% of GDP, 75% of budget receipts, and 90-95% of export earnings as of April 2000; even more of the GDP is derived indirectly from the oil industry. Despite immense oil revenue, a combination of fluctuating oil prices, domestic welfare spending, and military spending have caused periodic budget deficits (see **Table 3**). For example, the 1990-1991 Gulf war cost Saudi Arabia approximately \$55 billion (including \$16.9 billion contributed to the United States to help defray expenses). Although the government was able to retire its external debt in May 1995, it had to borrow \$4.3 billion again from external sources in December 1997 to finance purchase of aircraft.

In 1994, the Saudi government instituted austerity measures to deal with shrinking revenues, and during the following year, the government announced additional measures including raising the costs of utilities (electricity, water, and communications facilities) and reducing various subsidies in an effort to increase revenues and cut spending. The budget for 2000, announced on December 21, 1999, entailed a \$7.5 billion deficit, but original Saudi revenue projections were overtaken by the surge in oil prices since early 1999. Increased revenue led to an estimated surplus of \$12 billion in 2000, the first budgetary surplus in over a decade. For 2001, the government has projected a balanced budget. The 2001 budget, announced on December 18, 2000, is based on a relatively conservative oil price forecast of \$22 per barrel and continued fiscal restraint.

Table 3. Saudi Budget Figures

(In billions of U.S. dollars, at exchange rate of \$1.00=S.R. 3.75)

Category	1999		2000		2001		2002
	Budget	Actual	Budget	Actual	Budget	Est.	Budget
Expenditure	44.0	48.3	49.3	54.1	57.3	68.0	53.9
Revenue	32.3	39.2	41.9	66.1	57.3	61.3	41.9
Balance	-11.7	-9.1	-7.5	12.0	0	-6.7	-12.0

Source: Saudi Ministry of Finance; Saudi government announcements; press estimates.

Aid Relationships. As Saudi oil income expanded, U.S. economic aid ended in 1959. Small amounts of aid continued through 1975, limited to a small international military education and training (MET) program after 1968. Total U.S. aid to Saudi Arabia from 1946

through its termination in 1975 amounted to \$328.4 million, of which \$295.8 million was military and \$32.6 million was economic assistance. Approximately 20% of total aid was in the form of grants and 80% in loans, all of which have been repaid. A small MET program of \$25,000 per year to help defray some expenses of sending Saudi officers to U.S. military service schools was resumed in FY2002, and the same amount was requested by the Administration for Saudi Arabia in FY2003.

Defense and Security

The United States and Saudi Arabia are not linked by a formal defense treaty; however, a series of informal agreements, statements by successive U.S. Administrations (see box), and military deployments have demonstrated a strong U.S. security commitment to Saudi Arabia. Although Saudi forces acquired experience during the Gulf war and are undergoing further upgrading through a large-scale program of arms procurement (see below), both Saudi Arabia and its five smaller Gulf neighbors remain vulnerable to future external aggression. On one hand, both the Iranian and Iraqi armed forces suffered major personnel and equipment losses during the 1980-1988 Iran-Iraq war and Operation Desert Storm, respectively, and neither is in a position to offer an immediate threat to the Gulf Cooperation Council (GCC). On the other hand, as shown in **Table 4**, the combined forces of Saudi Arabia and its GCC allies are outnumbered in important categories by those of Iraq and Iran, even after the losses sustained by both countries in recent wars.

Congressional Interest in Saudi Arabia

The terrorist attack on Khobar prompted resolutions in the 104th Congress (H.Con.Res. 200 and S.Res. 273) honoring slain U.S. and other victims and (in S.Res. 273) expressing support for Saudi efforts to apprehend the perpetrators. In the 105th Congress, Section 1052 of the Defense Authorization Act for FY1998-1999 (P.L. 105-85) required the Secretary of Defense to report on the roles of various Defense officials in providing counter terrorism guidance to U.S. military personnel before and after the 1995 and 1996 attacks on U.S. facilities in Saudi Arabia. An amendment (S.Amdt. 605) incorporated as Section 8161 of S. 1122, the Department of Defense Appropriations bill for FY2000, expresses the sense of the Senate that the FBI together with the State Department should report to

Key U.S. Statements

“An attempt by any outside force to gain control of the Persian Gulf Region will be regarded as an assault on the vital interests of the United States of America and such an assault will be repelled by any means necessary, including military force.”

–President Jimmy Carter, Jan. 23, 1980
(The Carter Doctrine)

“There’s no way that we could stand by [and see Saudi Arabia] taken over by anyone that would shut off that oil.”

–President Ronald Reagan, Oct. 1, 1981
(The Reagan Corollary)

“The sovereign independence of Saudi Arabia is of vital interest to the United States.”

–President George Bush, Aug. 8, 1990
(following Iraq’s invasion of Kuwait)

“President Clinton’s commitment to the security of friends in the Gulf, like that of every President since Franklin Roosevelt, is firm and constant.”

–Secretary of State Warren Christopher,
Feb. 21, 1993)

Congress by December 31, 1999, on the status of the Khobar investigation and that the U.S. government should take steps to punish the parties responsible, once they are identified. The Senate passed S. 1122 on June 8, 1999 by 93 to 4, Record Vote No. 158; however, the provision regarding the Khobar bombing did not appear in the companion House bill H.R. 2561 or in the conference report. In early 2000, the precipitate rise in international oil prices prompted several legislative initiatives designed to restrain oil price increases, as described in a previous section of this issue brief. In the 107th Congress, H.R. 334, the Persian Gulf Security Cost Sharing Act, introduced on January 31, 2001, would direct the President to seek further contributions from Saudi Arabia and other Persian Gulf states to defray the costs of U.S. military deployments in the region.

Arms Sales

Congress has been particularly sensitive to the argument that enhancing Saudi arms inventories could result in an incremental increase in overall threats to Israel, although some Members have supported such sales on the grounds that they help buttress Saudi defense capabilities in the Gulf and enhance the U.S. job market. Since the mid-1970s, several major arms sales to Saudi Arabia have been challenged in Congress: F-15 fighter aircraft in 1978; Airborne Warning and Control System (AWACS) aircraft, advanced tanker aircraft, and advanced Sidewinder air-to-air missiles in 1981; and a large package of air-to-air, surface-to-air, and air-to-sea missiles in 1986. All of these sales ultimately were allowed to proceed, and several larger sales followed before and during the Persian Gulf crisis, without significant congressional opposition. The Bush Administration's proposal in September 1992 to sell 72 improved F-15XP fighters to Saudi Arabia met some opposition, but resolutions to block or postpone the sale never came to a vote.

Arab Boycott

Members of Congress frequently have decried Saudi participation in the Arab boycott because of its impact on Israel and on U.S. businesses. Some have called for linkage between U.S. arms sales to Saudi Arabia and Saudi renunciation of the boycott. Part C of the Foreign Relations Authorization Act for FY1994-1995 (P.L. 103-236, April 30, 1994), known as the Anti-Economic Discrimination Act, under a provision that took effect on April 30, 1995, bars the sale or lease of U.S. defense articles or services to any country that sends letters to U.S. firms requesting compliance with, or soliciting information regarding compliance with, the Arab League primary or secondary boycott of Israel. This provision permits a presidential waiver on national security grounds; then President Clinton exercised waiver authority for Saudi Arabia and several other Arab states in Presidential Determination (PD) 95-20, May 1, 1995, and again in PD 96-23, April 30, 1996. On April 24, 1997, the President delegated waiver authority under this act to the Secretary of State.

Trade Practices

In the 105th Congress, Section 2801 in Division G of the Consolidated and Emergency Supplemental Appropriations Act, 1999 (P.L. 105-277, October 21, 1998, 112 Stat. 2681-845) required reports every 120 days by the Secretary of State, in coordination with the Secretaries of Defense and Commerce, on actions taken by the three departments to resolve commercial disputes between U.S. firms and Saudi Arabia as listed in a June 1993 letter

from the Secretaries of Defense and Commerce. In the 106th Congress, this requirement was retained in Section 209 of the Foreign Relations Authorization Act for FY2000-2001 (H.R. 3427, passed by reference in H.R. 3194, the Consolidated Appropriations Act for FY2000, P.L. 106-113, November 29, 1999. Currently, this provision appears in Section 201 of H.R. 1646, the Foreign Relations Authorization bill for FY2002-2003, which was passed by the House on May 16, 2001, by 352 to 73, Roll no. 121.

Table 4. Selected Middle East Armed Forces

Country	Force Size	Main Battle Tanks	Combat Aircraft	Surf. Surf. Msls ^a	Chem Warf. Cap	Nucl. Cap. ^b
Iran	513,000	1,565	283	S	X	D
Iraq ^c	424,000	2,200	316	S	X	D
Saudi Arabia ^d	201,500	910	348	I	–	–
Yemen ^e	54,000	860	71	S	–	–
U. A. E.	65,000	411	101	–	–	–
Oman	43,400	117	40	–	–	–
Kuwait	15,500	293	82	–	–	–
Bahrain	11,000	106	34	–	–	–
Qatar	12,330	35	18	–	–	–

^a S = short-range (70-1,000 km); M = medium-range (1,001-3,000 km); I = intermediate-range (3,001-5,000 km).

^b D = reportedly under development (now or in the past).

^c Figures represent estimates of Iraqi forces and equipment after Operation Desert Storm. Some older tanks are believed unserviceable. The aircraft total does not include combat aircraft impounded in Iran.

^d Force total includes active members of the Saudi Arabian National Guard (estimated at 57,000). Tank total does not include an estimated 145 French-manufactured AMX-30 tanks in storage.

^e Force total includes conscripts (estimated at 25,000). Tank total does not include 50 obsolescent Soviet-manufactured T-34 tanks. Aircraft total does not include 40 in storage.

Source: The International Institute for Strategic Studies, *The Military Balance, 2001-2002*.