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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. A series of informal agreements, statements by successive U.S. administrations, and military deployments have demonstrated a strong U.S. security commitment to Saudi Arabia. Saudi Arabia was a key member of the allied coalition that expelled Iraqi forces from Kuwait in 1991, and over 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. Moreover, Saudi officials have expressed opposition to expanding the U.S. war on terrorism to target Iraq. 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. Some commentators maintain that Saudi domestic and foreign policies have created a climate that may have contributed to terrorist acts by Islamic radicals. Saudi officials reject this viewpoint and maintain that they are working with the United States to combat terrorism.

Other 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

According to press reports in mid-August 2002, families of more than 600 victims of the September 11 attacks have filed a suit in the U.S. District Court of Alexandria, Virginia against three members of the Saudi royal family, seven Saudi banks, and Saudi eight charitable organizations. The lawsuit seeks approximately $1 trillion in damages from these individuals or organizations for allegedly helping finance the Al Qaeda network.. According to an August 21 BBC newscast, a Saudi lawyer is planning to file a counter-suit against the U.S. Government for detention of Saudi students in the United States after the September 11 attacks and publication of pictures in U.S. newspapers of Saudi citizens with alleged ties to Al Qaeda.

*On November 8, the U.N. Security Council unanimously adopted Resolution 1441, which mandated the resumption of a stringent weapons inspection regime in Iraq. A statement by the Saudi cabinet on November 18 "welcomed Iraq's acceptance of U.N. Security Council Resolution No. 1441 and the return of U.N. inspectors to Iraq" and went on to express the hope "that such a step will put an end to the tense situation in the region, [and] avert war and use of military force." Regarding allied use of Saudi bases by U.S. forces in the event of a war with Iraq, the Saudi Foreign Minister told reporters on November 19 that "[t]hat's a sovereign decision ... and I'm not going to speculate on how we're going to decide." According to the press (*The Washington Post*, November 17, 2002), U.S. officials believe Saudi officials would rule out a large presence of U.S. ground troops but would allow U.S. forces to use a command center in Saudi Arabia and permit use of Saudi air space by U.S. military aircraft.*

BACKGROUND AND ANALYSIS

Current Issues

Oil and national security concerns have combined to produce a close and cooperative relationship between the United States and Saudi Arabia for much of the past century. 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. Saudi Arabia was a key member of the allied coalition that expelled Iraqi forces from Kuwait in 1991 and continues to host more than 5,000 U.S. military personnel, most of them from U.S. Air Force units that enforce the no-fly zone over southern Iraq (Operation Southern Watch). A range of issues, however, sometimes complicate U.S.-Saudi relations, as discussed below. Also, some commentators cite additional strains in bilateral relations since the September 11, 2001 attacks, but U.S. and Saudi officials continue to characterize ties between the two countries as excellent.

Reaction to September 11 Terrorist Attacks

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

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. Many commentators in the United States have emphasized that 15 of the 19 hijackers were Saudi nationals, and some maintain that Saudi domestic and foreign policies have created a climate that may have contributed to terrorist acts by Islamic radicals. Saudi officials reject this viewpoint and maintain that they are working with the United States to combat terrorism.

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 may have allowed the use of bases for logistical support of allied operations targeting Afghanistan but not as points of departure for combat missions. (See below regarding Saudi positions on strikes against Iraq.)

On June 18, 2002, Saudi officials announced that Saudi Arabia had arrested 13 suspected Al Qaeda members on charges of plotting attacks against "vital sites" in the kingdom. An unnamed "security source" said the 13 belonged to two Al Qaeda cells that were ordered by Al Qaeda officials to hit targets in Saudi Arabia including U.S. military facilities. On August 10, the Saudi Foreign Minister revealed that Iran had expelled 16 Al

Qaeda refugees who had earlier sought political asylum in Iran and transferred them to Saudi Arabia at the latter's request. According to the Saudi Foreign Minister, the 16 are being interrogated and, if charged with crimes, will be brought to trial. According to a report prepared by the Saudi Embassy in Washington in August 2002, the Saudi Government has questioned over 2,800 suspects and 200 are currently in detention.

Various observers have periodically expressed the view that Saudi Arabia could do more to curtail terrorist financing. An independent task force sponsored by the Council on Foreign Relations, in a report published in October 2002, asserted that individuals and charities in Saudi Arabia have been the most important source of funds for Al Qaeda for some years, and that "Saudi officials have turned a blind eye to the problem." The Saudi Embassy in Washington disputed these findings and listed several steps by the Saudi government to combat terrorist financing: freezing dozens of bank accounts with suspected links to terrorists; implementing U.N. Security Council resolutions related to terrorist financing; working with the United States and other countries to block more than $70 million in terrorist assets; auditing all charitable groups; adopting new guidelines to prevent terrorist use of legitimate charitable groups; and requiring charities dealing outside Saudi Arabia to report their activities to the Saudi Foreign Ministry. The Saudi government had previously ordered Saudi banks to establish anti-money-laundering units and established a financial intelligence unit in the drug control department of the Ministry of Interior.

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. U.S. State Department spokesman Philip Reeker told reporters on August 6, 2002, that the United States and Saudi Arabia have worked together on financial aspects of the war against terrorism and mentioned that there are mechanisms (presumably classified) through which the flow of funds to terrorists can be monitored. In an interview with ABC-TV on August 11, the Saudi Foreign Minister mentioned a joint U.S.-Saudi committee that deals with freezing assets of anyone who finances terror.

Lawsuits and Investments. According to press reports in mid-August 2002, families of more than 600 victims of the September 11 attacks have filed a suit in the U.S. District Court of Alexandria, Virginia against three members of the Saudi royal family, seven banks, and eight charitable organizations. The lawsuit, which also names Osama bin Laden, members of his family, and the government of the Sudan, seeks approximately $1 trillion in damages from these individuals or organizations for allegedly helping finance the Al Qaeda network. According to excerpts reported in the press, the lawsuit states that "the financial resources and support network of these defendants – charities, banks and individual financiers – are what allowed the attacks of September 11, 2001 to occur." Saudi media and business spokesmen have described the suit as an attempt to extort Saudi money deposited in the United States and exert political pressures on Saudi Arabia; some have called for withdrawing Saudi investments in the United States, estimated by one media source at $750 billion and another at between $400 and $600 billion. A London *Financial Times* article on

August 21, 2002, quoted estimates that Saudi investors have withdrawn between $100 billion and $200 billion from the United States in recent months, but other sources quoted in the article expressed skepticism that a mass exodus of Saudi money is under way. According to an August 21 BBC newscast, a Saudi lawyer is planning to file a counter-suit against the U.S. Government for detention of Saudi students in the United States after the September 11 attacks and publication of pictures in U.S. newspapers of Saudi citizens with alleged ties to Al Qaeda.

The July 2002 Briefing. On August 6, 2002, an article in *The Washington Post* described a briefing given by an analyst from the Rand Corporation on June 10, 2002, to the Defense Policy Board, a high-level advisory group that advises the U.S. Defense Department on defense policy. According to the article and to other media, the briefer asserted among other things that "Saudi Arabia supports our enemies and attacks our allies" and that "the Saudis are active at every level of the terror chain, from planners to financiers." Secretary of Defense Donald Rumsfeld told reporters on August 6 that the briefing represented the analyst's own opinion and went on to say: "It did not represent the views of the government, it didn't represent the views of the Defense Policy Board." State Department spokesman Phil Reeker told reporters that these views "do not reflect the views of the President of the United States or of the U.S. Government." He added that Secretary of State Powell made that clear in a telephone call to Saudi Foreign Minister Saud al-Faysal. Saudi Crown Prince Abdullah's foreign policy adviser described views expressed in the briefing as "pure fiction." According to media reports, however, these views have gained some currency among various commentators with ties to Administration policy makers.

Security in the Gulf Region

Containment Policies toward Iraq. As noted above, Saudi Arabia hosts U.S. Air Force units that conduct overflights to enforce a no-fly zone over southern Iraq. Although they do not usually object to small scale U.S. responses to Iraqi aircraft or air defense units challenging allied aircraft conducting these overflights, Saudi authorities are opposed to large-scale allied 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. In the aftermath of the September 2001 terrorist attacks, Saudi authorities have expressed concern over any expansion of the U.S. campaign against terrorism to Iraq or Iran. In comments published on August 7, 2002, Saudi Foreign Minister Prince Saud bin Faysal reiterated this position, and said the Saudi government does not want allied forces "to use Saudi grounds" for any attack on Iraq. In mid-September, however, there were signs that Saudi officials may be softening their opposition to U.S. or allied attacks on Iraq originating from Saudi territory. When asked during a CNN interview on September 16 about the availability of Saudi bases to U.S. forces, the Saudi Foreign Minister reiterated that he was opposed in principle to an attack on Iraq. He added, however, that if the U.N. Security Council adopts a resolution authorizing military force, then "everybody is obliged to follow through." Later, on November 4, he told CNN that Saudi Arabia will abide by the decision of the U.N. Security Council, but "as to entering the conflict or using facilities ... that is something else."

On November 8, the U.N. Security Council unanimously adopted Resolution 1441, which mandated the resumption of a stringent weapons inspection regime in Iraq. A statement by the Saudi cabinet on November 18 "welcomed Iraq's acceptance of U.N.

Security Council Resolution No. 1441 and the return of U.N. inspectors to Iraq" and went on to express the hope "that such a step will put an end to the tense situation in the region, [and] avert war and use of military force." Regarding allied use of Saudi bases, the Saudi Foreign Minister told reporters on November 19 that "[t]hat's a sovereign decision ... and I'm not going to speculate on how we're going to decide." According to the press (*The Washington Post*, November 17, 2002), U.S. officials believe Saudi officials would rule out a large presence of U.S. ground troops but would allow U.S. forces to use a command center in Saudi Arabia and permit use of Saudi air space by U.S. military aircraft.

U.S. Troop Presence. 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 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."

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 Laden, 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 Hizbollah [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."

On June 1, 2002, Saudi Deputy Minister of the Interior Prince Ahmad said an unspecified number of people previously arrested by Saudi Arabia in connection with the Khobar bombing had been sentenced by an Islamic court. In a follow-up announcement on June 13, the Prince said those convicted "do not include any non-Saudi nationals" and added that the verdicts would be reviewed by higher courts and announced "at the appropriate time."

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. However, the Crown Prince did accept a subsequent invitation to visit President Bush in Texas in April 2002 (see below).

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, 2001, 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. The Saudi-initiated peace proposal was also 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." 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.

Saudi officials found "positive factors" in President Bush's speech of June 24 but expressed concern over his statements conditioning a Palestinian state on the installation of a new Palestinian leadership. A statement by the Saudi cabinet on July 1 alluded to "the positive elements of the Bush initiative," but on the same day Crown Prince Abdullah was quoted as telling the visiting Spanish Defense Minister that the Palestinian people "alone have the right to choose their leadership."

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.)

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 Tuscon, 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.

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.

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 261.7 billion barrels in January 2001), Saudi Arabia produced an average of 9.145 million barrels per day (bpd) of crude oil during 2000. Approximately 14% of U.S. oil imports and 8.46% of total U.S. oil consumption came from Saudi Arabia during 2001. 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**). In recent years, Saudi Arabia has alternately supported cuts and increases in production as oil prices on the international market have fluctuated. Under a "gentlemen's agreement" reached in June 2000, members of the Organization of Petroleum Exporting Countries (OPEC) 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. Congress has enacted legislation to discourage price fixing by oil producing countries (see below). 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 ..."

Table 2. Oil Consumption and Imports

(in millions of barrels per day)

Category	1998	1999	2000	2001
Total U.S. Consumption	18.917	19.519	19.701	19.649
Total U.S. Imports	10.708	10.852	11.459	11.871
Imports from Saudi Arabia	1.491	1.478	1.572	1.662
Imports from Venezuela	1.719	1.493	1.546	1.553
Imports from Canada	1.598	1.539	1.807	1.828

Source: DOE.

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 2001, 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. According to a British Broadcasting Company (BBC) report of September 30, 2002, the Saudi negotiating team has given the oil company consortiums until November 1 to accept its final offers, which include additional areas for gas excavations and a higher rate of return on investment (15.5%), which is in the 15%-to-18% range reportedly sought by the oil companies.

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."

Child Custody Cases. Child custody cases in which a Saudi husband has refused to permit his children by an American wife to travel to the United States have been a source of U.S.-Saudi friction. Under Saudi laws the father is almost always given custody of children in divorce cases; moreover, in some instances where a wife secured child custody in the United States, an estranged Saudi husband has abducted the children from the United States and taken them to Saudi Arabia, where his claim is usually upheld. Members of

Congress have criticized the U.S. State Department for not exerting more pressure on Saudi Arabia to resolve these cases. State Department officials say they have tried to do so, and point out that there are approximately 1,100 such cases world wide, of which 92 involve U.S. citizens in Saudi Arabia. According to September 2002 press reports, Saudi and U.S. officials have agreed to work on establishing a mechanism to help resolve these issues.

Background to U.S.-Saudi Relations

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. Four sons have succeeded him.

Royal Succession. King Fahd, the current ruler and a dynamic leader for many years, is approximately 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.) Press reports in August and September 2002 indicate that King Fahd's health has been deteriorating.

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.

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. Since 1994 the government has instituted various austerity measures to deal with shrinking revenue.

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 (IMET) 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 IMET 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. Saudi officials also cite their country's role as a donor of aid to less affluent countries; according to a Saudi diplomat, the Saudi government extended $820.3 million worth of aid to developing countries in 2001.

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, and military deployments have demonstrated a strong U.S. security commitment to Saudi Arabia. (For statements by previous administrations, see CRS Report 94-78, *Saudi Arabia: U.S. Defense and Security Commitments*, February 3, 1994.) 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

In early 2000, the precipitate rise in international oil prices prompted several legislative initiatives designed to restrain oil price increases, as mentioned above. On March 22, 2000, by a vote of 382 to 38 (with one present and 30 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..." 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 216(a) of H.R. 1646, the Foreign Relations Authorization bill for FY2002-2003, which was signed by President Bush as P.L. 107-228 on September 30, 2002.

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	520,000	1,565	306	S	X	D
Iraq[c]	389,000	2,600	316	S	X	D
Saudi Arabia[d]	199,500	910	294	I	–	–
Yemen[e]	66,500	760	76	S	–	–
Oman	41,700	117	40	–	–	–
U. A. E.	41,500	381	101	–	–	–
Kuwait	15,500	293	81	–	–	–
Qatar	12,400	35	18	–	–	–
Bahrain	10,700	140	34	–	–	–

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

[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. Tank total does not include 30 obsolescent Soviet-manufactured T-34 tanks. Aircraft total does not include 40 in storage.