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Saudi Arabia: Post-War Issues and U.S. Relations

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Saudi Arabia: Post-War 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. security 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 at this time.

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. Saudi Arabia has supported Arab positions on the Palestinian question and Saudi leaders feel strongly about Muslim claims in Jerusalem, which is the third holiest site in the Islamic religion. At the same time, Saudi Arabia supports - Arab-Israeli peace talks and has endorsed several key Israeli-Palestinian agreements reached during the 1990s. Also, in 1994, Saudi Arabia and its Gulf allies decided to drop the secondary and tertiary phases of the Arab boycott (which penalize companies that deal with Israel), although they have not yet formally renounced the primary boycott, which bans direct dealings with Israel.

MOST RECENT DEVELOPMENTS

On June 21, 2001, U.S. Attorney General John Ashcroft announced that a federal grand jury had indicted 14 individuals in connection with the bombing attack on a U.S. Air Force apartment complex at Khobar Towers on June 25, 1996. 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 are reportedly in Saudi custody. 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 an interview published on June 23, Saudi Interior Minister Prince Nayef 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.”

BACKGROUND AND ANALYSIS

Current Issues

Security in the Gulf Region

Saudi Arabia was a key member of the allied coalition that expelled Iraqi forces from Kuwait in February 1991. Most Saudi military forces were committed to the allied effort; a senior Saudi army officer (Lt. General Khalid ben Sultan) acted as commander of the Joint Arab-Islamic Force, which was a principal component of the coalition; and Operation Desert Storm was staged from Saudi territory. The joint force known as Peninsula Shield, comprising 5,000 to 10,000 personnel drawn from the armed forces of the six states of the Gulf Cooperation Council (GCC), is also under Saudi command. Plans to expand this small force have been under

Saudi Arabia in Brief

Population (July 2000): 22,023,506*
(includes 5,360,526 foreign residents)
Growth rate: 3.28%

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: \$142.7 billion (1999);
\$164.8 billion (2000)

Government Debt:
Domestic (1999) \$130 billion
External (1998) \$4.3 billion

Inflation: (-0.2%, 1998; -1.2%, 1999; 0%, 2000)

discussion since the Gulf war. Saudi Arabia is important in post-war security planning for the Persian Gulf region, both through bilateral arrangements with the United States and through regional security cooperation.

Approximately 25,000 U.S. military personnel remain in the Gulf region (sometimes more during periods of increased tension with Iraq). Among these are several contingents in Saudi Arabia, including U.S. Air Force units involved in enforcing a no-fly zone over southern Iraq and U.S. Army units involved in air and missile defense. As of September 2000, the U.S. Defense Department estimated that 7,053 U.S. military personnel were in Saudi Arabia, including 770 from the Army, 325 from the Navy, 63 from the Marine Corps, and 5,895 from the Air Force. In addition, a number of U.S. contractor personnel work with the Saudi Armed Forces and National Guard. Press estimates variously put the number of U.S. personnel in Saudi Arabia between 35,000 and 40,000, but according to some estimates this number has declined to approximately 27,000.

So far, Saudi Arabia has been reluctant to conclude a repositioning agreement like those reportedly signed with other Gulf states. Press reports have indicated that the United States and Saudi Arabia are using a 1977 training agreement [see below] as a framework for a broader program of military cooperation between the two countries. In November 1999 and again in April 2000, then U.S. Secretary of Defense William Cohen and Saudi Minister of Defense Prince Sultan discussed a "Cooperative Defense Initiative" (CDI) that would involve mechanisms for shared early warning and development of defenses against chemical or biological attack. According to a March 2000 press report, Saudi Arabia and the United States have concluded a Communications Interoperability and Security Memorandum of Agreement to facilitate Saudi participation in a CDI. Since 1999, military officials from the United States, Saudi Arabia, and other friendly countries in the region have held an annual conference called Eagle Resolve to discuss initiatives under the CDI framework.

Containment of Iraq. Saudi Arabia remains committed to the containment of Iraq and has called on Iraq to implement resolutions of the U.N. Security Council. On June 11, 2001, Saudi Arabia announced that it had taken ownership of an oil pipeline connecting Iraq with Red Sea ports via Saudi territory, a step that Iraqi officials condemned as "illegitimate confiscation." (Saudi Arabia had disconnected the pipeline in 1990 after the Iraqi invasion of Kuwait.) Regarding U.S. military presence, on April 10, 2000, Prince Sultan said 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 countries."

Although Saudi Arabia permits Saudi-based U.S. aircraft to conduct overflights of southern Iraq, it opposes large-scale military action against Iraqi targets. On several occasions, Defense Minister Prince Sultan has said Saudi Arabia would not permit allied aircraft to launch preemptive or major retaliatory campaigns against Iraq from bases in Saudi Arabia. According to news reports, during the major 4-day U.S.-British strikes against Iraq in December 1998 (Operation Desert Fox), Saudi Arabia permitted allied support operations including air space clearance and take-off by refueling aircraft, but allied combat aircraft did not launch strikes from Saudi territory. After Desert Fox, Prince Sultan told reporters that "we were not asked [for permission to launch strikes from Saudi territory] and we will not agree." Less clear is the Saudi position on the frequent U.S. smaller-scale responses to Iraqi aircraft or air defense units that have challenged U.S. aircraft

enforcing the no-fly zone. When asked about Saudi policy toward these retaliatory responses at a joint press conference with U.S. Secretary of Defense William Cohen on October 19, 1999, Prince Sultan answered that “these are resolutions of the U.N. Security Council and resolutions of the allied states, and we have no decision or position.” More recently, on November 19, 2000, Prince Sultan said the no-fly zone is designed to serve peace, but added that the zone “is not a Saudi decision, so how can we say if we are with it or not?”

The Saudi government initially withheld official comment on U.S. and British air strikes against Iraqi air defense installations on February 16, 2001, which were decried in much of the Middle East, and a senior Saudi official said his country was not previously informed of the strikes. On February 21, however, Saudi Foreign Minister Prince Saud al-Faysal during a visit to Damascus issued a joint statement with the Syrian Foreign Minister that “[b]oth sides expressed feelings of denunciation and anxiety over the recent escalation against south Baghdad.” Iraq’s foreign minister blamed both Saudi Arabia and Kuwait for allegedly allowing allied strike aircraft to operate from their territory.

Bombings of U.S. Facilities. Two attacks on U.S. military facilities in Saudi Arabia have 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 Usama bin Ladin, a wealthy Saudi Sunni Muslim expatriate active in militant Islamic fundamentalist causes; bin Ladin 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.

A breakthrough in the case seemed likely in June 1997, when Canada deported to the United States a Saudi Shi’ite Muslim, Hani al-Sayigh, who was suspected of a role in the bombing. But a plea arrangement under which al-Sayigh would provide information on other terrorist activities collapsed later that year, and Saudi Arabia requested his extradition. After U.S. courts denied an appeal by the suspect to avoid deportation, the United States extradited Sayigh to Saudi Arabia on October 11, 1999. Prince Nayif told reporters that “we have specific information and evidence confirming Sayigh’s involvement in the unjust terrorist act in the city of al-Khobar” and added that Saudi Arabia will seek extradition of any other suspects linked to the bombing. Over a year later, on January 11, 2001, Prince Nayif said Sayigh was involved in the bombing and added that several

other Saudis had been detained as well, but he also alluded to “the presence of strong and important elements abroad,” whom he did not identify.

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. In the years following the bombing, then President Clinton, then Secretary of Defense William Cohen, then Attorney General Janet Reno, and FBI Director Louis Freeh made representations to Saudi counterparts to obtain more access. 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 Nayef 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.”

Arab-Israeli Conflict

Saudi Arabia has supported Arab positions on the Palestinian question and strongly endorses Muslim claims in the old city of Jerusalem, which is the third holiest site in the Islamic religion. Saudi Arabia has generally favored a peaceful solution to the Arab-Israeli conflict. It has supported several milestone Israeli-Palestinian agreements (Oslo and Wye River), and participated

in multilateral Arab-Israeli peace talks on regional issues. In 1994, the GCC states, including Saudi Arabia, decided to terminate enforcement of the so-called secondary and tertiary (or indirect) Arab boycott of Israel while retaining the primary (or direct) boycott. Saudi officials tend to blame Israel for snags in the peace process, and Saudi Arabia has been increasingly critical of Israeli policy since the outbreak of Israeli-Palestinian clashes in late 2000 and the election of Israeli Prime Minister Ariel Sharon in February 2001. According to a *New York Times* article of May 17, 2001, Saudi Crown Prince Abdullah declined an invitation to visit the United States in June, reportedly to indicate displeasure over what Saudis regard as insufficient U.S. efforts to restrain Israeli military actions against the Palestinians. On June 18, Defense Minister Prince Sultan suggested that Arab countries should reconsider their position toward international companies that deal with Israel if peace efforts do not succeed. In a meeting with U.S. Secretary of State Colin Powell on June 29, Crown Prince Abdullah reportedly expressed satisfaction that the United States was “taking the issue seriously” but said “[t]he perception exists that the Israelis have turned their backs on peace.”

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 *Patterns 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. Also, on March 3, 2000, Crown Prince Abdullah paid a visit to Lebanon that included an unprecedented meeting with a delegation from the Shi’ite Muslim Hizballah militia. During his visit, Abdullah praised the Lebanese “resistance” (consisting mainly of Hizballah) for seeking to expel Israeli forces and militia allies from Israel’s “security zone” in southern Lebanon. (Israel withdrew in May, and the allied militia collapsed.)

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.

Third Country Sales. Saudi Arabia has acquired combat aircraft from Britain and frigates and support ships from France. In 1988, despite U.S. criticism, the Kingdom purchased approximately 30 intermediate-range CSS-2 surface-to-air missiles from China, in what has so far been its only major arms acquisition from a communist state. According to a July 10, 1999 *New York Times* article, U.S. officials expressed concern over a visit by Saudi Defense Minister Prince Sultan to nuclear and missile facilities in Pakistan in May 1999. Administration officials reportedly believe Saudi Arabia is seeking missile rather than nuclear weapons technology, and claim to have received assurances from Saudi officials that Saudi Arabia is not seeking weapons of mass destruction or nuclear weapons. On August 5, 1999 Prince Sultan told a reporter that "Saudi Arabia is a signatory of the nuclear non-proliferation treaty and is committed to its international pledges." Independent analysts suggest that Saudi Arabia feels the need for increased protection, as Iraq is no longer covered effectively by U.N. weapons inspections and Iran continues to seek advanced missiles and reportedly nuclear weapons capabilities.

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.

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.

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. Two such cases remain deadlocked: Hill International, a U.S. engineering firm, is seeking compensation for extra work done for two Saudi municipalities; Harbert International Construction, Inc., accepted a partial payment for a contract with the Saudi Ministry of Agriculture but believes it is entitled to more reimbursement. Saudi officials maintain that their government has discharged all its responsibilities toward the contractors involved; Members of Congress have sometimes criticized the U.S. executive branch for not doing enough to uphold the rights of U.S. employees caught in contractual disputes. According to the State Department, senior U.S. officials have raised these issues with the Saudi government and have exerted efforts to resolve commercial disputes. (For further information, see CRS Report 95-666, *Saudi Arabia: Commercial Disputes With U.S. Firms.*) The State Department has also noted that in a September 1992 letter to the Saudi Minister of Justice, a Harbert official accepted the offer of the Saudi government pursuant to a final judgment by the Saudi Ministry of Justice. Saudi officials state that they have given thorough and repeated consideration to the Hill International claim and consider the case closed.

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 1999. 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 1998, depressed oil prices impelled Saudi Arabia and other major producers to initiate cuts in oil production in an effort to stem the oil price slide. In the course of several meetings since March 1998, members of the Organization of Petroleum Exporting Countries (OPEC) agreed to reduce oil production by 2.6 million barrels per day in 1998 and 1.7 million in 1999. Saudi Arabia, as the largest producer, agreed to production cuts of 725,000 and 585,000 barrels per day in 1998 and 1999, respectively.

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 2, 2000, Representative Benjamin Gilman, then Chairman of the House International Relations Committee, introduced a bill, H.R. 3822, requiring the President to reduce, suspend, or terminate foreign assistance and arms sales to each country determined by the President to be engaged in oil price fixing to the detriment of the U.S. economy. A companion bill with similar wording, S. 2182, was introduced on March 6 by Senator Charles Grassley. An

amended version of H.R. 3822, which authorized but did not require the President to reduce, suspend, or terminate foreign assistance and sales, was reported by the House International Relations Committee on March 6 (H.Rept. 106-528). On March 22, by a vote of 382 to 38 (with one present and 13 abstentions, Roll Call 65), the House passed a further amended version of 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...”

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.

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, Saudi leaders became concerned that oil supply was exceeding demand; consequently Saudi Arabia supported a decision at the OPEC meeting on January 17, 2001, to reduce total production by 1.5 million bpd including a Saudi production cut of 486,000 bpd. At a subsequent meeting on March 18, OPEC leaders agreed on a further cut of one million barrels per day. On the following day, White House Press Secretary Ari Fleischer described OPEC’s move as a disappointment; however, President Bush expressed appreciation for an assurance by Saudi Oil Minister Ali Naimi that OPEC would not let the price of oil exceed \$28 per barrel. But as oil prices continued to edge

downward in the early summer, Saudi officials supported an OPEC decision on July 25 to cut another production by another one million barrels per day, starting on September 1. President Bush expressed concern over the possibility of a run-up in oil prices, which could injure the world economy.

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.

On June 3, 2001, Saudi Arabia signed agreements worth approximately \$25 billion with nine international oil companies to develop three natural gas fields, together with related power plants, transmission pipelines, and water desalinization projects. Six of these companies are U.S.-based, including Exxon Mobil Corporation, Conoco, Phillips Petroleum Company, Occidental Petroleum Corporation, Enron Corporation, and Marathon. Exxon Mobil is the lead manager for two of the three gas field projects. The companies have until the end of the year 2001 to complete project definition programs for these ventures.

Human Rights, Democracy, and Other Issues

According to the State Department’s annual report on human rights practices for 2000, the Saudi government’s human rights record has remained generally poor but has shown limited improvement in some areas. Problems include prohibitions or restrictions of freedom of speech, press, assembly and association; discrimination and violence against women; discrimination against ethnic and religious minorities; strict limitations on workers’ rights; arbitrary arrest and detention; reported abuse of detainees; and lack of a mechanism for citizens to change their government. During 2000, the government did undertake limited measures to participate in several international human rights mechanisms.

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.” On the other hand, King Fahd, in speech carried by the official Saudi news agency in June 2000, criticized unfavorable assessments of Saudi Arabia’s human rights record by the London-based Amnesty International and rejected attempts by outsiders “to force communities to abandon their own beliefs and cultures.”

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), with limited powers to question cabinet members and propose laws. On August 26, 1993, in a message to King Fahd carried by the Saudi Press Agency, then President Clinton welcomed the appointment of the consultative council “as an important step to widen popular participation in the government, which conforms with your history and traditions.” 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. 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. A leading member of the royal family described the body as a specialized council dealing with family matters and added that "I don't think it has a political role."

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, increasing state expenditures, the oil glut of the early 1980s, and the collapse of oil prices in the mid-1980s have put governmental fiscal assets in deficit since 1982, and since 1987 the government has begun to borrow. Costs from the 1990-1991 Gulf war of \$55 billion (including \$16.9 billion contributed to the United States to help defray expenses) placed additional burdens on the Saudi economy. Domestic debt in 1999 was approximately \$130 billion, more than 90% of estimated gross domestic product. 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. As of 1999, foreign assets managed by the central banking authority were estimated at \$54 billion (down from \$127.7 billion in 1981). Of the \$54 billion in foreign assets, \$17.8 billion is designated to guarantee the *riyal* (the Saudi currency unit). Besides the

official \$54 billion portfolio, the State Department estimates \$29 billion held by autonomous government institutions (pension, development, and social insurance), and \$11.4 billion worth of foreign assets in the commercial banking system in 1999.

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. Fluctuating oil prices continue to affect Saudi budgets (see **Table 3**). 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	1998		1999		2000		2001
	Budget	Actual	Budget	Actual	Budget	Est.	Budget
Expenditure	52.3	50.4	44.0	48.3	49.3	54.1	57.3
Revenue	47.5	38.1	32.3	39.2	41.9	66.1	57.3
Balance	-4.8	-12.3	-11.7	-9.1	-7.5	12.0	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 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.

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 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 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.

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)

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. (For details on congressional consideration of the F-15XP sale, see CRS Report 93-473, *Congress and the Middle East 1992*, pp. 29-31.)

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. MsIs ^a	Chem Warf. Cap	Nucl. Cap. ^b
Iran	513,000	1,135	291	S	X	D
Iraq ^c	429,000	2,200	316	S	X	D
Saudi Arabia ^d	183,500	910	417	I	–	–
Yemen ^e	66,300	840	49	S	–	–
U. A. E.	65,000	331	101	–	–	–
Oman	43,500	117	40	–	–	–
Kuwait	15,300	310	82	–	–	–
Bahrain	11,000	106	34	–	–	–
Qatar	12,330	44	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 approximately 112 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 150 obsolescent Soviet-manufactured T-34 tanks.

Source: The International Institute for Strategic Studies, *The Military Balance, 2000-2001*.